



Consolidated Financial Statements and Consolidated Management Report of Canal de Isabel II, S.A., M.P. and Subsidiaries

Prepared in accordance with international financial reporting standards as adopted by
the European Union (IFRS-EU)

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CONSOLIDATED FINANCIAL STATEMENTS 2022

CONSOLIDATED FINANCIAL STATEMENTS 2022

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AT 31 DECEMBER 2022 AND 2021

(In thousands of Euros)

ASSETS	NOTES:	2022	2021 ^(*)
Property, plant and equipment	7	31,083	45,514
Real estate investments	8	10,536	8,231
Goodwill	9	12,859	12,888
Other Intangible Assets	10	4,005,178	4,025,035
Investments accounted for using the equity method	12	439	473
Deferred tax assets	27	18,378	12,473
Other non-current financial assets	14	162,632	160,504
Other non-current non-financial assets	17	71,865	66,522
Total non-current assets		4,312,970	4,331,640
Non-current assets held for sale	6	4,210	4,493
Inventories	15	11,326	11,825
Current income tax asset		914	327
Trade debtors and other accounts receivable	16	214,657	205,624
Other current financial assets	14	363,142	16,710
Other current non-financial assets	17	5,733	5,221
Cash and cash equivalents	18	232,172	525,664
Total current assets		832,154	769,864
Total assets		5,145,124	5,101,504

(*) Restated information.

The accompanying notes form an integral part of the Consolidated Financial Statements for the year ended 31 December 2022.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AT 31 DECEMBER 2022 AND 2021

(In thousands of Euros)

NET EQUITY AND LIABILITIES	NOTES:	2022	2021(*)
Capital	19	1,074,032	1,074,032
Share premium	19	1,074,032	1,074,032
Other reserves	19	210,057	192,734
Accumulated gains	19	484,147	492,493
Translation differences	19	(5,936)	3,545
Interim dividend paid during the year	19	(61,755)	(93,174)
Equity attributed to holders of net worth instruments of the Parent		2,774,577	2,743,662
Non-controlling interest	19	(7,219)	(4,098)
Total Net Equity		2,767,358	2,739,564
Financial liabilities with credit entities	20	85	593
Other financial liabilities	20	609,881	608,064
Non-current official subsidies	21	744,879	744,206
Financial debts with Group companies	20	182,143	196,905
Deferred tax liabilities	27	954	1,085
Non-current liabilities	23	438,307	443,875
Other non-current non-financial liabilities	25	12,368	14,831
Total non-current liabilities		1,988,617	2,009,559
Financial liabilities from issuing bonds and other	20	7,111	7,111
Financial liabilities with credit entities	20	985	1,318
Financial debt with related companies	20	20,350	21,318
Other current financial liabilities	20	63,342	58,033
Current official subsidies	21	21,403	17,368
Trade creditors and other accounts payable	22	182,211	153,780
Current income tax liability	22	1,333	1,300
Current provisions	23	85,772	86,270
Other current non-financial liabilities	25	6,642	5,883
Total current liabilities		389,149	352,381
Total Liabilities and Net Equity		5,145,124	5,101,504

(*) Restated information.

The accompanying notes form an integral part of the Consolidated Financial Statements for the year ended 31 December 2022.

CONSOLIDATED INCOME STATEMENT CORRESPONDING TO FINANCIAL YEARS ENDED AS OF 31 DECEMBER 2022 AND 2021

(In thousands of Euros)

	NOTES:	2022	2021(*)
Ordinary income	26a	947,727	915,024
Other income	26b	72,038	69,575
Works carried out by the Group for non-current assets		18,419	12,320
Consumption of goods, raw materials and consumables	26c	(358,192)	(289,106)
Employee benefits expense	26d	(198,836)	(191,663)
Amortization expense	26e	(131,865)	(129,597)
Losses (Reversal of losses) for fixed assets impairment		2,104	13,005
Other expenses	26f	(235,416)	(222,032)
Financial income	26h	18,460	6,866
Finance expenses	26h	(22,910)	(23,955)
Losses (Reversal of losses) for investment impairment	26h	(1,531)	(31)
Share in investment earnings of the fiscal year recorded with the equity method	12	(37)	(1)
Earnings Before Ongoing Operations Taxes		109,961	160,405
Expense due to tax on profits	27	2,399	(5,769)
Ongoing operations income for the fiscal year		112,360	154,636
Financial year profit		112,360	154,636
Equity attributed to holders of net worth instruments of the Parent		115,092	158,062
Income attributable to non-controlling interest		(2,732)	(3,426)

(*) Restated information.

The accompanying notes form an integral part of the Consolidated Financial Statements for the year ended 31 December 2022.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME THE YEARS ENDED 31 DECEMBER 2022 AND 2021**(In thousands of Euros)**

	Notes	2022	2021 ^(*)
FINANCIAL YEAR PROFIT		112,360	154,636
Items to be reclassified as income			-
Translation differences of overseas businesses financial statements		(699)	352
OTHER COMPREHENSIVE INCOME, NET OF TAXES		(699)	352
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:		103,635	154,929
Equity attributed to holders of net worth instruments of the Parent		107,066	158,003
Non-controlling interest		(3,431)	(3,074)

(*) Restated information.

The accompanying notes form an integral part of the Consolidated Financial Statements for the year ended 31 December 2022.

CONSOLIDATED FINANCIAL STATEMENTS 2022

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY FOR THE YEARS ENDED 31 DECEMBER 2022 AND 2021

(In thousands of Euros)

EQUITY ATTRIBUTED TO HOLDERS OF NET WORTH INSTRUMENTS OF THE PARENT

	Share capital	Share Premium	Other Reserves	Accumulated gains	Interim dividend	Translation differences	Total	Non-controlling interest	TOTAL
BALANCE AS OF 01 JANUARY 2021	1,074,032	1,074,032	173,279	463,709	(95,450)	3,604	2,693,206	(731)	2,692,475
Profit	-	-	-	158,062	-	-	158,062	(3,426)	154,636
Other comprehensive income	-	-	-	-	-	(59)	(59)	352	293
Total Comprehensive Income Statement	-	-	-	158,062	-	(59)	158,003	(3,074)	154,929
Distribution of the benefit for the financial year	-	-	-	-	-	-	-	-	-
Reserves	-	-	19,455	(19,455)	-	-	-	-	-
Dividends (note 19)	-	-	-	(109,472)	95,450	-	(14,022)	-	(14,022)
Dividends (note 19)	-	-	-	-	(93,174)	-	(93,174)	-	(93,174)
Other movements	-	-	-	(351)	-	-	(351)	(293)	(644)
B. BALANCE AS OF 31 DECEMBER 2021(*)	1,074,032	1,074,032	192,734	492,493	(93,174)	3,545	2,743,662	(4,098)	2,739,564
Adjustment to the initial balance									
C. ADJUSTED BALANCE, BEGINNING OF YEAR 2022	1,074,032	1,074,032	192,734	492,493	(93,174)	3,545	2,743,662	(4,098)	2,739,564
Profit	-	-	-	115,092	-	-	-	(2,732)	112,360
Other comprehensive income	-	-	-	-	-	(8,026)	(8,026)	(699)	(8,725)
Total Comprehensive Income Statement	-	-	-	115,092	-	(8,026)	107,066	(3,431)	103,635
Distribution of the benefit for the financial year	-	-	-	-	-	-	-	-	-
Reserves	-	-	17,323	(17,323)	-	-	-	-	-
Dividends (note 19)	-	-	-	(103,751)	93,174	-	(10,577)	-	(10,577)
Dividends (note 19)	-	-	-	-	(61,755)	-	(61,755)	-	(61,755)
Other movements	-	-	-	(2,364)	-	(1,455)	(3,819)	310	(3,509)
D. AT 31 DECEMBER 2022	1,074,032	1,074,032	210,057	484,147	(61,755)	(5,936)	2,774,577	(7,219)	2,767,358

(*) Restated information.

The accompanying notes form an integral part of the Consolidated Financial Statements for the year ended 31 December 2022.

CONSOLIDATED FINANCIAL STATEMENTS 2022

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED 31 DECEMBER 2022 AND 2021.

(In thousands of Euros)	2022	2021(*)
OPERATING CASH FLOWS		
Profit(loss) for the year	112,360	154,636
Adjustments due to:		
Amortization of fixed assets	131,865	129,597
Impairment write-downs	4,559	2,868
Variation of provisions	95,908	82,893
Allocation of subsidies	(21,436)	(17,366)
Results for derecognitions and disposals of fixed assets	(143)	(10,426)
Financial income	(7,150)	(5,499)
Finance expenses	22,910	23,955
Translation differences	(11,310)	(1,367)
Profit tax	(2,399)	5,769
Other income and expenses	3,036	131
Share in profit/loss of equity-accounted companies	37	1
Variations of working capital excluding the effect of acquisitions and translation differences		
Inventory	575	(273)
Trade and other accounts receivable	(13,222)	7,519
Other current assets	(400)	(357)
Creditors and other accounts payable	11,320	25,157
Other current liabilities	373	930
Provisions	(100,383)	(80,412)
Other non-current assets and liabilities	518	(190)
Effect caused by operating activities	227,018	317,566
Interest paid	(12,952)	(15,243)
Interest received	1,066	592
Proceeds (payments) of tax on profits	443	(1,993)
Operating activities cash flow	215,575	300,922
CASH FLOWS FROM INVESTMENT ACTIVITIES		
Payments for the purchase of intangible assets	(87,261)	(71,723)
Payments for the purchase of fixed assets	(405)	(998)
Payments for the purchase of real estate investments	(3)	(10)
Payments for the purchase of financial assets	(376,524)	(268,833)
Receivables from divestments in group companies and associates	-	-
Receivables from the sale of intangible assets	10	288
Receivables from the sale of property, plant and equipment	74	145
Receivables from the sale of real estate investments	179	13,634
Receivables from the sale of financial assets	20,023	268,327
Proceeds from the sale of non-current assets held for sale	3,525	
Investment activities cash flow	(440,382)	(59,170)
CASH FLOWS FROM FINANCING ACTIVITIES		
Subsidies, gifts and covenants receivable	26,051	22,377
Receivables from debts with credit institutions	90	1,014
Receivables from other debts	12,597	11,528
Payments from debts with credit institutions	(1,142)	(1,265)
Payments from debts with Group companies and Associates	(14,762)	(29,048)
Other receivables	(18,610)	(17,051)
Dividends paid	(76,674)	(137,195)
Financing activities cash flow	(72,450)	(149,640)
Effect of exchange rate fluctuations	3,765	205
NET INCREASE/ DECREASE IN CASH OR CASH EQUIVALENTS	(293,492)	92,317
Cash or cash equivalents at beginning of the financial year	525,664	433,347
Cash or cash equivalents at close of financial year	232,172	525,664

(*) Restated information.

The accompanying notes form an integral part of the Consolidated Financial Statements for the year ended 31 December 2022.

NOTES TO THE 2022 CONSOLIDATED FINANCIAL STATEMENTS

1. NATURE, PRINCIPAL ACTIVITIES AND COMPOSITION OF THE CONSOLIDATED GROUP

Canal de Isabel II, S.A., M.P. (hereinafter “the Parent Company”) was created in accordance with the provisions of Article 16. One of Law 3/2008 of 29 December 2008 on Tax and Administration Measures amended by Law 6/2011 of 28 December on Tax and Administration Measures, which authorised Canal de Isabel II (hereinafter, the “Public Entity” or “Canal”) to create a limited company with the purpose of providing water supply, sanitation and other water-related services and works under the terms of Law 17/1984 of 20 December, regulating water supply and sanitation in the Region of Madrid, and other applicable legislation.

The Parent Company was incorporated on 27 June 2012, as a public limited company for an indefinite period of time, has the status of a public trading company of the Region of Madrid, and is considered to be a personified own means of the Region of Madrid and the bodies, entities and entities of the public sector of the Community of Madrid, with respect to activities relating to the provision of mobile radiotelephony services in closed user groups and possible interconnections with this network. The Parent Company has its registered office and tax domicile at calle Santa Engracia, 125, Madrid.

The Ordinary General Shareholders' Meeting of 21 December 2022 adopted the resolution to modify its initial social name, changing its name to “Canal de Isabel II, S.A., M.P.”.

According to its articles of association, the Parent’s statutory activity consists of the following:

- 1) Integral water cycle management throughout the Madrid region, which involves:
 - a) Managing the supply and recycling of drinking water.
 - b) Overseeing the sewerage service.
 - c) Control of materials discharged through the sewerage system and the Public Domain Water.
 - d) Management of the wastewater treatment and reclamation service.
 - e) The management and recovery of waste resulting from the processes listed in the previous sections and the marketing of any by-products derived from them.
 - f) The completion of the technical, economic, legal and administrative studies necessary for the provision of the services and the completion of the activities indicated in the previous paragraphs and in particular ; the completion of Technical Studies and Projects for works and the completion of cost and rate studies.
 - g) Execution and/or management of any works, including civil works, necessary to maintain, replace, upgrade, install or extend the infrastructures used to provide the services listed above.
- 2) Research activities and the provision of consultancy services and assistance in all sectors relating to its statutory activity.
- 3) The execution and management of the sale of electricity and the development of all other related, instrumental, auxiliary or complementary activities.
- 4) The development, construction, sale, rental and other activities of a real estate nature, as well as the management and urban development of land, in relation to real estate, land or activities related to the main activity carried out by the parent company.
- 5) The development or provision of other public services or activities involving the use of networks, infrastructures or property in the management of which it participates or owned by it; as well as in the exercise of technical, commercial or research activities that contribute to strengthening the services provided by the Company and that represent added value for users.
- 6) The development of activities and the provision of services in the area of telecommunications, information and communication, in particular the activities related to the Internet and other

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR 2022

networks including, among others, activities involving access service provision, activities related to emergency, safety and rescue services, production, distribution and/or exhibition of own or external contents, website and eCommerce activities, the provision of customer service facilities, the design, implementation and management of call centres: the operation of social media websites and others that may arise in this area in the future.

- 7) The acquisition, subscription, retention, management, exchange, sale or conveyance of all kinds of equity holdings, shares and securities issued by any Spanish or foreign company or entity, irrespective of the legal status of the issuer, directly and without acting as an intermediary. All activities restricted by law to collective investment institutions or reserved by the Stock Market Law to member brokers and brokerage firms are excluded.

The principal activity of the Parent and its subsidiaries (hereinafter, the “Group” or “Grupo Canal de Isabel II”) is comprehensive water cycle management throughout the Madrid region and in several South American countries.

When commissioned to do so by the corresponding public authority, the Parent may also be involved in the process of collecting government revenue, without this entailing the exercise of public authority, whether this is tax or non-tax revenue, during the voluntary or enforcement period.

This corporate purpose does not include activities that are subject to special requirements pursuant to law, which cannot be met by the group companies.

In addition, the Company may carry out its statutory activity, as described above, in any part of Spain or in any other country. The Company may also carry out all or part of these activities indirectly or through shareholdings and/or equity holdings in other companies with the same or similar statutory activities.

The Parent Company may provide internal or intra-group services to its investees or the Public Entity Canal de Isabel II in relation to the matters listed above, and also in relation to those specified in Article 2 of its Articles of Association.

Related information on the consolidated subsidiaries, associates and joint ventures at 31 December 2022 and 2021 is included in Appendices II, III and IV.

Pursuant to article 4 of its articles of association, the Parent began operating on 1 July 2012.

As described in note 2 (h), in 2012 the Public Entity made a non-monetary contribution consisting of the activity, assets and liabilities, and shares and equity holdings in trading companies.

The Company's activity is regulated under the Contract-Programme.

a) Contract-Programme

On 14 June 2012, the Government Council of the Regional Government of Madrid approved the Contract-Programme between the Public Entity and the Parent Company, which was signed on 1 July 2012, establishing the mutual obligations and commitments assumed by both parties within the framework of the general financial policy and water policy of the Regional Government of Madrid, all within the scope of Law 17/1984 of 20 December, which regulates water supply and sanitation in the Region of Madrid. This management includes running (operation, maintenance and upkeep) the Region of Madrid General Network and providing the corresponding water supply, sanitation and water recycling services for that network. The agreement has a 50-year term which cannot be extended.

Pursuant to its articles of association, the Parent began operating on 1 July 2012.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR 2022

As provided for in Article 16.2.4.b) of Law 3/2008, amended by Article 5 of Law 6/2011 of 28 December on Tax and Administration Measures, on 14 June 2012 the Government Council of the Regional Government of Madrid approved the inventory of assets and rights that made up the contributed activity and the values assigned to these assets and rights for the purposes of incorporating the Parent Company. In accordance with Article 16. 2.3 of Law 3/2008 (on Tax and Administration Measures), the Public Entity also transferred the ownership of all assets that do not form part of the Community of Madrid General Network and its shares and equity holdings in trading companies to the Parent.

This valuation and contribution exercise was carried out following the criteria and guarantees stipulated in Article 114 of Law 33/2003 of 3 November 2003 on the Assets of Public Administrations, for the purposes foreseen in Article 47 of Law 3/2001 of 21 June on the Assets of the Regional Government of Madrid.

For the contribution of this activity, Canal availed of the tax neutrality scheme regulated in Title VII, Chapter VIII of Royal Legislative Decree 4/2004 of 5 March, approving the Revised Spanish Corporate Tax Law.

As required by article 47 of Law 3/2001 of 21 June 2001 (on the Assets of the Community of Madrid), the valuation was submitted to the General Directorate of Financial Policy, Treasury and Heritage of the Department of Economy and Finance, which gave its approval. The valuation report included a description of the criteria followed to allocate the values to the activity and its components.

The conditions of this non-monetary contribution and the valuation performed by the technical services are described in a valuation report, which was based on the net worth of the contributed activity at 30 June 2012, calculated under prevailing accounting legislation and, specifically, the General Chart of Accounts and Ministry of Economy and Finance Order EHA/3362/2010 of 23 December 2010. All assets and liabilities included in the non-monetary contribution were included at their net carrying amount, except for the assets corresponding to investments in Group companies, jointly controlled group companies and associates, which were included at the value of the consolidated Canal Group at 30 June 2012, the effective date of the transaction. The valuation of the contributed activity amounted to 2,148,064 thousand euros.

b) Changes in the consolidated group

Canal de Isabel II, S.A., M.P. prepares its consolidated annual accounts, including its investments in all its subsidiaries, associates and joint arrangements. Details of the main companies forming the Grupo Canal de Isabel II, S.A., M.P., and which are consolidated at the date of the accompanying consolidated Financial Statements are provided in Appendices II, III and IV hereto.

(i) In the year ended 31 December 2022

Merger by absorption of Hidráulica Santillana, S.A.U.

On 1 April 2022, the merger by absorption between the Parent Company, Canal de Isabel II, S.A., M.P., S.A., S.A. was registered in the Business Registry . (absorbing company) and the Group company, Hidráulica Santillana, S.A.U. (Absorbed company) In accordance with the registration and valuation rules and regulations, the effects of the aforementioned merger are retroactive to 1 January 2022, and therefore the Balance sheet attached to these notes to the consolidated financial statements includes the amounts at 1 January 2022 of the absorbed company.

The main aspects of the merger plan, approved at Parent Company's Extraordinary Shareholders' Meeting held on 27 January 2022, , were as follows:

- The Parent Company, Canal de Isabel II, S.A. has absorbed Hidráulica Santillana, S.A.U., which has been dissolved without liquidation by universal succession and being subrogated to the rights and obligations of the latter, in accordance with the provisions of article 49 of Law 3/2009, of 3 April 2009, on structural changes to mercantile companies. By virtue of this article, as it holds a 100% stake in the absorbed company, the absorbing company did not increase its share capital, nor was the intervention of independent experts or the issuance of reports by the Directors on the merger plan necessary, nor were the 2nd, 6th, 9th and 10th mention of article 31 of Law 3/2009 required.
- Pursuant to the provisions of article 76 et seq. of Law 76/2014 of 27 November 2014, on Corporate Income Tax, the merger has been subject to the special tax regime for mergers, spin-offs, asset contributions, exchange of securities and global transfers of assets and liabilities and change of registered address of a European Company or a European Cooperatives from one Member State to another Member State of the European Union, as provided for in Chapter VII of Title VII, having notified the Tax Agency in a timely manner, in accordance with the provisions of the aforementioned Law and its implementing regulations.
- The merger deed is dated 15 March 2022 and was registered with the Commercial Registry of Madrid on 01 April 2022.
- In accordance with the amendments introduced by Royal Decree 1159/2010, of 17 September, approving the Rules for the Preparation of Consolidated Financial Statements and, in particular, the aspects relating to Recording and Valuation Rule 21 "Transactions between Group companies" of the General Accounting Plan, the date of the accounting effects of intra-group mergers and spin-offs will be that of the beginning of the financial year in which the merger is approved, provided that this is subsequent to the time of incorporation of the companies affected into the Group. The merger is therefore effective for accounting purposes as from 1 January 2022. The transactions carried out by Hidráulica Santillana, S.A.U. as from 1 January 2022 are considered to be carried out by the Parent Company.
- The assets and liabilities incorporated into the Parent Company through the merger by absorption have been valued at the carrying values obtained from the Financial Statements of Hidráulica Santillana, S.A.U. at 31 December 2021.
- The Balance sheet of Hidráulica Santillana, S.A.U. showing the assets and liabilities at the effective date of the merger for accounting purposes , is presented below for the purpose of identifying and comparing the balances that have been incorporated as a result of the merger.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR 2022

In thousands of euros			
ASSETS	01 January 2022	LIABILITIES	01 January 2022
A) NON-CURRENT ASSETS	12,916	A) EQUITY	29,655
Intangible fixed assets	12,761	A-1) OWN FUNDS	29,427
Property, plant and equipment	-	Share capital	4,753
Non-current financial investments	4	Share premium	-
Deferred tax assets	151	Reserves	22,869
B) CURRENT ASSETS	19,082	Profit(loss) for previous financial year	1,805
Non-current assets held for sale	-	A-2) SUBSIDIES, GIFTS AND BEQUESTS	228
Inventories	486	B) NON-CURRENT LIABILITIES	443
Trade debtors and other accounts receivable	8,416	Long-term Provisions	365
Short-term investments in group companies and associates	-	Long-term debt	2
Short-term financial investments	29	Deferred tax liabilities	76
Cash and other equivalent liquid assets	10,151	C) CURRENT LIABILITIES	1,900
		Short-term provisions	41
		Short-term debt	1
		Short-term debts with group companies and associates	567
		Trade creditors and other accounts payable	1,291
TOTAL ASSETS (A+B)	31,998	TOTAL NET EQUITY AND LIABILITIES (A+B+C)	31,998

As a result of the merger operation described above, negative merger reserves amounting to 1,195 thousand euros have been recognised in the parent company, with no effect on Consolidated Equity. (see note 19)

Dissolution and simultaneous liquidation of Ocio y Deporte, S.L.U.

On 16 September 2022, the Group company Ocio y Deporte, S.L.U., duly represented by its sole shareholder Canal de Isabel II, Sociedad Anónima, M.P., under article 15 of Royal Legislative Decree 1/2010, of 2 July, approving the Consolidated Text of the Corporate Enterprises Act, adopted the decision to approve its dissolution and simultaneous liquidation. Furthermore, the Governing Council of the Region of Madrid has authorised the dissolution, by means of a resolution adopted at its meeting of 13 July 2022, published in the BOCAM (Official Gazette of the Region of Madrid) on 6 September 2022, in accordance with the provisions of Article 64(1) and (3) of Law 1/1984 of 19 January 1984, regulating the Institutional Administration of the Region of Madrid.

On 13 October 2022, the voluntary dissolution, liquidation and extinction of Ocio y Deporte, S.L.U. was registered with the Business Registry, by virtue of the resolutions to notarise the corporate resolutions for the dissolution and liquidation of the aforementioned Group company, dated 28 September 2022.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR 2022

The final liquidation balance sheet drawn up by the liquidating companies as at 16 September 2022 is as follows:

			In thousands of euros
ASSETS	01 January 2022	LIABILITIES	01 January 2022
A) NON-CURRENT ASSETS	-	A) EQUITY	1,091
B) CURRENT ASSETS	1,138	A-1) OWN FUNDS	1,091
Cash and other equivalent liquid assets	1,138	Share capital	3
		Reserves	703
		Profit(loss) for previous financial year	339
		Profit(loss) for the year	46
		B) NON-CURRENT LIABILITIES	43
		Other provisions	43
		C) CURRENT LIABILITIES	4
		Trade creditors and other accounts payable	4
TOTAL ASSETS (A+B)	1,138	TOTAL NET EQUITY AND LIABILITIES (A+B+C)	1,138

In accordance with the forecasts included in the final liquidation balance Sheet, the share capital distributable to the sole shareholder amounted to 1,091 thousand euros, the liquidation share of which has been paid by means of a cash payment. The settlement has resulted in the recognition of income of 1,088 thousand euros for the Parent Company.

Dissolution and simultaneous liquidation of Canal Energía, S.L.U.

On 16 September 2022, the Group company , Canal Energía, S.L.U., duly represented by its sole shareholder of the Parent Company Canal de Isabel II, S.A., M.P., under article 15 of Royal Legislative Decree 1/2010, of 2 July, approving the Consolidated Text of the Corporate Enterprises Act, adopted the decision to approve the dissolution and simultaneous liquidation. Furthermore, the Governing Council of the Region of Madrid has authorised the dissolution, by means of a resolution adopted at its meeting of 13 July 2022, published in the BOCAM (Official Gazette of the Region of Madrid) on 6 September 2022, in accordance with the provisions of Article 64(1) and (3) of Law 1/1984 of 19 January 1984, regulating the Institutional Administration of the Region of Madrid.

On 13 October 2022, the voluntary dissolution, liquidation and extinction of Ocio y Deporte, S.L.U. was registered with the Business Registry, by virtue of the resolutions to notarise the corporate resolutions for the dissolution and liquidation of the aforementioned Group company, dated 28 September 2022.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR 2022

The final liquidation balance sheet drawn up by the sole liquidating company as at 16 September 2022 is as follows:

In thousands of euros			
ASSETS	01 January 2022	LIABILITIES	01 January 2022
A) NON-CURRENT ASSETS	-	A) EQUITY	246
B) CURRENT ASSETS	249	A-1) OWN FUNDS	246
Trade debtors and other accounts receivable	1	Share capital	4
Cash and other equivalent liquid assets	248	Share premium	16
		Reserves	253
		Profit(loss) for previous financial year	(24)
		Profit(loss) for the year	(3)
		B) NON-CURRENT LIABILITIES	-
		C) CURRENT LIABILITIES	3
		Trade creditors and other accounts payable	3
TOTAL ASSETS (A+B)	249	TOTAL NET EQUITY AND LIABILITIES (A+B+C)	249

In accordance with the forecasts included in the final liquidation balance sheet, the share capital distributable to the sole shareholder amounted to 246 thousand euros, the liquidation share of which has been paid by means of a cash payment of 244 thousand euros and the assignment of a claim of 1 thousand euros against the Public Entity Canal de Isabel II. The settlement has resulted in the recognition of loss of 51 thousand euros for the Parent Company.

Dissolution and liquidation of the company Aguas de Tumbes, S.A.

On 14 November 2018, the General Shareholders' Meeting of Aguas de Tumbes S.A., (ATUSA), declared the dissolution of the company due to the manifest impossibility of carrying out its corporate purpose. A liquidator was appointed, who began the respective procedures in order to inform creditors of the state of liquidation, carry out an inventory of assets and other procedures provided for in the bylaws and the law.

The above decision was published on the website of the judiciary, and the corresponding legal registrations were made.

Aguas de Tumbes, S.A. was not part of the Group's scope of consolidation as it was classified as an asset held for sale. (See note 6)

(ii) In the financial year ended 31 December 2021

Merger by absorption of Hispanagua, S.A.U.

On 31 March 2021, the merger by absorption between the Parent Company, Canal de Isabel II, S.A., M.P., S.A., S.A. was registered in the Business Registry . (absorbing company) and the Group company, Hispanagua, S.A.U. (Absorbed company) In accordance with the registration and valuation rules and regulations, the effects of the aforementioned merger were retroactive to 1 January 2021, and therefore the Balance sheet attached to these notes to the consolidated financial statements includes the amounts at 1 January 2021 of the absorbed company.

The main aspects of the merger plan, approved at the Parent Company's Extraordinary Shareholders' Meeting held on 17 February 2021, were as follows:

- The Parent, Canal de Isabel II, S.A., M.P. has absorbed Hispanagua, S.A.U., which has been dissolved without liquidation, acquiring all its assets by universal succession and being subrogated to the rights and obligations of the latter, in accordance with the provisions of article 49 of Law 3/2009, of 3 April 2009, on structural changes to mercantile companies. By virtue of this article, as it holds a 100% stake in the absorbed company, the absorbing company did not increase its share capital, nor was the intervention of independent experts or the issuance of reports by the Directors on the merger plan necessary, nor were the 2nd, 6th, 9th and 10th mention of article 31 of Law 3/2009 required.
- Pursuant to the provisions of article 76 et seq. of Law 76/2014 of 27 November 2014, on Corporate Income Tax, the merger has been subject to the special tax regime for mergers, spin-offs, asset contributions, exchange of securities and global transfers of assets and liabilities and change of registered address of a European Company or a European Cooperatives from one Member State to another Member State of the European Union, as provided for in Chapter VII of Title VII, having notified the Tax Agency in a timely manner, in accordance with the provisions of the aforementioned Law and its implementing regulations.
- The merger deed is dated 25 March 2021 and was registered with the Commercial Registry of Madrid on 31 March 2021.
- The merger is effective for accounting purposes as from 1 January 2021. The transactions carried out by Hispanagua, S.A.U. as from 1 January 2021 are considered to be carried out by the Parent Company.
- The valuation of the net assets of the business received has been made in accordance with IFRS 3 Business Combinations (acquisition method), considering the acquiring party to be the parent company and the acquired party to be the subsidiary. The assets and liabilities incorporated into the parent company through the merger by absorption have been valued at the carrying values obtained from the Financial Statements of Hispanagua, S.A.U. at 31 December 2020.
- The Balance sheet of Hispanagua, S.A.U. showing the assets and liabilities at the effective date of the merger for accounting purposes is presented below for the purpose of identifying and comparing the balances that were incorporated as a result of the merger.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR 2022

In thousands of euros

ASSETS	01 January 2021	LIABILITIES	01 January 2021
C) NON-CURRENT ASSETS	325	A) EQUITY	(693)
Intangible fixed assets	13	A-1) OWN FUNDS	(693)
Property, plant and equipment	264	Share capital	1,188
Non-current financial investments	14	Share premium	165
Deferred tax assets	34	Reserves	1,128
D) CURRENT ASSETS	3,255	Profit(loss) for previous financial year	(3,174)
Non-current assets held for sale	258	Profit(loss) for the year	-
Inventory	451	B) NON-CURRENT LIABILITIES	165
Trade debtors and other accounts receivable	1,090	Long-term Provisions	165
Short-term investments in group companies and associates	1,098	C) CURRENT LIABILITIES	4,108
Short-term financial investments	6	Short-term provisions	220
Cash and other equivalent liquid assets	352	Short-term debt	107
		Short-term debts with group companies and associates	1,516
		Trade creditors and other accounts payable	2,265
TOTAL ASSETS (A+B)	3,580	TOTAL NET EQUITY AND LIABILITIES (A+B+C)	3,580

As a result of the merger described above, negative merger reserves amounting to 2,499 thousand euros have been recognised in the Parent Company. (see note 19), with no effect on Consolidated Equity.

Merger by absorption of Canal de Comunicaciones Unidas, S.A.U.

On 26 October 2021, the merger by absorption between the Parent Company, Canal de Isabel II, S.A., M.P., S.A., S.A. was registered in the Business Registry . (absorbing company) and the Group company, Canal de Comunicaciones Unidas, S.A.U. (absorbed company) In accordance with the registration and valuation rules and regulations, the effects of the aforementioned merger were retroactive to 1 January 2021, and therefore the Balance sheet attached to these notes to the consolidated financial statements includes the amounts at 1 January 2021 of the absorbed company.

The main aspects of the merger plan, approved at the Parent Company's Extraordinary Shareholders' Meeting held on 29 July 2021, were as follows:

- The Parent, Canal de Isabel II, S.A. has absorbed Canal de Comunicaciones Unidas, S.A.U., which has been dissolved without liquidation, acquiring all its assets by universal succession and being subrogated to the rights and obligations of the latter, in accordance with the provisions of article 49 of Law 3/2009, of 3 April 2009, on structural changes to mercantile companies. By virtue of this article, as it holds a 100% stake in the absorbed company, the absorbing company did not increase its share capital, nor was the intervention of independent experts or the issuance of reports by the Directors on the merger plan necessary, nor were the 2nd, 6th, 9th and 10th mention of article 31 of Law 3/2009 required.
- Pursuant to the provisions of article 76 et seq. of Law 76/2014 of 27 November 2014, on Corporate Income Tax, the merger has been subject to the special tax regime for mergers, spin-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR 2022

offs, asset contributions, exchange of securities and global transfers of assets and liabilities and change of registered address of a European Company or a European Cooperatives from one Member State to another Member State of the European Union, as provided for in Chapter VII of Title VII, having notified the Tax Agency in a timely manner, in accordance with the provisions of the aforementioned Law and its implementing regulations.

- The merger deed is dated 15 September 2021 and was registered with the Commercial Registry of Madrid on 26 October 2021.
- The merger is effective for accounting purposes as from 1 January 2021. The transactions carried out by Canal de Comunicaciones Unidas, S.A.U. as from 1 January 2021 are considered to be carried out by the Parent Company.
- The valuation of the net assets of the business received has been made in accordance with IFRS 3 Business Combinations (acquisition method), considering the acquiring party to be the parent company and the acquired party to be the subsidiary.
- The assets and liabilities incorporated into the Parent Company through the merger by absorption have been valued at the carrying values obtained from the Financial Statements of Canal de Comunicaciones Unidas, S.A.U at 31 December 2020.
- The Balance sheet of Canal de Comunicaciones Unidas, S.A.U showing the assets and liabilities at the effective date of the merger for accounting purposes, is presented below for the purpose of identifying and comparing the balances that been incorporated as a result of the merger.

In thousands of euros

ASSETS	01 January 2021	LIABILITIES	01 January 2021
A) NON-CURRENT ASSETS	139	A) EQUITY	12,272
Intangible fixed assets	7	A-1) OWN FUNDS	12,272
Property, plant and equipment	104	Share capital	4,620
Non-current financial investments	28	Reserves	7,001
		Profit(loss) for previous financial year	651
B) CURRENT ASSETS	13,264	B) CURRENT LIABILITIES	1,131
Inventories	1	Short-term debt	10
Trade debtors and other accounts receivable	12,867	Short-term debts with group companies and associates	217
Short-term financial investments	71	Trade creditors and other accounts payable	904
Short-term accruals	1		
Cash and other equivalent liquid assets	324		
TOTAL ASSETS (A+B)	13,403	TOTAL EQUITY AND LIABILITIES (A+B)	13,403

As a result of the merger operation described above, merger reserves of 4,461 thousand euros were recognised in the Parent Company. (see note 19), with no effect on Consolidated Equity.

2. PRESENTATION PRINCIPLES

a) True and fair view

The accompanying consolidated Financial Statements have been prepared on the basis of the accounting records of the Company and of the Group companies. The consolidated Financial Statements for the year ended 31 December 2022 have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS-EU), and other applicable provisions in the financial reporting framework, to present a true and fair view of the consolidated equity and consolidated financial position of the Canal de Isabel II Group at 31 December 2022 and consolidated profit and losses, consolidated cash flows and changes in the consolidated net equity of the Group for the year then ended.

The Group adopted IFRS-EU on 1 July 2012 and applied IFRS 1 “First-time Adoption of International Financial Reporting Standards”.

These Annual Financial Statements were prepared in accordance with the applicable regulatory framework for financial reporting and, in particular, in accordance with the principles and criteria established by the International Financial Reporting Standards (IFRS), as adopted by the European Union, in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council. Note 2 (e) summarises the most significant mandatory accounting principles and measurement criteria applied, the alternatives permitted in this connection pursuant to the regulations, and the standards and interpretations published but not in force on the date of authorising these Annual Financial Statements for issue.

At 31 December 2022, the Parent Company recognises a “Provision on a systematic basis for the replacement of infrastructure” assigned by third parties based on the best estimate of the annual replacement investment to be made in this infrastructure over the concession term, so that they are in the same state at the end of the concession (see note 23 (a)).

The Parent Company recognises in the Income Statements the amount corresponding to the cost for each financial year.

The application of amendments to IFRS in 2022 (see note f) did not have a material impact on the consolidated financial statements.

On 31 March 2022, the Board of Directors of Canal de Isabel II, S.A., M.P., resolved to call a General Meeting of Shareholders, which was called by the Chairperson of the Board of Directors on 22 April 2022, for 26 May 2022, on first call, and for 27 May 2022, on second call. Notice of the meeting was issued on 22 April, by means of a regulatory disclosure to the National Securities Market Commission (“CNMV”) and a communication on the corporate website of Canal de Isabel II, S.A., M.P. The individual and consolidated financial statements of the Parent Company were approved by shareholders at the Company’s Ordinary General Meeting on 26 May 2022.

The Directors of the Parent consider that the consolidated Financial Statements for 2022, authorised for issue at 30 March 2023, will be approved without significant changes at the Annual General Meeting of Shareholders.

The Consolidated Financial Statements of Canal de Isabel II, S.A., M.P., and its subsidiaries will be deposited in the Commercial Registry of Madrid, following its approval by the General Meeting of Shareholders.

The Parent Company forms part of Grupo Canal de Isabel II and its direct parent is the Public Entity Canal de Isabel II. The Public Entity’s registered office is located at Calle Santa Engracia, 125, Madrid (Spain).

b) Operating currency and presentation currency

The consolidated Financial Statements are presented in thousands of euros, which is the Parent's operating and presentation currency, rounded to the nearest unit. The exchange rates for the main currencies of the Group Companies with regard to the euro at 31 December 2022 and 2021 have been as follows:

	31 December 2022		31 December 2021	
	Closing rate	Average accumulated rate	Closing rate	Average accumulated rate
United States Dollar (USD)	1.07	1.05	1.13	1.18
Columbian Pesos (COP)	5,130.56	4,485.50	4,509.06	4,431.41
Dominican Peso (DOP)	60.17	58.11	65.18	67.72
Brazilian Reais (BRL)	5.57	5.44	6.32	6.38
Uruguayan Peso (UYU)	42.74	43.39	50.62	51.55

c) Relevant accounting estimates, assumptions and judgements used when applying accounting principles and changes in estimates

The preparation of the consolidated Financial Statements in accordance with IFRS-EU implies the application of relevant accounting estimates and judgements, estimates and hypotheses on the process of applying the Group's accounting policies, as well as measuring assets, liabilities and profit and losses.

In this regard, we include below a breakdown of the aspects that have been especially difficult or uncertain to assess or those for which hypotheses and estimates are relevant for the preparation of the consolidated financial statements.

- The Group follows the accounting policy described in note 3 (i) for impairment of non-financial assets subject to amortisation or depreciation. Management and the Group must use estimates to calculate the recoverable amount, which is generally determined using cash flow discounting methods. The cash flows take into consideration past experience and represent the best estimate of future market performance. The estimates, including the methodology used, could have a significant impact on values and impairment (see note 9).
- The Group recognises a "Provision on a systematic basis for the replacement of infrastructure" assigned by third parties based on the best estimate of the annual replacement investment to be made in this infrastructure over the concession term. For the rest of its infrastructure, located in Latin America, the Group considers that a suitable preventative and corrective maintenance programme eradicates the need for any significant replacements. The Parent Company recognises in the Income Statements the amount corresponding to the cost for each financial year.
- Valuation allowances for bad debts, the review of individual balances based on customers' credit ratings, current market trends, and historical analysis of bad debts at an aggregated level require a high degree of judgement by Management.

The Group companies consider the impairment evidence of the accounts receivable until maturity both specifically and collectively. In the case of individually significant accounts receivable, the possible impairment thereof is assessed specifically. Receivables that are not individually significant are collectively assessed at their possible impairment, grouping together receivables with similar risk characteristics. The basis of the historical information of collection

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR 2022

statistics is determined by assessing the collective impairment, particular in companies providing domestic public services.

In the case of the subsidiary Emissão, S.A., in the process of analysing the possible impairment of its receivables, which due to its activity are individually significant, the analyses and conclusions issued by the lawyers representing the Company in the claim and defence of its interests have been taken into account.

- The consolidated Financial Statements for each reporting period include an estimate of the water supplied but not yet invoiced at 31 December each year (approximately one month's supply). Due to the meter-reading procedure, this supply is billed the following year.
- The Group is subject to regulatory and legal processes and inspections by government bodies and to judicial investigations in various jurisdictions. It recognises a provision for liabilities (see note 23) if it is probable that an obligation will exist at year end that will give rise to an outflow of resources and this outflow can be measured reliably. Legal processes usually involve complex issues and are subject to substantial uncertainties. As a result, management, although it analyses the potential risks with the support of specialist external advisors, it uses significant judgement when determining whether it is probable that the process will result in an outflow of resources and in estimating the amount.
- The Group has receivables from certain town and city councils for work carried out and work on infrastructures used in the water distribution services and sewerage system. These receivables are recognised at amortised cost considering recovery periods. These periods are estimated by management based on past experience, representing the best estimate of the balance to be recovered in the future (see note 14).
- The Parent Company has registered sureties received by the subscribers as collection guarantee for the supplies subject to invoicing. These security deposits are recognised at amortised cost considering the average reimbursement period. This period is estimated by the Company based on past experience, which is the best estimate of the amount to be reimbursed in the future (see note 20).

Although estimates are calculated based on the best information available at the reporting date, future events may require changes to these estimates in subsequent years. The effect of modifications on the consolidated financial statements arising from adjustments to be applied during the following financial years shall be accounted prospectively.

d) Determining fair values

Certain accounting policies and Group policies require the fair value of financial and non-financial assets and liabilities to be determined, where applicable.

Where possible, the Group uses observable market data to measure the fair value of an asset or liability. The fair values are classified in different levels of the fair value hierarchy based on the inputs used in the valuation techniques, as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR 2022

Where the inputs used to measure the fair value of an asset or liability can be categorised within different levels of the fair value hierarchy, the fair value valuation is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire valuation.

The Group recognises transfers between different levels of the fair value hierarchy at the end of the period in which the transfer occurs.

e) Information comparison

In accordance with regulations in force, in addition to the figures for the year ended 31 December 2022, the figures for the year ended 31 December 2021 are presented for comparative purposes. The Consolidated Financial Statements are presented for comparative purposes, with each of the items in the consolidated statement of financial position, consolidated income statement, consolidated statement of comprehensive income, consolidated statement of cash flows, consolidated statement of changes in equity, and the notes to the consolidated financial statements, in addition to the consolidated figures for the year ended 31 December 2022 and those for the year ended 31 December 2021 (except as indicated in section (f) below) approved by the shareholders at the Annual General Meeting held on 26 May 2022.

f) Changes in accounting estimates and policies and correction of fundamental errors.

(i) Accounting reclassifications

Emission allowances

The emission allowances were classified in 2021 as an intangible asset; they have been reclassified with restatement of the 2021 figures in "Inventories".

BALANCE (in thousands of Euros)	2021	Restatement effect	2021 restated
Other Intangible Assets	4,028,488	(3,451)	4,025,037
Total non-current assets	4,333,433	(3,451)	4,329,982
Inventories	8,374	3,451	11,825
Total current assets	766,786	3,451	770,237
Total assets	5,100,219	-	5,100,219

The effect of fundamental error corrections is recorded by the Group as follows: where material, the cumulative effect at the beginning of the year is adjusted in reserves and the effect of the year itself is recorded in the income statement for the year. In such cases, the financial data for the comparative period filed for the current period are restated.

During the financial year 2022, the group companies located in Brazil, Emissão and Fontes da Serra de Guapimirin, had a loss of database in the accounting information system, which caused the companies to prepare the financial statements for the financial year 2021 again. As a result, assets and liabilities representing significant amounts have arisen. This has led the Group (in accordance with IAS 8) to restate the financial statements for the year 2021. The impact of this restatement on the consolidated financial statements for 2021 is detailed below.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR 2022

(In thousands of Euros)	2021	Restatement effect	2021 restated
non-current assets	4,333,433	1,658	4,335,091
current assets	766,786	(373)	766,413
Total assets	5,100,219	1,285	5,101,504
Net Worth	2,744,956	(5,392)	2,739,564
non-current liabilities	2,003,148	6,411	2,009,559
current liabilities	352,115	266	352,381
Total Liabilities and Net Equity	5,100,219	1,285	5,101,504

STATEMENT OF CASH FLOWS (expressed in thousands of euros)	2021	Restatement effect	2021 restated
OPERATING CASH FLOWS			
Profit(loss) for the year	159,617	(4,981)	154,636
Effect caused by operating activities	317,837	(271)	317,566
NET INCREASE/ DECREASE IN CASH OR CASH EQUIVALENTS	92,304	13	92,317

g) New IFRS-EU standards, amendments and IFRIC interpretations issued

(ii) Standards and interpretations effective during this financial year:

The following accounting standards, amendments and interpretations became effective in the financial year 2022 and, therefore, have been taken into account in the preparation of these consolidated financial statements:

Standards, amendments and interpretations	Description	Obligatory application in the years beginning on or after
Adopted by the EU		
Amendment to IFRS 3 - Reference to the Conceptual Framework.	IFRS 3 is updated to align the definitions of assets and liabilities in a business combination with those contained in the conceptual framework. In addition, clarifications are introduced regarding the recognition of contingent liabilities and contingent assets.	01 January 2022
Amendment to IAS 16 - Income obtained before intended use	The amendment prohibits the deduction from the cost of an item of property, plant and equipment of any revenue from the sale of items produced while the entity is preparing the asset for its intended use. Revenue from the sale of such samples, together with production costs, must be recorded in the income statement.	01 January 2022
Amendment to IAS 37 - Onerous Contracts - Cost of Fulfilling a Contract.	The amendment explains that the direct cost of fulfilling a contract comprises the incremental costs of fulfilling that contract and an allocation of other costs that relate directly to the performance of the contract.	01 January 2022
Improvements to IFRSs 2018 - 2020 Cycle.	Minor amendment to IFRS 1, IFRS 9, IFRS 16 and IAS 41.	01 January 2022

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR 2022

The application of these amendments and interpretations did not have a material impact on these consolidated annual financial statements.

(iii) Standards and interpretations issued but not in force:

At 31 December 2022, the following standards and interpretations are the most significant standards and interpretations published by the IASB but not yet in force, either because their effective date is later than the date of the consolidated financial statements or because they had not yet been adopted by the European Union:

Standards, amendments and interpretations	Description	Application Obligatory application in the years beginning on or after
<u>Adopted by the EU</u>		
Amendments to IAS 1 - Breakdown of accounting policies	Amendments that enable entities to identify appropriately the material accounting policy information that should be broken down in the financial statements.	01 January 2023
Amendment to IAS 8 - Definition of accounting estimate	Amendments and clarifications on what should be understood as a change in an accounting estimate.	01 January 2023
Amendment to IAS 12 - Deferred taxes from assets and liabilities resulting from a sole transaction	Clarifications on how entities should account deferred tax on transactions such as leases and decommissioning obligations.	01 January 2023
Amendment to IFRS 17 - Insurance Contracts - Initial Application of IFRS 17 and IFRS 9. Comparative information.	Amendments to the transition requirements of IFRS 17 for insurers applying IFRS 17 and IFRS 9 for the first time at the same time.	01 January 2023
NIIF 17 – Insurance Contracts	It replaces IFRS 4 and establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts. Its objective is to ensure that the entity provides relevant information that faithfully represents those contracts. This information gives the basis for users to assess the effect that the insurance contracts have on the financial statements.	01 January 2023
<u>Not adopted by the EU</u>		
Amendment to IAS 1 - Classification of Liabilities as Current and Non-current and Classification of Non-current Liabilities with Covenants.	Clarifications on the presentation of liabilities as current or non-current, and in particular those with maturities conditional on compliance with covenants.	01 January 2024
Amendment to IFRS 16 - Lease liabilities in a sale and leaseback.	This amendment clarifies the subsequent accounting for lease liabilities arising on sale and leaseback transactions.	01 January 2024

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR 2022

The Group is exposed to potential future increases in lease payments based on the index or rate, which are not included in lease liabilities until such time as they become effective. At that time, the lease liability is remeasured and adjusted against the right-of-use asset.

Lease payments are assigned between the principal and finance expense. Finance expense is taken to profit or loss during the lease term so as to produce a constant periodic interest rate on the remaining balance of the liability for each period.

The lease term is defined as the non-cancellable term. If the Group has a unilateral option to extend or cancel the lease and there is reasonable certainty that said option will be exercised, the relevant extension period or early cancellation will also be taken into account. The maximum period estimated for a contract renewal is of 3 years since there is not reasonable certainty that it will be extended beyond that period. In the case of office leases at companies whose duration is linked to the project they are developing; the maximum renewal period will be of 3 years provided it does not exceed the remaining term of the project underway. The lease term is re-assessed if an option is actually exercised (or not exercised) or the Group is obliged to exercise it (or not exercise it). The assessment of reasonable certainty is revised only if there is a significant event or change in the circumstances that affects this assessment and that is under the lessee's control.

h) Non-Monetary Contribution

As provided for in Article 16.2.4.b) of Law 3/2008, amended by Article 5 of Law 6/2011 of 28 December 2011, on Tax and Administration Measures, on 14 June 2012 the Government Council of the Regional Government of Madrid approved the inventory of assets and rights that made up the contributed activity and the values assigned to these assets and rights for the purposes of incorporating the Parent Company. Pursuant to Article 16.2.3 of Law 3/2008 on Tax and Administration Measures, the Public Entity also transferred the ownership of all assets that do not form part of the Region of Madrid General Network and its shares and equity holdings in trading companies to the Company.

This valuation and contribution exercise was carried out following the criteria and guarantees stipulated in Article 114 of Law 33/2003 of 3 November 2003 on the Assets of Public Administrations, for the purposes foreseen in Article 47 of Law 3/2001 of 21 June on the Assets of the Regional Government of Madrid.

For the contribution of this activity, Canal availed of the tax neutrality scheme regulated in Title VII, Chapter VIII of Royal Legislative Decree 4/2004 of 5 March, approving the Revised Spanish Corporate Tax Law.

As required by article 47 of Law 3/2001 of 21 June 2001 (on the Assets of the Community of Madrid), the valuation was submitted to the General Directorate of Financial Policy, Treasury and Heritage of the Department of Economy and Finance, which gave its approval. The valuation report included a description of the criteria followed to allocate the values to the activity and its components.

The conditions of this non-monetary contribution and the valuation performed by the technical services are described in a valuation report, which was based on the net worth of the contributed activity at 30 June 2012, calculated under prevailing accounting legislation and, specifically, the General Chart of Accounts and Ministry of Economy and Finance Order EHA/3362/2010 of 23 December 2010. All assets and liabilities included in the non-monetary contribution were included at their net carrying amount, except for the assets corresponding to investments in Group companies, jointly controlled group companies and associates, which were included at the value of the consolidated Canal Group at 30 June 2012, the effective date of the transaction. The valuation of the contributed activity amounted to 2,148,064 thousand euros.

3. SIGNIFICANT ACCOUNTING POLICIES APPLIED

a) Basis of consolidation

(i) Business Combinations

As permitted by IFRS 1 First-time Adoption of International Financial Reporting Standards, the Group has recognised only business combinations that occurred on or after 1 July 2012, the date of transition to IFRS-EU, using the acquisition method. Entities acquired prior to that date were recognised in accordance with Spanish GAAP previously in force, taking into account the necessary corrections and adjustments at the transition date.

The Group applies the acquisition method for business combinations.

The acquisition date is the one in which the Group obtains the control of the business acquired.

The consideration transferred in a business combination is calculated as the sum of the acquisition-date fair values of the assets transferred, the liabilities incurred or assumed, the equity instruments issued and any consideration contingent on future events or compliance with certain conditions in exchange for control of the acquired business.

The consideration transferred excludes any payment that does not form part of the exchange for the acquired business. Those costs corresponding to the acquisition are recognised as expenses as they are being incurred.

At the acquisition date the Group recognises the assets acquired, the liabilities assumed and any non-controlling interest at fair value. Liabilities assumed include any contingent liabilities that represent present obligations arising from past events for which the fair value can be reliably measured. The assets acquired, and liabilities assumed, are classified and designated for subsequent valuation based on contractual agreements.

Any excess of the consideration transferred, plus the value assigned to non-controlling interests, over the assets acquired net of the liabilities assumed is recognised as goodwill. Where applicable, any shortfall, after evaluating the consideration transferred, the value assigned to non-controlling interests and the identification and valuation of the net assets acquired, is recognised in profit or loss.

The income and expenses of subsidiaries acquired from third parties are included in the consolidated Financial Statements from the date of acquisition, which is when the Group effectively takes control.

(ii) Joint controlled operations

See note 2 (h).

(iii) Non-controlling interest

Non-controlling interests in subsidiaries acquired after 1 July 2012 are recognised at the acquisition date at the proportional part of the fair value of the identifiable net assets. Non-controlling interests in subsidiaries acquired prior to the transition date were recognised at the proportional part of the equity of the subsidiaries at the date of first consolidation.

Non-controlling interests are disclosed in consolidated equity separately from equity attributable to shareholders of the Parent. Non-controlling interests' share in consolidated profit or loss for the year (and

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in consolidated total comprehensive income for the year) is disclosed separately in the consolidated income statement.

Group and non-controlling interests are calculated taking into account the possible exercise of potential voting rights and other derivative financial instruments which, in substance, currently allow access to the economic benefits associated with the interests held, such as entitlement to a share in future dividends and changes in the value of subsidiaries.

The excess of losses attributable to non-controlling interests incurred prior to 1 January 2010, which cannot be attributed to them as such losses exceed their interest in the equity of the subsidiary, is recognised as a decrease in equity attributable to shareholders of the Parent, except when the non-controlling interests are obliged to assume part or all of the losses and are in a position to make the necessary additional investment. Profits obtained in subsequent years are allocated to equity attributable to shareholders of the Parent until it recovers the losses of non-controlling interests absorbed in prior years.

As of 1 January 2010, profit and loss and each component of other comprehensive income are allocated to equity attributable to shareholders of the Parent and to non-controlling interests in proportion to their investment, even if this results in a balance receivable from non-controlling interests. Agreements entered into between the Group and non-controlling interests are recognised as a separate transaction.

(iv) Subsidiaries

Subsidiaries are entities over which the Parent Company, either directly or indirectly through subsidiaries, exercises control. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control potential voting rights held by the Group or other entities that are exercisable or convertible at the end of each reporting period are considered.

Details of the subsidiaries making up the consolidated Group are provided in Appendix II.

The Annual Financial Statements of the subsidiaries used in the consolidation process have been prepared as of the same date and for the same period as those of the Parent. Subsidiaries are excluded from the consolidated Group from the date on which this control is lost.

Transactions and balances with Group companies and unrealised gains or losses have been eliminated on consolidation. However, unrecognised losses have been considered as an indicator of the impairments of the value of transferred assets.

The subsidiaries' accounting policies have been adapted to Group accounting policies for like transactions and events in similar circumstances.

The Annual Financial Statements of the subsidiaries used in the consolidation process have been prepared as of the same date and for the same period as those of the Parent.

(v) Associates

Associates are entities over which the Parent Company, either directly or indirectly through subsidiaries, exercises significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies. The existence of potential voting rights that are exercisable or convertible at the end of each reporting period, including potential voting rights held by the Group or other entities, are considered when assessing whether an entity has significant influence.

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Investments in associates are initially recognised by the equity method, from the date on which the significant influence is exercised until the date on which the parent cannot justify the existence thereof.

Details of equity-accounted investees are included in Appendix III.

Investments in associates are initially recognised at cost of acquisition, including any cost directly attributable to the acquisition and any consideration receivable or payable contingent on future events or on compliance with certain conditions.

The Group's share of the profit or loss of an associate from the date of acquisition is recognised as an increase or decrease in the value of the investments, with a credit or debit to share of the profit or loss for the year of equity-accounted associates in the consolidated income statement. The Group's share of other comprehensive income of associates from the date of acquisition is recognised as an increase or decrease in the investments in associates with a balancing entry on a separate line in other comprehensive income. Profit distribution is registered as deductions of the investment value. The Group's share of profit or loss, including impairment losses recognised by the associates, is calculated based on income and expenses arising from application of the acquisition method.

The Group's share of the profit or loss of an associate and changes in equity is calculated to the extent of the Group's interest in the associate at year end and does not reflect the possible exercise or conversion of potential voting rights. However, the Group's share is calculated taking into account the possible exercise of potential voting rights and other derivative financial instruments which, in substance, currently allow access to the economic benefits associated with the interests held, such as entitlement to a share in future dividends and changes in the value of associates.

Losses of an associate attributable to the Group are limited to the extent of its net investment, except where the Group has legal or constructive obligations or when payments have been made on behalf of the associate. For the purpose of recognising impairment losses in associates, net investments are considered as the carrying amount of the investment after applying the equity method plus any other item which in substance forms part of the investment in the associate. The surplus of losses over the investment in equity instruments is applied to the other items in reserves order to that of the settlement priority. The benefits obtained afterwards by those associates in which the recognition of losses has been limited to the value of the investment are registered to the extent that they exceed those losses which have not been previously recognised.

The accounting policies of the associates have been subject to temporary and value harmonisation under the same terms applied to subsidiaries.

(vi) Impairment losses

The Group applies the criteria for impairment described in IAS 39 Financial Instruments: Financial Instruments: Recognition and Valuation to determine whether additional impairment losses to those already recognised in the net investment in the associate, or in any other financial asset held as a result of applying the equity method, should be recognised. Impairment is calculated by comparing the carrying amount of the net investment in the associate with its recoverable amount.

The calculation of the impairment is the result of the comparison of the book value associated to the net investment in the associated company and its recoverable value, which shall be construed as the highest value in use or the fair value minus sale costs. Value in use is calculated based on the Group's share of the present value of future cash flows expected to be derived from ordinary activities and from the disposal of the asset, or the estimated cash flows expected to be received from the distribution of dividends and the final disposal of the investment.

The recoverable amount of the investment in an associate is measured in relation to each associate, unless it does not constitute a cash-generating unit (CGU).

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Value impairment losses are not allocated to the goodwill nor to other assets corresponding to the investment in associates arising from the application of the acquisition method. Value reversals of investments are recognised in previous financial years against profit/loss to the extent that there is an increase of the recoverable value. Impairment losses are presented separately from the Group's share of profit or loss of associates.

(vii) Joint ventures

For joint operations, the Group recognises in the consolidated Financial Statements the assets, including its share of any assets held jointly, the liabilities, including its share of any liabilities incurred jointly with the other operators, the revenue from the sale of its share of the output arising from the joint operation, its share of the revenue from the sale of the output arising from the joint operation and the expenses, including its share of any expenses incurred jointly.

In sales or contributions by the Group to the joint operation, it recognises the resulting gains and losses only to the extent of the other parties' interests in the joint operation. When such transactions provide evidence of a reduction in net realisable value or an impairment loss of the assets transferred, such losses are recognised in full.

In purchases by the Group from a joint operation, it only recognises the resulting gains and losses when it resells the acquired assets to a third party. However, when such transactions provide evidence of a reduction in net realisable value or an impairment loss of the assets, the Group recognises its entire share of such losses.

Any initial or subsequent interest acquired by the Group in a joint operation is recognised using the criteria for business combinations, based on the percentage interest in the individual assets and liabilities. However, in the event of subsequent acquisitions of additional interests in joint operations, the previously held interest in the individual assets and liabilities is not subject to revaluation.

b) Transactions, balances and flows in foreign currency

(i) Transactions, balances and flows in foreign currency

Foreign currency transactions were converted to euros applying the cash exchange rate to the amount in foreign currency on the date such transactions were completed.

Monetary assets and liabilities in foreign currency were converted into euros at the rate applicable at the end of the year, whereas non-monetary assets valued at the historical cost were converted by applying the exchange rate effective on the date when the transactions took place. Non-monetary assets measured at fair value have been converted into euros at the exchange rate at the date that the fair value was determined.

For the presentation of the consolidated cash flow statement, the flows from foreign currency transactions were converted to euros applying the cash exchange rate to the amount in foreign currency on the date such transactions were completed.

The effect of exchange rate fluctuations on cash and cash equivalents denominated in foreign currencies is recognised separately in the consolidated statement of cash flows as effect of exchange rate fluctuations.

The positive and negative exchange differences in the liquidation of the foreign currency transactions and in the conversion to Euros of assets and liabilities in foreign currency are recognised under the earnings.

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However, exchange gains or losses arising on monetary items forming part of the net investment in foreign operations are recognised as conversion differences in consolidated other comprehensive income.

(ii) Business conversion abroad

The Group has applied the exemption permitted by IFRS 1 First-time Adoption of International Financial Reporting Standards in relation to cumulative translation differences. Consequently, translation differences recognised in the consolidated Financial Statements generated prior to 1 July 2012 are recognised in accumulated gains. As of that date, foreign operations whose functional currency is not the currency of a hyperinflationary economy have been converted into euros as follows:

- Assets and liabilities, including goodwill and adjustments to net assets arising from the acquisition of business are translated into the exchange rate of the closing date of the balance sheet.
- Income and expenses are converted at the average exchange rates for the year; and
- All resulting exchange differences are recognised as conversion differences in other comprehensive income.

These criteria are also applicable to the conversion of the financial statements of equity-accounted investees, with conversion differences attributable to the Group being recognised in other comprehensive income.

Conversion differences recognised in other comprehensive income are accounted for in profit or loss as an adjustment to the gain or loss on the sale using the same criteria as for subsidiaries, associates and joint ventures.

The functional currencies of foreign subsidiaries are the currencies of the countries in which they are domiciled.

c) Borrowing costs

The Group recognises borrowing costs directly attributable to the purchase, construction or production of qualifying assets as an increase in the value of these assets. Qualifying assets are those which require a substantial period of time before they can be used or sold. To the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalisation is determined as the actual borrowing costs incurred, less any returns on the temporary investments made in those funds.

The Group begins capitalising borrowing costs as part of the cost of a qualifying asset when it incurs expenditures for the asset, interest is accrued, and it undertakes activities that are necessary to prepare the asset for its intended use or sale and ceases capitalising borrowing costs when all or substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete. Nevertheless, capitalisation of borrowing costs is suspended when active development is interrupted for extended periods.

d) Intangible assets

(i) Goodwill

Goodwill is determined using the same criteria as for business combinations.

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Goodwill is not amortised, but is tested for impairment at least annually, irrespective of whether there is an indication that goodwill may be impaired. Goodwill on business combinations is allocated to the cash-generating units (CGUs) or groups of CGUs which are expected to benefit from the synergies of the business combination and the criteria described in section (i) "Impairment of non-financial assets subject to amortisation or depreciation" are applied. After its initial recognition, the goodwill is assessed at its cost minus accumulated impairment losses.

Internally generated goodwill is not recognised as an asset.

(ii) Internally generated intangible assets

Research expenditure is recognised as an expense in the consolidated income statement.

Costs associated with development activities are capitalised to the extent that:

- The Group has technical studies that demonstrate the feasibility of the production process.
- The Group has undertaken a commitment to complete production of the asset so as to make it available for sale.
- The asset will generate sufficient future economic benefits.
- The Group has sufficient technical and financial resources to complete development of the asset and has devised budget control and cost accounting systems that enable monitoring of budgetary costs, modifications and the expenditure actually attributable to the different projects.

The cost of internally generated assets is calculated using the same criteria established for determining production costs of inventories. The production cost is capitalised by allocating the costs attributable to the asset to non-current self-constructed assets in the consolidated income statement.

Expenditure on activities for which costs attributable to the research phase are not clearly distinguishable from costs associated with the development stage of intangible assets are recognised in profit or loss.

(iii) Administrative concessions

As explained in note 10, the Group operates certain assets through service concession arrangements granted by different public-sector entities.

Administrative concessions include the costs incurred in their procurement.

The Group recognises the consideration received as an intangible asset to the extent that it is entitled to pass on to users the cost of access to or use of the public service.

The contractual obligations assumed by the Group to maintain the infrastructure during the operating period, or to carry out renovation work prior to returning the infrastructure to the transferor upon expiry of the concession arrangement, are recognised using the accounting policy described for provisions, to the extent that such activity does not generate revenue.

Concession arrangements not subject to IFRIC 12 are recognised using general criteria. If the Group recognises assets as Tangible assets, these are depreciated over the shorter of the asset's economic life or the concession period. Any investment, improvement or replacement obligation assumed by the Group is considered when calculating the asset's impairment as a contractual outflow of future cash flows necessary to obtain future cash inflows.

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If the Group has ceded the use of the assets in exchange for consideration, the criteria for leases are applied.

(iv) Patents, licences, trademarks and others

Names and graphic signs of corporate identity are recognised in this item under trademarks. These are measured at cost of acquisition (registration).

(v) Computer software

Computer software acquired and produced by the Group, including website costs, is recognised when it meets the conditions for consideration as development costs. Computer software maintenance costs are charged as expenses when incurred.

(vi) Subsequent costs

Subsequent costs incurred on intangible assets are recognised in profit and loss unless they increase the expected future economic benefits attributable to the intangible asset.

(vii) Useful life and amortisation rates

The Group assesses whether the useful life of each intangible asset acquired is finite or indefinite. An intangible asset is regarded as having an indefinite useful life when there is no foreseeable limit to the period over which the asset will generate net cash inflows.

Intangible assets with indefinite useful lives are not amortised but are instead tested for impairment on an annual basis or whenever there is an indication that the intangible asset may be impaired.

Intangible assets with finite useful lives are amortised on a straight-line basis by allocating the depreciable amount of an asset on a systematic basis over its useful life, applying the following criteria:

Item	Years of useful life
Concessions	Concession period
Patents, licences, trademarks and others	10
Computer software	5

Development expenditure is amortised on a straight-line basis over a period of five years from the date on which the project is completed.

For these purposes, depreciable amount is understood as the acquisition cost minus its residual value, if applicable.

The Group reviews the residual value, useful life and amortisation method for intangible assets at each financial year end. Amendments in initially established criteria are recognised as estimation changes.

Intangible assets received as a non-monetary capital contribution are measured at fair value on the date of contribution.

(viii) Value impairment of fixed assets

The Group measures and determines impairment to be recognised or reversed based on the criteria in section (h) of this note, "Impairment of non-financial assets subject to amortisation or depreciation".

e) Property, plant and equipment

(i) Initial recognition

Tangible assets are recognised at cost or deemed cost, less accumulated depreciation and any accumulated impairment losses. The cost of self-constructed assets is determined using the same principles as for an acquired asset, while also considering the criteria applicable to production costs of inventories. The production cost is capitalised by allocating the costs attributable to the asset to non-current self-constructed assets in the consolidated income statement.

Spare parts used to replace similar parts in facilities, equipment and machinery are measured applying the aforementioned criteria. Parts with a warehouse cycle of less than one year are recognised as inventories. Parts with a warehouse cycle of more than one year and which are related to certain specific assets are recognised and depreciated on a systematic basis consistent with the depreciation policy for the assets in question, on a straight-line basis over the estimated replacement period.

The cost of an item of Tangible assets includes the estimated costs of dismantling or removal and restoration of the site on which it is located, provided that the obligation is incurred as a consequence of having used the item and for purposes other than production.

(ii) Depreciations

The depreciation of Property, plant and equipment is carried out by distributing its depreciable amount systematically throughout its useful life. For these purposes, depreciable amount is understood as the acquisition cost minus its residual value. The Group establishes the depreciation cost independently for each component with a relevant cost regarding the total cost of the element and a useful life different to the rest of the element.

Tangible assets are depreciated on a straight-line basis applying the depreciation rates presented below:

Item	Depreciation percentage	
	Minimum	Maximum
Construction works	1.00 %	3.00 %
Urban developments, accessories and signalling	5.00 %	11.10 %
Electrical installations	5.00 %	6.70 %
General, security and surveillance facilities	6.70 %	11.10 %
Utilities and tools	25.00 %	25.00 %
Furniture and tools	10.00 %	20.00 %

The Group reviews the residual value, the useful life and the depreciation method of the tangible fixed assets for each financial year. Amendments in initially established criteria are recognised as estimation changes.

(iii) Subsequent costs

Following initial recognition of assets, only those costs incurred that mean an increase in their capacity, productivity or extension of the useful life are capitalised, and the accounting value of the elements replaced shall be written off. The carrying amount of parts that are replaced is derecognised. Costs of day-to-day servicing are recognised in the consolidated income statement as incurred.

Replacements of tangible fixed asset items subject to capitalisation reduce the book value of the items replaced. In those cases in which the cost of the elements replaced has not been depreciated independently and it was not feasible to determine their carrying amount, the cost of the replacement is used as indication of the cost of the elements at the time of acquisition or construction.

f) Real estate investments

Investment property is property earmarked totally or partially to earn rentals, for capital appreciation or both, rather than for use in the Group's activity or for administrative purposes.

Property that is under construction or development for future use as investment property is classified as Tangible assets under construction until construction or development is complete. Nevertheless, redevelopment work to extend or improve property is classified as investment property.

The Group measures and recognises investment property following the policy for Tangible assets.

Investment property is depreciated following the same criteria applied to Tangible assets.

Lease income is recognised as described in paragraph (j).

g) Non-Current assets held for sale

The Group recognises under this heading non-current assets or disposable Groups of elements, the accounting value of which is going to be recovered mainly through a sale operation instead of by a continuous use. For the classification of non-current assets of disposable group of elements held for sale, this must be available, under their current conditions, for their immediate disposal exclusively subject to the standard terms for sale operation. It is also necessary to derecognise the assets which is highly likely to go through that process.

Likewise, the Group considers subsidiaries, associates or joint ventures as a disposal group held for sale or, if applicable, as a discontinued operation, when these meet the preceding conditions and over which the Group is going to lose the control, regardless of whether an investment is subsequently held that grants significant influence or joint control therein.

Non-disposable non-current or group assets of items classified as held for sale are not depreciated as the lesser of the book value or fair value less the costs of sale is valued.

The Group recognises those value impairment losses, both initial and subsequent, of the assets classified under this category charged to continuing operations of the consolidated profit and loss account, with the exception of discontinued operations. Losses related to the value impairment of the cash-generating unit are recognised by reducing, as appropriate, the goodwill value assigned to it and then to all other non-current assets, pro rata based on the book value thereof. Value impairment losses of the goodwill are not reversible.

Benefits from increases of the fair value minus sale costs are registered in the profit and loss account, up to the limit of the losses accumulated due to impairment previously recognised whether due to the assessment at fair value minus the sale costs or impairment losses recognised before the classification.

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The Group assesses non-current assets which are no longer classified as held for sale or which are no longer part of a disposable group of elements, at the lowest of their book value before their classification minus amortisations or depreciation which may have been recognised as such and the recoverable value on the reclassification date. Value adjustments arising from such reclassification are recognised in the results of continuing operations.

h) Right-of-use assets

The Group recognises a rights-of-use asset on the lease inception date. The cost of the right-of-use asset includes the initial amount of the lease liability, any initial direct costs, lease payments performed before or on the inception date, and any dismantling costs in relation to the asset. Subsequently, the right-of-use asset is recognised at cost less any accumulated depreciation and, if applicable, the associated impairment provision, and is adjusted to reflect any subsequent evaluation or modification of the lease. The Group applies the exemption for short-term leases (defined as leases with a term of no more than 12 months) and leases of low-value assets. For these leases, the Group recognises lease payments as an operating expense on a linear basis over the lease term, unless there is another systematic basis that is more representative of the time frame in which the economic benefits of the leased assets are consumed. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the useful life of the underlying asset. If a lease transfers the ownership of the underlying asset or the cost of the right-of-use asset reflects that the Group expects to exercise a purchase option, the asset linked to the right of use is depreciated over the useful life of the underlying asset. Depreciation commences on the lease inception date.

(i) Right-of-use assets (leases) and associated financial debt:

Right-of-use assets (leases) and associated financial debt represent the entitlement to use the asset in question and the obligation to make payments pursuant to the lease agreement, respectively.

Right-of-use assets are valued at cost, which includes the following:

- Amount of the initial measurement of the lease liability.
- Any lease payments made on or prior to the commencement date, less any lease incentives received.
- Any direct initial cost and restoration costs.

Right-of-use assets are depreciated on a straight-line basis over the shorter between the useful life of the asset and the lease term.

Financial debt associated with right-of-use assets includes the current net value of lease payments.

Lease payments are discounted using the lessee's incremental borrowing rate, which is the rate the individual lessee would have to pay to borrow the necessary funds to obtain an asset of a value similar to the right-of-use asset in a similar economic environment with similar terms, guarantees and conditions.

i) Value impairment of non-financial assets subject to amortisation or depreciation

The Group has the policy of evaluating the existence of signs showing the potential value impairment of non-financial assets subject to amortisation or depreciation, with the purpose of checking if the accounting value of assets mentioned exceeds its recoverable amount, where this is understood as the greater of the reasonable value less any sales costs and its value-in-use.

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Likewise, and regardless of the existence of any indication of value impairment, the Group verifies, at least annually, the potential value impairment that may affect the goodwill and intangible fixed assets with an indefinite useful life.

If the Groups has reasonable doubts regarding the technical success or economic-commercial profitability of ongoing research and development projects, the amounts recognised in the consolidated balance sheet are directly recognised in losses from intangible assets from the consolidated income statement and are non-reversible.

Impairment losses are recognised in the consolidated income statement.

The recoverable amount shall be calculated for an individual asset, unless the asset does not generate cash inflows that are largely independent from those corresponding to other assets or groups of assets. If this is the case, recoverable amount is determined for the cash-generating unit (CGU) to which the asset belongs.

The Groups methodology used to calculate the recoverable amount is general the value in use. The procedure used by Group management to conduct impairment tests in terms of cash-generating units, when applicable, is as follows:

Management prepares a business plan each year, generally covering a five-year period: The main components of this plan, which is the basis of the impairment test, are as follows:

- Result expectations.
- Investment expectations and working capital.

Other variables that affect the calculation of the recoverable value are as follows:

- Specific discount rate for each CGU. As a discount rate, the group uses the average weighted cost of the capital used after tax for each country and business, which is reviewed at least once a year. The rate is intended to reflect existing market evaluations regarding the temporary value of money and the specific risks of the assets. Therefore, the discount rate used takes into account the free risk rate, the risk-country, the currency in which the cash flow is generated and the market and credit risk. In order for the calculations to be consistent, future cash flow estimates do not reflect the risks that have already been adjusted in the discount rate used, or vice versa.
- Perpetual growth rate of cash flow used to extrapolate cash flow expectations beyond the period covered by the budgets or estimates. This rate does not exceed the long-term average growth rate for the business in which the various cash-generating units carry out their activity. If the cash-generating units have a defined deadline due to their concession, the expectations will be extended until the end of these, using a constant growth rate.

note 9 outlines the variables and hypotheses used by the Group to calculate the value in use and to determine the cash-generating units.

Losses related to the value impairment of the cash-generating unit reduce, initially, as the case might be, the value of the goodwill allocated to it and then the one corresponding to the non-current cash-generating unit assets pro rata based on the book value thereof, limited to the fair value for each one less any sales costs, the usage value and zero, whichever is higher.

The Group assesses at each one of the closing dates if there is any sign indicating that the value impairment losses recognised in previous financial years have disappeared or decreased. Value impairment losses corresponding to the goodwill are not reversible. The impairment losses of the rest of

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assets only revert in case of a change in the estimates used to establish the recoverable amount of the asset.

A reversal of an impairment loss is recognised in the consolidated income statement. However, the reversal of the losses cannot increase the accounting value of the asset above the accounting value it would have had, net of depreciation, if the impairment had not occurred.

The reversal amount corresponding to the value impairment of a certain cash-generating unit is distributed among its non-current assets, with the exception of the goodwill, proportionally according to the book value of the assets with a limit per assets corresponding to the lowest of its recoverable value and the book value it may have had, net from depreciations, if the relevant loss had not been registered.

Once a value adjustment due to impairment, or its reversal, has been recognised, depreciation for subsequent financial years is adjusted considering the new book value.

Notwithstanding the foregoing, if the specific circumstances of the assets reveal an irreversible loss, this is recognised directly in "losses from assets" in the consolidated income statement.

j) Leases

(ii) Leasing classification

The Group has granted the right to use certain assets through lease contracts.

Leases in which the Group does not transfer to third parties substantially all the risks and rewards incidental to ownership of the assets are classified as operating leases. Otherwise, they are classified as finance leases.

(iii) (ii) Lessor accounting

Assets leased to third parties under operating lease contracts are classified according to their nature, applying the accounting policies set out for the corresponding type of asset.

Income from operating leases, net from incentives granted, is recognised on a straight-line basis throughout the lease term, unless another systematic distribution basis is more representative because it reflects more adequately the time pattern of the use of benefits derived from the use of the leased asset.

Initial direct costs are added to the carrying amount of the leased asset and recognised as an expense over the lease term using the same criteria as those used for income recognition.

Potential lease instalments are recognised as income when they are likely to be obtained; this usually occurs when the conditions agreed in the contract are met.

(iv) Lessee accounting

IFRS 16 supersedes IAS 17 Leases, IFRIC 4 interpretation: Determining whether an Arrangement Contains a Lease, SIC-15 – Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The new standard entered into force on 1 January 2019 and was not adopted early.

This new standard establishes a single accounting model in the lessee's balance sheet. The lessee recognises the lease asset, representing the right-of-use asset, and the lease liability, representing its

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obligation to make payments pursuant to the lease. The standard includes two exemptions: it does not require a lessee to recognise assets and liabilities for short-term leases (i.e., leases of 12 months or less) and leases of low-value assets.

IFRS 16 – Leases introduces some changes for the lessee, which, on a lease commencement date must recognise on the balance sheet a liability for lease payments and a right-of-use of the underlying asset in the lease term. The lessee must also present interest expense on the lease liability separately from the depreciation charge for the right-of-use asset.

The Group applied the following policies, estimates and criteria:

- The Group chose to apply a modified retrospective method on which basis it has not restated any figures from prior years for comparison purposes and it recognised the impacts as at 1 January 2019.
- Likewise, it decided to measure the initial right-of-use asset for an amount equal to the lease liability on 1 January 2019 for all lease contracts.

The Group adhered to the exemptions provided for lessees in the standard, whereby they are not required to recognise right-of-use assets and liabilities for short-term leases (i.e., leases of 12 months or less) and leases of low-value assets (i.e., less than the equivalent of 5,000 dollars).

The Group opted not to separately recognise the non-lease components from lease components for those asset classes in which these components are not material with respect to the total lease amount.

A specific review was carried out of the inventory of lease contracts classified as operating leases in accordance with the aforementioned standard, as well as certain services contracts potentially eligible to be classified as leases in accordance with the new standard, there having been no material difference as a result of said analysis.

The Group calculated lease liabilities as the current value of the outstanding instalments in agreements in force on the date of first adoption and calculated the value of lease liabilities as the initial value of the relevant right-of-use asset.

Lease agreements in force and expiring in 2019 were capitalised only if there was reasonable certainty of their being renewed or if the extension clause establishes that the agreements could be extended tacitly or automatically. In these cases, it has been considered that the renewal will be for an equal or previous [sic] period (provided it is more [sic] than three years) since there is not reasonable certainty that it will be extended beyond those three years.

In 2022, detailed information concerning right-of-use assets is provided in Notes 7 and 10.

k) Financial Instruments

(i) Classification of financial instruments

Financial instruments are classified in accordance with the valuation category which is determined on the basis of the business model and the characteristics of contractual cash flows, and the Group reclassifies investments in debt instruments when, and only when, it changes its business model for managing said assets. The Group classifies its financial assets into the following categories: financial assets at fair value through profit or loss, financial assets at fair value through other comprehensive income, financial assets at amortised cost.

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The Group's commercial models were measured from the date of adopting IFRS 9, on 1 January 2018, and the measurement was then applied retroactively to the financial assets that were not derecognised until 1 January 2018. The assessment of whether contractual cash flows comprise solely capital and interest was based on the facts and circumstances at the time of the initial recognition of the assets.

Valuation:

Acquisitions and derecognitions of investments are recognised on their trading date, i.e., the date on which the Group undertakes to acquire or sell the asset. Investments are initially recognised at fair value plus the transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets at fair value through profit or loss are initially recognised at fair value, excluding transaction costs, which are charged to income. Investments are derecognised when the right to receive cash flows related to them have expired or have been transferred and the Group has substantially transferred all risks and benefits arising from their ownership.

Income from interest on financial assets at fair value through profit or loss is recognised in the income statement as "Other income" when the Group's right to collect payment is established.

For assets measured at fair value, gains and losses will be recognised in profit or loss or in other comprehensive income. For investments in equity instruments not held for trading, the Group made an irrevocable decision upon initial recognition to account for the entire capital investment at fair value through other comprehensive income.

(ii) Financial assets at amortised cost (Loans and receivables)

Investments in debt instruments held for the collection of contractual cash flows, when those cash flows represent only principal and interest payments, are measured at amortised cost. They are classified as current assets unless they mature in more than 12 months after the reporting date, in which case they are classified as non-current, unless they are within the normal cycle of Group operations.

Moreover, this category includes deposits and guarantees delivered to third parties. These assets are subsequently booked at amortised cost in accordance with the effective interest rate method. Accounts receivable that do not explicitly accrue interest are measured at their nominal amount, provided the effect of not financially updating the cash flows is not material. It is subsequently measured, in the event, at its nominal amount.

Financial assets at a fair value with changes in profits or losses

The assets that do not meet the amortised cost or fair value through other comprehensive income criteria are measured at fair value through profit or loss. Realised and unrealised gains and losses arising from changes in fair value in the category of financial assets at fair value through profit or loss are included in the income statement of the year in which they arise.

(iii) Impairment

The impairment model requires the recognition of impairment provisions based on the model of expected losses instead of solely on the losses incurred.

The Group applies, for its customer accounts, accounts receivable and other assets, which correspond mainly to customers of acknowledged solvency with which it has considerable experience, the simplified approach, recognising the expected credit loss for the assets' entire lifetime.

For trade accounts receivable and contractual assets, provided they don't contain a material financial component, the Group applies the simplified approach, which requires recognising a loss allocation based on the model of expected losses throughout the asset's lifetime on each presentation date. The Group's

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model considers internal information, like the balance of customer exposures, external factors like customer credit ratings and risk ratings from agencies, and the specific circumstances of the customers considering the information available on past events, current conditions and prospective elements.

(iv) Offsetting of instruments

Financial assets and liabilities are offset and presented net in the balance sheet, when the Group currently has a legally enforceable right to set-off and intends to settle the asset and liability on a net basis or realise the asset and settle the liability simultaneously.

The legally enforceable right must not be contingent upon future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

(v) Financial liabilities

Financial liabilities, including trade and other payables, are initially recognised at fair value less any transaction costs that are directly attributable to the issue of the financial liability. After the initial recognition, liabilities classified under this category are valued at the relevant depreciated cost using the effective interest rate method.

However, those financial Liabilities which do not have an established interest rate, the amount of which is due, or which are expected to be received in the short term and the updating of which is not significant, shall be valued at their face value.

The Group receives security deposits from customers when contracts are signed to guarantee payment of future supplies. These deposits are recognised as financial liabilities. The difference between the amount received and the amortised cost is recognised under accruals, which is adjusted based on the estimated average reimbursement period.

(vi) Disposals and amendments of financial liabilities

The Group derecognises financial liabilities when the obligations giving rise to them cease to exist. It also derecognises financial liabilities of its own that it acquires, albeit with the intention of repositioning them in the future.

I) Inventory

(i) General

Inventories are measured at the lower of cost of purchase or production and net realisable value.

The purchase price comprises the amount invoiced by the seller, after deduction of any discounts, rebates or other similar items, such as interest incorporated into the nominal amount, plus any additional costs incurred to bring the goods to a saleable condition and other costs directly attributable to the acquisition, as well as borrowing costs and indirect taxes not recoverable from the Spanish taxation authorities.

Estimated product returns relating to sales that customers are entitled to return, net of the tax effect of any reduction in value, are recognised as inventories on consignment when the products are sold.

Trade discounts are recognised as a reduction in the cost of inventories when it is probable that the conditions for discounts to be received will be met. Unallocated discounts are recognised as a decrease

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in merchandise, raw materials and consumables used (the cost of sales) in the consolidated income statement.

(ii) Emission allowances

The Group has reclassified the emission allowances that were recorded as intangible assets in inventories.

Emission allowances, which are recognised when the Group becomes entitled to such allowances, are measured at cost of acquisition or production in raw materials and other provisions on the Balance Sheet (note 15). Emission allowances expected to be consumed within a period exceeding one year, are included in raw materials and other supplies long cycle in the Balance Sheet. Emission allowances acquired for valuable consideration are recognised by applying the criteria indicated for inventories. Allowances acquired for no valuable consideration or for a price substantially below their fair value, are recognised at their fair value. The difference between the fair value of the rights and, if applicable, the sum of the consideration received, is recognised by means for a non-refundable subsidy associated to the emission allowances a credit to equity. Recognition in results in the subsidy is charged to the Income Statement as the expenses resulting from gas emissions related to the subsidised emission allowances are recorded, following the same criteria as those established for subsidies.

Emission allowances deriving from a certified emission reduction or an emission reduction unit, generated through clean development mechanisms or joint implementation projects, are carried at cost of production using the same criteria as for inventories.

A provision is systematically made under "Short-term provisions" for liabilities and charges for expenses related to the emission of greenhouse gases. This provision is maintained until the obligation is cancelled, through the conveyance of the corresponding rights. Provisions released, or surplus provisions reversed, are recognised as other operating income in the Income Statement. The provision is determined on the basis that it will be cancelled, as follows:

- a) Firstly, through allocated emission allowances, which are then used to cancel actual emissions in proportion to total forecast emissions for the entire period to which they have been allocated. The expense corresponding to this part of the obligation is determined based on the carrying amount of the transferred emission allowances.
- b) Secondly, through the remaining emission allowances recorded. Expenses corresponding to this part of the obligation are determined in accordance with average cost method for such emission allowances.

If the emission of gases requires the acquisition or production of emission allowances because actual emissions exceed those which can be cancelled through the allocated emission allowances, or through surplus emission allowances, whether acquired or produced, provision is made for the shortfall in allowances. The expense is determined using the best estimate of the amount necessary to cover the shortfall in emission allowances.

When the net realisable value of the emission allowances is below their acquisition price or production cost, the Group recognises the relevant value adjustments, applying the criteria indicated for raw materials.

The Group recognises the sale of emission allowances applying the criteria indicated in section (q) (Ordinary Income).

m) Cash and other equivalent liquid assets

Cash and other equivalent liquid assets include cash holdings and bank deposits in credit institutions.

The Group presents payables and receivables from high-rotation financial assets and liabilities at the net amount on the cash flow statement. For these purposes, the rotation period is considered to be high when the period between the acquisition date and that of the maturity date is no more than six months. In the statement of cash flows, drawdowns on credit facilities that form an integral part of the Group's cash management are included as a component of cash and cash equivalents.

The Group classifies cash flows from interest received and paid as operating activities and cash flows used in dividend pay-outs as financing activities.

n) Government Grants

Government grants are recognised when there is reasonable assurance that they will be received and that the Group will comply with the conditions attached.

(i) Grants related to assets

Capital grants awarded as monetary assets are recognised under government grants in the consolidated statement of financial position and allocated to other income in line with the amortisation or depreciation of the assets for which the grants have been received.

(ii) Operating subsidies

Operating grants are recognised as a reduction in the expenses that they are used to finance.

Operating grants received to offset expenses or losses already incurred, or to provide immediate financial support not related to future disbursements, are recognised as other income.

o) Employees Remunerations

(i) Details of Group pension plans.

Canal de Isabel II, S.A., M.P., and certain subsidiaries have pension plan and other commitments with personnel.

Defined benefit plans

The Group registers the contributions to be carried out to the defined contribution plans as the employees provide their services. The contributions payable are recognised as an expense for employee remuneration, and as a liability after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the end of the period, the Group only recognises that excess as an asset (prepaid expense) to the extent that the prepayments will lead to, for example, a reduction in future payments or a cash refund.

When contributions to a defined contribution plan do not fall due wholly within twelve months after the end of the period in which the employees render the related service, they are discounted using the market yield on high quality corporate bonds. (See Note 26 (d))

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Defined benefit plans

The Group includes plans financed through the payment of insurance premiums under defined benefit plans where a legal or constructive obligation exists to directly pay employees the committed benefits when they become payable or to pay further amounts in the event that the insurance company does not pay the employee benefits relating to employee service in the current and prior periods. (See Note 17)

Canal de Isabel II, S.A., M.P.:

On 3 November 1990 the Public Entity agreed to set up an External Fund for its current staff, availing itself of the Spanish Pension Plan Regulations Act (Law 8/1987 of 8 June). The main features of this agreement are as follows:

The Sponsor makes a monthly contribution comprising a percentage of each unit holder's salary for Plan purposes for the period. This percentage of salary for Plan purposes is 8.7% for unit holders joining the scheme prior to 3 November 1990 and 6.5% for those who joined since that date. For unit holders joining the scheme prior to 3 November 1990, 7% is allocated to the Capitalisation Fund and the remaining 1.7% to assure death and disability contingencies. For the unit holders joining the scheme after 3 November 1990, 4.8% is allocated to the Capitalisation Fund and the remaining 1.7% to assure death and disability contingencies.

The Parent recognises the contributions payable to this defined contribution plan when the employee has provided the corresponding services. The contributions payable are recognised as an employee benefits expense (see note 26).

Law 4/2021 of 23 December on the General Budget for the Region of Madrid for 2022, established that no contributions could be made during 2022 to pension plans or collective insurance policies covering retirement. Since 2012 and in accordance with the provisions set forth in the relevant General Budget Legislation of the Regional Government of Madrid, no contributions have been made by the Company to pension plans or collective insurance policies covering retirement.

On 15 November 2002, the Parent Company outsourced the internal fund it had appropriated for its retired personnel through a policy arranged with an insurance company. The insured commitments relate to those beneficiaries who retired before the pension plan was set up on 3 November 1990 and comprise retirement and disability benefits and widows/widowers' and orphans' pensions. These benefits are subject to an estimated revaluation of 2% per year. The following assumptions were employed in the actuarial study used to calculate the insurance premium for the externalisation of the pension plan: technical interest rate of 5.15% until 31 December 2041 and 2.5% as of 1 January 2042, PERM/F 2000P mortality tables and a management fee of 0.23% of the premium. Pensions are updated annually based on the increases in state pensions. The premium required to adjust the externalised commitments being paid to retired personnel is calculated annually by independent actuaries using the Projected Unit Credit Method and recognised in the consolidated income statement. The policy of recognising the provision needed to cover long-service bonuses for serving personnel on a systematic basis has been maintained.

In January 2011 the Company outsourced the policies for tenure and seniority bonuses corresponding to existing remunerations committed to in the Collective Partnership Agreement. At present, the Parent Company recognises in the Income Statements the amount corresponding to the accrual of the cost for each financial year. The right with the insurance company for early payment is recognised in the heading "Other assets" (see Note 17) and the financial effect on updating the amortised cost in the Consolidated Income Statement.

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Amagua C.E.M.:

The Labour Code of the Republic of Ecuador requires this subsidiary to provide an employer-paid retirement plan (“jubilación patronal”) to all employees with at least 25 years’ service. Since 2008, this subsidiary has recognised provisions for these benefits based on an actuarial study conducted by an independent third party. According to this study, at 31 December 2022 the present value of the actuarial mathematical provision for employer-paid retirement plans is 485 thousand euros (353 thousand euros in 2021).

Canal Gestión Lanzarote, S.A.U:

On 1 June 2013 Canal Gestión Lanzarote, S.A.U. assumed the contracts agreed with the employees of Insular de Aguas de Lanzarote, S.A. (INALSA), pursuant to the specific administrative terms and conditions governing the contracting of the service concession for water supply, sanitation and recycling on the islands of Lanzarote and La Graciosa.

Article 20 of the previous Collective Bargaining Agreement applicable to INALSA provided for compensation for “loyal service”, awarding workers for long service to the company with a compensation payment linked to the number of years’ service at the time of retirement or death while in active service.

Pursuant to Royal Legislative Decree 1/2002 of 29 November 2002, which passed the revised Law on Pension Plans and Funds, and Royal Decree 1588/1999 of 15 October 1999, which implements the legal provisions on the orchestration of employers’ pension commitments, any monetary obligation assumed by a business towards its workers linked to retirement, death or permanent incapacity is, in legal substance, analogous to a pension commitment.

In accordance with the legislation in force, on 25 April 2005, INALSA externalised its commitments with personnel by taking out a group life insurance policy with Winterthur Vida, Sociedad Anónima de Seguros y Reaseguros Sobre la Vida, in which INALSA figures as the policyholder (policy number 82--18.514). At 31 May 2013 2,040 thousand euros had been externalised through this policy. Subsequently, in 2014 INALSA surrendered this insurance policy for the amount of 2,059 thousand euros.

Pursuant to Article 20 of Law 22/2013, of 22 May 2013, on the General State Budget for 2014, Canal Gestión Lanzarote, S.A.U. made no contributions to the insurance as these were prohibited by said Law. When the Law is revoked, the Company will adopt the criterion of recognising the expenses relating to these benefits when the obligation arises, based on the actuarial studies conducted to calculate the commitment at each year end. Any actuarial gains or losses that come to light for each year will be recognised in the consolidated income statement.

This explains the accounting criterion adopted by the Company in 2013 and 2014, of not recognising any contributions or commitments for this item.

However, on 4 May 2015 Labour Court no. 1 of Arrecife handed down a judgement ordering the subsidiary to pay an employee this compensation by law based on article 44.1 of the Workers Statute.

As a result of the foregoing, and as a matter of prudence, the subsidiary carried the obligation amounting to 1,922 thousand euros in its Financial Statements for 2021 under “Long-term employee benefit obligations” in the balance sheet. In 2022, the obligation has been externalised by taking out a group life insurance policy with BBVA for 2,119 thousand euros.

Nevertheless, the Subsidiary is taking all the necessary steps to file the corresponding legal action with a view to recovering the amounts of the “Loyal service bonuses” which, as previously stated, were obtained by INALSA on surrendering the insurance policy. Specifically, the subsidiary filed a claim for the aforementioned redemption carried out by INALSA through the administrative jurisdiction in April 2016 without obtaining an answer.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR 2022

The Subsidiary Company maintains the same criterion that it has upheld in recent years, which is that the accrual of workers' rights under the concept of "Compensation for constancy at work" until 31 May 2013 corresponds to INALSA, which was the employer responsible for them until then; as the compensation for constancy has the legal nature of pension commitments, whose exclusive purpose is to cover the aforementioned compensation for insured and subrogated workers, we strongly disagree with the surrender of the policy by INALSA.

Administrative Court No. 5 of Las Palmas de Gran Canaria issued a Ruling dated 11 October 2018 dismissing the appeal filed by Canal Gestión Lanzarote on 28 April 2017 against Consorcio del Agua de Lanzarote's alleged dismissal of the claim for asset liability. The Court deems it is not an extracontractual claim, but rather a contractual one, and therefore does not rule on the merits of the case but on the legal grounds of the claim. An Appeal has been filed against said Ruling before the High Court of Justice of Canarias. In 2019, the Court ruled against the Company and a cassation appeal was filed. Canal Gestión Lanzarote is studying alternative legal channels to exercise the appropriate actions, since previous rulings did not examine the underlying matter, but rather dismissed as improper the execution of extra-contractual liability action. Based on the available information, Management does not expect any additional liabilities to arise other than those already reflected.

p) Provisions

(i) General criteria

Provisions are recognised when the Group has a present obligation, either legal or contractual, implicit or tacit, as a result of a past event; it is likely that an outflow of resources including future financial profit to cancel such obligation occurs; and the amount of said obligation can be estimated reliably.

The amount recognised as a provision is the best estimate of the expenditure required to settle the present obligation at the end of the reporting period, taking into account all risks and uncertainties surrounding the amount to be recognised as a provision and, where the time value of money is material, the financial effect of discounting provided that the expenditure to be made each period can be reliably estimated.

Isolated obligations are measured by the individual outcome that seems most likely. When the provision involves a large population of identical items, the obligation is estimated by weighting all possible outcomes by their associated probabilities. If there is a continuous range of possible outcomes and each point in the range has the same likelihood as the others, the obligation is measured at the average sum.

The financial effect of provisions is recognised as a finance cost in the consolidated income statement.

In cases where the Group has outsourced the risk covered to a third party by means of a legal or contractual agreement, the provision is exclusively recognised at the portion of the risk assumed.

Provisions are reversed against profit and loss when it is not likely that there will be an outflow of resources to cancel such obligation. The provision is reversed against the income statement caption in which the related expense was recognised, and any surplus is accounted for in other income.

q) Income recognition

The Group recognises income from its ordinary activity when the transfer of control of the goods and services committed to the customer takes place. At that time, the Group will measure the income in the amount reflected by the consideration to which it expects to be entitled in exchange for said goods or services.

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In order to implement this essential principle to income recognition, the Group will follow a comprehensive process consisting of the following successive phases:

- Identify the contract(s) signed with the customer.
- Identify the obligation(s) to be fulfilled in the contract.
- Determine the transaction price
- Allocate the transaction price to the performance obligations of the contract.
- Recognise ordinary business income when the entity fulfils a performance obligation.

Income is therefore recognised at an amount that reflects the consideration that the Group expects to be entitled to receive in exchange for transferring goods or services to a customer, at the time the customer obtains control of the goods or services provided. Such control means the ability to decide on the use and obtain materially all economic benefits derived from the good or service. The time when the control is transferred (a point in time or over time) determines the recognition of income.

Income arising from commitments to be fulfilled over time for goods or services for which control is not transferred at a certain point in time is recognised by reference to the stage of completion at the closing date, provided that reliable information is available to measure the stage of completion. Otherwise, revenue is only recognised in an amount equal to the costs incurred that are reasonably expected to be recovered in the future.

Income from commitments that are performed at a specific point in time is carried at that date, with the costs incurred up to that point in the production of the goods or services being recognised as inventories.

Ordinary income from the sale of goods and the provision of services is measured at the monetary amount received or, where appropriate, the fair value of the consideration received or expected to be received, and that, unless there is evidence to the contrary, is the agreed price less any discounts, taxes and interest incorporated in the face value of receivables. The best estimate of the variable consideration is included in the measurement of revenue when reversal is not considered highly probable.

The tariffs paid by users are considered "Public services in respect of infrastructure operated under concession arrangements".

Water supplied to and used by customers but not yet invoiced is estimated in order to recognise the corresponding sale.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of costs incurred that are recoverable.

r) Interest and dividends

Interest is recognised using the effective interest method. The effective interest rate is the rate that exactly discounts estimated future cash flows through the expected life of a financial instrument to the net carrying amount of that financial instrument based on the contractual terms of the instrument and not considering future credit losses.

Dividends from investments in equity instruments are recognised in profit or loss when the Group is entitled to receive them.

s) Income tax

Current tax expenses are calculated based on tax laws approved or about to be approved on the balance sheet date in the countries in which its subsidiaries and associates operate and generate income subject

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to tax. Management periodically assesses the positions taken in tax filings with respect to the situations in which applicable tax regulations are subject to interpretation and, where necessary, it establishes provisions in accordance with the amounts it expects the Company to pay the tax authorities.

The expense or income from tax on profits include both the current tax and the deferred tax.

Current tax on profit assets or liabilities are valued at the amounts which are expected to be paid to or received from tax authorities in accordance with current regulations and tax rates or those approved pending publication at year-end.

The current or deferred tax on profits is recognised as a profit or loss, unless it arises from a transaction or economic event recognised in the same year or a different one, discounted from the net equity or on a business combination.

As certified before the taxation authorities on 22 October 2013, since 1 January 2014 the Parent and its Spanish subsidiaries have filed consolidated income tax returns, together with their ultimate parent company Canal de Isabel II, under the Special Tax Consolidation Regime set forth in Article 64 et seq. of Royal Legislative Decree 4/2004 of 5 March 2004.

On 1 January 2015, Law 27/2014 of 27 November came into force. Article 34 of this law provided for tax relief of 99% of the part of the full rate corresponding to income derived from the provision of local public services, which included the supply, sanitation and recycling of water. The Parent Company applies this tax relief as it has been commissioned to provide these services in territory of the Regional Government of Madrid. The tax rate imposed in Spain from the year 2016 is 25%.

At 31 December 2022, this tax group comprises the following companies:

- Canal de Isabel II
- Canal de Isabel II, S.A., M.P.
- Canal Extensia, S.A.U.
- Canal Gestión Lanzarote, S.A.U.

(i) Recognition of deferred tax liabilities

The Group recognises all deferred tax liabilities, except where they arise from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither accounting profit nor taxable income.

(ii) Recognition of deferred tax assets

The Group recognises deferred tax assets provided that it is probable that sufficient future taxable profits will be available for their offset or when tax legislation allows the future conversion of deferred tax assets into a receivable from public entities.

The Group recognises the conversion of a deferred-tax asset in receivables from public administrations, where this can be requested pursuant to current tax legislation. For these purposes, the deferred tax asset is derecognised with a charge to the expense for Corporate Income Tax and the receivable is credited to the current profit tax. Similarly, the Group recognises the exchange of a deferred tax assets for government securities, when ownership thereof is acquired.

The Group recognises the payment obligation of the financial contribution as an operating expense charged to the debt with public entities when it accrues in accordance with the Income Tax Law.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR 2022

Notwithstanding, assets that arise from initial recognition of the assets or liabilities in a transaction that is not a business combination and does not affect the book earnings on the date of the transaction or the tax base are not subject of recognition.

In order to determine future gains, the Group considers the tax planning opportunities, provided that it has the intention to adopt them or it is likely to adopt them.

(iii) Valuations of deferred-tax assets and liabilities

Deferred tax assets and liabilities are measured based on the tax rates pending application in the financial years when assets are expected to be realised and liabilities paid, based on current regulations and rates or those approved pending publication and once the tax results which will arise from the way the Group expects to recover the assets or settle the liabilities have been considered. For these purposes, the Group has considered the reversion deduction of temporary measures implemented by the thirty-seventh transitional provision of Act 27/2014, of 27 November, on Corporate Tax, as an adjustment of the tax rate applicable to the deductible temporary difference linked to non-deductibility of amortisations carried out in 2013 and 2014.

Where appropriate, the Group reviews the carrying amount of deferred tax assets at the reporting date to reduce the carrying amount of deferred tax assets to the extent that it is not probable that they will be recoverable. It reviews the carrying amount of deferred tax assets at the reporting date to reduce the carrying amount to the extent that it is not probable that sufficient future taxable profit will be available or that tax programmes will not be able to offset them.

Deferred tax assets that do not meet the preceding conditions are not recognised in the consolidated income statement. The Group reconsiders, at year-end, if the conditions are met to recognise the deferred tax assets that were not recognised previously.

(iv) Compensation and classification

Deferred tax assets and liabilities are recognised in the consolidated statement of financial position under non-current assets or liabilities, irrespective of the expected date of recovery or settlement.

The Group only offsets tax assets and liabilities if it has a legally enforceable right to offset the recognised amounts and intends either to settle on a net basis or to realise the assets and settle the liabilities simultaneously.

The Spanish tax Group, of which the Public Entity Canal de Isabel II is the Parent Company and has filed consolidated tax returns since 2014.

In addition to the factors to be considered for individual taxation, set out previously, the following factors are taken into account when determining the accrued income tax expense for the companies forming the consolidated tax group:

- Temporary and permanent differences arising from the elimination of profits and losses on transactions between Group companies, derived from the process of determining consolidated taxable income.
- Deductions and relief that correspond to each of the companies of the tax group in the consolidated tax return filing regime. In this sense, deductions and rebates shall be allocated to the company that carried out the activity or had the performance needed to obtain the right to a tax deduction or rebate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR 2022

Temporary differences arising from the elimination of profits and losses on transactions between tax group companies are allocated to the company which recognised the profit/loss and are valued using the tax rate of that company.

Regarding tax loss of any company of the tax Group that have been offset by the other companies of the consolidated Group, a reciprocal credit and debit arises between the companies that contribute tax losses to the consolidated Group and the rest of the companies that offset those losses. Where a tax loss cannot be offset by the other consolidated Group companies, these tax credits for loss carry forwards are recognised as deferred tax assets, considering the tax group as a taxable entity for their recovery.

The Parent Company of the tax Group records the total consolidated corporate income tax payable (recoverable) with a debit (credit) to receivables (payables) from/to Group companies and associates.

The debt amount (loan) corresponding to subsidies is registered as an amount to be charged (credited) to Debts (loans) with Group companies and associates.

t) Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, whose operating results are regularly reviewed by the board of directors to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

u) Classification of assets and liabilities as current or non-current

The Group classifies assets and liabilities in the consolidated statement of financial position as current and non-current. For these purposes, current assets or liabilities are those meeting the following criteria:

- Assets are classified as current if it can be expected that they will be realised or if they are intended to be sold or consumed within the normal cycle of operation of the Company, mainly kept for trading purposes, they are likely to be realised within a period of time of twelve months after the date of closing or if they are cash or other equivalent cash assets, save for those cases in which they cannot be exchanged or used to cancel a liability, at least within the twelve months following the closing date.
- Liabilities are classified as current when they are expected to be settled in the Group's normal operating cycle, they are held primarily for the purpose of trading, they are due to be settled within twelve months after the reporting date or the Group does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting date. Moreover, financial liabilities are classified as current if they must be settled within the twelve months following the closing date, even if the original period of time exceeds twelve months and there is an agreement for refinancing or restructuring payments in the long term that has ended before the closing date and before the financial statements are prepared. Otherwise, these are classified as non-current liabilities.

v) Consolidated cash flow statement

For consolidated cash flow statements prepared using the indirect method, the following expressions are used as defined below:

- The Company forms part of the tax group headed by the Public Entity Canal de Isabel II and has filed consolidated tax returns since 2014.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR 2022

- Operating activities: activities that make up for the Group's ordinary income, as well as activities that may not be classified as investment or financing activities.
- Investment activities: activities comprising the purchase, sale or otherwise disposal of long non-current assets and other investment not included under cash or cash equivalents.
- Financing activities: activities causing changes on the size and composition of net equity and liabilities not belonging to operating activities.

w) Environment

The Group performs operations wherein the main purpose is to prevent, reduce or repair damage that it may cause to the environment as a result of its activities.

Expenses derived from environmental activities are recognised as other operating expenses in the consolidated income statement in the period in which they are incurred.

Tangible assets acquired for long-term use to minimise the environmental impact of its activity and protect and improve the environment, including the reduction and elimination of future pollution from the Group's activities, are recognised as assets applying the valuation, presentation and disclosure criteria described in section (e) of this note.

4. SEGMENT REPORTING

The Board of Directors and Parent management review the Group's internal information to assess performance and allocate resources.

The Group analyses the business by geographical segments, which are the different strategic business units. Information on the Group's different geographical segments is contained in Appendix I.

Canal de Isabel II S.A., M.P. ,. and subsidiaries are not highly dependent on any particular customers (see note 29).

Inter-segment transactions are carried out at arm's length.

The Group's segments are "domestic" and "international". The allocation and award used to establish and to offer the information of each segment is performed with regard to the financial statements of the different companies that form the Group, given that all of them operate exclusively within their geographical scope as a consequence of their activity.

5. BUSINESS COMBINATIONS AND OTHER COMPANY TRANSACTIONS

On 1 April 2022, the merger by absorption between Canal de Isabel II, S.A., M.P. and Canal de Isabel II, S.A., M.P. was registered in the Business Registry. (absorbing company) and the Group company, Hidráulica Santillana, S.A.U. (Absorbed company)

In 2022, the investees Ocio y Deporte Canal, S.L., Canal Energía, S.L. and Aguas de Tumbes, S.A. were liquidated.

On 31 March 2021, the merger by absorption between the Parent company, Canal de Isabel II, S.A. (absorbing company) and the Group company, Hispanagua, S.A.U. (absorbed company) was registered with the Commercial Registry.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR 2022

On 26 October 2021, the merger by absorption between the Parent company, Canal de Isabel II, S.A. (absorbing company) and the Group company, Canal de Comunicaciones Unidas, S.A.U. (absorbed company) was registered with the Commercial Registry.

(See Note 1 (b)(i)(ii))

6. NON-CURRENT ASSETS HELD FOR SALE

The Parent Company has classified as non-current assets held for sale 46 properties recognised as investment property. Real estate is held as an asset held for sale as there is a final decision to sell and a high probability of monetisation. It will occur depending on the execution and completion of the public auction.

During 2022, the Parent Company sold the property located at calle San Enrique, 1 y 3 in Madrid by electronic public auction, which generated a profit of Euros 3,267 thousand.

In the 2022 financial year, the subsidiary Gestus Gestión y Servicios, S.A.S. reclassified the values corresponding to Assets for right of use 505,788 thousand Colombian pesos (99 thousand euros) and Property, plant and equipment 450,000 thousand Colombian pesos (88 thousand euros), to the operating headquarters, taking into account that Gestus has a sales plan for said assets, the recognition is made at the lower of their book value and their fair value at the time of reclassification.

On 14 November 2018, the General Shareholders' Meeting of Aguas de Tumbes S.A., ATUSA, declared the dissolution of the company due to the manifest impossibility of carrying out its corporate purpose. A liquidator was appointed, who began the respective procedures in order to inform creditors of the state of liquidation, carry out an inventory of assets and other procedures provided for in the bylaws and the law.

Once the activities relating to the private liquidation procedure were completed, and as there were no assets that could be realised to meet the company's outstanding obligations, the relevant judicial bankruptcy lawsuit was filed, which fell under the jurisdiction of the thirteenth (13th) civil commercial court of the city of Lima, which by order of 17 November 2022 declared the bankruptcy of AGUAS DE TUMBES S.A.C. in liquidation, as well as the seizure of its assets and, as a result of the above, the uncollectibility of its debts.

The above decision was published on the website of the judiciary, and the corresponding legal registrations were made.

7. PROPERTY, PLANT AND EQUIPMENT

a) General

Details of intangible assets at 31 December and movement during the year, are as follows:

In thousands of Euros							
2022							
	Land and buildings	Right-of-use Buildings and construction works	Technical installations and other property plant and equipment	Machinery, furniture and tools	Right-of-use Other assets	Fixed assets under construction and advances	TOTAL
Cost:							
Balance at 31 December 2021	11,102	23,418	63,839	926	18,345	56	117,686
Adjustment to the initial balance	-	(4)	-	-	22	-	18
Initial balance at 1 January 2022	11,102	23,414	63,839	926	18,367	56	117,704
Additions	15	1,762	249	10	410	131	2,577
Disposals	(34)	(50)	(130)	(2)	(68)	-	(284)
Transfers	(96)	-	(52,238)	(222)	-	(64)	(52,620)
Translation differences	235	(1)	661	24	(19)	5	905
Cost as of 31 December 2022	11,222	25,125	12,381	736	18,690	128	68,282
Accumulated amortisation:							
Balance as of 31 December 2021	(1,639)	(8,925)	(52,411)	(763)	(8,417)	-	(72,155)
Adjustment to the initial balance	-	-	-	-	(1,306)	-	(1,306)
Initial balance at 1 January 2022	(1,639)	(8,925)	(52,411)	(763)	(9,723)	-	(73,461)
Depreciations (note 26)	(78)	(3,041)	(861)	(34)	(3,075)	-	(7,089)
Disposals	34	-	93	2	66	-	195
Transfers	98	-	43,388	211	-	-	43,697
Translation differences	(95)	38	(472)	(11)	17	-	(523)
Accumulated depreciation at 31 December 2022	(1,680)	(11,928)	(10,263)	(595)	(12,715)	-	(37,181)
Initial impairment at 01 January 2022	(15)	-	-	(2)	-	-	(17)
Impairment losses	-	-	-	-	-	-	-
Translation differences	(1)	-	-	-	-	-	(1)
Accrued impairment as of 31 December 2022	(16)	-	-	(2)	-	-	(18)
NET CARRYING AMOUNT AT 31 DECEMBER 2022	9,526	13,197	2,118	139	5,975	128	31,083

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In thousands of Euros							
2021 (*)							
	Land and buildings	Right-of-use Buildings and construction works	Technical installations and other property plant and equipment	Machinery, furniture and tools	Right-of-use Other assets	Fixed assets under construction and advances	TOTAL
Cost:							
Balance at 31/12/2020	9,872	24,112	67,686	1,726	10,874	115	114,385
Adjustment to the initial balance	-	71	-	-	1,117	-	1,188
Initial balance at 01 January 2021	9,872	24,183	67,686	1,726	11,991	115	115,573
Additions	822	103	153	-	7,553	136	8,767
Disposals	(219)	(894)	(5,998)	(10)	(1,183)	(8)	(8,312)
Transfers	390	-	991	(812)	-	(191)	378
Translation differences	237	26	1,007	22	(16)	4	1280
Cost as of 31 December 2021	11,102	23,418	63,839	926	18,345	56	117,686
Accumulated amortisation:							
Balance at 31/12/2020	(1,453)	(6,546)	(55,121)	(1,376)	(6,095)	-	(70,591)
Adjustment to the initial balance	-	271	-	-	(344)	-	(73)
Initial balance at 01 January 2021	(1,453)	(6,275)	(55,121)	(1,376)	(6,439)	-	(70,664)
Depreciations (note 26)	(90)	(3,255)	(1,796)	(32)	(2,017)	-	(7,190)
Disposals	1	627	5,963	5	29	-	6,625
Transfers	5	-	(663)	658	-	-	-
Translation differences	(102)	(22)	(794)	(18)	10	-	(926)
Accumulated depreciation at 31 December 2021	(1,639)	(8,925)	(52,411)	(763)	(8,417)	-	(72,155)
Initial impairment at 01 January 2021							
Impairment losses	(14)	-	-	(2)	-	-	(16)
Translation differences	(1)	-	-	-	-	-	(1)
Accrued impairment as of 31 December 2021	(15)	-	-	(2)	-	-	(17)
NET CARRYING AMOUNT AT 31 DECEMBER 2021	9,448	14,493	11,428	161	9,928	56	45,514

(*) Restated information.

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Property, plant and equipment subject to the adoption of IFRS 16 – Leases is detailed below:

In thousands of Euros				
2022				
	Right-of-use Buildings and construction works	Right-of-use Vehicles	Right-of-use Other assets	TOTAL
Cost:				
Initial balance at 1 January 2022	23,418	17,406	939	41,763
Adjustment to the initial balance	(4)	22		18
Balance as of 01/01/2022	23,414	17,428	939	41,781
Additions	1,762	105	305	2,172
Disposals	(50)	(68)	-	(118)
Transfers	-	-	-	-
Translation differences	(1)	(5)	(15)	(21)
Cost as of 31 December 2022	25,125	17,460	1,229	43,814
Accumulated amortisation:				
Initial balance at 1 January 2022	(8,925)	(7,893)	(524)	(17,342)
Adjustment to the initial balance	-	(1,306)	-	(1,306)
Balance as of 01/01/2022	(8,925)	(9,199)	(524)	(18,648)
Amortisations	(3,041)	(2,993)	(81)	(6,115)
Disposals	-	66	-	66
Transfers	-	-	-	-
Translation differences	38	4	13	55
Accumulated depreciation at 31 December 2022	(11,928)	(12,122)	(592)	(24,642)
NET CARRYING AMOUNT AT 31 DECEMBER 2022	13,197	5,338	637	19,172

In thousands of Euros				
2021 ^(*)				
	Right-of-use Buildings and construction works	Right-of-use Vehicles	Right-of-use Other assets	TOTAL
Cost:				
Initial Balance as of 01 January 2021	24,112	8,794	2,081	34,987
Adjustment to the initial balance	71	1,117		1,188
Balance as of 01/01/2021	24,183	9,911	2,081	36,175
Additions	103	7,527	26	7,656
Disposals	(894)	(24)	(1,159)	(2,077)
Transfers	-	-	-	-
Translation differences	26	(8)	(9)	9
Cost as of 31 December 2021	23,418	17,406	939	41,763
Accumulated amortisation:				
Initial Balance as of 01 January 2021	(6,546)	(5,665)	(431)	(12,642)
Adjustment to the initial balance	271	(344)	-	(73)
Balance as of 01/01/2021	(6,275)	(6,009)	(431)	(12,715)
Amortisations	(3,255)	(1,908)	(109)	(5,272)
Disposals	627	18	11	656
Transfers	-	-	-	-
Translation differences	(22)	6	5	(11)
Accumulated depreciation at 31 December 2021	(8,925)	(7,893)	(524)	(17,342)
NET CARRYING AMOUNT AT 31 DECEMBER 2021	14,493	9,513	415	24,421

(*) Restated information.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR 2022

Details of depreciation for the period, accumulated depreciation and the net carrying amount of individually significant items of property, plant and equipment located in Spain at 31 December, were as follows:

In thousands of Euros			
Description of the asset	Depreciation	2021	Net Carrying Amount
		Accrued depreciation	
Mini Power plants	(924)	(42,638)	8,280
Total	(924)	(42,638)	8,280

In 2022, the detail of the accumulated depreciation and the net carrying value of the mini power plants, recorded in property, plant and equipment, and relating to the company Hidráulica Santillana, are no longer included under this heading, due to the merger by absorption of the aforementioned subsidiary. (See Note 1 b)(i))

There are no individually relevant elements of property, plant and equipment among the Ibero-American States at 31 December 2022 and 2021. However, Amagua, C.E.M. recorded additions totalling 312 thousand dollars (293 thousand euros).

b) Totally depreciated assets

The cost of property, plant and equipment assets which are fully depreciated and still in use at 31 December is as follows:

In thousands of Euros		
	2022	2021
Construction works	883	395
Technical systems and machinery	2,161	1,880
Other installations, tools and furniture	594	740
Other items of fixed assets	1,085	21,074
Total	4,723	24,089

c) Insurances

The Group has subscribed several insurance policies covering those risks tangible fixed items are subject to. The coverage provided by such policies is deemed to be sufficient.

d) Impairment

The Group did not recognise any significant impairment on its Tangible assets in 2022 or 2021.

e) Disposals

In 2022, the Group companies AAA Dominicana, Amagua and Gestus recorded disposals in the amount of 88 thousand euros, generating a net profit of 37 thousand euros, which is recognised in the accompanying consolidated income statement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR 2022

In 2021, as a result of the merger by absorption of Hispanagua, computer systems, buildings and technical equipment amounting to 49 thousand euros were disposed, with a loss of 9 thousand euros. And from the merger by absorption of Canal de Comunicaciones, fully depreciated information processing equipment amounting to 71 thousand euros was disposed.

As a consequence of the disposals made during fiscal year 2021 under the heading of property, plant and equipment, a profit of 101 thousand euros was originated and recognised in the accompanying consolidated income statement.

8. INVESTMENT PROPERTY

a) General

Details of investment property at 31 December and movement during the year, are as follows:

In thousands of Euros			
	2022		
	Lands	Buildings	TOTAL
Cost as of 01 January 2022	3,014	13,237	16,251
Additions	3	-	3
Disposals	(137)	-	(137)
Transfers	1	1,196	1,197
Translation differences	-	(14)	(14)
Other movements	-	-	-
Cost as of 31 December 2022	2,881	14,419	17,300
Accrued depreciation as of 01 January 2022	-	(7,887)	(7,887)
Depreciations (note 26)	-	(367)	(367)
Transfers	-	1,490	1,490
Accrued depreciation as of 31 December 2022	-	(6,764)	(6,764)
Accrued impairment as of 01 January 2022	-	(133)	(133)
Impairment reversals	-	133	133
Accrued impairment as of 31 December 2022	-	-	-
NET CARRYING AMOUNT AT 31 DECEMBER 2022	2,881	7,655	10,536

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR 2022

In thousands of Euros			
	2021		
	Lands	Buildings	TOTAL
Cost as of 01 January 2021	4,256	13,273	17,529
Additions	10	-	10
Disposals	(1,248)	(27)	(1,275)
Transfers	-	-	-
Translation differences	-	(9)	(9)
Other movements	(4)	-	(4)
Cost as of 31 December 2021	3,014	13,237	16,251
Accrued depreciation as of 01 January 2021	-	(7,650)	(7,650)
Depreciations (note 26)	-	(237)	(237)
Translation differences	-	-	-
Accrued depreciation as of 31 December 2021	-	(7,887)	(7,887)
Accrued impairment as of 01 January 2021	-	(133)	(133)
Other movements	-	-	-
Accrued impairment as of 31 December 2021	-	(133)	(133)
NET CARRYING AMOUNT AT 31 DECEMBER 2021	3,014	5,217	8,231

This heading mainly comprises the sports facilities located at the Riosequillo reservoir and several other properties owned by the Parent company.

In 2022, the facilities of the leisure complex on the right side of the Riosequillo reservoir in Buitrago de Lozoya were incorporated. By resolution of the Manager of the Public Entity Canal de Isabel II, the public concession for the complex was granted to the Buitrago City Council for 20 years, in exchange for a financial consideration.

On 18 February 2019, the Parent Company commissioned the Public Entity Ocio y Deporte Canal, S.L.U. to manage and operate the Company's sports installations located at the Third Deposit and the Athletics School, for a three-year period that may be extended for another two years, specifically from 24 February 2019 to 23 February 2024, in a contract amounting to a maximum of 1,164 thousand euros. The fee in 2021 totalled 200 thousand euros. The Parent Company decided not to execute any of the extensions, completing the commission on 23 February 2022.

In 2022, the Group company Ocio y Deporte, S.L.U. was dissolved, and its business was integrated within the Company, and the sports facilities managed and operated by it located in the park Tercer Depósito at Calle Islas Filipinas were no longer considered investment property.

At 31 December 2022 and 2021, the "Additions" include the contributions made to cover urban development and management expenses in the Compensation Boards in urban development industries.

The total carrying amount of the Group's investments outside of Spain is 102 thousand euros in 2022 (116 thousand euros in 2021). The Group's real estate investments outside Spain correspond to Canal Extensia América, S.A. (formerly INASSA).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR 2022

Details of investment property that have not generated any income at 31 December are as follows:

In thousands of Euros			
2022			
Description	Cost	Accrued depreciation	Net
Lands	2,881	-	2,881
Patrimonial assets	2,224	(1,033)	1,191
Total	5,105	(1,033)	4,072

In thousands of Euros			
2021			
Description	Cost	Accrued depreciation	Net
Lands	3,014	-	3,014
Patrimonial assets	2,276	(1,006)	1,270
Total	5,290	(1,006)	4,284

b) Income and expenditure from investment property

Details of income and expenses from investment property are as follows:

In thousands of Euros		
	2022	2021
Income from leases	276	282
Income generating investments operating costs	(322)	(192)
Operating costs of non-income generating investments	(45)	(45)
Total	(91)	45

c) Value impairment

In 2022, the Parent Company has corrected the impairment of the sports facilities at the Third Depot in calle Islas Filipinas, as the causes for this have disappeared. No impairments were recognised by the Group in 2021.

d) Insurances

The Company has taken out insurance policies to cover the risk of damage to its investment property. The coverage of such policies is deemed to be sufficient.

e) Fair values

The fair value of investment property at 31 December 2022 and 2021 is as follows:

Item	In thousands of Euros	
	2022	2021
Construction works	41,247	57,965

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR 2022

f) Disposals

In 2022, as a result of the sale of a stake in a development plot, the Parent Company recorded disposals amounting to Euros 137 thousand, generating a profit of 42 thousand euros. In 2021 it recorded disposals due to the sale of the joint ownership of three development plots for an amount of 1,249 thousand euros, which generated a profit of 12,385 thousand euros. See Note 26 (g)

9. GOODWILL

Movement during 2022 and 2021 is as follows:

In thousands of Euros				
2022				
	Balance as of 01/01/2022	Impairment	Translation differences	Balance as of 31/12/2022
AAA Ecuador Agacase	240	-	(29)	211
Hidráulica Santillana, S.A.U.	12,610	-	-	12,610
AAA Dominicana, S.A.	38	-	-	38
Total	12,888	-	(29)	12,859

In thousands of Euros				
2021				
	Balance as of 01/01/2021	Impairment	Translation differences	Balance as of 31/12/2021
AAA Ecuador Agacase	257	-	(17)	240
Hidráulica Santillana, S.A.U.	12,610	-	-	12,610
AAA Dominicana, S.A.	38	-	-	38
Total	12,905	-	(17)	12,888

The Cash-Generating Unit (CGU) of the lowest level at which the recognised goodwill is managed for the purposes of verifying the value impairment is each one of the consolidated companies. Pursuant to the procedure described in note 3 (h), the Group carried out the impairment test for each group of CGUs to which the goodwill has been assigned.

The group periodically assesses the recoverability of goodwill. Accordingly, it uses the business plans from the different CGUs to which they are assigned, discounting expected future cash flows.

The assumptions on which the cash flow forecasts are based are past experience and fair estimates of the business plans of the different CGUs. These estimates are contrasted with the expected growth, taking into account the position of the company and the strategic elements that could make this position change.

In any event, sensitivity analyses are conducted in relation to the discount rate used and the residual growth rate, in order to verify which fair changes in these assumptions will not have an impact on the possible recovery of the recognised goodwill.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR 2022

Below are the main assumptions used in calculating the value in use for each CGU:

- U.G.E. Hidráulica Santillana:

The Group has estimated energy production based on the historical average production volume. Furthermore, the estimated sale price is in a range of between 202 euros/MWh and 50 euros/MWh during the 5 projected years.

The compound annual growth rate (CAGR) of revenues and EBITDA used in the projections is as follows:

	Business Plan 2022	Business Plan 2021
Income CAGR	-11.20 %	-5.61 %
EBITDA CAGR	-14.60 %	-8.66 %

Due to high energy market prices in 2022, both revenue and EBITDA CAGR are negative, as energy prices are estimated to return to historical values in the coming years.

The discount rate applied (weighted average cost of capital or WACC) is 6.12% (4.58% in 2021), and a constant perpetual growth rate was estimated to calculate terminal value of 2%, linked mainly to the increase in the price of energy (2% in 2021).

The impairment test carried out at 31 December 2022 reflects a recoverable value of 43,241 thousand euros (48,201 thousand euros in 2021), with an excess over the carrying amount of the CGU's net operating assets of 17,634 thousand euros (including goodwill) (22,273 thousand euros in 2021).

The Group has also performed a sensitivity analysis for the main key assumptions. Key assumptions of the impairment test are the discount rate (WACC) and business turnover. The details of the amount for which the value assigned to the key assumptions must be changed in order to equal the sum of the recoverable value to the carrying amount of the CGU are as follows:

	2022
Income decrease	23.1 %
WACC increase (bp)	885

This sensitivity analysis illustrates that this CGU does not have significant risks associated with variations in the key assumptions. During 2022 and 2021, goodwill impairment losses were not recognised in this CGU.

Other goodwill associated with the various CGUs are not individually significant. However, the Group has conducted the impairment testing of goodwill and no impairment has been recognised.

10. INTANGIBLE FIXED ASSETS

Details of intangible assets at 31 December and movement during the year, are as follows:

In thousands of Euros								
	2022							
	Development	Concessions	IT applications	Right-of-use Software IFRS 16	Concession arrangement, regulated assets	Concession arrangement, regulated assets under construction	Other intangible fixed assets	TOTAL
Cost as of 1 January	53	1,395	1,867	91	6,983,520	85,540	635	7,073,101
Additions	-	-	153	-	46,778	52,116	-	99,047
Disposals	-	-	(2)	-	(9,448)	-	-	(9,450)
Transfers	-	-	(129)	-	82,947	(30,521)	(635)	51,662
Translation differences	3	(169)	(13)	(11)	794	29	-	633
Cost at 31 December	56	1,226	1,876	80	7,104,591	107,164	-	7,214,993
Accumulated amortisation at 1 January	(26)	(1,395)	(1,545)	(42)	(3,040,164)	-	-	(3,043,172)
Amortisations	(2)	-	(59)	(23)	(124,324)	-	-	(124,408)
Disposals	-	-	2	-	6,235	-	-	6,237
Transfers	-	-	127	-	(45,542)	-	-	(45,415)
Translation differences	(1)	169	(22)	8	(145)	-	-	9
Accumulated amortisation at 31 December	(29)	(1,226)	(1,497)	(57)	(3,203,940)	-	-	(3,206,749)
Impairment at 1 January	-	-	(2)	-	(4,892)	-	-	(4,894)
Impairment losses	-	-	-	-	-	-	-	-
Impairment reversals	-	-	-	-	1,828	-	-	1,828
Accumulated impairment loss at 31 December	-	-	(2)	-	(3,064)	-	-	(3,066)
Net carrying amount at 31 December	27	-	377	23	3,897,587	107,164	-	4,005,178

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR 2022

In thousands of Euros								
	2021 ^(*)							
	Development	Concessions	IT applications	Right-of-use Software IFRS 16	Concession arrangement, regulated assets	Concession arrangements, regulated assets under construction	Other intangible fixed assets	TOTAL
Cost as of 1 January	471	5,233	1,666	97	6,929,235	70,860	635	7,008,197
Adjustment to the initial balance	-	-	-	-	-	-	-	-
Adjusted balance as of 1 January	471	5,233	1,666	97	6,929,235	70,860	635	7,008,197
Additions	-	-	175	-	30,765	44,358	-	75,298
Disposals	(445)	(3,740)	(2)	-	(6,820)	-	-	(11,007)
Transfers	-	-	-	-	29,334	(29,712)	-	(378)
Translation differences	27	(98)	28	(6)	1,006	34	-	991
Cost at 31 December	53	1,395	1,867	91	6,983,520	85,540	635	7,073,101
Accumulated amortisation at 1 January	(445)	(1,492)	(1,470)	(20)	(2,922,566)	-	-	(2,925,993)
Amortisations	(2)	-	(49)	(24)	(122,095)	-	-	(122,170)
Disposals	445	-	2	-	4,791	-	-	5,238
Translation differences	(24)	97	(28)	2	(294)	-	-	(247)
Accumulated amortisation at 31 December	(26)	(1,395)	(1,545)	(42)	(3,040,164)	-	-	(3,043,172)
Impairment at 1 January	-	-	-	-	(7,489)	-	-	(7,489)
Impairment losses	-	-	(2)	-	-	-	-	(2)
Impairment reversals	-	-	-	-	2,597	-	-	2,597
Accumulated impairment loss at 31 December	-	-	(2)	-	(4,892)	-	-	(4,894)
Net carrying amount at 31 December	27	-	320	49	3,938,464	85,540	635	4,025,035

(*) Restated information.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR 2022

The main additions in 2022 and 2021 under "Concession arrangement, regulated assets" and "Concession arrangements, regulated assets under construction" come from extensions and improvements to the infrastructure assets required to provide the services under the concession arrangements.

The most significant additions and transfers in 2022 under the heading "Concession agreement, regulated assets" include the following:

Works of extension and renovation of networks in the pipelines of the various municipalities of the Region of Madrid to ensure the quality and increase the efficiency of the supply network, pursuant to the network renovation plan, together with the installation of metering devices and connections in new contracts.

Actions on the Pedrezuela dam bottom spillway; the renovation of the left branch of the main east artery; the inlet and outlet galleries to the El Goloso reservoir of the Atazar Canal; and the construction of new installations for calcium hydroxide at the Valmayor DWTP.

The construction of a regulating reservoir with its piping in Talamanca; the installation of a bypass in the Navahondilla lift; installation of a rechlorination station in the Soto II reservoir; and various elements in the El Cerrillo reservoir in El Boalo; construction of a test bed for meters and flow meters in the Majadahonda premises.

The construction of storm tanks at the Villanueva de la Cañada and Valdaracete WWTPs; improvements to the biological treatment plant at the San Agustín de Guadalix, La Poveda, Colmenarejo, Arroyo Quiñones, Cuenca Baja and Cuenca Media-Alta del Arroyo Culebro WWTPs; the installation of centrifuges at the Guadarrama Medio, Villa del Prado, Robledo de Chavela and Talamanca WWTPs; network analysers at the Valdemorillo WWTP; as well as various actions at the Sur Oriental, El Vellón, Cuenca Media-Alta del Arroyo Culebro, Villanueva de la Cañada, Valdaracete and Las Rozas WWTPs.

In the network of collectors and outfalls of the Region of Madrid, of note is the construction of the connection collector from the Colmenar DWTP to the Colmenar Viejo WWTP for draining the plant's centrifuges; improvements to the sewerage network at the Casa de Campo fairgrounds; the installation of a coarse grating at the San Martín de la Vega WWTP; and the commissioning of the second cell for the waste deposit at the Loeches landfill site.

In regeneration, the improvements made to the tertiary treatment at the Arroyo de la Vega WWTP and the extension of the reused water supply network in Parla should be , highlighted.

As part of the automation plan, the implementation of the unified system for real-time monitoring of operational technology assets should be highlighted; and the integration continues with the remote control system for distribution lifts, DWTPs, chlorination stations, treatment plants and mini-power stations; with the installation of remote control instrumentation in sewerage networks, sewage systems, in hydraulic facilities associated with the distribution network, and small regulating tanks distributed throughout the Region of Madrid.

Actions to increase security in the IT systems and facilities; IT equipment for teleworking; the implementation of new functionalities in the Parent Company's collaborative, process management, geographic information and departmental applications; the integration of energy measures in the energy efficiency systems; and technical improvements in the emergency and warning system for the population within the flood zone in the event of the possible rupture or serious breakdown of the dams, which is the responsibility of the Parent Company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR 2022

The Company Amagua, C.E.M. recorded additions totalling 1,228 thousand dollars (1,551 thousand euros), the most significant amount being 689 thousand dollars (646 thousand euros) corresponding to "Advance payments for intangible assets". It was due to the investment "Project Supply and Installation of a section of pipeline for connection to the future drinking water plant in Samborondón" with the aim of optimising and extending the service provided to the populations of the Samborondón sector, in addition to the correct construction of chambers, provision and installation of accessories and other implements required for the commissioning of this pipeline.

The most significant additions and transfers in 2021 under the heading "Concession agreement, regulated assets" included the following:

The network extensions and renovations, on the pipelines of various towns within the Region of Madrid, together with the installation of valuation and connection devices in the new contracts.

Actions carried out on various facilities at the DWTP in Majadahonda, the renewal of filters at the DWTP in Colmenar and the installation of safety systems at the DWTP and Dam in Valmayor. Construction of new regulating tanks in Villamantilla and Villanueva de Perales. Refurbishment of the tank in Tres Cantos, elevator and hydraulic junction. Junction of Branch 3 on the M-50 of the Second Water Distribution Ring of the Region of Madrid.

Improvements and extension of the WWTPs in Sevilla la Nueva, El Berrueco, Cervera, La Reguera, Robledondo and Santa María de la Alameda. Control system for activated sludge process at the WWTP in Torrejón de Ardoz. Electrical connections and improvements at the WWTPs in Estación and Valdequeda.

Extension of the collectors running along streets Arroyo del Olivar and Félix Rodríguez de la Fuente in Madrid. Construction of a storm tank and spillway at the WWTP in Colmenar del Arroyo. Bending of the impulsion at the WWTP in Pedrezuela.

Connection of the pipeline between Avda. Libertad and C/ Ferrocarril de Getafe and the intake under the A-2 in Torrejón de Ardoz for the supply of irrigation water with reusable water. Commissioning of the reclaimed water tank of the Culebro system in the Polvoranca park in Leganés.

Actions on electricity cogeneration at the WWTPs in Boadilla and Soto Gutiérrez. Installation of a motor-generator and improvements to the biogas plant at the WWTP in Arroyo del Soto. Installation of a hydraulic power generation unit at the entrance to the tank in Vallecas.

Actions to automate the operation, enhance the security of IT systems and installations by means of equipment assembly and infrastructure in the telecommunications network. Automation for supervision and control of the WWTP in Arroyo Culebro Cuenca Baja. Installation of mainframe equipment in the data processing centre in Majadahonda and IP telephony system. Evolution in geographic information systems, and in supply and treatment operation management applications.

The Company Amagua, C.E.M. recorded additions totalling USD 1,228 thousand (1,551 thousand euros), the most significant amount being 689 thousand USD (646 thousand euros) corresponding to "Advances for intangible assets". It was due to the investment "Project Supply and Installation of a section of pipeline for connection to the future drinking water plant in Samborondón" with the aim of optimising and extending the service provided to the populations of the Samborondón sector, in addition to the correct construction of chambers, provision and installation of accessories and other implements required for the commissioning of this pipeline.

Consolidated Financial Statements and Consolidated Management Report of Canal de Isabel II, S.A., M.P. and Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR 2022

a) Main Concession Arrangements and Administrative Concessions

Details of the main concession arrangements are as follows:

In thousands of Euros							
2022							
Concession arrangements regulated assets	Use	Expirati on date	Amortization period	Cost	Accrued depreciation	Valuation adjustments	Net
In Spain							
Network Infrastructures of the Regional Government of Madrid	Operating activities	2062	50	5,516,812	(2,498,948)	-	3,017,864
Assignment of use of operating sanitation structures of the City council of Madrid	Operating activities	2036	31	926,109	(506,000)	-	420,109
Reuse infrastructures Madrid City Council	Operating activities	2061	50	192,613	(43,868)	-	148,745
Infrastructures of the municipal sewerage networks	Operating activities	2062	50	132,834	(31,333)	-	101,501
Technical Facilities Aguas de las Cuencas de España	Operating activities	2039	30	72,183	(31,670)	-	40,513
Administrative Concession Lanzarote	Operating activities	2043	30	97,495	(24,607)	-	72,888
Additional investments Granting of "rights to use Madrid City Council sanitation infrastructures	Operating activities	2036	31	64,244	(23,474)	-	40,770
Investments extension and upgrade of Alcalá de Henares concession	Operating activities	2029	25	18,708	(13,148)	-	5,560
Granting of Use of Municipal Land in Guadarrama	Operating activities	2039	30	10,752	(4,988)	-	5,764
Administrative Concession Cáceres	Operating	2039	24	39,259	(11,380)	(3,064)	24,815
In Ibero-America							
Rights over contracts AAA Ecuador	Operating activities	2032	30	640	(411)	-	229
Concession municipality of Samborondón	Operating activities	2051	36	14,228	(3,977)	-	10,251
Concession municipality of Daule	Operating activities	2024 ^(*)	8	3,214	(2,862)	-	352
Rights on UTE Santa Marta contract	Operating activities	2017	13	1,593	(1,593)	-	-
Rights over contracts AAA Dominicana	Operating activities	2015	11	1,226	(1,226)	-	-
Rights on contracts Fontes da Serra (Brazil)	Operating activities	2030	30	967	(504)	-	463
Total				7,092,877	(3,199,989)	(3,064)	3,889,824

^(*) Estimate associated to the completion of the work.

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In thousands of Euros							
2021							
Concession arrangements regulated assets	Use	Expirati on date	Amortization period	Cost	Accrued depreciation	Valuation adjustments	Net
In Spain							
Network Infrastructures of the Regional Government of Madrid	Operating activities	2062	50	5,404,472	(2,382,936)	-	3,021,536
Assignment of use of operating sanitation structures of the City council of Madrid	Operating activities	2036	31	926,000	(476,000)	-	450,000
Reuse infrastructures Madrid City Council	Operating activities	2061	50	192,375	(40,011)	-	152,364
Infrastructures of the municipal sewerage networks	Operating activities	2062	50	132,834	(28,765)	-	104,069
Technical Facilities Aguas de las Cuencas de España	Operating activities	2039	30	72,154	(29,195)	-	42,959
Administrative Concession Lanzarote	Operating activities	2043	30	97,495	(21,019)	-	76,476
Additional investments Granting of "rights to use Madrid City Council sanitation infrastructures	Operating activities	2036	31	63,067	(20,931)	-	42,136
Investments extension and upgrade of Alcalá de Henares concession	Operating activities	2029	25	18,726	(12,368)	-	6,358
Granting of Use of Municipal Land in Guadarrama	Operating activities	2039	30	10,752	(4,629)	-	6,123
Administrative Concession Cáceres	Operating activities	2039	24	39,259	(9,966)	(4,893)	24,400
In Ibero-America							
Rights over contracts AAA Ecuador	Operating activities	2032	30	728	(442)	-	286
Concession municipality of Samborondón	Operating activities	2051	36	13,183	(3,412)	-	9,771
Concession municipality of Daule	Operating activities	2024 ^(*)	8	2,833	(2,582)	-	251
Rights over contracts UTE Santa Marta	Operating activities	2017	13	1,813	(1,813)	-	-
Rights over contracts AAA Dominicana	Operating activities	2015	11	1,395	(1,395)	-	-
Rights on contracts Fontes da Serra (Brazil)	Operating activities	2030	30	852	(420)	-	432
Total				6,977,938	(3,035,884)	(4,893)	3,937,161

^(*) Estimate linked to the completion of the work.

Details of concession arrangements and the most significant terms and conditions thereof, as provided by the Parent, are as follows:

- The Region of Madrid General Network comprises all of the infrastructures used to provide the public services assigned to the Public Entity by the Regional Government of Madrid. Under the terms of Law 3/2008 and in accordance with the terms and conditions of the Contract-Programme, the management of these infrastructures has been entrusted to the Parent Company. This includes the operation, repair and maintenance of the Network, the provision of the corresponding water supply, sanitation and recycling services, and any other services and activities corresponding to the Public Entity under the mentioned law, except those expressly reserved to the Public Entity by the terms of the Contract-Programme. So that the Parent Company can manage these infrastructures, Article 16 of Law 3/2008

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR 2022

required the Regional Government of Madrid and the Public Entity to provide it with as many public-domain assets making up the Region of Madrid General Network as necessary for it to exercise the activities and duties entrusted to it. The Contract-Programme also provides for the Company's use and management of energy resources currently operated by the Public Entity, as well as any such activities that may be carried out in the future. Moreover, the Company is entitled to provide any other services entrusted to the Public Entity by the Regional Government of Madrid, particularly Closed User Group mobile communications services. All of these infrastructures are public property as they are used for public services provided by the Parent. As such, they may not be disposed of or seized and are not subject to any statute of limitations. These assets may only be sold in the event that they are no longer required, but with the legal obligation to allocate the gains obtained to investments in the Region of Madrid General Network.

The Contract has a 50-year term from 1 July 2012 and cannot be renewed.

In 2022 the Parent charged 60,300 thousand euros to the provision for infrastructure replacement relating to the Region of Madrid General Network (71,600 thousand euros in 2021) (see Note 23).

The consideration received by the Parent is the right to collect rates from customers for their use of the public services provided. Rates and any amendments thereto are authorised by the Regional Government of Madrid in accordance with the legislation in force.

- The granting of the right to use Madrid City Council sanitation infrastructures is regulated by the Management Agreement Regarding Sanitation Services, signed between the Madrid City Council, the Regional Government of Madrid and Canal de Isabel II on 19 December 2005, by virtue of which, Canal de Isabel II is tasked with the technical and commercial management of the sanitation services (sewerage and treatment) and the service of the operation of the reuse of wastewater provided within the municipal area of Madrid. This agreement is valid for 25 years from 1 January 2006, with remuneration of 700 million euros payable for the right to use the treatment and sewer infrastructure. In an addendum to this sanitation agreement signed on 26 December 2007, Madrid City Council granted Canal the right to use certain infrastructures for total remuneration of 226 million euros and the contract term was extended by a further six years (in addition to the initial 25 years) to 31 December 2036.

The agreement includes a commitment to carry out any maintenance work required on the sanitation infrastructure and any new work required by the annual schedule in place, as well as upgrading existing infrastructure. The work to be carried out by the end of the contractual period totals 613 million euros, of which 438 million euros was considered investment in replacements. During the period ended 31 December 2022 the Parent Company charged 652 thousand euros to the provision for replacements (652 thousand euros in 2021) (see note 23).

Once this Agreement has expired, the rights to use the sewerage and treatment infrastructures will revert from the Parent Company to Madrid City Council. If the agreement is terminated after the initially established duration, under the terms of the agreement Madrid City Council agrees to pay the Parent any amortisation/depreciation pending on the new investments made.

Under the terms of the agreement signed between the Community of Madrid, Canal de Isabel II and Madrid City Council on 4 May 2011, relating to the inclusion of the latter in Canal de Isabel II's management model, the sanitation service agreement which expires on 31 December 2036 must be extended or renewed pursuant to the good faith and loyalty required from both parties by the fifth clause of this inclusion agreement. When this extension is agreed, Madrid City Council will receive financial consideration for the rights of use transferred for the extension period. If an agreement regarding this calculation is not reached by the parties, it will be carried out in proportion to the price and the period of the consideration in the original agreement.

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The consideration received by the Company is the right to collect the corresponding tariffs from customers in the city of Madrid for sewerage and treatment services rendered, based on their use of these services. Tariffs and any amendments thereto are authorised by the Community of Madrid in accordance with the legislation in force.

- The conveyance of the right to use reclaimed water distribution and supply infrastructures is regulated by the agreement governing management of treated water recycling, signed between Madrid City Council, the Community of Madrid and Canal de Isabel II on 4 May 2011, which assigned the running of the recycled water transportation and supply service in the city of Madrid for any of the uses foreseen by the legislation in force to Canal for a period of 50 years from 1 July 2011. The Parent manages the maintenance and operation of the infrastructure and facilities included within the scope of this agreement. For all effects and purposes, the water recycling infrastructure will be included in the Community of Madrid Network and will be managed by the Parent, although ownership of the infrastructure will remain with Madrid City Council. Should the agreement be terminated for any reason, the municipal infrastructure used to render the water recycling service will revert from the Parent to Madrid City Council, in good working condition. The agreement does not include any commitment to perform any maintenance work required with respect to the infrastructure for the transport and supply of reclaimed water.

Total consideration of 189 million euros was paid for the right to use these infrastructures. If the agreement is terminated after the initially established duration, under the terms of the agreement Madrid City Council agrees to pay the Company any amortisation/depreciation pending on the new investments made. By way of consideration, the Parent Company is entitled to bill the recycling services rendered, in accordance with the approved tariffs. Tariffs and any amendments thereto are authorised by the Community of Madrid in accordance with the legislation in force. During the year ended 31 December 2022 the Parent Company charged 761 thousand euros to the provision for replacements (790 thousand euros in 2021) (see Note 23).

Under the terms of the Agreement signed between the Region of Madrid, Canal de Isabel II and Madrid City Council on 4 May 2011, relating to the inclusion of the latter in Canal de Isabel II's management model, the Agreement regarding the Reuse Service of Reclaimed Water which expires on 4 May 2061 must be extended or renewed pursuant to the good faith and loyalty required from both parties by the fifth clause of this Agreement.

- The conveyance of rights to use municipal sewerage network infrastructures is governed by the respective agreements entered into by the town and city councils, the Community of Madrid and Canal de Isabel II for the provision of sewerage services in certain areas. These agreements stipulate that the sewerage networks owned by the town and city councils form part of the Community of Madrid Network and are assigned to Canal de Isabel II. The councils entrust the Community of Madrid through the Parent Company to manage and to operate the sewerage system, as well as related infrastructures and facilities.

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No new sewerage agreements were signed in 2022. The municipalities that signed the aforementioned sewerage Agreements at 31 December 2022 total 135, of which 31 have become effective since 1 July 2012, the total cost of which in 2022 and 2021 is 35,695 thousand euros.

In thousands of Euros				
			31 December 2022	31 December 2021
Sewerage networks Municipalities	Life (years)	Maturity year	Cost	Cost
Getafe	50	2062	10,148	10,148
Alcobendas	50	2062	6,756	6,756
San Sebastián de los Reyes	50	2062	4,995	4,995
Boadilla del Monte	50	2062	2,683	2,683
San Fernando de Henares	50	2062	2,483	2,483
Villaviciosa de Odón	50	2062	1,604	1,604
Arroyomolinos	50	2062	1,367	1,367
Villanueva Pardillo	50	2062	1,009	1,009
Velilla San Antonio	50	2062	700	700
Valdemorillo	50	2062	673	673
San Martín de Valdeiglesias	50	2062	491	491
Villarejo de Salvanés	50	2062	444	444
Chinchón	50	2062	321	321
Moraleja de En medio	50	2062	317	317
Serranillos del Valle	50	2066	268	268
Casarrubuelos	50	2062	189	189
Cadalso de los Vidrios	50	2062	177	177
Perales de Tajuña	50	2062	174	174
Navas del Rey	50	2062	157	157
Pelayos de la Presa	50	2062	157	157
Fuentidueña Tajo	50	2062	126	126
Villanueva de Perales	50	2062	92	92
Fresnedillas Oliva	50	2062	90	90
Santa M ^a Alameda	50	2062	70	70
Villamantilla	50	2062	57	57
Santorcaz	50	2062	49	49
Corpa	50	2062	36	36
Ambite	50	2062	33	33
Valverde Alcalá	50	2062	29	29
Torrelaguna	50	2062	-	-
Rascafría	50	2062	-	-
TOTAL SEWERAGE NETWORK			35,695	35,695

These agreements do not stipulate any investment commitments, but rather require Canal to conduct diagnostic studies on the current condition of the sewerage networks so that master plans for the improvement of these installations can be drawn up where necessary. The consideration received by the Parent Company for providing the sewerage service is the right to collect the corresponding tariffs from customers, based on their use of the service rendered. Rates and any amendments thereto are authorised by the Regional Government of Madrid in accordance with the legislation in force. Tariffs and any amendments thereto are authorised by the Community of Madrid in accordance with the legislation in force. If the agreement is terminated after the initially established duration, under the terms of the agreement Madrid City Council agrees to pay the Parent the amount outstanding on the new investments made.

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From all such Agreements signed since 1 July 2012, 187 thousand euros are pending payment at 31 December 2022 and have been recognised under , payables to suppliers of fixed assets (458 thousand euros in 2021) (see Note 20).

- An Administrative Concession Agreement for comprehensive water management services in the city of Cáceres was signed on 18 March 2015 for the supply of domestic drinking water, sanitation and wastewater treatment in the city of Cáceres. The duration of the concession is 24 years and the services commenced on 1 April 2015.

The concession has a nominal fee of 39,217 thousand euros, which has been fully paid. Additionally, the Parent Company pays Cáceres City Council a variable fee of 4% of total billings as from year five of the concession.

The Agreement includes a commitment to carry out any maintenance work required on the sanitation infrastructure and any new work required by the annual schedule in place, as well as upgrading existing infrastructure. The work carried out by the end of the contractual period totals 21,681 thousand euros and has been treated as investment in replacements. During 2022 the Parent Company charged 1,496 thousand euros to the provision for replacements (1,496 thousand euros in 2021). (see note 23)

- In 2017, the "Concession agreement for the management, operation and maintenance of the municipal drinking water and sewerage service in the municipality of Monroy (Cáceres)" was signed. The Concession agreement was signed on 21 November 2006 for a term of 20 years and for an amount of 50 thousand euros. The Concession agreement does not establish investment commitments.
- On 23 May 2013 , Canal Gestión Lanzarote, S.A. signed a public service management agreement with Consorcio de Aguas de Lanzarote for the concession to provide water supply, sanitation and recycling services on the islands of Lanzarote and La Graciosa, and to carry out the works included in the investment plan included in the Company proposal in the tender announced for said purpose.

The validity period is 30 years commencing on 1 June 2013. Once the agreement has ended, Canal Gestión Lanzarote, S.A. will continue providing the services included in the concession until the Consortium directly, or a new successful bidder, starts providing the service, for which they will have a maximum period of 18 months.

Once the concession period has ended, all the works and installations required for the provision of the service, shall revert to Consorcio de Aguas de Lanzarote, with Canal Gestión Lanzarote, S.A. delivering them in good working order and free of charges and encumbrances.

The agreement signed with Consorcio de Aguas de Lanzarote established the payment of an initial fee, as consideration for the concession to use the infrastructures, of 50 million euros, paid in the first five years of the concession. Likewise, Canal Gestión Lanzarote, S.A. undertook to carry out extension and improvement investments which, at 31 December 2022, totalled 60,111 thousand euros, including 3,472 thousand euros in the execution phase at year end.

The consideration received by Canal Gestión Lanzarote, S.A. is the right to collect tariffs from customers for their use of the public services provided. Tariffs and amendments thereto are authorised by the Consorcio de Aguas de Lanzarote.

Although the first price review was established in the agreement for 1 June 2017, the proposal submitted by the titleholder of the agreement was not accepted by Consorcio de Aguas de Lanzarote for the financial years 2017 to 2022. Therefore, Canal Gestión Lanzarote is in the process of claiming the approval of said price review or compensation for the same amount. The increases requested under the contract are 2.3% (CPI increase 1.3%+ 1%) from 1 June 2017, 2.1% (CPI increase 1.1%+ 1%) from 1 June 2018, 2.4% (CPI increase 1.4%+ 1%) from 1 June 2019, 1.4% (CPI increase 0, 4%+1%) from 1 June 2020, 0.9% (CPI -

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0.1%+1%) from 1 June 2021, and 6.8% (CPI 5.8%+1%) from 1 June 2022, resulting in lower revenues for Canal Gestión Lanzarote of approximately 12. 110 thousand euros at 31 December 2022, which are not recorded at the year end.

Details of concession arrangements in Ibero-America and the most significant terms and conditions of these arrangements are as follows:

- Amagua C.E.M. (Ecuador) provides public drinking water and sewerage services through exclusive concessions (under regulated authorisation) granted by the decentralised autonomous governments of the cantons of Samborondón and Daule.
 - Amagua's operations in the Samborondón canton are governed by the "Agreement regulating the relationship between the town of Samborondón and the company Aguas de Samborondón Amagua C.E.M. for the provision of drinking water and sewerage services in the urban development area of Samborondón canton", which was signed on 30 November 2001, the first addendum thereto signed on 14 December 2009, the second signed on 29 August 2014, the third signed on 31 January 2019, and the fourth signed on 31 January 2020, for a 50-year period from March 1998 onwards. Moreover, the service provided by Amagua is governed by the town charter approved by the government of the canton of Samborondón on 28 May 2010 and published in Official Record No. 47, of 21 June 2010.
 - With respect to the operation in the canton of Daule, it is operated on the basis of an agreement signed with the municipal government of the canton on 10 February 2005; the first addendum thereto was signed on 22 July 2009, the second on 1 August 2012, and the third on 17 February de 2020, covering a period from 10 February 2005 until such time as a drinking water treatment plant is built. Provision of the service is governed by the town charter approved by the government of the canton of Daule on 24 July 2009, published in Official Record No. 4 of 26 August 2009.

The consideration or economic benefit received by Amagua depends on the rates at which users are charged for the use of the public services, which are approved by the corresponding public authority (Municipal Councils).

Among Amagua's obligations deriving from the aforementioned agreements, the third addendum to the delegation agreement signed with Daule on 17 February 2020 stipulates the one-off execution of various specific works under a certain budget. However, despite this stipulation, the delegation agreements do not generally entail any obligation for Amagua to make investments, as its operations are confined to the existing infrastructure available for the service, in some cases provided by the municipal authorities themselves, and in others by real estate developers. According to this subsidiary's technical department, the useful life of the facilities is longer than the concession term and a suitable corrective and preventative maintenance programme will eradicate the need for any major investments or replacements. Although it is not bound to make any investments, where required for its particular needs, the subsidiary may carry out work on a self-financed basis or in collaboration with other parties.

Amagua operates in two municipalities in Guayaquil, Samborondón and Daule. The Company's contract in Daule ended in February 2020. Accordingly, on 17 February 2020, a third Addendum to the original contract with the municipality of Daule was signed whereby, pursuant to the terms of clause "FOUR.THREE" thereof, the duration of the Delegation Agreement entered into on 10 February 2005 by the municipality of Daule and Amagua was extended.

- Fontes da Serra (Brazil) is party to the following concession agreement:
 - Concession agreement signed on 30 June 2000, with the municipal government of Guapimirim, whose operating permit was recently issued and is valid until 23/12/2026. The purpose of this

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administrative concession arrangement is to manage water supply system services in the municipality of Guapimirim-RJ, including the obligation to cover 90% of the municipality's urban population and exclusive responsibility for harnessing, intake, production, operation, repairs and maintenance, modernisation and charging directly for the services.

In accordance with the conditions (clause 4.1 of the agreement), at the end of the concession the assets will revert to the town council of Guapimirim (the grantor) with no financial compensation.

There is no contractual obligation to undertake additional investments. The only obligation is to maintain the supply service in suitable condition.

- Avanzadas Soluciones de Acueducto y Alcantarillado, S.A. E.S.P. (ASAA S.A. E.S.P.) (Colombia) has the following concession arrangement:

- An agreement to "operate, maintain and refurbish the public conduit and sewerage network infrastructure", between the municipality of Riohacha and the company formerly called AGUAS DE LA GUAJIRA (now ASAA S.A. E.S.P.), dated 4 October 2000.

Subject to the provisions in Clause four of the referred agreement the operating term is of 20 years from the date of the underwriting of the Certificate of Commencement of the operation, dated 1 December 2000. The agreement would therefore expire on 30 November 2020.

Clause five of the agreement states that "the municipality shall transfer to AGUAS DE LA GUAJIRA S.A. E.S.P. (now ASAA S.A. E.S.P.) all of the assets stipulated in the Certificate of Commencement, in whatever state they may be. From that date, AGUAS DE LA GUAJIRA S.A. E.S.P. shall be responsible for said assets, except with regard to ownership thereof, which shall be retained by the municipality (...)".

On expiry of the agreement, as indicated in clauses 20 and 21, AGUAS DE LA GUAJIRA S.A. E.S.P. (now ASAA S.A. E.S.P.) must return all of the infrastructure, operating and administrative assets relating to the conduit and sewerage systems and basic sanitation systems to the municipality. There is no requirement to return current assets.

On 26 November 2020, the Riohacha District and the company ASAA S.A. E.S.P. signed contract addendum No. 3, governing the operation, refurbishment and maintenance of the public conduit and sewerage network infrastructure, extending the contract for one (1) year, from 1 December 2020 to 30 November 2021, and thereby guaranteeing the provision of conduit and sewerage services to the Riohacha District for another year. This was approved by the company's Board of Directors at its meeting of 29 October 2020.

Likewise, on 26 November 2021, the same parties (Riohacha District and the company ASAA S.A. E.S.P.) signed contract addendum No. 4, governing the PROVISIONS ON OPERATION, REFURBISHMENT AND MAINTENANCE OF THE PUBLIC CONDUIT AND SEWERAGE NETWORK INFRASTRUCTURE, extending the contract again for eight (8) months, from 01 December 2021 to 30 July 2022, and thereby guaranteeing the provision of Conduit and Sewerage services to the Riohacha District during the extension. This was approved by the company's Board of Directors at its meeting of the twenty-sixth (26) day of November of the year two thousand and twenty-one (2021).

Likewise, on 14 June 2022, by e-mail, the Government of the District of Riohacha informed the company of its intention to extend the contract, which was duly formalised through Additional Section No. 5 in its First Clause: - Extension of the Term of operation described: The parties agree to extend the term of operation of the contract named "Provisions for the operation, renovation and maintenance of the infrastructure of the public water and sewerage services" for seven (7) additional months after 30 July 2022 of the current year, that is, until the twenty-eighth (28th) day of February

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of the year two thousand and twenty-three (2023). This was approved by the company's Board of Directors at its meeting of the twenty-seventh (27th) day of July of the year two thousand and twenty-two (2022).

b) Concession arrangements, regulated assets under construction and intangible assets under construction

The most significant items recognised in this account are as follows:

Description	Years	In thousands of Euros	
		2022	2021
Network Infrastructures of the Regional Government of Madrid	50	99,685	74,878
Total		99,685	74,878

c) Disposals

As a consequence of the disposals in 2022 under "Intangible assets", a loss of 3,213 thousand euros was generated, which has been recognised in the Consolidated Income Statement (a loss of 2,030 thousand euros under Intangible assets in 2021) (see Note 26).

Disposals in 2022 in the Parent Company arose as a result of the periodic review and reconciliation of the asset inventory, mainly due to the renewal of installations at various technical locations amounting to 1,144 thousand euros, meters amounting to 1,489 thousand euros and assignment of electrical installations to the supply company amounting to 567 thousand euros.

Disposals in 2021 in the Parent Company arose as a result of the periodic review and reconciliation of the asset inventory, mainly due to the renewal of installations at various technical locations in the amount of 277 thousand euros, to meters in the amount of 1,036 thousand euros and to technically depreciated global management assets in the amount of 716 thousand euros.

d) Value impairment

In 2018, due to the ambiguity of the methodology for the review of rates for the supply and sanitation services established in the Concession agreement and the scant progress in the definition of that methodology with Cáceres City Council, which has not amended the rates since 2015, the first year of the Concession agreement, when the concession agreement entered into force, the Parent Company updated the business plan for the Concession based on the overall analysis of both the Concession's contractual documentation and the interpretations thereof by consultative bodies and applicable case law.

To date, there was no progress or significant events with an impact on the concession's business plan. However, the accumulation of losses recoverable in future rate reviews has positively impacted the value of the concession business, despite an increase in the WACC discount rate, 6.12% in 2022 compared to 4.58% used in 2021. The recoverable value of the concession totalled 19,423 thousand euros, lower than the net carrying amount of the net operating assets associated with the concession net of impairment, which was 17,594 thousand euros. As a result, the Parent Company recognised a reversal of impairment of 1,828 thousand euros (reversal of 2,597 thousand euros in compared to 2021).

Regardless of the 3,064 thousand euros of impairment recognised on the balance sheet at 31 December 2022, the Parent Company continues to work on defining the methodology for the review of rates allowing

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for economic readjustment, and in all cases will study and exercise all appropriate legal and operational actions to allow for the maximisation of the value of the concession and the recovery of the associated assets.

There was no indication of impairment in the other concession assets of the Parent Company in 2022 and 2021.

The Parent Company has not recognised any value impairment loss in other intangible fixed assets.

Irrespective of the impairment recorded in the balance sheet at 31 December 2022, amounting to 3,064 thousand euros, the Parent Company continues to work on the definition of the rate revision methodology to allow economic rebalancing.

In view of this imbalance since the beginning of the concession, the Parent Company considers that the agreement provides for the possibility of initiating a legal claim to request its rebalancing, thereby allowing the recovery of the associated assets.

e) Insurances

The Group has taken out insurance policies to cover the risk of damage to its assets. These policies are reasonably sufficient to cover the carrying amounts of the Group's intangible assets.

f) Revertible intangible assets

Intangible assets for which the Group has acquired operating rights that will revert in the future are detailed in section (a) of this note. (vii) Investment commitments

g) Investment Budget

The Parent Company's budget for 2023 includes investment amounting to 360 million euros. Replacements account for approximately 135 million euros of this balance (93 million euros in 2022).

Under the terms of the Management Agreement Regarding Sanitation Services entered into by Madrid City Council, the Regional Government of Madrid and Canal de Isabel II, the Parent is contractually bound to carry out any work necessary to maintain the sanitation infrastructures, as well as to comply with the annual new works schedule and upgrade existing infrastructures. These investments are expected to total 613 million euros by the end of the Agreement term, of which 158 million euros reflect treatment and 455 million euros relate to sewerage. As of 31 December 2022, actions arising out of this commitment have been carried out for an amount of 261 million euros (244 million euros up to 2021), of which 187 million euros reflect the application of the replacement provision (173 million euros in 2021).

Under the terms of the Agreement for the comprehensive water services management in Cáceres, the Parent is bound to carry out any work necessary to maintain the infrastructures, as well as to carry out the annual new work schedule and upgrade existing infrastructures. These investments are expected to total 21,681 thousand euros by the end of the agreed term. The result of this commitment totalled 6,740 thousand euros in 2022 (6,075 thousand euros at 31 December 2021).

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The subsidiary Amagua has included in its budget investments estimated at 1,349 thousand dollars (1,265 thousand euros), for the supply and installation of a "GRP or PRFV 800MM PN 10 SN 5000" pipe with an approximate length of 2,230 linear metres, the main objective of which is to connect the future Samborondón DWTP with the drinking water distribution network that supplies the entire sector of Nuevo Samborondón, Samborondón Norte and Sur, in the district of "La Puntilla".

Aguas de Samborondón Amagua C.E.M. signed an agreement on 3 August 2022 to install a pipeline with an approximate length of 2,2 linear kilometres. The agreement has a value of 1,350 thousand dollars (1,266 thousand euros) with a term of 150 days from the date of delivery of the advance payment. Local insurance policies were taken out in favour of Amagua for the good use of the advance payment for a period of 150 days and policies for the faithful fulfilment of the contract for 5% of the agreed price for 150 days until the provisional reception of the work is carried out.

The main objective of the execution of this work is to connect the future drinking water treatment plant of Samborondón with the drinking water distribution network that supplies the entire sector of Nuevo Samborondón, Samborondón norte and sur of the district of La Puntilla.

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h) Individually significant items

Details of individually significant items included in “Concession arrangements, regulated assets”, which relate to the Community of Madrid General Network, are as follows:

In thousands of Euros		
	2022	2021
	Net amount	Net amount
Canals and general pipelines	824,163	842,248
Distribution network	658,151	644,204
WWTP	371,206	358,552
Deposits	204,896	204,486
Lands	189,685	189,629
General buildings	149,500	147,775
DWTP	118,319	118,405
Low voltage transformation and distribution	107,669	108,835
Reusage networks	77,158	78,807
Underground water catchment	16,123	16,268
TOTAL	2,716,870	2,709,209

As of 31 December 2022 and 31 December 2021, there are no individually significant elements in Ibero-America.

i) Totally depreciated assets

The cost of fully amortised intangible assets at 31 December 2022 and 2021 is as follows:

In thousands of Euros		
	2022	2021
Development	190	189
Applications	1,007	1,036
Concessions and Concession agreements	286,098	267,550
Total	287,295	268,775

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j) Lease contracts under IFRS 16

At 31 December 2022, the breakdown and movements of leases subject to IFRS were as follows:

In thousands of Euros					
2022					
	Property, plant and equipment			Other intangible assets	
	Right-of-use Buildings and construction works	Right-of-use Vehicles	Right-of-use Other assets	Right-of-use Software	TOTAL
Cost:					
Balance at 31 December 2021	23,418	17,406	939	91	41,854
Adjustment to the initial balance	(4)	22	-	-	18
Initial balance at 1 January 2022	23,414	17,428	939	91	41,872
Additions	1,762	105	305	-	2,172
Disposals	(50)	(68)	-	-	(118)
Translation differences	(1)	(5)	(15)	(11)	(32)
Cost as of 31 December 2022	25,125	17,460	1,229	80	43,894
Accumulated amortisation:					
Balance as of 31 December 2021	(8,925)	(7,893)	(524)	(42)	(17,384)
Adjustment to the initial balance	-	(1,306)	-	-	(1,306)
Initial balance at 1 January 2022	(8,925)	(9,199)	(524)	(42)	(18,690)
Depreciations (note 26)	(3,041)	(2,993)	(81)	(23)	(6,138)
Disposals	-	66	-	-	66
Translation differences	38	4	13	8	63
Accumulated depreciation at 31 December 2022	(11,928)	(12,122)	(592)	(57)	(24,699)
NET CARRYING AMOUNT AT 31 December 2022	13,197	5,338	637	23	19,195

At 31 December 2022, financial debt associated with right-of-use (lease) assets is as follows:

In thousands of Euros		
2022		
	Non-Current	Current
Lease liabilities:		
Lease payables	14,873	4,971
TOTAL	14,873	4,971

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11. LEASES

a) Operating Leases (Lessee)

The Group's most significant lease agreements capitalised under IFRS correspond mainly to lease arrangements for buildings, commercial offices, garages, warehouses and vehicle fleets.

The amounts paid for right-of-use assets under lease arrangements at 31 December 2022 totalled 6,370 thousand euros (6,367 thousand euros at 31 December 2021).

At 31 December 2022, the financial debt associated with right-of-use assets under lease arrangements amounted to 19,844 thousand euros (23,699 thousand euros at 31 December 2021), and interest accrued in the income statement amounted to 453 thousand euros (494 thousand euros at 31 December 2021).

b) Operating Leases (Lessor)

The Group has leased out various items and infrastructure; specifically, facilities and land where cable installations are authorised, as well as antennas and other facilities leased to telecommunications operators. Most of these contracts have a term of one year.

Future minimum payments receivable under this non-cancellable operating lease are as follows:

	In thousands of Euros	
	2022	2021
Up to a year	2,561	2,426
One to five years	93	1,036
More than five years	288	352
Total	2,942	3,814

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12. INVESTMENTS IN EQUITY-ACCOUNTED ASSOCIATES

Details of equity-accounted associates are included in Appendix III.

The breakdown of the investments in associated companies is as follows:

In thousands of Euros					
2022					
	Balance as of 01/01/2022	Profit/(Loss)	Translation differences	Other	Balance as of 31/12/2022
GSS Venture, S.L.	473	(36)	-	2	439
Avanzadas Soluciones de Acueducto y Alcantarillado SA ESP (ASAA)	-	(1)	1	-	-
Total	473	(37)	1	2	439

In thousands of Euros					
2021					
	Balance as of 01/01/2021	Profit/(Loss)	Translation differences	Other	Balance as of 31/12/2021
GSS Venture, S.L.	468	11	-	(6)	473
Avanzadas Soluciones de Acueducto y Alcantarillado SA ESP (ASAA)	-	(12)	12	-	-
Total	468	(1)	12	(6)	473

The lease agreement came to an end on 17 April 2017, between Compañía de Acueducto y Alcantarillado Metropolitano de Santa Marta (Metroagua) and the Santa Marta District (Colombia) for the provision of the water supply and sewerage service for the city of Santa Marta.

On 21 April 2017, the shareholders of Metroagua approved the company dissolution as a result of not being able to carry out its corporate activities, pursuant to the decision of the Third Administrative Court, which ruled, within the framework of a judicial process (public interest claim), a precautionary measure consisting in handing over the city's entire conduit and sewerage infrastructure to the Santa Marta District.

The Court did not accept the company's arguments enabling the use of the infrastructure to continue after the end of the lease agreement until the District paid all the improvements owed to the public utility company. Given the Court's decision, the company filed the relevant appeals and handed over the infrastructure as ordered.

The report from the liquidator on 31 December 2018, reflected that, on that date, 95% of the labour liabilities, which do not form part of the judicial contingencies, had been addressed, and progress is being made in negotiating the debt with lenders and other providers, the enforceability of which is non-debatable. The judicial processes are ongoing for the other contingencies since most of these are still in the first instance.

In terms of receiving payment from Santa Marta District for improvements to the city's conduit and sewerage infrastructure, which do not go against the rate and which are recognised in the amount of 63,250 million Colombian pesos (14,027 thousand euros), on 8 November 2019 the court of arbitration

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ordered resolution of the conciliation process between Metroagua and the Santa Marta District for an amount of 32 thousand million Colombian pesos. The Ruling cited supposed investments made for the improvement of the conduit and sewerage networks during the execution of the contract signed in 1991.

The company's shareholders are currently considering actions to proceed with the liquidation of the company.

In any event, as indicated in Note 3 (a), losses of an associate attributable to the Group are limited to the extent of its net investment, except where the Group has legal or constructive obligations or when payments have been made on behalf of the associate. Therefore, taking into account the group's legal obligations in this regard, in 2022 and 2021, Metroagua's results did not have an impact on the consolidated income statements as the sum of the interest was impaired at year-end 2015.

At 31 December 2022 and 2021, the value of the interest in Metroagua is fully impaired.

Likewise, in the case of the company Avanzadas Soluciones de Acueducto y Alcantarillado, S.A. E.S.P., although the results in 2022 and 2021 were positive, on 31 December 2017, the value of the equity interest, once the equity method was applied, was negative, the losses registered at year-end are limited to the value of the equity interest, therefore, at 31 December 2022, the equity interest balance is zero euros (zero euros at 31 December 2021). (see note 23)

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13. JOINT OPERATIONS

Information on joint operations in the form of temporary joint ventures is presented in Appendix IV.

Details of items in the statement of financial position and the income statement relating to the different temporary joint ventures, which are proportionately consolidated, are presented below:

2022			
In thousands of Euros			
	UTE Aguas de Alcalá	Others	TOTAL
Non-current assets	14,467	-	14,467
Current assets	3,661	207	3,868
Net Worth	(1,544)	-	(1,544)
Non-current liabilities	(1,227)	-	(1,227)
Current liabilities	(15,358)	(154)	(15,512)
Net turnover	14,722	-	14,722
Supplies	(5,677)	-	(5,677)
Other operating income	42	-	42
Personnel Expenses	(2,669)	-	(2,669)
Other operating expenses	(2,366)	(49)	(2,415)
Amortisations	(1,726)	-	(1,726)
Finance expenses	(835)	-	(835)

2021			
In thousands of Euros			
	UTE Aguas de Alcalá	Others	TOTAL
Non-current assets	16,697	-	16,697
Current assets	4,856	195	5,051
Net Worth	(1,873)	-	(1,873)
Non-current liabilities	(1,391)	-	(1,391)
Current liabilities	(18,288)	(141)	(18,429)
Net turnover	14,535	29	14,564
Supplies	(5,552)	-	(5,552)
Other operating income	32	-	32
Personnel Expenses	(2,527)	-	(2,527)
Other operating expenses	(2,256)	(81)	(2,337)
Amortisations	(1,679)	-	(1,679)
Finance expenses	(746)	-	(746)

The most relevant joint companies where the Group participates in Spain is the UTE Aguas de Alcalá, where the Parent Company has a 50% interest.

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Outside Spain, these are the consortiums in Brazil in which the company Emissão, S.A. participates;

Module Consortium – An “inactive” consortium, the purpose of which is the operation and optimisation of the metering, reading, invoicing and collection system, and operating commercial management and initiatives in the entire CEDAE concession area. The Group has a 73.80% stake in the consortium.

Consortio Magé– An “inactive” consortium , in charge of carrying out the expansion of the Niagara Falls water supply system, in the state of Rio de Janeiro. The Group holds 99.99% of the consortium. Consortio Magé - Active consortium, whose purpose is the execution of the expansion of the Niagara Falls water supply system in the state of Rio de Janeiro. The Group owns 99.99% of the consortium. It is currently inactive.

Río Resolve Consortium – A consortium responsible for the commercial services for the recovery of credits in the entire area of the CEDAE concession. The Group has a 50% stake in the consortium.

Due Fatto Consortium – An “inactiva” consortium in charge of the commercial services for credit recovery covering the areas of Tijuca and Leste, via administrative collection processes, water supply interruption and restoration. The Group has a 79% stake in the consortium.

At present, the Rio Resolve Consortium is the only one active, the rest are inactive.

14. FINANCIAL ASSETS

a) Other financial assets

Details of other financial assets are as follows:

In thousands of Euros				
	2022		2021 ^(*)	
	Non-Current	Current	Non-Current	Current
Associates				
Equity Instruments	82	-	1,155	-
Credits to group and related companies	-	3,086	-	6,109
Non-related				
Equity instruments	68,651	-	67,211	-
Credits to third parties	102,270	10,815	91,020	11,022
Deposits and guarantees	4,541	870	10,262	132
Impairment write-downs	(13,553)	(2,722)	(9,144)	(2,722)
Other financial assets	641	351,093	-	2,169
Total	162,632	363,142	160,504	16,710

(*) Restated information.

Details of loans to group companies are outlined in note 28.

Related companies, Equity instruments includes the companies belonging to Canal Extensia América, S.A. that are outside the scope of consolidation.

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Non-related companies, equity instruments includes the investment in Triple A de Barranquilla, amounting to 65,524 thousand euros and the investment held by Emissão in Vale S.A. - Debêntures, the cost of which amounts to 1,914 thousand euros (1,686 thousand euros in 2021) and which is impaired in the amount of 1,876 thousand euros (1,653 thousand euros in 2021). The maturity of this investment is undetermined. Related parties includes Emissão's shareholdings in these entities with Consortia, amounting to 1,213 thousand euros, which are fully impaired.

This investment has an indefinite maturity date.

In thousands of Euros				
2022				
Type	Year of maturity	Face value	Non-current	Current
For works performed for City Councils	2050	108,584	70,882	7,626
For disposal of fixed assets	2009	2,722	-	2,722
For regeneration works	2040	176	115	7
TJV Loan- Alcalá de Henares City Council	2029	2,407	1,896	370
Other loans Emissão, S.A.	Miscellaneous	29,300	29,300	-
Other loans Canal Extensia América, S.A.	Miscellaneous	90	-	90
Other loans AAA Dominicana, S.A.	Miscellaneous	-	-	-
Personnel credits	Miscellaneous	77	77	-
Total		143,356	102,270	10,815

In thousands of Euros				
2021				
Type	Year of maturity	Face value	Non-current	Current
For works performed for City Councils	2050	98,090	64,490	7,899
For disposal of fixed assets	2009	2,722	-	2,722
For regeneration works	2040	189	122	8
TJV Loan- Alcalá de Henares City Council	2029	2,777	2,223	370
Other loans Emissão, S.A.	Miscellaneous	24,248	24,248	-
Other loans AAA Dominicana, S.A.	Miscellaneous	23	-	23
Personnel credits	Miscellaneous	94	94	-
Total		128,143	91,177	11,022

As of 31 December 2022, Emissão has long-term receivables of 29,300 thousand euros (31 December 2021: 24,091 thousand euros) relating to accounts receivable, most of which were claimed in court during 2018 and 2019. Based on the opinion of the Parent Company's legal advisors, although the probability of success and collection is high, the time frame for resolution is between two and seven years.

Within the Loans for works performed for City Councils, collection rights of the Parent Company against certain City Councils are registered, arising out of infrastructure works destined to distribution and sewerage services performed in their municipalities. The main loans granted in 2022 amounted to 27,426

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thousand euros (18,562 thousand euros in 2021). These balances are generally settled through customer bills, and a total amount of 17,587 thousand euros was received in 2022 (17,107 thousand euros in 2021).

Additionally, non-current and current loans include 1,896 and 370 thousand euros respectively (2,223 and 370 thousand euros non-current and current in 2021), for 50% of the amounts owned by the City Council of Alcalá to the JV Aguas de Alcalá for the concession deficit for the 2005-2015 period.

The majority of these receivables from town and city Councils are recognised at amortised cost, considering the period over which each balance is expected to be recovered. Value adjustments for non-current impairment reflects unrecoverable receivables from these councils under the terms of the corresponding agreements.

As a result of the interim measures regarding the suspension of the right of alienation, sequestration and embargo of eighty-two per cent (82%) of Triple A's equity whose holder Canal Extensia América, S.A. (formerly INASSA) issued by Colombia's Prosecution Office, the Canal de Isabel II, S.A. Group lost control of that company, as explained in Note 1, and the Group deconsolidated the investment. In accordance with IFRS 10 "Consolidated Financial Statements", on 3 October 2018, when it lost control of the company, the Canal de Isabel II Group ceased to consolidate the assets, liabilities and non-controlling interests corresponding to Triple A de Barranquilla and transferred the translation differences corresponding to the Company to profit and loss. At 31 December 2018, the net assets of liabilities corresponding to Triple A de Barranquilla amounted to 85,643 thousand euros and the non-controlling interests amounted to 20,118 thousand euros. The accumulated negative translation differences in the equity amounted to 17,745 thousand euros. Likewise, under the heading "Financial assets" the Company recognised an investment in Triple A de Barranquilla for an amount of 65,525 thousand euros, with no movement in 2022.

In accordance with the standard, the investment had to be booked at fair value. When control of the investment was lost, an independent expert was asked to estimate fair value with a view to supplementing the internal measurements made by the Parent Company. Given that Triple A de Barranquilla is an investment in equity instruments without a quoted market price, the valuation is of level 3 (that is, that it cannot be compared to a specific reference of the market), and market conditions and conservative valuation criteria have been used in the light of the current environment of uncertainty, thus obtaining a considerably higher amount with regard to its net carrying amount. Regardless, given the current situation of the equity share, the Group's management that there is no market to sell the equity that will allow to establish the reasonableness of the estimated amount by the estimation made by the independent expert.

Subject to IFRS 9 (5.7.5), in its initial recognition, the Group argues that any modification that may arise in the fair value will be included within other comprehensive income which, while falling within the scope of this Standard, is not held to negotiate and neither is a contingent consideration recognised by a purchaser in their business combination under IFRS 3.

The impact of deconsolidation in 2018 was a decrease in assets of 194,501 thousand euros and a decrease in liabilities of 128,976 thousand euros.

Moreover, the income statement submitted by Triple A de Barranquilla during fiscal year 2018 to the consolidated income statement amounted to 10,868 thousand euros.

The breakdown of the assets and liabilities and non-controlling interests of Triple A de Barranquilla, recorded in the consolidated balance sheet of Canal de Isabel II S.A. and that have been disposed of are presented together with the information at 31 August 2018.

There were no changes to the value of the holding. Due to the current situation (Note 23), Management has no further information with which to estimate the fair value of the investment.

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b) Deposits and guarantees

“Deposits and guarantees” mainly reflect amounts deposited with the General Directorate of the Treasury and Financial Policy of the Regional Ministry of Economy and Finance of the Regional Government of Madrid in relation to compulsory purchase proceedings. On completion of the compulsory expropriation process, these amounts will be included within the Parent’s intangible assets.

c) Impairment write-downs

The amount of current impairment write-downs relates to the disposal in 2007 of the parent company's interest in the share capital of Global Sales Solutions Line, S.L. for 4,234 thousand euros, with 2,722 thousand euros reflected in the consolidated statement of financial position under other financial assets in current assets, corresponding to the remaining amount receivable, which has been provided for as it was not collected on the agreed date and there are reasonable doubts as to its recovery.

The amount of non-current "Impairment write-downs" at 31 December 2022 relates to Emissão, S.A. in the amount of 5,959 thousand euros (3,276 thousand euros in 2021) in respect of long-term customer balances corresponding to the Prefecture of Embasa, CEDAE, Vasauras and Resende in Emissão.

The changes in impairment accounts are as follows:

	In thousands of Euros	
	2022	2021
Balance as of 1 January	(11,866)	(11,799)
Translation differences	(586)	(44)
Impairment reversals	-	-
Impairment losses	(3,823)	(23)
Balance as of 31 December	(16,275)	(11,866)

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15. INVENTORIES

a) General

Inventories primarily comprise the materials necessary for the use and replacement of the supply network, as well as reagents for the treatment process. Details of "Inventories" are as follows:

	In thousands of Euros	
	2022	2021(*)
Production and Distribution Business		
Trade	818	1,884
Materials	1,974	1,826
Chemical reagents	994	959
Other supplies	4,347	4,164
Long-cycle and short-, cycle emission allowances	3,663	3,452
Impairment write-downs	(470)	(460)
Total	11,326	11,825

(*) Restated information.

Impairment adjustments are due to wastage, defects, deterioration, unauthorised or unregulated materials and prolonged storage of unused items. In financial year 2022 the valuation adjustments have increased by 10 thousand euros compared to the previous year (210 thousand euros in 2021 compared to 2020).

The Group has subscribed several insurance policies covering those risks goods are subject to. The coverage of these policies is considered reasonable.

b) Emission allowances

The sum of emission allowances recognised as raw materials and other supplies is as follows:

	In thousands of Euros	
	2022	2021
Short-cycle emission allowances	3,663	3,452
Long-cycle emission allowances	-	-
TOTAL	3,663	3,452
Impairment write-downs	-	-
TOTAL	3,663	3,452

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Changes in emission allowances were as follows:

	In thousands of Euros	
	2022	2021
Cost at 1 January	3,452	3,740
Onerous additions	3,800	2,000
Freely acquired assets (see Note 17 (a))	3,807	-
Disposals due to application	(7,396)	(2,288)
Disposals due to derecognition	-	-
TOTAL	3,663	3,452

In the financial year 2022, the Parent Company has granted rights amounting to 7,396 thousand euros (2,288 thousand euros in 2021) to the Public Administration, of which 4,232 thousand euros (2,177 thousand euros in 2021) have been applied against the Provision for emission allowances. At 31 December 2022, the emission allowances pending delivery amount to 3,663 thousand euros (3,452 thousand euros in 2021).

Details of the emission allowances acquired during the validity period of the trade period and the annual distribution thereof, are as follows:

2022		
	Number of rights	In thousands of Euros
Free	44,283	3,807
Remunerated	45,067	3,800
Total	89,350	7,607

2021		
	Number of rights	In thousands of Euros
Free	-	-
Remunerated	33,675	2,000
Total	33,675	2,000

In 2022, the Parent Company was assigned 44,283 free emission allowances for the programme of the period (2021-2030).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR 2022

16. TRADE AND OTHER RECEIVABLES

Details are as follows:

	In thousands of Euros	
	Current	
	2022	2021(*)
Customers	194,655	198,393
Miscellaneous debtors	51,974	53,445
Personnel	113	110
Other credits with Public Administrations	14,771	4,546
Impairment write-downs	(46,856)	(50,870)
Total	214,657	205,624

(*) Restated information.

Trade receivables mainly include receivables from customers for amounts billed in relation to the Group's principal activity.

It also includes receivables of various Group companies from the company Metroagua in liquidation amounting to 819 thousand euros (1,261 thousand euros in 2021).

The heading "Sundry debtors" includes the debt of Aguas de Alcalá, UTE for water treatment, 586 thousand euros (624 thousand euros in 2021) and the debt of Canal de Isabel II (Public Entity), 145 thousand euros (257 thousand euros in 2021).

The relationship between Madrid City Council and the Parent Company, established by an Agreement, dates back to 1972. A new agreement was signed on 19 December 2005 that took effect on 1 January 2006. This was automatically extended for a period of 50 years in accordance with the agreement signed on 4 May 2011 for the inclusion of Madrid City Council in Canal de Isabel II's future management model. This Agreement defines the terms of the relationship between the Parent Company and the City Council with regard to water supply to the city of Madrid, based on Law 17/1984 of 20 December, which regulates water supply and sanitation in the Region of Madrid. This agreement determines both the financial aspects of this relationship and those relating to the planning, construction, maintenance and renovation of water use networks and the use of the water supply. The financial aspects of the 2005 Agreement stipulated that receivables and payables between the Parent Company and the City Council would be settled by offsetting balances.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR 2022

The changes in impairment accounts are as follows:

In thousands of Euros		
	2022	2021
Balance as of 1 January	(50,870)	(49,073)
Allowances	-	-
Applications	6,187	3,432
Surplus	-	-
Additions	(131)	-
Impairment losses	(5,705)	(6,430)
Impairment reversals	3,112	1,210
Transfers (note 14)	596	-
Translation differences	(45)	(9)
Balance as of 31 December	(46,856)	(50,870)

Impairment adjustments include accounts receivable that various Group companies (Canal Extensia América, S.A. and Amerika Tecnología y Servicios, S.A.S.) maintain with Metroagua.

17. OTHER NON-FINANCIAL ASSETS

Details of other assets at 31 December are as follows:

In thousands of Euros				
	2022		2021 ^(*)	
	Non-current	Current	Non-current	Current
Prepaid expenses	64,080	5,733	65,702	5,221
Other financial assets	7,785	-	819	-
Total	71,865	5,733	66,521	5,221

(*) Restated information.

Details of prepayments are as follows:

In thousands of Euros				
	2022		2021 ^(*)	
	Non-current	Current	Non-current	Current
Seniority asset prepaid expenses	62,120	5,070	63,704	4,569
Long-service bonus asset prepaid expenses	1,960	283	1,998	355
Prepaid expenses	-	380	-	297
Total	64,080	5,733	65,702	5,221

(*) Restated information.

“Current advances” includes payments made in the financial year, corresponding primarily to costs for fees in the year 2022.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR 2022

Within the companies registered abroad, prepaid expenses mainly correspond to Aguas de Samborondón AMGUA-C.E.M. in the amount of 134 thousand euros due to prepaid insurance to cover property and equipment with a one-year maturity period.

“Long-service bonus asset prepaid expenses” reflects the deferred premium paid to an insurance company in respect of an insurance policy for the accrual of early settlements of long-service bonuses, in accordance with the Collective Bargaining Agreement, in a single-payment of 5,833 thousand euros. (See Note 3(o))

These prepayments are taken to income as the premium in question is accrued. An amount of 354 thousand euros was accrued in 2022 (528 thousand euros in 2021) (see note 26 (d)). Additionally, in 2022 an amount of 237 thousand euros was recognised in relation to the financial update of this item (266 thousand euros in 2021).

“Seniority asset prepaid expenses” reflects the deferred premium paid to an insurance company, totalling 57,108 thousand euros, in respect of a risk insurance policy for early settlement of the seniority payments, recognised in financial years prior to 2011..

The insurance company undertakes to pay the insured parties a temporary actuarial annuity without reversal until they retire, or until the termination date of their contract for temporary staff. This annuity is subject to an annual growth rate of 1.2%. In the financial year 2022, 4,402 thousand euros were paid in respect of this item to employees of Canal de Isabel II S.A. (3,900 thousand euros in 2021).

These accruals are allocated to profit or loss as accrued. A sum of 4,402 thousand euros was accrued in 2022 (3,900 thousand euros in 2021) (see Note 26 (d)). Additionally, in 2022 an amount of 3,827 thousand euros was recognised in relation to the financial update of this item (3,873 thousand euros in 2021).

18. CASH AND CASH EQUIVALENTS

The breakdown of the heading "Cash and other equivalent liquid assets" is the following:

	In thousands of Euros	
	2022	2021(*)
Cash and banks	231,839	525,324
Short-term debts with credit institutions	333	340
Total	232,172	525,664

(*) Restated information.

Cash on deposit at banks reflects the aggregate of each of the companies forming the consolidated Group, with 225,869 thousand euros corresponding to Canal de Isabel II, S.A., M.P. (508,433 thousand euros in 2021).

The full cash balance is available for use in Group activities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR 2022

19. NET EQUITY

Details of equity and movement during the year are shown in the consolidated statement of changes in equity.

a) Share capital

The Parent was incorporated on 27 June 2012 through the issue of 1,074,032,000 ordinary shares of Euro 1 par value each, which were subscribed and fully paid in by the Public Entity by way of the non-monetary contribution of the activity described in note 2. All of the shares have the same voting and profit sharing rights and can be freely transferred where permitted by law. None of the shares are listed on any stock exchange.

On 30 November 2012 the Public Entity, fulfilling the obligation assumed in the Agreements of Inclusion in the Management Model signed with the majority of local councils in the Region of Madrid, authorised the conveyance to those Councils of the shares in the Company corresponding to each local authority, following the established criteria on this matter. At 31 December 2022 and 2021 these local Councils hold 17.60% of the Parent's share capital.

The transferral of these shares is subject to Laws 3/2008 and 6/2011 and to the terms of the Agreements of Inclusion in the Management Model signed with local councils in the Community of Madrid.

As at 31 December 2022 and 2021, holdings above 10% are as follows:

Entities	No. of shares	Share percentage
Canal de Isabel II Public Entity	884,997,643	82.40
City council of Madrid	107,403,200	10.00

b) Share premium

The shares were issued with a share premium of Euro 1 per share, i.e., a total amount of 1,074,032,000 thousand euros. The Public Entity paid in this share premium when it paid in the share capital through the non-monetary contribution described in note 2. This reserve is freely distributable provided that, as a result of its distribution, the equity value of the Parent Company does not fall below the amount of its share capital.

c) Other reserves:

(i) Legal Reserve

Allocations to the Parent Company's Legal Reserve in 2021 amounted to 19,455 thousand euros, corresponding to the allocation of profit in 2021, in accordance with Article 274 of the Corporate Enterprise Act, which establishes that, in any case, an amount equivalent to 10% of the profit for the financial year will be earmarked for the Legal Reserve until it reaches at least 20% of share capital.

This reserve, provided that it does not exceed the limit specified above, may only be used to offset losses if no other reserves are available for this purpose.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR 2022

At 31 December 2022, the Parent has appropriated 210,302 thousand euros to this reserve (192,979 thousand euros at 31 December 2021), included under other reserves.

(ii) Incorporation expenses

Expenses arising from the incorporation of the Parent Company amount to 245 thousand euros.

d) Accumulated gains

At 31 December 2022, the Group includes the following under this heading:

- 492,493 thousand euros from the balance at the beginning of the year.
- The following movements, for a total negative amount of 123,438 thousand euros, broken down as follows:
 - Dividends: Interim dividend movement for a negative amount of 93,174 thousand euros and final dividend movement for a negative amount of 10,577 thousand euros corresponding to the Parent Company, arising from the result of the previous year.
 - Legal reserve: Movement in the legal reserve allocated by the parent company, arising from the result for the previous year, for a negative amount of 17,323 thousand euros.
 - Reserves of subsidiaries: Movements in reserves for the financial year 2022, amounting to 972 thousand euros.
 - Reserves relating to the Parent Company: For a negative amount of 3,334 thousand euros.
- Results attributable to the Group for the year 2022, amounting to 115,092 thousand euros.

The final balance under this heading at 31 December 2022 is 484,147 thousand euros.

The breakdown of changes in reserves is the following:

- By of the Parent Company:
 - Negative amount arising from the recognition of the amounts payable under the Parent Company's Pension Plan for regularisations between 2014 and 2018 of the remeasurements of the Plan's commitments in accordance with the specific conditions of the Plan, amounting to 1,512 thousand euros.
 - Negative amount of 1,822 thousand euros relating to the surcharge resulting from the late payment of consumption advance deposits.
- By the Group:
 - Adjustments to results for the previous year amounting to 2,312 thousand euros.
 - Adjustments for additions and disposals of negative reserves amounting to 69 thousand euros.
 - Balance from the merger of Hidráulica Santillana amounting to 13 thousand euros.
 - Negative adjustment for application of IFRS-16 of 1,284 thousand euros.

Voluntary reserves are freely distributable, provided that, as a result of their distribution, the value of the equity of each company does not fall below the amount of its share capital.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR 2022

e) Translation differences

Details of translation differences are as follows:

Company	In thousands of Euros	
	2022	2021(*)
Canal Extensia América, S.A.	(8,758)	(6,446)
Gestus Gestión & Servicios S.A.S.	(1,251)	(1,199)
AAA Dominicana, S.A.	(722)	(794)
AAA Ecuador Agacase, S.A.	366	103
Amerika Tecnología y Servicios, S.A.S.	(319)	(256)
Soluciones Andinas de Aguas, S.R.L.	9,170	15,915
Emissão, S.A.	(4,422)	(3,778)
Total	(5,936)	3,545

(*) Restated information.

f) Distribution of profits/loss

The profits directly attributed to equity cannot be directly or indirectly distributed.

The distribution of the Parent's profit for the year ended 31 December 2021, approved by the shareholders at their Annual General Meeting held on 26 May 2022, was as follows:

Euro	
Base for distribution	
Financial year profit	173,230,628.52
Distribution	
Legal reserve	17,323,062.85
Voluntary reserve	52,156,831.42
Interim dividend	93,173,630.18
Complementary dividends	10,577,104.07
Total	173,230,628.52

The Board of Directors of the Parent Company, on 21 December 2022, agreed to distribute an interim dividend of 61,754,644.67 euros for 2022, calculated as 0.05749 euros per share.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR 2022

The provisional accounting statement formulated by the Board of Directors on 21 December 2022 in accordance with legal requirements and which evidenced sufficient liquidity for the distribution of said dividend is provided below:

	In thousands of Euros 2022
Forecast of distributable profits for 2022:	
Forecast net profit(loss) from tax up to 31.12.2022	123,509
Less required allocation to Legal Reserve	(12,351)
Estimated distributable profit for 2022	111,158
Interim dividend distributed	61,755
Treasury forecast for the period 1 November 2022 to 01 November 2023:	
Cash balances at 01 November 2022	642,427
Projected collections	1,071,425
Projected payments, including interim dividend	(1,275,977)
Projected treasury balance as of 1 November 2023	437,875

The aforementioned accounting statement also shows that the amount agreed as interim dividend payment for the 2022 financial year does not exceed the results obtained since the end of the last financial year, less (i) losses from previous years, (ii) the amounts required by Law or by the bylaws to be appropriated to reserves, as well as (iii) the estimated corporate income tax payable on these results.

The resolution provides that the distribution shall be made to shareholders in proportion to their paid-up share capital and shall be payable as from the day following the adoption of the resolution, within eight working days of receipt of a written communication from the shareholder indicating their interest in receiving payment of all or part of the amounts payable to them as interim dividends, and in any event not later than twelve months from the date of the resolution of the Board of Directors to distribute them.

If, by 21 December 2023, the Parent Company had not received any communication from any shareholder requesting the payment of the corresponding amounts for the interim dividends, the Parent Company, within a maximum term of two working days, must proceed with the payment of the pending amount to said shareholder or shareholders.

It is also stated for the record that the conditions set forth in articles 273 to 277 of the Spanish Companies Act are to be observed in this distribution.

The proposed distribution of the Parent Company's 2022 profit to be submitted to the shareholders for approval at their Annual General Meeting is as follows:

	Euro
Base for distribution	
Financial year profit	125,390,522.06
Distribution	
Legal reserve	4,503,949.37
Voluntary reserve	47,852,433.19
Interim dividend	61,754,644.67
Complementary dividends	11,279,494.83
Total	125,390,522.06

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR 2022

g) Non-controlling interest

Non-controlling interests Details of non-controlling interests by company are as follows:

Company	Thousands of Euros	
	2022	2021(*)
Canal Extensia América, S.A.	(2,331)	(2,239)
Gestus Gestión & Servicios S.A.S.	114	164
AAA Dominicana S. A	(358)	425
AAA Ecuador Agacase S.A.	5,117	3,888
Amerika Tecnología y Servicios, S.A.S.	100	107
Soluciones Andinas de Aguas, S.R.L.	(4,013)	(3,682)
Emissão, S.A.	(5,848)	(2,761)
Total	(7,219)	(4,098)

(*) Restated information.

The movements in the heading of non-controlling interest have been as follows:

	Thousands of Euros	
	2022	2021(*)
Balance as of 1 January	(4,098)	(731)
Adjustments to prior years' profit/loss	528	(125)
Share in profit/loss	(2,732)	(3,426)
Other movements	(26)	(13)
Exchange rates variation	(699)	352
Dividends paid	(192)	(155)
Balance as of 31 December	(7,219)	(4,098)

(*) Restated information.

h) Capital management

The Group manages its capital with the aim of safeguarding its capacity to continue operating as a going concern, so as to continue providing shareholder remuneration and benefiting other stakeholders, while maintaining an optimum capital structure to reduce the cost of capital.

The Group formed by Canal de Isabel II, S.A., M.P. and subsidiaries controls its capital structure on a gearing ratio basis. This ratio is calculated as net debt divided by total capital. Net debt is the sum of financial debt less cash and cash equivalents.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR 2022

Ratios in 2022 and 2021 are calculated as follows:

	Thousands of Euros	
	2022	2021 ^(*)
Long-term debts with financial institutions (note 20)	85	593
Short-term debts with financial institutions (note 20)	982	1,313
Long-term debts with group and associated companies (note 20)	182,143	196,905
Short-term debts with group and associated companies (note 20)	14,777	15,013
Long-term debts for bond issues and other marketable securities	500,000	500,000
Short-term debt for bond issues and other marketable securities (see note 20)	-	-
Financial debt	697,987	713,824
Less Cash and cash equivalents (note 18)	(232,172)	(525,664)
Net financial assets	465,815	188,159
Plus interest for short-term debts with credit institutions (note 20)	3	5
Plus other debts with Group and associated companies (note 20)	1,088	1,170
Plus interests for debentures and other marketable securities (Note 20)	7,111	7,111
less amortised cost debentures	(438)	(640)
Net Debt (ND)	473,579	195,805
Net Equity	2,767,358	2,739,564
Adjusted debt-to-equity ratio	0.17	0.07

(*) Restated information.

20. FINANCIAL DEBT

Details of financial liabilities are as follows:

	Thousands of Euros			
	2022		2021 ^(*)	
	Non-current	Current	Non-current	Current
Debt with credit entities	85	985	593	1,318
Debts with Group and associated companies (note 28)	182,143	20,350	196,905	21,318
Other financial liabilities	110,319	63,342	108,704	58,033
Financial liabilities for issuing bonds and other marketable securities	499,562	7,111	499,360	7,111
	792,109	91,788	805,562	87,780

(*) Restated information.

At 31 December 2022, the payment agreement with Banco de Santander has a balance payable of 2,484 thousand Brazilian reais (446 thousand euros) and accrued interest of 530 thousand Brazilian reais (95 thousand euros). At 31 December 2021, the balance payable was 4,029 thousand Brazilian reais (637 thousand euros) and accrued interest of 117 thousand Brazilian reais (19 thousand euros).

In 2022 and 2021 the Parent has repaid all loans and borrowings from financial institutions.

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Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR 2022

a) Debt with credit institutions

This line item includes the bank loans and borrowings detailed below, as well as credit facilities:

Thousands of Euros							
2022							
COMPANY	ORIGINAL SUM	TRANSACTION	MATURITY DATE	ANNUAL INTEREST RATE	CURRENT	NON-CURRENT	TOTAL
SUBGROUP CANAL EXTENSIA AMERICA, S.A.							
Emissão, S.A.	4.6 MBRL	Ordinary	30 December 2023	16.77 %	395		395
Amagua-CEM	2,20 MM USD	Ordinary.	Miscellaneous	Fixed, between 8.30% and 8.95%	543	85	628
Fontes da Serra	407 m BRL	Ordinary	31 January 2023	29.84 %	12		12
Total					950	85	1,035

In thousands of euros							
2021 ^(*)							
COMPANY	ORIGINAL SUM	TRANSACTION	MATURITY DATE	ANNUAL INTEREST RATE	CURRENT	NON-CURRENT	TOTAL
SUBGROUP CANAL EXTENSIA AMERICA, S.A.							
Emissão, S.A.	4.5 m BRL	Ordinary	22 April 2022	16.77 %	572	-	572
Amagua-CEM	3,25 MM USD	Ordinary.	Miscellaneous	Fixed, between 8.30% and 8.95%	730	593	1,323
Fontes da Serra	403 m BRL	Ordinary	31 March 2022	29.84 %	11	-	11
Total					1,313	593	1,906

(*) Restated information.

Details of the Parent's credit facilities and drawdowns at 31 December are as follows:

Entity	Thousands of Euros			
	2022		2021	
	Credit limit	Sum used	Credit limit	Sum used
CaixaBank	15,000	-	15,000	-
HSBC	10,000	-	10,000	-
Bankinter	6,000	-	6,000	-
Unicaja Banco	-	-	-	-
Bankia	-	-	-	-
Ibercaja	10,000	-	10,000	-
Santander	21,000	-	21,000	-
Cajamar	-	-	-	-
Sabadell	6,000	-	6,000	-
Liberbank	-	-	-	-
Abanca	20,000	-	20,000	-
Eurocaja Rural	6,000	-	6,000	-
Banco Caminos	-	-	-	-
BNP	10,000	-	10,000	-
TOTAL	104,000	-	104,000	-

These credit facilities expire in December 2023, since they require annual authorisations from the Board of Directors and from the Department of Finance and Public Administration of the Region of Madrid.

b) Debts with Group companies

Debt with group companies primarily reflect the Company's debt with the Public Entity (mirror debt) obligation to repay the 197,993 thousand euros (212,837 thousand euros in 2021) of the financing contracts arranged between the Parent Company and the financial institutions (see note 2).

c) Other financial liabilities

The heading "Other financial liabilities" includes 5,492 thousand euros payable to Sociedad Estatal Aguas de las Cuenas de España, S.A. for the works carried out in the Guadarrama Well Field and the Second Ring (8,082 thousand euros in 2021), of which a sum of 4,089 thousand euros has been recognised as current (5,277 thousand euros in 2021). These amounts correspond solely to the Parent Company.

Moreover, in 2022, under the heading "Other financial liabilities" a sum of 425 thousand euros (1,563 thousand euros in 2021) was written off in respect of trade payables that have expired, in accordance with Law 42/2015 of 15 October, which amends the statute of limitations for personal actions established in the Civil Code. (See Note 25 (b))

This item also includes security deposits amounting to 77,678 thousand euros (76,766 thousand euros in 2021) in the form of advance payments for water use received from customers to guarantee compliance with the financial terms of the supply contract (advances for water use). These amounts fall due when the corresponding contracts are cancelled. The difference between the amount initially received and the amount reimbursed on maturity is recognised under other liabilities.

This heading includes finance lease liabilities pursuant to IFRS 16 amounting to 19,844 thousand euros (23,699 thousand euros in 2021).

This item also includes payables to fixed asset suppliers, which amounted to 34,797 thousand euros at 31 December 2022 (26,018 thousand euros in 2021).

This heading also reflects an 8,921 thousand euros (12,820 thousand euros in 2021) dividend payable by the Parent to certain shareholders at 31 December 2022. (See note 19)

“Other financial liabilities” mainly reflects the financed amounts including interest on payables to the Public Administration of Emissão, S.A., which, at 31 December 2022, amount to 16,838 thousand euros (12,853 thousand euros in 2021). At 31 December 2022, this debt has accrued interest for the sum of thousand 1,406 thousand euros (5,893 thousand euros in 2021).

Additionally, Emissão, S.A. has a payment agreement with Banco Santander, of which 260 thousand euros were drawn down at 31 December 2022. Balance available at 31 December 2022 amounting to 395 thousand euros.

d) Finance lease liabilities

Adoption of IFRS 16. (See note 10)

e) Financial liabilities from issuing bonds and other marketable securities

On 26 February 2015 the Parent Company successfully finalised the conditions of a 500 million euros issue of ordinary unsubordinated bonds maturing in the year 2025. The bonds will pay an annual coupon of 1.68%.

In 2022, accrued interest payable by the Parent Company totalled 8,400 thousand euros, of which, 7,111 thousand euros is pending payment at 31 December 2021 (8,396 and 7,111 thousand euros, respectively, in 2021). The maturity of the interest is established for February 2023.

The arrangement fees for these bonds amounted to 2,025 thousand euros, of which 203 thousand euros (202 thousand euros in 2021) was charged to the income statement in 2022. These arrangement fees are recognised at 438 thousand euros under other non-current liabilities (640 thousand euros in 2021).

The fair value of the bond reporting date was 482,473 thousand euros (528,515 thousand euros at year-end 2021), based on the quoted price on the Spanish Fixed Income Market (AIAF).

21. GOVERNMENT SUBSIDIES

Movement in the years ended 31 December 2022 and 2021, is as follows:

	Thousands of Euros	
	2022	2021
Balance as of 1 January	761,574	756,386
Subsidies granted during the year	26,051	22,377
Transfer to the Consolidated Income Statement	(21,437)	(17,366)
Translation differences	93	116
Net tax effect	1	1
Other movements	-	60
Balance as of 31 December	766,282	761,574

This item line of the consolidated statement of financial position mainly contains the Parent company's subsidies subject to the following breakdown:

The contribution of the Cohesion Fund to the set of projects entitled "River Basin Clean-ups and Extension of Madrid Treatment Plants", for a total of 22,816 thousand euros, of which 6,412 thousand euros are pending recognition in profit and loss (6,584 thousand euros in 2021). This Cohesion Fund assistance was approved by the Commission of European Communities on 13 October 1997.

The 14,215-thousand-euro Cohesion Fund contribution to the project for the "Tagus Basin Clean-up 2001, Group III", of which 7,988 thousand euros is pending release to profit and loss (8,190 thousand euros in 2021). This grant was approved by the Commission of the European Communities on 18 December 2001.

The Cohesion Fund contribution to the "Tagus Basin Clean-up 2001, Group II" project, totalling 51,102 thousand euros. This grant, of which 24,333 thousand euros is pending release to profit and loss, was approved by the Commission of European Communities on 26 March 2002 (24,950 thousand euros in 2021).

The 12,338 thousand euros Cohesion Fund contribution to the project for the "Tagus Basin Clean-up 2002", of which 6,072 thousand euros is pending release to profit and loss (6,226 thousand euros in 2021).

The contribution from the European Regional Development Fund under the remit of the Single Programming Document objective 2 (2000-2006); measure 2.1 "Improvement of current infrastructures and water supply to the general population and economic and water sanitation and treatment activities" totalling 65,090 thousand euros. This grant was awarded on 7 March 2001. 38,098 thousand euros of the total balance is yet to be taken to income (39,052 thousand euros in 2021).

The contributions from the European Regional Development Fund's CAM 2007-2013 Operational Programme amounting to 2,719 thousand euros are aimed at ongoing research and innovation or energy efficiency and savings projects. The ERDF's CAM 2007-2013 Operational Programme was approved on 14 December 2007. 1,287 thousand euros of this amount have yet to be taken to profit and loss (1,333 thousand euros in 2021).

The contributions from the European Regional Development Fund's CAM 2014-2020 Operational Programme amounting to 4,069 thousand euros, aimed at renewable energy and energy efficiency projects. The ERDF's CAM 2014-2020 Operational Programme was approved on 14 July 2015. 3,813 thousand euros of this amount have yet to be taken to profit and loss (3,901 thousand euros in 2021).

Contributions from the European Regional Development Fund of the React EU Operational Programme, amounting to 4,343 thousand euros, aimed at Solar Plan projects, of which 1,174 thousand euros have been received in 2022. The ERDF's React EU Operational Programme was approved on 17 February 2021. 4,343 thousand euros of this amount are pending transfer to profit and loss.

Cohesion Fund contributions of 28,386 thousand euros to the project entitled "Treatment unit for sludge generated by wastewater treatment plants: composting and thermal-drying plant with electrical cogeneration - Loeches-Madrid". This Cohesion Fund assistance was approved by the Commission of European Communities on 20 December 2006. 20,229 thousand euros is pending transfer to the income statement (20,742 thousand euros in 2021).

Cohesion Fund contributions to the "Clean-up and treatment of the La Reguera River Basin" project, totalling 14,611 thousand euros. This Cohesion Fund assistance was approved by the Commission on 19 November 2003. 10,095 thousand euros has yet to be taken to income (10,350 thousand euros in 2021).

The Spanish Energy Diversification and Saving Institute (IDEA) has financed five projects through the Regional Government of Madrid, contributing 2,739 thousand euros to the first project, 164 thousand euros to a second project, which were reimbursed in full in 2013, 831 thousand euros to a third project, 103 thousand euros to a fourth project (fully repaid) and 770 thousand euros to a fifth project. The first, third and fifth projects are being repaid and the amount yet to be recognised in profit or loss is 2,613 thousand euros (2,732 thousand euros in 2021).

The contributions received from the European Union for the financing of R&D&i projects (Life projects) approved in 2019 for the improvement in wastewater treatment processes amounting to 237 thousand euros, which are pending to be taken to income.

Contributions received from the United Nations IN-Habitat agency relating to the project WOP approved in 2022 between the Parent Company and Sedapal, S.A. for the use of wastewater as an effective tool in the fight against climate change through reclaimed water and against COVID-19 through its early detection in the sewerage network, amounting to 117 thousand euros, of which 83 thousand euros are pending allocation to profit or loss.

The contributions received from the European Union for the financing of R&D+i project "Horizon Europe intoDBP" for reduction and control of disinfecting products amounting to 47 thousand euros, which are pending allocation to profit or loss.

The balances incorporated in the merger with the Group company, Hidráulica Santillana, S.A.U. relating to the amounts received by the latter from the European Regional Development Fund for the construction of the Pinilla and El Atazar plants (1993 and 1994) and the remodelling of the Torrelaguna plant (1995), amounting to 304 thousand euros, net, of which 297 thousand euros are pending allocation to profit or loss.

The value of 90,018 thousand euros attributed to facilities assigned to the Parent by various town councils. As of 31 December 2022, 5,621 thousand euros is pending transfer to the income statement (5,767 thousand euros in 2021).

The amounts received from new water utility customers for hook-up rights and pipeline adaptation and extension totalling 963,109 thousand euros (942,312 thousand euros in 2021). At 31 December 2022, 614,489 thousand euros are pending transfer to profit and loss (607,527 thousand euros in 2021).

The right-of-use value not repayable to the Tagus Hydrographic Confederation for the Picadas – Valmayor pipeline, amounting to 19,761 thousand euros (19,761 thousand euros in 2021) was recognised in 2019. As of 31 December 2022, 18,368 thousand euros is pending transfer to the income statement (18,833 thousand euros in 2021).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR 2022

The Subsidiary Amagua CEM entered into two agreements with third parties to provide the company with funds for the construction of:

- Wastewater treatment plant in Los Arcos sector, funded in 2006 with 131.7 thousand dollars (116.3 thousand euros).
- Construction, adaptation and commissioning of the wastewater treatment plant for Urbanización Rinconada del Lago, funded in 2012 with 150 thousand dollars (132.4 thousand euros).

In both cases the amounts were non-refundable.

Details of the main subsidies received in 2022 and 2021 are as follows:

In thousands of Euros			
2022			
Awarding organisation	Amount	Purpose	Award date
European Office for Climate Change (Ministry of Environment)	3,807	Co2 emissions	26/02/22 and 08/04/22
United Nations (WOP Project)	117	Research and Development	05 July 2022
ERDF's React Eu Solar Plan Operational Programme	1,174	Works, Supply, sanitation	Miscellaneous
Financing third party works	20,797	Supply, Sanitation Works	Miscellaneous
European Union (Life Project)	109	Research and Development	Miscellaneous
European Union (Horizon Europe)	47	Research and Development	Miscellaneous
TOTAL	26,051		

In thousands of Euros			
2021			
Awarding organisation	Amount	Purpose	Award date
Feder Operational Programme CAM 2014-2020	442	Works, Supply, sanitation	17 June 2021
ERDF's React Eu Solar Plan Operational Programme	3,169	Supply, Sanitation Works	17 February 2021
Financing third party works	18,638	Supply, sanitation works	Miscellaneous
European Union (Life Project)	128	Research and Development	Miscellaneous
TOTAL	22,377		

The breakdown of personnel expenses is the following:

In thousands of Euros		
	2022	2021
Grants related to assets	95	215
ERDF and Cohesion Funds	3,018	3,039
Transfers from Local Authorities	146	146
Financing third party works	18,179	13,966
Total	21,438	17,366

22. TRADE CREDITORS AND OTHER ACCOUNTS PAYABLE**a) Details of creditors and other accounts payable**

The breakdown of trade creditors and other accounts payable is the following:

	In thousands of Euros	
	2022	2021 ^(*)
	Current	Current
Associates		
Suppliers, Group companies and associates (Note 28)	5,160	6,105
Creditors, Group companies and associates (Note 28)	21	50
Non-related		
Suppliers	14,341	9,210
Creditors	135,823	106,772
Personnel	18,063	22,994
Other debts with Public Administrations (note 27)	8,705	8,550
Advance Payments from Customers	98	99
Total	182,211	153,780
Current income tax liability (note 27)	1,333	1,300
Total	183,544	155,080

(*) Restated information.

The main contribution to the Accounts payable heading by the Parent Company is an amount of 115,572 thousand euros (82,951 thousand euros in 2021).

b) Information on average term of payment to suppliers Third additional provision. "Duty of disclosure" under Law 15/2010, of 5 July and article 9 of law 18/2022 of 28 September.

Information on the average term of payment to suppliers is shown below:

	2022	2021
Average term of payment to suppliers (days)	31	30
Ratio of paid transactions (days)	30	28
Ratio of transactions pending payment (days)	41	53
Total payments made (thousands of euros)	470,557	399,367
Total outstanding payments (thousands of euros)	51,330	44,697
Invoices paid before the established term (number)	33,569	33,500
Number of invoices paid before the established term (%)	85 %	78 %
Cash amount relating to invoices paid before the established term (thousands of euros)	341,214	278,007
Cash amount relating to invoices paid before the established term (%)	73 %	70 %

23. PROVISIONS AND CONTINGENT LIABILITIES

The breakdown of the Provisions section is as follows:

In thousands of Euros				
	2022		2021 ^(*)	
	Non-current	Current	Non-current	Current
Provisions for long-term compensations to personnel for defined benefits	489		485	-
Other benefits for employees	8	81	2,032	97
Provisions for taxes	10,287	1,838	10,153	2,052
Provisions for infrastructure works	402,626	77,774	413,580	78,272
Provisions for decommissioning, dismantling or restoration	5		4	-
Provisions for other liabilities	24,892	6,079	17,621	5,849
Total	438,307	85,772	443,875	86,270

(*) Restated information.

The movement under provisions for the years ended 31 December 2022 and 2021, is as follows:

In thousands of Euros						
	2022					
	Provisions for taxes	Provisions for employees	Provisions for other liabilities	Other provisions	Provisions for infrastructure works	TOTAL
As of 01 January 2022	12,205	2,614	23,470	4	491,852	530,145
Allowances	4,474	270	17,429	-	76,109	98,282
Provisions update	-	18	415	1	-	434
Applications	(3,040)	(2,330)	(7,431)	-	(87,561)	(100,362)
Excess of provisions	(1,508)	(46)	(820)	-	-	(2,374)
Translation differences	-	30	(1,650)	-	-	(1,620)
Transfers	(6)	-	(400)	-	-	(406)
Disposals	-	-	(42)	-	-	(42)
Other	-	22	-	-	-	22
As of 31 December 2022	12,125	578	30,971	5	480,400	524,079

In thousands of Euros						
2021(*)						
	Provisions for taxes	Provisions for employees	Provisions for other liabilities	Other provisions	Provisions for infrastructure works	TOTAL
As of 01 January 2021	15,696	2,882	23,281	10	486,100	527,969
Allowances	4,085	232	8,569	-	77,137	90,023
Provisions update	-	-	-	1	-	1
Applications	(3,655)	(365)	(4,997)	(7)	(71,385)	(80,409)
Excess of provisions	(3,935)	(143)	(2,663)	-	-	(6,741)
Translation differences	-	33	(768)	-	-	(735)
Transfers	14	(62)	48	-	-	-
Other	-	37	-	-	-	37
As of 31 December 2021	12,205	2,614	23,470	4	491,852	530,145

(*) Restated information.

a) Provisions for infrastructure works

This provision covers replacement measures for usage periods in excess of one year that can be requested for items that are essential components of the transferred infrastructure so that the corresponding services can be provided satisfactorily.

In thousands of Euros						
2022						
	Provision Community of Madrid Network	Provisions Sanitation Agreement Madrid	Provisions Sanitation Agreement Madrid	Cáceres concession provisions	Provision Municipality of Soledad	Total
As of 01 January 2022	461,815	18,189	7,287	4,561	-	491,852
Allocations (Note 26 (f))	-	-	-	-	-	-
Provisions update (Note 26 (h))	58,052	15,800	761	1,496	-	76,109
Applications	-	-	-	-	-	-
Translation differences	(72,762)	(13,979)	(155)	(665)	-	(87,561)
As of 31 December 2022	447,105	20,010	7,893	5,392	-	480,400

In thousands of Euros						
2021						
	Provision Community of Madrid Network	Provisions Sanitation Agreement Madrid	Provisions Sanitation Agreement Madrid	Cáceres concession provisions	Provision Municipality of Soledad	Total
As of 01 January 2021	446,122	28,663	6,646	4,669	-	486,100
Allocations (Note 26 (f))	60,300	14,551	790	1,496	-	77,137
Provisions update (Note 26 (h))	-	-	-	-	-	-
Applications	(44,607)	(25,025)	(149)	(1,604)	-	(71,385)
Translation differences	-	-	-	-	-	-
As of 31 December 2021	461,815	18,189	7,287	4,561	-	491,852

Based on the Parent Company's estimates, the investment plan for replacement initiatives in the Region of Madrid Network over the concession period totals 4,360 million euros (4,324 million euros in 2021).

b) Provisions for other liabilities

This provision primarily covers probable or certain liabilities arising from ongoing litigation and outstanding compensation or obligations of an uncertain amount payable to third parties. Based on the legal advice received, the Directors do not consider that any liabilities arising from these litigations will differ significantly from the amounts provided for at 31 December 2022 and 2021. The provision is estimated using the individual most likely outcome. (See Note 23 (f)).

The Parent Company booked a provision of 4,213 thousand euros for greenhouse gas emission expenses (4,232 thousand euros in 2021). The criterion for estimating these expenses consists of analysing the tonnes of emissions in accordance with the technical specifications of the facilities that generate greenhouse gases.

(i) Colombian tax and customs authority – DIAN (Dirección de Impuestos y Aduanas Nacionales)

On 22 May 2018, DIAN made a proposal to rectify the tax return filed by Canal Extensia América, S.A. (formerly, INASSA) in 2015, in relation to the income declared for the technical assistance contract between Canal Extensia América, S.A. and Triple A de Barranquilla in the amount of 20,664 million Colombian pesos (4,028 thousand euros). On 15 January 2019, DIAN carried out the official settlement, where it determined that the balance to be paid was 7,029 million Colombian pesos (1,370 thousand euros).

On 17 May 2019, Canal Extensia America, S.A. presented a petition for dismissal before the contentious-administrative justice, on the grounds that there was sufficient evidence to prove the provision of the service, which was admitted on 7 October 2019.

On 1 August 2019, the DIAN issued Canal Extensia America, S.A. with an official settlement of fairness tax (the so-called CREE, in force from 2013 to 2016) in connection with 2015. On 5 December 2019, Canal Extensia América, S.A. and its attorneys presented the petition for dismissal and reinstatement of the right, which was accepted on 22 October 2020.

Canal Extensia América, S.A. presented on 21 February 2020 an amendment to the petition in relation to the 2015 proceedings regarding tax return. Likewise, INASSA issued a modification due to CREE fairness tax on 18 January 2021 based on the same defence arguments, and this was accepted on 3 March 2021. In 2018, Canal Extensia América, S.A. decided to allocate a provision amounting to 25,138 million Colombian pesos (4,900 thousand euros), corresponding to the increased tax payable and potential fines due to the tax contingency in 2015.

Moreover, on 13 September 2021, DIAN issued an official settlement to Canal Extensia America, S.A. for the 2016 income tax return, and on 24 September 2021 an official settlement for the 2016 CREE tax return. Both settlements include the technical assistance costs, amounting to 20,560 million Colombian pesos (4,007 thousand euros).

Canal Extensia América, S.A. presented the petitions for dismissal and certiorari per saltum reinstatement, for both proceedings on 13 January 2022. Both of them were admitted, the one corresponding to the income process, on 27 January 2022, and the one corresponding to the CREE, on 2 February 2022.

Canal Extensia América, S.A. recorded a total provision of 54,457 million Colombian pesos (10,614 thousand euros) corresponding to the higher tax payable and eventual penalties for the tax contingency for 2015 and 2016, which is still open for tax purposes. For the years 2018, 2019 and 2020, it was not

considered necessary to make any provision due to the fact that for the year 2017 the status was official liquidation filing by the DIAN (Directorate for National Taxes and Customs), but at this moment the company is considering whether to file the Persaltun lawsuit or not. In 2018 there is only one special requirement but no administrative act. It is considered not to record a provision for 2018, as there is no administrative act, and for 2019 and 2020, as there is no requirement by the DIAN. In addition, in these years there is sufficient support to support the provision of the technical assistance service questioned by the DIAN.

However, it cannot reasonably be ruled out that, as the different investigations or judicial or administrative proceedings progress, contingencies might arise that imply new operational and financial risks, which could eventually affect the equity, the financial position and the profits and losses of the parent Company and its Group at 31 December 2022, as well as its cash flows, which are reflected in the Individual and Consolidated Financial Statements and in the corresponding Notes and Directors' Reports, which shall be duly noted in the relevant accounting documents.

c) Provisions for taxes

Provisions for taxes mainly includes the public prices payable by the Parent Company for the private and special use made of land and public thoroughfares above and below ground. Allocations to this provision are made based on the best estimates of the amount accrued each year, calculated using land registers and municipal by-laws. Likewise, provisions are made for construction fees and taxes and works of Madrid City Council.

d) Provisions for employees

The Group has several long-term incentive schemes in place that are considered defined benefit plans. The final amount and related accruals are linked to long-service commitments and achieving individual targets. The Group recognises the past service cost as an expense for the year for an amount equal to the total costs divided by the average period until the benefits become vested. To the extent that the benefits are already vested immediately following the introduction of, or changes to, a defined benefit plan, the past service cost is recognised immediately in the consolidated income statement.

e) OTHER PROVISIONS

As described in note 12, losses of an associate attributable to the Group are limited to the extent of its net investment, except where the Group has legal or constructive obligations or when payments have been made on behalf of the associate.

f) Contingent liabilities, guarantees and other commitments

Details of guarantees deposited and received at 31 December 2022 and 2021 are as follows:

	In thousands of Euros	
	2022	2021
Guarantees received	(217,022)	(228,810)
Guarantees presented before Public Bodies	31,066	29,817

The Parent Company has provided guarantees to Public Bodies in relation to the normal course of business amounting to 31,066 thousand euros (29,807 thousand euros in 2021). Of this amount, 8,000 thousand euros correspond to the guarantees provided in relation to compliance with the Public Service

Management Agreement for the Concession to Provide Water Supply, Sanitation and Recycling Services on the islands of Lanzarote and La Graciosa. The Parent Company is jointly and severally liable, alongside Canal Gestión Lanzarote, S.A.U., for fulfilling the agreement and for the financial and other obligations arising therefrom. The Parent Company has also extended guarantees to Cáceres City Council totalling 1,000 thousand euros in respect of the concession arrangement in that city. The Parent Company's Directors do not expect any significant liabilities to arise from these guarantees.

In 2020, Emissão, S.A. had insurance guarantees covered for a total amount of 163 thousand euros, which correspond to the administrative contract with Embasa (Itamaraju), which terminated in 2021.

In 2017, the Group decided to restructure part of its debt, substituting debt load with financial institutions for loans between Group companies. Accordingly, in 2017, the guarantees that Canal Extensia América, S.A. had at 31 December 2016 to secure AAA Dominicana, S.A. and Emissão S.A.'s bank loans, for the sums of 15,004 and 9,992 million Colombian Pesos (2,924 and 1,947 thousand euros), were cancelled. These guarantees were replaced by loans granted by Canal Extensia América, S.A. The funds, in turn, come from a credit facility granted to Canal Extensia América, S.A. by Canal Extensia, S.A.U., with a limit of 15 million dollars.

In relation to this credit facility, Canal Extensia S.A.U. asked Soluciones Latinoamericanas del Agua (SLASA), as a minority shareholder in Canal Extensia América, S.A., to grant real guarantees in order to secure 18.76% (18.16% since 2018) of the loan by means of a pledge on shares and receivables from SLASA to Canal Extensia. On 23 October 2017, the companies signed pledge arrangements for Canal Extensia América, S.A.'s accounts payable to SLASA for the sum of 2,320 thousand dollars (2,175 thousand euros) and for 138,753 nominative ordinary shares in Canal Extensia América, S.A. worth 494 thousand dollars (436 thousand euros). Upon expiry of the extension of the loan granted by Canal Extensia S.A.U., on 24 January 2019, the accounts receivable that Canal Extensia América, S.A. has with SLASA in the amount of USD 2,320 thousand were transferred to Canal Extensia S.A.U., as well as the transfer of 138,753 shares held by SLASA in Canal Extensia América, S.A.. On 24 January 2019, the companies signed pledge arrangements for Canal Extensia América, S.A.'s accounts payable to SLASA for the sum of 2,320 thousand dollars (2,175 thousand euros) and for 138,753 nominative ordinary shares in Canal Extensia América, S.A. worth 494 thousand dollars (436 thousand euros).

With regard to the foregoing, transactions related with financing agreements are:

(i) Canal Extensia Intercompany Credits

CANAL EXTENSIA AMÉRICA, S.A. (formerly INASSA)

On 23 November 2018, the Board of Directors of Canal de Isabel II, S.A., M.P. and on 25 March 2019, the Board of Directors of Canal Extensia, S.A.U. approved the reunification of the existing debts of Canal Extensia América, S.A. into a single credit operation between Canal Extensia, S.A.U. and Canal Extensia América, S.A., in the amount of 37,4 million USD (35 million euros).

On 06 February 2019, a credit arrangement amounting to 2.3 million dollars (2.1 million euros) was concluded.

On 3 May 2019, a new credit facility amounting to 42.7 million dollars (40 million euros) was entered into in order to unify the prior credit facilities amounting to 37.4 and 2.3 million dollars (35 million euros and 2.1 million euros) and a new drawdown of 3 million dollars (2.8 million euros).

On 25 November 2019, a first addendum in the amount of 49.3 million dollars (46.2 million euros) was approved in order to unify the credit facility of 42.7 million dollars (40 million euros), the interest accrued to date amounting to 2.7 million dollars (2.5 million euros) and a new drawdown in the amount of 3.9 million dollars (3.6 million euros).

On 13 October 2021, a second addendum in the amount of USD 51.8 million (EUR 48.5 million) was signed, including a new provision of USD 2.5 million (EUR 2.3 million).

On 22 March 2022, a third addendum in the amount of USD 54.5 million (EUR 51 million) was signed, including a new provision of USD 2.7 million (EUR 2.5 million).

At 31 December 2022, Canal Extensia America, S.A. has drawn down 2.1 million dollars (2.0 million euros) with 0.6 million dollars (0.5 million euros) outstanding.

At 31 December 2022, an impairment provision of 11,571 thousand dollars (10,848 thousand euros) has been recognised.

As a prerequisite for granting this intercompany credits, Canal Extensia América, S.A.'s minority shareholders will be asked to produce performance guarantees in connection with the liabilities undertaken by Canal Extensia América, S.A. within the context of financing based on their percentage ownership in the Company's share capital (18.16% from 2018), by means of the pledge of Canal Extensia América, S.A.'s payables to Sociedad Latinoamericana de Aguas, S.A. and of its shares.

Canal Extensia América, S.A.	In thousands of dollars
Borrowing capacity	
Loan 6 February 2019	2,300
Loan 03 May 2019	42,702
1st Addendum 25 November 2019	49,309
2 nd Addendum 13 October 2021	51,809
3 rd Addendum 22 March 2022	54,500

Soluciones Andinas de Aguas, S.R.L. – Emissão, S.A.

On 30 January 2019, Canal Extensia, S.A.U. granted a credit of 2.9 million euros.

On 3 May 2019, a first addendum to the mentioned credit agreement in the amount of 5.8 million euros was approved, including a new drawdown of 2.9 million euros.

On 25 November 2019, a second addendum in the amount of 13.1 million euros was signed in order to unify the credit of 5.8 million euros, the interest accrued to date amounting to 173 thousand euros and a new drawdown in the amount of 7.1 million euros.

At 31 December 2022, Soluciones Andinas del Agua, S.R.L. has drawn down the entire facility.

Soluciones Andinas de Aguas, S.R.L. (Purchase of Emissão, S.A. financing)

On 20 November 2013, Canal Extensia, S.A.U. granted a loan to Soluciones Andinas de Aguas, S.R.L. in order to finance the acquisition of a 75% stake in the Brazilian company Emissão, S.A. in the amount of 14.5 million dollars (13.5 million euros).

On 19 November 2021 the fourth addendum was signed in relation to the aforementioned contract, extending the forbearance period to ten years, both principal and interest, S.A., so that the first and only loan payment for the shareholding in Emissão will be paid in November 2024.

At 31 December 2022 the loan is fully impaired.

Soluciones Andinas	In thousands of Euros
	Borrowing capacity
Loan 30 January 2019	2,900
1st Addendum 3 May 2019	5,800
2nd Addendum 25 November 2019	13,134
Credit 20 November 2013 (purchase of Emissão)	13,595

(ii) Intercompany Loans Canal de Isabel II, S.A., M.P.

Canal Extensia, S.A.U – Canal Extensia América, S.A. (formerly INASSA)

On 6 February 2019, a loan contract in the amount of 2 million euros was arranged.

On 3 May 2019, a first addendum to the aforementioned contract was signed for an amount of 4.7 million euros, including a new provision of 2.7 million euros.

On 25 November 2019, a second addendum in the amount of 8.3 million euros was signed, combining the credit amounting to 4.7 million euros, the interest accrued to date amounting to 133 thousand euros and a new drawdown in the amount of 3.5 million euros.

On 7 October 2021, a third addendum was signed amounting to 10.5 million euros, including a new provision of 2.2 million euros.

On 02 March 2022, a fourth addendum was signed amounting to 12.9 million euros, including a new provision of 2.3 million euros.

At 31 December 2022, Canal Extensia S.A.U. has drawn down 12.5 million euros, with 0.4 million euros outstanding.

Canal Extensia, S.A.U– – Soluciones Andinas de Aguas, S.R.L.

On 29 January 2019, a loan contract in the amount of 2.9 million euros was arranged.

On 3 May 2019, a first addendum to the aforementioned contract was signed amounting to 5.8 million euros including a new provision of 2.9 million euros.

On 25 November 2019, a second addendum in the amount of 13.1 million euros was signed, combining the credit amounting to 5.8 million euros, the interest accrued to date amounting to 173 thousand euros and a new drawdown in the amount of 7.1 million euros.

At 31 December 2022, Canal Extensia, S.A.U. has drawn down the entire facility.

Canal Extensia

At meetings of the Board of Directors of Canal de Isabel II, S.A. M.P. on 23 November 2018 and of the Board of Directors of Canal Extensia, S.A.U. on 25 March 2019, a credit operation was approved between Canal de Isabel II, S.A. ,. and Canal Extensia, S.A.U. amounting to 4 million euros.

On 31 March 2020, an addendum was signed increasing the repayment term to 2025.

At 31 December 2022, a total of 3.3 million euros had been drawn down, with another 0.7 million euros pending drawing down.

(iii) Emissão, S.A.

Contingencies claim against the seller (First Arbitration Proceedings No. 22/17): Soluciones Andinas v. Sebastião Cristovam

On 14 November 2013, Soluciones Andinas de Aguas and Sebastião Cristovam entered into a contract for the purchase of shares in the company Emissão (hereinafter the "Contract"). By means of the Contract, Soluciones Andinas purchased 75% of Emissão's share capital from Sebastião Cristovam.

In 2014, Soluciones Andinas and Sebastião Cristovam signed an addendum to the contract establishing a pledge on the percentage of Sebastião Cristovam's 4,743,000 shares in Emissão (15%) to guarantee eventual contingencies up until 3,000 thousand dollars (2,813 thousand euros).

In 2015, a report prepared by Canal Extensia América, S.A. (formerly INASSA) revealed all the contingencies discovered and therefore the following actions were initiated to claim these contingencies under the contract.

After filing the request for arbitration for the contingency claim in 2017, in 2019, the Arbitral Tribunal issued the Arbitral Award in which it declared that Sebastião Cristovam breached the Contract, condemning it to payment updated to 31 December 2022 in the amount of 65,220 thousand Brazilian Real (11,710 thousand euros), of which 1,047 thousand Brazilian Real corresponds to legal fees (188 thousand euros).

At the date of preparation of these Consolidated Financial Statements, compliance with the Award has not yet taken place.

There are two proceedings related to the amount arising from the Arbitration Award: (i) a petition presented by Sebastião Cristovam; and (ii) an enforcement petition presented by Soluciones Andinas.

Petition presented by Sebastião Cristovam no. 0099759-31.2020.8.19.0001

On 20 May 2020, Sebastião Cristovam presented a petition before the 2nd Labour Court of Rio de Janeiro, seeking to limit the enforcement of the First Arbitration Award and the payment of his debts by transferring his shares in Emissão to Soluciones Andinas.

On 26 January 2021, the first instance judge issued an award, in which he terminated the proceedings on the grounds that the matter in dispute was already res judicata. Sebastião Cristovam presented an appeal before the Court of Appeal of Rio de Janeiro.

The Court of Appeal of Rio de Janeiro has ruled on the appeals on 28 February 2023.

Enforcement petition presented by Soluciones Andinas No. 0010759-83.2021.8.19.0001

On 18 January 2021, Soluciones Andinas presented the petition before the 7th Labour Court of Rio de Janeiro against Sebastião Cristovam, in order to collect the amount arising from the First Arbitral Award ("Enforcement Petition").

On 8 June 2021, the judge ordered the notification of the petition to Sebastião Cristovam. The court sent the notice to Sebastião Cristovam on 9 November 2021. The notification is currently awaiting response.

On 29 August 2022, the judge ordered Sebastião Cristovam to comply with the arbitration award and pay the amount due and allowed him to present a defence to the enforcement.

Soluciones Andinas will take all measures to collect the amount, such as the imposition of enforcement and the seizure of Sebastião Cristovam's assets.

Second Arbitration (Arbitration Proceeding No. A 283/2019): Minority shareholders petition

On 28 August 2018, Sebastião and Alessandro Cristovam, as minority shareholders of Emissão, notified their intention to leave Emissão.

On 13 March 2019, the minority shareholders of Emissão filed a request for arbitration with the Brazilian Chamber of Mediation and Business Arbitration (CAMARB). The petition was presented on 14 June 2019 requesting the partial dissolution of Emissão with their withdrawal as shareholders and the reimbursement of their shares.

On 26 March 2020, the Arbitration Tribunal of the Second Arbitration issued its final award, in which it denied Sebastião and Alessandro Cristovam's request to leave Emissão and ordered them to pay 913 thousand Brazilian reais (164 thousand euros) in relation to the court costs.

To date, Sebastião and Alessandro Cristovam have not voluntarily paid their debts. There are no procedures related to the Second Arbitration.

Essentium's claim

In relation to Essentium's claim against Canal Extensia América, S.A. (formerly INASSA), claiming 5% of the sum of Canal Extensia América, S.A.'s total investment to acquire the Brazilian company Emissão, S.A. through a breach of the confidentiality agreement and non-agreement of the parties. In 2017, the judge agreed to suspend the proceedings due to criminal pre-trial proceedings initiated. The proceedings have remained suspended ever since.

At 31 December 2022, there is no update on this process.

Financial liabilities of Emissão, S.A.

Emissão's tax regularisation process was commenced in October 2022, with expert accounting and tax advisors, for the 2020, 2021 and 2022 tax returns, which also includes a comprehensive analysis of outstanding obligations and scenarios for joining the Tax Transaction Programme to enter into a payment agreement with the tax authorities, which is expected to be made during 2023. Based on the opinion of expert advisors, a maximum write-off of tax debts of 62.7 million Brazilian reais (11.2 million euros) will be allowed.

Deferred tax assets of 85.1 million Brazilian reais (15.3 million euros) are recognised as at 31 December 2022. According to the external advisors, a maximum amount of 70 % of the balances to be paid will be possible to offset as a result of Brazilian governmental laws, which means that the subsidiary Emissão would not be able to recover 20,1 million Brazilian reais (3,6 million euros).

Labour and civil proceedings of Emissão, S.A.

As of December 2022, Emissão had become party to 828 labour claims arising from the early termination of Emissão's civil works leading to the termination of the labour relationship, of which 570 (approximately) are in the enforcement stage and the rest of them in the trial stage. The company structured an action plan according to the stage of the proceedings, entering into payment agreements or exercising the defence of the case, where appropriate. At the aforementioned date, 72 agreements had been concluded, which together had a total amount under discussion of 3,493 thousand Brazilian reais (627 thousand euros), obtaining discounts of more than 30%.

On the other hand, as of December 2022, the total number of civil proceedings against Emissão amounted to 96, of which 73 are in the enforcement stage and 23 in the preliminary or trial stage, with claims amounting to 75,230 thousand Brazilian reais (13,507 thousand euros) of which 38,030 thousand Brazilian reais (6,828 thousand euros) have been incorporated under provision in the Financial Statements due to the probability issued by external advisors, who have been carrying out the corresponding defence.

In addition, civil contingencies have been identified in favour of Emissão totalling 22,283 thousand reais (4,001 thousand euros) where Emissão has brought actions to recover the value of 13,298 thousand reais (2,388 thousand euros), the remaining balance is under review by external advisors as to its legal feasibility, in light of the evidence available and necessary for filing by Emissão. These civil actions will also be assessed in favour of Emissão, i.e., without the need for the provision of financial resources.

(iv) Abbreviated Proceedings 9/2020 and 10/2020 (Preliminary Investigation 91/2016)

In 2021, Pre-Trial Proceedings 91/2016 continued to be processed before the Central Examining Magistrate's Court No. 6 of the Spanish National High Court, which is investigating, among others, the operations carried out for the purchase of the companies Canal Extensia América, S.A. (formerly INASSA) and Emissão by Canal de Isabel II, S.A. ,. and its business group.

The Parent Company appeared in the proceedings as private plaintiff on 2 October 2017, pursuant to article 110 of the Criminal Procedure Act and was accepted by the Court as such.

On 5 March 2020, the Central Examining Magistrate's Court No. 6 issued two Orders whereby, in accordance with the provisions of article 783 of the Criminal Procedure Act, it agreed to commence a trial against the persons identified as being those allegedly responsible for committing various crimes in the acquisitions of Canal Extensia América, S.A. and Emissão, and said orders were followed by the presentation of the relevant defence pleadings during the month of July 2020.

By order dated 23 July 2020, the Court agreed to refer the case to the Criminal Division of the National High Court for trial, and by order dated 3 November 2020, the 2nd Section of the Criminal Division of the National High Court appointed a magistrate for the trial, in relation to the operations derived from the acquisition of Emissão, and under Abbreviated Proceedings reference 10/20 (Emissão Part).

Regarding the separate piece Canal Extensia América, S.A. (Formerly INASSA) (Abbreviated Proceedings 9/2020), by Order of organisation of procedure of 10 October 2022, it was agreed to schedule the hearings for 24 May 2023.

Regarding the separate piece Emissão (Abbreviated Proceedings 10/2020), the schedule set for the hearings to be held on 20 May 2024.

As no charges have been brought against Canal de Isabel II, S.A. M.P., or its business group, the possibility that the Parent Company and/or subsidiaries could be held liable, criminally or civilly, for the events under investigation is excluded. Once the offences have been proven, the parent company shall be entitled to

various revenues as civil liability and confiscation, the amount of which may coincide with that requested or vary depending on the circumstances, development and assessment by the Court of the evidence that is examined.

(v) Actions of Control Entities

The actions carried out by the aforementioned control entities are detailed below (additionally, see Note 32):

- **Procurator's Office (PGN)**

Class Action Lawsuit

On 22 July 2018, the Attorney General's Office initiated a Popular Action against Canal Extensia América, S.A. (Formerly INASSA), in order to annul the Technical Assistance Contract entered into between Triple A de Barranquilla and Canal Extensia América, S.A., as well as to order the return of the amounts paid for this Contract.

Likewise, the Attorney General's Office in its lawsuit requested the adoption of precautionary measures including the immediate suspension of the execution and payment of the Technical Assistance Contract, the implementation of a plan for Canal Extensia América, S.A. to proceed with the repayment of the amounts paid that have been cancelled in the course of the Technical Assistance Contract, the immediate seizure and sequestration of Canal Extensia América, S.A.'s shares in Triple A de Barranquilla and, in general, the seizure and sequestration of Canal Extensia América, S.A.'s shareholding, rights, income and assets in Colombia and abroad, among others.

In relation to the precautionary measures requested by the Attorney General's Office, they were denied on 14 August 2020, by the Administrative Court of Cundinamarca, as it considers that the Technical Assistance Contract does not affect collective rights.

Based on the opinions issued by their legal advisers, considering the available information and the fact that the evidentiary stage has not yet been completed, Canal Extensia América, S.A.'s directors consider that it is not possible to foresee whether or not the court will order one or more interim measures or what the outcome of any ruling might be. Therefore, they consider that at 31 December 2022 is not necessary to recognise any provisions or impairment in Canal Extensia América, S.A.'s equity.

- **District Comptroller of Barranquilla against Canal Extensia América, S.A. (formerly INASSA) and Triple A de Barranquilla**

On 27 February 2018, in the case of Triple A de Barranquilla and on 8 March 2018, in the case of Canal Extensia América, S.A., notice of opening of an ordinary fiscal responsibility proceeding was received by the District Comptroller of Barranquilla, against the two companies in relation to: i) Decrease in the shareholding of the District of Barranquilla in Triple A de Barranquilla, in which it preliminarily values the damage for the amount of 601 million Colombian pesos (117 thousands of euros), and ii) Remuneration for technical assistance to INASSA, which preliminarily values the damage for the sum of 221.753 billion Colombian pesos (43 thousands of euros).

Canal Extensia América, S.A. and Triple A de Barranquilla, together with their legal advisers, examined the legal defence to be mounted, particularly in this case, and concluded the following:

- Regarding the capitalisation of Triple A Barranquilla, it is not quantitatively considered a significant contingency (142 thousand euros).
- In connection with the underwriting and alleged non-execution of the Technical Assistance Agreement, the likelihood of a Fiscal Liability Judgement against Canal Extensia América, S.A. and Triple A Barranquilla is indeterminable at the present procedural moment due to the grounds and amounts described in the Order to Commence. This conclusion was based on the information received from executives and/or officials of Canal Extensia América, S.A. and/or Triple A de Barranquilla confirming the provision of the technical assistance service, and in the arguments, explanations and information presented to different authorities related to the execution of technical assistance.

On 27 March 2019, notification was received from the District Comptroller that the tax liability proceedings were to be suspended until such time as there is a final decision on the criminal proceedings currently underway in this connection.

Subject to what has been exposed above, and at the date of issuance of the Financial Statements on 31 December 2022, no additional notification on this proceeding has been received and no additional registration of liabilities is deemed necessary in this regard on Canal Extensia América, S.A.'s Financial Statements at 31 December 2022.

- **Prosecutor's Office 20 Specialised Directorate (Law 600)**

On 20 March 2018, the Prosecutor General of Colombia issued a press release stating that the historical Managers and Presidents of Triple A de Barranquilla and Canal Extensia América, S.A. were subpoenaed during the term of the technical assistance agreement between the two companies on 4 September 2000 as it is considered that said agreement was not performed and therefore implied an irregular deviation of funds.

On 3 January 2019, the District filed a Civil Liability Lawsuit against Canal Extensia América, S.A..

On 19 March 2019, the lawsuit was accepted by the Office of the Prosecutor General of Colombia Specialising in Combating Corruption (Prosecutor's Office 5), and it resolved to link Canal Extensia América, S.A. in third-party civil liability.

In May 2019, Canal Extensia América, S.A. filed a motion for reconsideration and appeal which the Prosecutor's Office rejected on 5 August 2019.

On 19 December 2019, the 42nd Prosecutor's Office of the Unit delegated to the Superior Court of the Judicial District of Bogotá D.C. decreed nullity within the criminal investigation identified under number 2528, due to the fact that the Anti-Corruption Prosecutor's Office (which was until then in charge of the proceedings) lost the competence to act within the referred judicial process, decreeing the nullity of the proceedings, including the involvement of Canal Extensia América as a civilly liable third party.

This meant that the judicial investigation identified with number 2528 was transferred to Prosecutor's Office 20, Specialised Directorate.

By resolutions of 8 and 13 June 2022, notified to Canal Extensia America on 23 June of the same year, the Prosecutor's Office resolved to: Admit the civil party claim filed by TRIPLE A and admit the civil party claim filed by the District of Barranquilla and the involvement of Canal Extensia America as civilly liable third party.

Appeals against both resolutions were lodged on 01 July 2022 and are being processed.

On 11 July 2022, the application to involve Canal Extensia America as a civilly liable third party was answered together with the preliminary objections.

Final decisions on the proposed appeals and exceptions are awaited.

- **Office of the Prosecutor General of Colombia**

Extinction of ownership proceedings

Canal Extensia América, S.A. (formerly INASSA), was made aware that, on 3 October 2018, the Office of the Prosecutor General of Colombia issued a Decision ordering the suspension of the right of disposal, sequestration and embargo of the shares of Canal Extensia América, S.A., company controlled indirectly by Canal de Isabel II, S.A., M.P. in Triple A de Barranquilla, S.A. (Triple A), which constitute 82% of the share capital of Triple A and the transfer thereof in custody to Sociedad de Activos Especiales (SAE), as a precautionary measure until 4 April 2019.

The Colombian Attorney General's Office filed a lawsuit for the extinguishment of ownership, requesting that the 60,736,424 shares belonging to Canal Extensia América, S.A. be subject to Law 1849 of 2017. The action is grounded mainly in criminal proceedings (Law 600) against physical persons who have acted as legal representatives of Canal Extensia América, S.A. and Triple A de Barranquilla, in the period 2002-2017, due to the collection of payment for technical assistance that was allegedly never provided. In addition, the District of Barranquilla is considering bringing claims due to the reduction in dividends and royalties and for damages amounting to 14 million dollars (13.1 million euros) against Canal Extensia América, S.A., under the figure of responsible third party.

On 24 January 2020, an application for supervening nullity was filed on the grounds that the proceedings had been significantly affected. This request for annulment requires the judge to declare the Resolution issued on 3 October 2018 by the Delegated Public Prosecutor's Office as null and void, and to lift the precautionary measures to suspend the power of restraint, seizure and sequestration of Canal Extensia América, S.A.'s shareholding in Triple A - as the process is invalidated due to the lack of competence of the auditor who issued the decision. However, the Court ruled confirming the interim injunction on 3 December 2020.

On 23 January 2020, Triple A de Barranquilla was accepted as the third party affected as part of the extinction of ownership proceedings.

The Court of Termination of Ownership published an edict on 18 August 2020, citing and summoning "undetermined third parties" with rights over the assets subject to extinction of ownership (Canal Extensia América, S.A.'s shareholding in Triple A de Barranquilla). Based on the foregoing, Canal Extensia presented a writ of relation and opposition on 27 August 2020, requesting dismissal of the extinction of ownership action and the defence of the interests of Canal Extensia América, S.A., its shareholders and the shareholders of Triple A de Barranquilla, so as to preserve their economic and property rights.

Notwithstanding the above, as reported in various media, the Canal Extensia Group learned that the Sociedad de Activos Especiales, S.A.S. (SAE), sold Canal Extensia América, S.A.'s shareholding to the mixed-economy company Alumbrado Público de Barranquilla, S.A.S. (APBAQ), in which the District holds 65% of the shares and that the value of the shares was fixed by investment banks contracted for that purpose by both APBAQ and SAE. Also, that the resources for the purchase of the shares would come from partners of Barranquilla Capital de Luz, S.A.S., which are part of APBAQ.

On the other hand, according to a communication issued by the SAE in December 2021, addressed to the Presidential Advisor for Competitiveness and Public-Private Management, the Disposal Committee

in session No. 33 of November 12, 2021, studied, analysed and approved the configuration of cause No. 1 of early disposal, i.e. when it is necessary or mandatory given its nature, on 82.16%, represented by 60,376,424 shares, of the shareholding composition held by Canal Extensia América, S.A., in the company Triple A de Barranquilla.

In addition, this communication indicates that the SAE carried out the process of negotiation and marketing of these shares through the figure of early alienation and direct sale, and therefore signed a contract for the purchase and sale of shares in favour of APBAQ, dispensing with the public call or auction.

This information was also communicated to the Criminal Court of the Specialized Circuit of Extinction of Ownership of Barranquilla by the SAE, by means of a communication of January 2022 signed by the Manager of Active Companies and in which it is indicated that "(...) By virtue of the above and in accordance with the provisions of Article 93 of Law 1708 of 2014 with respect to (...) In all events, once the asset is disposed of, scrapped, demolished or destroyed, the Tax administrator must inform the judicial authority in charge of the forfeiture process (...)" it is reported that on 3 December 2021 the SAE and the Special, Industrial and Port District of Barranquilla signed a contract for the purchase and sale of shares in the company Triple A de Barranquilla for a value of 585,000 million Colombian pesos"

Finally, in the opinion of the lawyers handling the case in Colombia, there are no reasons of urgency, necessity or public utility, or any other reason that would justify the decision to dispose of Canal Extensia América, S.A.'s shareholding in Triple A de Barranquilla at an early stage and that would prevent the SAE from continuing to manage the shares until a decision is made regarding the process of termination of ownership, representing an unprecedented operation in Colombian law, for which reason the relevant legal actions are being taken in defence of Canal Extensia América, S.A.'s rights and interests.

On 20 April 2022, the Termination of Ownership Court notified the following orders: (a) Order of nullities and observations, by which it denied the requests for nullity filed by Canal Extensia América and admitted the claim for termination of ownership for processing; and (b) Order of evidence, by which it ordered all the documentary and testimonial evidence requested by Canal Extensia América, ordered some requested by the Ministry of Justice, and incorporated those provided by the Prosecutor's Office. The court denied Canal Extensia America's request to exclude the evidence of the Prosecutor's Office, and determined that once it was final, it would set a date and time for the testimonies.

On 25 April 2022, Canal Extensia América, S.A. (formerly INASSA) filed a motion for reconsideration and, if dismissed, an appeal against the two aforementioned orders. The first was resolved on 15 July 2022, denying the reinstatement and the second is in the Termination of Ownership Chamber of the High Court of Bogotá for a second instance decision.

To date, the process is in the evidential stage, awaiting the court to set a date to begin the taking of testimonial evidence and to resolve the second of the appeals filed.

Agreement by the Prosecutor General of Colombia ordering the suspension of the right of alienation, sequestration and embargo of the shares of Canal Extensia América (formerly INASSA) in Triple A de Barranquilla:

Impacts on Consolidated Financial Statements of the Seizure and Impoundment of the Interest in Triple A de Barranquilla

The Grupo Canal de Isabel II contracted the services of an independent expert in order to determine the accounting impact of this event in the financial statements. For the purposes of the reformulation of the 2017 annual accounts, a subsequent type II event was considered. In accordance with IFRS 10

"Consolidated Financial Statements", the Canal de Isabel II Group ceased to consolidate, on 3 October 2018, the assets, liabilities and non-controlling interests corresponding to Triple A de Barranquilla and transferred the corresponding translation differences to profit or loss.

Furthermore, in accordance with the applicable accounting standard, from 4 October 2018 the Group recognised the remaining shareholding in Triple A de Barranquilla as a financial asset. The Directors of the Parent Company, based on the available information at that time and given the uncertainty in connection with the various proceedings underway with the various supervisory authorities in Colombia, recognised the consolidated net carrying amount of the shareholding in Triple A de Barranquilla at 31 August 2018. Regardless, as the procedural situation becomes clearer, the impact thereof will be recognised in the Groups accounting records. The Board of Directors, prior to the Directors' resignation, submitted the Financial Statements on 30 September 2018, which were used in order to determine the fair value of Triple A de Barranquilla.

At 31 December 2018, the net assets of liabilities corresponding to Triple A de Barranquilla amounted to 85,643 thousand euros, the non-controlling interest amounted to 20,118 thousand euros and the negative translation differences accumulated in equity amounted to 17,745 thousand euros.

Thus, by virtue of the current status of proceedings no. 2528 (Law 600), as well as the procedural stage in which the termination proceedings are currently underway, the company's management and its external advisors deem it unnecessary to allocate provisions to hedge the risk of potential non-payment of the technical assistance payable by Triple A de Barranquilla to Canal Extensia América, S.A.

- **Delegated Prosecutor's Office 38. (Law 906)**

On 22 October 2020, the High Court of the Judicial District of Barranquilla sentenced a former manager of Triple A de Barranquilla, as allegedly responsible for misappropriating 27,880 million Colombian pesos (5,434 thousand euros) from transactions allegedly not carried out at Triple A de Barranquilla, to 190 months imprisonment and a fine of 50,000 legal monthly minimum wages in force.

Currently, the Criminal Division of the Supreme Court of Justice shall issue a decision on the extraordinary appeal lodged by the former manager.

- **International arbitration**

Canal Extensia holds 81,84 % of the shares of Canal Extensia América, which in turn held 82,16 % of Triple A's subscribed capital. Canal Extensia also holds directly 1,16 %, and indirectly 0,0004 % through its subsidiary Gestus Gestión & Servicios S.A.S., of Triple A's share capital.

As a result of the early disposal procedure of Canal Extensia America's shares in Triple A de Barranquilla, Canal Extensia S.A.U. has studied and explored actions to recover its investment.

To this end, in 2022 the company initiated the necessary procedures to submit to arbitration before the International Centre for Settlement of Investment Disputes (ICSID) the dispute arising from the precautionary measure adopted by the Colombian Public Prosecutor's Office to suspend and seize 82.16% of the shareholding that Canal Extensia América, S.A. (formerly INASSA) holds in Triple A de Barranquilla.

Thus, on 24 June 2022, Canal Extensia notified the President of the Republic of Colombia and its Government of the dispute between Canal Extensia and the Republic of Colombia, as a first preliminary step to the filing of the arbitration claim before ICSID. This notice is, in itself, the first milestone of the arbitration proceedings insofar as it is a sine qua non requirement for the filing of such claim. In the

absence of any effect of the dispute notice, on 26 September 2022 Canal Extensia notified the Colombian Government of its intention to submit its claim arising from the dispute to the aforementioned arbitration proceedings.

As all Canal Extensia S.A.U.'s negotiation and settlement attempts with the Republic of Colombia were unsuccessful, on 26 December 2022 it filed an application with the International Centre for Settlement of Investment Disputes (ICSID) for arbitration in relation to the existing differences between Canal Extensia and the Republic of Colombia, in view of the damage caused to the rights and interests of the Canal group.

- **Colombian Tax and Customs Authority (DIAN)**

Claims and potential contingencies corresponding to the years open to inspection by the DIAN are detailed in Note 23(b)(i), Provisions for other liabilities.

(vi) Work-related claims:

Work-related claims by company	Year	Reason for the claim	Status of the claim	Amount claimed
				In thousands of Euros
Canal Extensia América (formerly INASSA) (Colombia)				
From the former Corporate Manager	2017	1. Severance compensation. 2. Recognition of an extra-legal compensation payment.	On 30 September 2020 a ruling was issued in the second instance ordering the payment of 508 million Colombian pesos (99 thousand euros) for contract termination. An extraordinary appeal in cassation was lodged, which took place on 21 February 2022 and has not been resolved. The decision by the first instance court has been provisioned.	99
From the former Manager	2018	1. Severance compensation. 2. Recognition of an extra-legal compensation payment.	In very early stages. On 26/02/2019, the company submitted the respective response to the lawsuit, accompanied by a report by external attorneys in support of the breach of contract. A date for the initial hearing has not been scheduled yet.	183
From the former Executive Chairman	2019	1. Recognition of legal services. [In Colombia this figure is known as Contrato realidad (laboral) – “reality contract” (employment)]	In very early stages. On 4 March 2020, the response to the lawsuit was presented. At the date of issuance of the Financial Statements on 31 December 2022, no additional notification on this proceeding has been received and no additional registration of liabilities is deemed necessary in this regard on Canal Extensia América, S.A.'s Financial Statements at 31 December 2022.	(*)
Gestus Gestión & Servicios, S.A.S.				
From the former Legal Representative of the company	2018	Due to the “contract with parachute clause”	On 06/12/2019 a ruling was issued in first instance in favour of the plaintiff. The company appealed the second instance ruling to the High Court, which again ruled in favour of the plaintiff on 29 July 2020. Following this decision, on 10 August 2020 a cassation appeal was filed, which was accepted on 23 October 2020, and a judgement was delivered in favour of the claimant on 04 October 2022: The financial statements included the provision for the amount claimed, 467 million Colombian pesos (91 thousand euros).	91

(*) Amount to be determined. According to CEXA, the value cannot be determined due to a lack of knowledge of the rate at which Canal's finance company works.

Work-related claims by company	Year	Reason for the claim	Status of the claim	Amount claimed In thousands of Euros
AAA Dominicana, S.A.				
From the former Legal Representative of the company	2022	Due to termination of employment contract	<p>On 24/01/2022, the notice of claim and summons to a hearing was received by the former employee.</p> <p>AAA Dominicana dismissed the employee on 02 November 2021, due to the breach of her employment contract. The claims in the lawsuit amount to 67,488 thousand Dominican pesos (1,035 thousand euros) and 1,022 thousand dollars (956 thousand euros) (damages) due to alleged labour rights and benefits, and alleged civil liability, respectively.</p> <p>The Company decided not to include any provision because the proceedings are at an early stage, where evidence has not yet been examined and initial hearings have not yet been completed, being thus impossible to estimate the probability of success. On 24/01/2022, the notice of claim and summons to a hearing was received by the company for dismissal.</p> <p>On 06/05/2022, the notice of claim and summons to a hearing was received by the former employee.</p>	1,978
From the company's former deputy resource manager	2022	Due to termination of employment contract	<p>AAA Dominicana dismissed the employee on 03 November 2021, due to the breach of her employment contract. The claims in the lawsuit amount to 21,378 thousand Dominican pesos (355 thousand euros) for damages, alleged labour rights and benefits, and alleged civil liability, respectively.</p> <p>The Company decided not to include any provision because the process is at an early stage, where all the evidence and initial hearings have not yet been completed, which prevents an assessment of the likelihood of success.</p>	(*)

(*) Amount to be determined. According to CEXA, the value cannot be determined due to a lack of knowledge of the rate at which Canal's finance company works.

(vii) Other cases

- **Class Action Lawsuit, Víctor Díaz**

On 8 September 2019, a ruling favourable to Canal Extensia América, S.A. (formerly INASSA) and Triple A de Barranquilla was issued in first instance for the lawsuit filed by Víctor Díaz in relation to an alleged violation of the collective rights of administrative morality, public property, free competition and access to the timely and efficient provision of public services in the District of Barranquilla, regarding the contract between the District of Barranquilla and Triple A de Barranquilla and the involvement of Canal Extensia América, S.A.

The administrative court of the Atlantic notified the decision confirming the previous decision on 19 January 2023.

- **Corporate liability lawsuits**

With a view to rebuilding Canal Extensia América, S.A.'s (formerly INASSA) wealth, undermined by the activities performed by its former directors, two corporate liability lawsuits were filed:

- The first, filed on 18 July 2019 against the former managers, which was accepted, notified and contested by the defendants, includes cumulative claims for more than 5,000 thousand dollars (4,688 thousand euros).

The final judgement sentenced one of the former administrators to pay 3,911 million Colombian pesos (762 thousand euros) and 173 thousand dollars (162 thousand euros). The decision was appealed as it did not convict the other former directors, and was confirmed by the High Court of Bogotá on 30 March 2022.

- The second, filed on 4 December 2019 against the former chairman of Canal Extensia América, S.A., entails amounts exceeding 6,000 thousand dollars (5,625 thousand euros). The Superintendence of Companies ordered the certain parts to be corrected and ruled that the statute of limitations applied to the issue of the golden parachute as two (2) months had elapsed since the Board of Directors made the decision. Canal Extensia América, S.A. made the relevant corrections to the indictment and filed a motion for reconsideration and subsidiary appeal against the decision regarding the statute of limitations since the law clearly states that the maximum term for filing a petition for dismissal of decisions involving conflicts of interest is of five (5) years.

During the processing of this last action, an anticipated ruling was issued for the rights and events that had met the conditions for their claim longer than five (5) years before. Canal Extensia América, S.A. duly appealed this decision as the irregularities only recently became known by virtue of the forensics carried out by the company. Subsequently, a final judgment of first instance was delivered, denying the claims of the complaint, and the relevant appeal was lodged. The High Court of Bogotá confirmed both decisions on 25 August 2022, which led to the filing of an extraordinary cassation appeal. The opportunity to substantiate the appeal is currently awaited.

- **Civil actions**

Civil action by former Triple A's legal representative

On 24 March 2022, Canal Extensia America was notified of a civil lawsuit for tort liability filed by a former legal representative of Triple A de Barranquilla, seeking to order the company to pay fines and penalties imposed by a public authority directly to the official. It includes claims cumulatively amounting to more than 10,000 thousand dollars (9,376 thousand euros).

Civil action by Aguas de Manizales

On 9 May 2022, Canal Extensia America was notified of a contractual civil claim filed by Aguas de Manizales S.A. E.S.P., seeking an order to pay 260 thousand dollars (244 thousand euros) for breach of the share purchase agreement between the parties.

On 22 November 2022, the exception of the litigation clause was declared proven, given that the contract between the parties includes an arbitration clause, and the judge ordered the termination of the process. The claimant lodged a motion for reconsideration and appeal, which is currently being processed.

- **Sucursal de Canal Extensia América, S.A. in Panama - INASSA in Panama:**

Commercial management contract and reinstatement of service (Arbitration Award Concerning Contract No. 115-2010)

On 2 April 2014, Canal Extensia América, S.A. (formerly INASSA) submitted a formal arbitration request against the National Institute of Water Supply and Sewerage System (IDAAN) before the Conciliation and Arbitration Centre of Panama (CECAP). This request is related to the disputes that arose pursuant to Contract No. 115-2010 of 25 April 2011, amounting to 11.9 million dollars (11.2 million euros), and entered into by the Company and IDAAN, whereby the latter hired Canal Extensia América, S.A. to carry out the collection management services for the institution's past due portfolio, together with the suspension and reinstatement of the service in the areas of Panamá Metro, Colón, Arraiján and Panamá Oeste.

Canal Extensia América, S.A. requested termination of Contract No. 115--2010, on the grounds of breach by IDAAN, and asks that said entity be sentenced to acknowledge and pay the total value of the sums owed, plus damages and late payment interest, bringing the total claim to 15 million dollars (13 million euros).

On 29 September 2015, the Arbitration Tribunal issued the Arbitration Award, ordering the IDAAN to pay a total of 8,878 thousand dollars (8,324 thousand euros) in damages.

On 10 December 2020, Panama Circuit Court Fifteen issued a communication to the Managing Director of the IDAAN instructing it to comply with payment of the arbitration award, which was delivered by the Judicial Notices Service (CCJ) in the IDAAN on 12 December of the same year. IDAAN had until 9 February 2021 to comply with the Arbitration Award.

Due to IDAAN's breach, on 17 February 2021, Canal Extensia América, S.A. requested the Court to send an official letter to IDAAN requesting that the Cabinet Council issue an enforcement order regarding the Award.

On 13 December 2021, we requested the court to issue a letter from the Chief Justice of the Supreme Court of Justice, requesting the President of the Republic to take the necessary steps to comply with the Award.

On 21 January 2022, the previous request was reiterated and the Chief Justice of the Supreme Court of Justice was again asked to issue the request letter. However, these actions proved unsuccessful and

no progress has been made in this direction throughout 2022. Work is continuing with a view to enforcing the resolution in 2023.

Meter reading and invoice distribution service.

On 31 December 2019, contract No. 19--2016 concerning "Meter reading and invoice distribution service" was terminated in view of IDAAN's repeated failure to pay.

On 28 January 2020, a communication was issued to the IDAAN requesting settlement of the contract, reconciliation of all the amounts owed and an agreed payment schedule. No response has so far been received from the IDAAN.

At year-end 2022, the receivables in connection with this contract amounted to 4,778 thousand dollars (4,489 thousand euros), and in 2020 an amount of 1,712 thousand dollars (1,605 thousand euros) had been collected. The company is negotiating with the IDAAN a payment schedule for collection of the outstanding debt.

La Pintada

The Consortium INASSA-CLEOP made up of Canal Extensia América, S.A. and Compañía Levantina de Edificaciones y Obras Públicas S.A. (CLEOP) entered into contract No. 08-2012 the aim of which was the design and construction of the sewerage system in La Pintada, Coclé Province, Panama.

The National Council for Sustainable Development (CONADES) decided to terminate this contract.

On 5 August 2019, the Consortium's claim against CONADES was admitted and the evidence period ended on 19 July 2022.

Closing arguments were filed on 26 July 2022 and a final decision is awaited.

- **Sucursal de Canal Extensia América, S.A. in Ecuador- INASSA in Ecuador**

Investigation by the Ecuadorian Comptroller's Office into the execution of the provision of services in MILAGROS-JAMA-COAQUE

In 2012, Canal Extensia América, S.A. signed three contracts with Empresa Pública del Agua de Ecuador: i) Preparation of studies for the Multipurpose project JAMA; ii) Preparation of studies for the Multipurpose project COAQUE ; and iii) Preparation of studies for the project Milagro Flood Control.

In 2020, the Comptroller General's Office of Ecuador, after an investigation of these contracts, issued three resolutions, in which public officials related to the projects JAMA and COAQUE were imposed penalties.

In 2021, Canal Extensia América, S.A. was notified of resolutions 24111, 24114 and 24118, in which penalties were imposed for joint and several liability in the amounts of:

- i) 668 thousand USD (590 thousand euros);
- ii) 1,117 thousand USD (986 thousand euros) and
- iii) 2,404 thousand USD (2,123 thousand euros).

The penalties determine the culpable liability and bind Canal Extensia América, S.A., as jointly and severally liable, in the aforementioned amounts.

The contentious-administrative claim was filed to seek the nullity of the penalties due to the expiry of the sanctioning power of the Comptroller's Office, given that the special examination report was submitted outside the statutory term, which implies that the Comptroller's Office acted outside its period of competence.

The answer to the claim was filed on time and, after the relevant procedural stages and formalities, a judgement was issued on 21 November 2022, favourable to the company's interests.

On 17 December 2022, the professional in charge of the case reported that no appeals had been filed against the decision and that it was therefore enforceable, according to the judicial platform of the Republic of Ecuador.

On the other hand, the Comptroller's Office opened a file with criminal findings that was transferred to the Prosecutor's Office and is currently under investigation, which has not yet been notified.

In relation to the project "MILAGRO", a contentious claim was also filed, but due to the stage of the administrative proceedings, the judge considered that the application for a declaration of expiry should be filed before the State Comptroller General's Office.

Proceedings in Guayaquil for alleged embezzlement. A former legal representative of the Ecuador branch and former contractors of Canal Extensia América, S.A. are being prosecuted.

The preliminary investigation is based on a report with indications of criminal responsibility issued by the State Comptroller General's Office, where a special examination was carried out of the pre-contractual, contractual, execution and liquidation phases of contracts number 2012-063 and 012-2082. (Milagro Flood Control Project).

According to the information obtained, the Comptroller's Office reviewed the reimbursable costs of contract number 2012-63, for the consultancy service for conducting the project studies between Canal Extensia America, S.A. and the contractor company between Canal Extensia America, S.A. and the SECRETARY OF WATER. The Comptroller's Office concludes that there is no support for reimbursable costs amounting to 434 thousand dollars (407 thousand euros).

We are waiting for the Comptroller's Office to notify the process in order to provide the corresponding explanations, which was recently transferred to Quito due to the special jurisdiction of one of the officials under investigation.

Proceedings in Quito for alleged influence peddling. A former legal representative of Canal Extensia América, S.A. is being prosecuted.

This process is initiated by a Criminal Responsibility Report issued by the State Comptroller General's Office, after reviewing the preparatory, pre-contractual, performance, liquidation and payment processes of contracts 2012-091-DHManabí and 2012-092-DH-Manabí (Projects Jama and Coaque) signed between the National Water Secretariat and Canal Extensia América, S.A., as part of the Memorandum of Understanding and Cooperation previously signed.

The Comptroller's Office carries out an analysis of the direct contracting of Canal Extensia América, S.A. for the preparation of studies and designs for the Multipurpose projects Jama and Coaque, through a special regime based on the Understanding and Cooperation Agreement signed between

the aforementioned institutions. The Comptroller's Office concludes that such direct contracting allegedly involves influence peddling.

We are waiting for him to notify the process in order to provide the corresponding explanations.

- **AAA Dominicana, S.A.:**

ITBIS CAASD

As part of the contracts related to the commercial management and the supply and installation of meters, which AAA Dominicana maintains with the Corporación de Acueducto y Alcantarillado de Santo Domingo (CAASD) and with the Corporación de Acueducto y Alcantarillado de Puerto Plata (CORAAPLATA), the company has bonds established with local banks for 5% for CAASD and 4% for CORAAPLATA, of the total of the contracts, which are updated annually pursuant to the works carried out in each project.

At 31 December 2021, , AAA Dominicana has a litigation open with the Dominican Spanish State Administration Agency, as a result of the Sentence issued by the Directorate General of Internal Taxes (DGII) of the Dominican Republic, which established a tax obligation applicable to AAA Dominicana for the sum of 2,110 thousand euros, as a result of the adjustment made for "Income declared as tax-exempt", relating to the tax periods from 1 January and 31 December 2009, for the Tax on the Transfer of Industrialised Goods and Services (ITBIS) for services provided to the Water Supply and Sewerage Corporation of Santo Domingo (CAASD) and with regard to which, AAA Dominicana filed an appeal requesting reversal.

The Third Chamber of the Supreme Court of Justice issued a ruling on 30 June 2021, rejecting the arguments put forward by the Directorate General of Internal Taxes (DGII). However, AAA Dominicana is not exempt from ITBIS. In accordance with the above, AAA Dominicana's lawyers consider that the factual and legal requirements for bringing the action for constitutional review have been met; it was brought on 23 August 2021. As of December 2022, this case is still pending as no ruling has been issued.

Early termination agreement of the contract with Corporación de Acueducto y Alcantarillado de Santo Domingo (CAASD)

Since 2001, AAA Dominicana has been executing the "Service Contract for the Commercial Management and Supply and Installation of Meters" Reference Nº. P.S.-003-2001, dated 11 January 2001, with the Santo Domingo Water and Sewerage Corporation (CAASD) in the territorial area corresponding to the National District and the municipalities of the Province of Santo Domingo: Santo Domingo Oeste, Los Alcarrizos and Pedro Brand.

The latest Addendum states that the termination date of the contract is February 2022. However, following the change of government in the Dominican Republic on 16 August 2020, the executive intends to internalise certain services.

On 24 February 2021, the CAASD notified AAA Dominicana of resolution No. 03-2020 of 15 October 2020, in which it declared addenda IV, V and VI "harmful to public order", with the aim of terminating the contract. Likewise, on 16 April 2021, the CAASD notified AAA Dominicana, S.A. of Act No. 207/21 of "warning and intimation of delivery of goods This forced the suspension of activities from April 2021.

AAA Dominicana agreed to conduct an audit to verify the amounts owed by CAASD as a result of the services rendered and pending payment to date, as well as the loss of profits resulting from the early termination of the contract.

Therefore, on 13 May 2021, AAA Dominicana formally requested the Comptroller General's Office of the Dominican Republic to carry out this audit, providing the necessary documents to verify the debt and the breakdown of the amounts to be quantified by the Entity. Given that the audit has not yet been carried out and the Comptroller General's Office of the Republic has not yet provided its opinion.

The company decided to submit the dispute with the CAASD to arbitration before the Chamber of Commerce and Production of Santo Domingo on 15 February 2022.

The lawsuit seeks, in general terms, the recognition of all amounts owed by the CAASD for commercial management, installation and maintenance of meters, cut-off and reconnection of the service, as well as lost profits due to the early termination of the contract, including the payment of ITBIS due to recent pronouncements by the Dominican courts on the matter, as well as other compensation for the set of irregular conduct carried out by the CAASD in its eagerness to irregularly terminate the contract.

Based on the information available up to the date of preparation of these consolidated annual accounts and the external advice received by the Canal de Isabel II Group and the analysis and assessment carried out by Management on the possible impact that could arise from the accounts receivable of the company AAA Dominicana, S.A. against the CAASD, no indications have been detected that would give rise to the recording of any provision or that any additional liability would arise as a result of the aforementioned actions.

However, it cannot reasonably be ruled out that, as negotiations progress, new circumstances may arise that imply new operating and financial risks, which could eventually have an impact on the equity, financial position and results of AAA Dominicana, S.A., as well as on its cash flows, which are reflected in the Individual and Consolidated Financial Statements and in the corresponding Annual Reports and Management Reports, which in such case will be immediately recorded in the corresponding accounting documents.

- **Gestus Gestión & Servicios S.A.S.**

Claim or means of control of contractual disputes and direct reparation against the District of Santa Marta.

In March 2018, Gestus filed a claim or means of control of contractual disputes and direct reparation against the District of Santa Marta with the Third Administrative Court of Santa Marta, in order to declare the termination of contract 092 of 2002 null and void or failing that, the judicial liquidation of the same to be ordered. In any case, the amounts owed for services rendered during the period February-May 2015 will be recognised and paid; the amounts owed for VAT period 2008-2010; as well as all damages (including interest) for unpaid amounts, as well as for those paid and not returned (specifically in the case of VAT mentioned).

On 23 October 2018, the claim was admitted by the Administrative Court of the Magdalena. Likewise, this past 15 January 2015, notification of said claim was conveyed to the Santa Marta District.

The initial hearing was held on 30 January 2020, and we are awaiting the Court's decision.

The sum of the claim amounts to the amount of 11,938 million Colombian pesos (2,327 thousand euros), recorded in the financial statements of this subordinate on 31 December 2017 and according to the evaluation of the Management of Canal Extensia América, S.A. an impairment was recorded for 2,646 million Colombian pesos (516 thousand euros) and a provision for the legal costs of 450 million Colombian pesos (88 thousand euros).

The INASSA and Gestus and Canal Extensia América, S.A. management considers that the probabilities of success in favour of the company are high, as there is sufficient evidence that the services were provided during the period from February to May 2015, as well as the payment of the VAT concept to the DIAN that the District should have recognised to its contractor, who made the expenditure at the time.

- **Metroagua**

On 17 April 2017, in accordance with its expiry, the lease agreement was completed between Compañía de Acueducto y Alcantarillado Metropolitano de Santa Marta (Metroagua) and the Santa Marta District (Colombia) for the provision of the water supply and sewerage service for the city of Santa Marta. The Canal Group indirectly takes part in, by means of Canal Extensia América, S.A. (formerly INASSA), in 29.35% of Metroagua's capital.

On 21 April 2017, the shareholders of Metroagua approved the company dissolution as a result of not being able to carry out its corporate activities, pursuant to the decision of the Third Administrative Court, which ruled, within the framework of a judicial process (public interest claim), an interim measure consisting of handing over the city's entire conduit and sewerage infrastructure to the Santa Marta District.

The company's shareholders are currently considering actions to proceed with the liquidation of the company due to the resignation of the liquidator.

- **ASAA**

Verification of the subsidy invoicing process. Audit of the operating contract with the District of Riohacha - ASAA:

On 20 August 2019, the Secretariat of Infrastructure and Public Services of the District Mayor's Office notified the company that due to recommendations made by the auditors of the operating contract between the District and ASAA, it had decided to refrain from certifying the invoices payable for the deficit between subsidies and contributions.

The company took the necessary steps before the Attorney General's Office to formalise with the District of Riohacha the conciliation reached between the parties as a result of the process of cadastral updating and compensation of the values charged for subsidies. However, the control body stated that this is a matter that should be heard by the contentious-administrative courts, so the corresponding lawsuit was filed on February 17, 2022.

Suspension of bidding process/partner selection for new water and sewerage utilities operating company:

On 18 September 2019, the District Mayor's Office published a notice of call for public tender No. LP-008-2019 which aims to select a strategic partner that will constitute with the District of Riohacha a mixed economy company for the provision of public conduit and sewerage services for households.

On 4 October 2019, the Procurator General's Office revealed a set of substantive flaws in the powers granted by the councillors to the Mayor of Riohacha, through agreement 024 of 16 August 2019, by which they authorised him to constitute a mixed economy company for the provision of public utilities for water and sewerage services; a situation that led to the suspension of this process and the request for extension of the operating contract.

The District of Riohacha decided to initiate a new tender process for the selection of a new operator, which, after many difficulties, formally began in November 2022, however, like the previous one, different control bodies have been making observations on the specifications that governed the process and the requirements demanded of the bidders.

On 27 July 2022 a new extension to the operation contract was signed, which was due to expire on 28 February 2023. In addition, on 24 February 2023 a new extension to the operation contract was signed, which expires on 31 May 2023.

Class Action Lawsuit Procurator General's Office – ASAA:

On 29 April 2019, ASAA was notified of the lawsuit filed by the Office of the Procurator General 91 Judicial I against the District of Riohacha - District Council of Riohacha, ASAA S.A. E.S.P., Fiduciaria La Previsora, Fiduciaria de Occidente, whose purpose is to suspend the transfer of public resources from the General System of Participations to the autonomous capital that manages the resources of the contract for Operation, Maintenance and Refurbishment between the District of Riohacha and ASAA.

On 25 July 2019, the suspension of the transfers was ordered as an interim measure. ASAA appealed and this measure was revoked by the Council of State.

On 1 April 2022, a second instance judgement was delivered, in which the judge again decreed the suspension of the transfers, for which reason an appeal was lodged with the Council of State on 12 July 2022.

At the date of preparation of these Consolidated Financial Statements, the resolution of the appeal is pending.

• **Amerika Software**

Denounces fraudulent use of intellectual property by Triple A de Barranquilla

On 4 September 2000, Canal Extensia América, S.A. (formerly INASSA) and Triple A de Barranquilla signed a Technical Assistance contract. The contract includes the delivery of a specialised software licence (hereinafter "Amerika Software"), owned by Canal Extensia, for as long as the Technical Assistance remained in force for the duration of the concession held by Triple A de Barranquilla.

Since 3 October 2017 (when Canal Extensia América, S.A. ceased to collect payment for Technical Assistance (TA) and therefore the free-of-charge provision of the sub-licence for the Amerika software granted by Canal Extensia América, S.A. to Triple A de Barranquilla dependent upon collection of the TA payment also ceased), Triple A has been using the Amerika software owned by Canal Extensia, S.A.U. without permission and without payment of any royalty or consideration for the licence, the value of which, according to market research, is 8,947 million Colombian pesos (1,744 thousand euros).

For this reason, Canal Extensia initiated the following proceedings against Triple A de Barranquilla, in relation to the unauthorised use of the Amerika Software:

- (i) Criminal proceedings against Triple A de Barranquilla for the crime of infringement of copyright and related rights.

On 24 June 2020, a complaint was filed with the Attorney General's Office against Triple A de Barranquilla, for the crime of violation of copyright and related rights, due to the unauthorised use of the Amerika Software.

From 23 to 25 June 2021, a judicial inspection was carried out at Triple A de Barranquilla and the information ordered by the Prosecutor's Office was collected.

Following the investigation activities, the expert accountant prepared a report on 3 December 2021 in which he concluded that, based on movements presented in Triple A's accounting books, there were payments to suppliers Amerika Tecnologías de la Información SAS, Canal Extensia América, S.A. and Open Internacional, for "technical assistance". In response to this, the expert asked to obtain certified support or movements of the transactions for the sale of services of the latter three companies.

Regarding the progress of the proceedings, both the assigned prosecutor and the Judicial Police officer have not yet received all the documents requested from Canal Extensia América, S.A. and Amerika Tecnologías de la Información S.A.S., in relation to the report being prepared by the expert accountant complementary to the report prepared on 3 December 2021.

(ii) Civil suit for copyright infringement against Triple A de Barranquilla.

On 25 May 2021, the High Court of the Judicial District of Barranquilla ruled by means of an order on the competence to hear the proceedings of the National Directorate for Copyright (hereinafter "DNDA").

On 14 December 2021, Triple A answered the claim.

Subsequently, the Sub-Directorate for Jurisdictional Affairs of the DNDA issued the following orders:

- Order 7 of 14 October 2022: rejected the application for summoning Canal Extensia América, S.A.U. Therefore, Triple A filed an appeal.
- Order 8 of 14 October 2022: the DNDA decided not to consider the objection to the sworn estimate of compensation since the arguments presented by Triple A are not related to an inaccuracy of the estimate, but to the lack of reference elements for calculation. Triple A therefore lodged a motion for reconsideration.
- Order 9 of 14 October 2022: the DNDA decided to request a preliminary decision from the Court of Justice of the Andean Community.

On 21 October 2022, Triple A filed a motion for reconsideration against Order 8 of 2022, by which the DNDA rejected the objection to the sworn estimate and, on the same date, Triple A filed an appeal against Order 7, by which the DNDA rejected the summons. On 3 November 2022, an answer to the motion for reconsideration submitted by Triple A was filed.

By order 10 of 10 November 2022, the DNDA extended the deadline for deciding the first instance for up to six (6) more months, starting on 15 November 2022.

By means of Order 11 of 30 November 2022, the DNDA resolved the motion for reconsideration lodged by Triple A and confirmed Order 8 of 14 October 2022.

By Order 12 of 30 November 2022, the DNDA admitted the appeal filed by Triple A with suspensive effect against Order 7 of 14 October 2022.

On 12 December 2022, the DNDA forwarded the appeal to the High Court of the Judicial District of Bogotá in its Civil Chamber together with its relevant file and archives.

- **Tax Inspection of Canal de Isabel II, S.A., M.P., and Canal Extensia, S.A.U.**

On 19 April 2017, Canal de Isabel II S.A., M.P., and Canal Extensia, S.A.U. received a communication regarding the start of the inspection, verification and investigation activities by the Tax Inspectorate of the Tax Agency.

On 23 May 2018, the Central Examining Magistrate's Court No. 6 of the Spanish National High Court, in response to the request submitted by the Central Office of High-Income Taxpayers of the Tax Agency, issued an Order that provides for the suspension of ongoing inspection proceedings until the criminal investigation advances and the need to maintain it can be specified in greater detail.

The inspection activities refer to the following taxes and periods:

- Corporate Income Tax: periods 07/2012 to 12/2015.
- Value Added Tax: periods 03/2013 to 12/2016.
- Retention/Lodgement on account. Income from Personal/professional work: periods 03/2013 to 12/2016

The Group's Directors do not think this inspection will lead to significant liabilities and that there are no further contingencies arising from the years open to inspection.

Among the auditing actions, by means of Proceeding No. 13, the Audit requests from Canal Extensia, S.A.U: "Justification of the material and human resources used in the technical assistance services provided to INASSA, in accordance with the contracts signed with said company". "Justification of the material and human resources used in the technical assistance services provided to Canal Extensia América, S.A. (formerly INASSA), in accordance with the contracts signed with this company".

In this regard, Canal Extensia, S.A.U. proceeded to request a report from a firm of independent experts for the purposes of analysing and quantifying the technical assistance provided by Canal Extensia, S.A.U. to Canal Extensia América, S.A., including the transfer of associated know-how.

Furthermore, a report was requested from the Group's financial adviser regarding the possible recovery in Spain of non-deductible expenses in Colombia.

The Company's Directors do not think this inspection will lead to significant liabilities and that there are no further contingencies arising from the fiscal years open to inspection.

- **Lanzarote**

On 26 October 2016, Administrative Court No. 3 of Las Palmas de Gran Canaria (Ordinary Proceedings No. 20/2015), issued a ruling dismissing the administrative appeal filed by Club Lanzarote, S.A. in respect of the Agreement of the Extraordinary General Assembly of Consorcio del agua de Lanzarote, on 26 December 2014 (hereinafter, Consorcio), rejecting the request for an ex-officio review of Consorcio's resolutions whereby (i) the negotiated procedure commenced with public notice to adjudicate the concession agreement for water supply, sanitation and water reuse services in the Islands of Lanzarote and La Graciosa, and (ii) the contract was awarded to the Company Canal de Isabel II, S.A., M.P. (Hereinafter, "Canal").

Club Lanzarote, S.A. did not agree with this ruling, and lodged the mandatory appeal before the Administrative Chamber of the High Court of Justice of the Canary Islands, which on 21 November 2017, issued a ruling partially upholding the appeal, understanding that the Water Consortium should have processed the request for review requested by Club Lanzarote, S.A., but not with respect to the resolution issued by the Water Consortium which agreed to award the contract, but not with regard to the resolution issued by the Water Consortium, by which the award of the contract was agreed.

Canal announced it was filing a cassation appeal before the Supreme Court, which was not accepted by the Acceptance Section of the Administrative Division of the Supreme Court by means of a Decision on 21 February 2019, since it considered there was not objective appellate interest for the formation of jurisprudence.

On 6 June 2019, the Administrative Court No. 3 of Las Palmas de Gran Canaria issued a measure of organisation of procedure as follows:

- Confirming receipt of the procedures by the High Court of Justice of the Canary Islands, the Ruling issued by said Court having been declared final.
- Ordering the defendant Administration to execute the Ruling properly and fully in the period indicated by Law, carrying out all necessary measures to comply with the ruling and notifying the responsible body of its compliance, and without prejudice to possible enforced execution by the appellant.

The High Court of Justice Ruling may lead to the Contract preparatory actions being declared null and void since, on the one hand, it orders Consorcio to commence, process and resolve the ex-officio proceedings of said actions, and, on the other hand, it declares *obiter dicta* the existence of a cause for it being judged void ab initio. It would be declared void following processing of the ex-officio review (which involves a hearing with the concessionaire and the ruling by the Consultative Council of the Canary Islands).

The declaration of the Contract's preparatory actions as void would, once final (its being final understood necessarily to emanate from legal, and not administrative, channels), imply that the Contract itself is void, and must be settled, with the effects established in Article 35.1 of the Consolidated Text of the Public Sector Contracts Act (TRLCSA).

Article 35.1 of TRLCSA contemplates as a necessary effect of the nullity of the contract the reciprocal restitution of the services that constitute its object, or, if not possible, of its value; this necessary effect is identified by case law with the restitution of the situation of the parties to the state prior to the award, so that none of them suffers a prejudice or obtains a benefit due to the award and the subsequent execution of the contract. In this particular case, we understand that Canal should not suffer any damage or impairment as a consequence of the award of the Contract, and this should mean that Canal can recover the capital invested in the execution of the Contract; in particular:

Canal must recover the amount corresponding to the initial fee updated in line with the interest rate on the loan granted to Canal Lanzarote.

Canal must recover the amount corresponding to the investments executed, net of amortisation, updated in line with the interest rate on the loan granted to Canal Lanzarote.

Canal must recover the guarantees deposited.

Recovery of the investment in Canal Gestión Lanzarote:

If, as a result of the above situation, the award of the contract was to be declared null and void, Canal de Isabel II, S.A., M.P. would be entitled, based on the report drawn up by external advisors dated 3 February 2020, to compensation for the following items:

- The amount corresponding to the initial fee updated in line with the interest rate on the loan granted to Canal Lanzarote, or the legal interest rate.
- The amount corresponding to the investments executed, net of amortisation, updated in line with the interest rate on the loan granted to Canal Lanzarote, or the legal interest rate.
- Losses incurred in the years during which the Contract has been executed.

- As well as compensation for any other emerging damages as a result of the Contract being declared null and void.

The aforementioned compensation would be determined in the process of settling the contract. To determine its amount and for its subsequent collection it might be necessary to execute legal proceedings.

The Group has analysed the recoverability of the assets, shareholding and loan of Canal Gestión Lanzarote under the scenario of continued operation of the concession, with the recoverable amount being higher than the carrying amount and no impairment being necessary.

On the date of authorising these consolidated Annual Financial Statements for issue, neither of the Parties involved in the Club Lanzarote S.A. process has commenced proceedings to request that the concession be declared void. The period for the resolution of these proceedings is of 6 months, and it may be appealed, so the company's Management and its external advisers consider that it will not affect the approval of the 2022 Annual Financial Statements. They further consider that, in the event of the contract being declared void, the company would recover its investment, rendering it unnecessary to allocate provisions in relation to the value of the shareholding as stated in the financial statements of the Parent Company.

On 24 May 2021 the General Assembly of the Water Consortium of Lanzarote approved the following price indexes: 1.15% for the financial year 2019, 0.70% for the financial year 2020 and 0.48% for the financial year 2021. On 12 July 2021, the subsidiary filed an appeal for reconsideration against the resolution of 24 May of the General Assembly of the Lanzarote Water Consortium. According to the independent experts, the appeal at the date of formulation of the consolidated accounts must be understood to have been dismissed by administrative silence.

On 22 July 2021, the Contentious-Administrative Chamber of the High Court of Justice of the Canary Islands delivered a judgement rejecting the appeal filed by the Lanzarote Water Consortium against the judgement delivered by the Contentious-Administrative Court no. 3 of the Canary Islands, which confirmed in all respects, accepting the request for a rate review filed by Canal Gestión Lanzarote for the years 2017, 2018 and 2019, and recognising the appellant's right to receive, as remuneration for the contract and from the fourth year of its duration, the updated rates, in accordance with the CPI + 1% formula.

As it disagreed with the content of the judgement handed down by the High Court of Justice of the Canary Islands, the Water Consortium lodged a cassation appeal against the judgement, although this was not admitted for processing by the Order of 27 January 2023 by the 1st Section of the Contentious-Administrative Chamber of the Supreme Court. According to the opinion of external lawyers, against the rejection of the appeal, the Consortium has filed an exceptional motion for the annulment of proceedings against the Order and a decision is pending.

- **Canal de Isabel II (Public Entity):**

At 31 December 2022 there is an amount of 2,684 thousand euros pending reconciliation with the Public Entity, relating to charges issued in financial years 2019 to 2022 for re-invoicing for "Increase in salary costs due to fixed-term contracts in the Public Entity". The Company has not recorded the aforementioned charges in its annual accounts as it does not have the legal support to evidence them.

24. ENVIRONMENTAL INFORMATION

Details of the assets classified under Concessions and used to minimise the impact on the environment are as follows:

In thousands of Euros			
2022			
	Cost	Accrued depreciation	Net
Construction and installation in wastewater water treatment plants	656,067	(257,125)	398,942
Sewerage networks	30,486	(11,439)	19,047
Reusage networks	96,434	(19,276)	77,158
Total	782,987	(287,840)	495,147

In thousands of Euros			
2021			
	Cost	Accrued depreciation	Net
Construction and installation in WWTP	635,887	(249,160)	386,727
Sewerage networks	28,692	(10,518)	18,174
Reusage networks	96,257	(17,450)	78,807
Total	760,836	(277,128)	483,708

Details of environmental investments made by the Group are as follows:

In thousands of Euros		
	2022	2021
Description		
Water purification	19,763	12,118
Sewerage	1,795	1,073
Usage	177	666
Total	21,735	13,857

The breakdown of environmental costs incurred by the Group is as follows:

In thousands of Euros		
	2022	2021
Description		
Water purification	201,191	177,450
Sewerage	71,346	69,115
Usage	10,576	9,314
Others (green areas, environmental expenses, etc.)	8,690	9,021
Total	291,803	264,900

The Parent Company management integrates all its activities through an Environmental Management System, which has been duly certified in accordance with the UNE-EN-ISO-14001:2015 environmental management standard. The follow-up audit for this certificate was carried out in 2022, with favourable results for the continuous development and improvement of this Management System.

In 2022, the Parent Company has 34 open proceedings for non-compliance with environmental legislation (45 proceedings in 2021), although most of these are for minor penalties, continuing the trend of recent years in line with the strategic plan implemented by the Parent Company for excellence in purification: In this regard, it should be taken into account that several of the proceedings are caused by circumstances beyond the control of this Public Company, and are therefore not attributable to the Parent Company, which is why they are currently being appealed through administrative channels. Nevertheless, based on experience and the estimated likelihood of the success of those appeals, the Parent Company considers that no significant contingencies exist concerning possible litigation, compensation or other items and, accordingly, no provision has been made in this regard.

The Parent Company has insurance policies that reasonably assure the coverage of any possible contingency that could arise from its environmental activities.

In addition to its public liability cover, since June 2010 the Parent Company, as the affected operator, has held an insurance policy to cover the potential risks deriving from the entry into force of Law 26/2007 on environmental responsibility and Royal Decree 2090/2008, which implements that Law. This policy is underwritten for the maximum financial guarantee of 25 million, in excess of the maximum guarantee established by law of 5 million.

The Group had no environmental projects in Latin America in 2022. In the financial year 2021 it had the following lines of action:

- Amagua C.E.M.:
 - **Colector AALL Buenaventura:** This work consisted of the replacement of the pipe and final discharge (wing wall) of a storm drainage collector, which serves more than 70% of the useful area (drainage) of the Ciudadela Guayaquil Tennis (around 600 users).

25. OTHER LIABILITIES

Other current and non-current liabilities include the following:

In thousands of Euros				
	2022		2021	
	Non-current	Current	Non-current	Current
Advance income for consumption advances	12,353	6,321	14,831	5,664
Other	15	321	-	219
Total	12,368	6,642	14,831	5,883

“Advances for water use” include the difference between the advance payments received for supply contracts and their current value based on the estimated date of repayment. Since fiscal 2015, a more detailed information source has been used to calculate the present value of the “Advance on consumption”, which sets the average reimbursement period at 15 years for 2022 (16 years in 2021). As this change in the estimate is due to the more precise information obtained it has not been considered a change in accounting criteria and is applied prospectively.

26. INCOME AND EXPENSES

a) Ordinary income

Revenues include the operation of infrastructure to provide water supply, sanitation and recycling services. Details are as follows:

	In thousands of Euros					
	National		Ibero-America		TOTAL	
	2022	2021	2022	2021	2022	2021
Income for the provision of operations services of Infrastructure	907,688	872,181	23,902	19,664	931,590	891,845
Income for the provision of services	11,926	13,604	4,208	4,738	16,134	18,342
Revenues for electricity sale	-	4,817	-	-	0	4,817
Income arising from the sale of goods and merchandise	-	-	3	20	3	20
Total	919,614	890,602	28,113	24,422	947,727	915,024

All these national revenues have been performed in euros. All of these domestic revenues have been earned in euros. Sales in Latin America have been made in Colombian Pesos, Dominican Pesos, US Dollars and Brazilian Reals.

b) Other income

Non-trading income is primarily from energy sales and other income derived from the lease of certain properties and from levies for the assignment of hydropower generation rights.

It also includes allocations to profit and loss for capital subsidies, donations and legacies received which are allocated to profit and loss in accordance with the relevant depreciation of the assets financed with this income.

In 2022, the Parent Company recognised 425 thousand euros (1,573 thousand euros in 2021) in respect of trade receivables past due. (See Note 20 (c)).

c) Cost of supplies by nature and geographical area

The breakdown of supplies is as follows:

	In thousands of Euros					
	National		Ibero-America		TOTAL	
	2022	2021	2022	2021(*)	2022	2021(*)
Electricity consumption	154,898	98,306	948	789	155,846	99,095
Purchase of raw materials	31,312	35,106	482	290	31,794	35,396
Consumption of goods	14,503	1,250	5,319	4,630	19,822	5,880
Inventory variation	(3,693)	(2,307)	20	108	(3,673)	(2,199)
Total consumption	197,020	132,355	6,769	5,817	203,789	138,172
Works carried out by other companies	147,151	144,444	7,252	6,490	154,403	150,934
Total	344,171	276,799	14,021	12,307	358,192	289,106

(*) Restated information.

d) Employee benefits expense

The breakdown of personnel expenses is the following:

	In thousands of Euros	
	2022	2021(*)
Wages, Salaries and similar payments	148,801	143,023
Social security contributions	49,628	48,187
<i>Social security at the expense of the Company</i>	42,325	41,277
<i>Contributions to defined Contribution Plans - external -</i>	225	237
<i>Long-service bonus (note 17)</i>	454	528
<i>Seniority (note 17)</i>	4,402	3,900
<i>Other social contributions</i>	2,222	2,245
Total	198,429	191,210
Provisions	407	453
Total	198,836	191,663

(*) Restated information.

e) Non-financial asset amortization and impairment expenses.

e. Amortisation, depreciation and impairment of non-financial assets Details of amortisation and depreciation are as follows:

In thousands of Euros		
	2022	2021 ^(*)
Non-tangible asset depreciation expense (note 10)	124,408	(122,170)
The useful life of tangible and intangible assets (see notes 7 and 8).	7,457	(7,427)
Comprehensive amortization expense	(131,865)	(129,597)
Intangible asset impairment expense (Note 10)	-	(2)
Impairment charges on tangible investments	-	(16)
Reversal of impairment of intangible assets	1,828	2,597
Reversal of impairment of tangible assets and investment property	133	-
Total cost of impairment	1,961	2,579

(*) Restated information.

f) Other expenses

Details of other financial expenses are as follows:

In thousands of Euros		
	2022	2021 ^(*)
Research expenses	1,229	2,866
Leases and fees	22,503	19,616
Repairs and maintenance	50,975	49,968
Outsourced professional services	19,112	19,699
Transport	377	397
Insurance premiums	5,926	4,699
Advertising and publicity	2,549	1,943
Supplies	1,756	5,123
Other external services	4,498	1,129
Taxes	25,899	27,317
Value impairment losses and non-payment of commercial debts and other accounts receivable (notes 14 and 16)	2,621	(1,487)
Provision for restoration and major repairs actions (note 23)	76,109	77,137
Other expenses	21,862	13,625
Total	235,416	222,032

(*) Restated information.

g) For disposal of fixed assets

The breakdown of profit (loss) on the disposal of fixed assets is the following:

In thousands of Euros		
	2022	2021 ^(*)
Profit		
Tangible Fixed Assets	3,309	116
Intangible fixed assets	10	-
Real estate investments	42	12,385
	3,361	12,501
Loss		
Tangible Fixed Assets	(5)	(18)
Intangible fixed assets	(3,213)	(2,030)
Fixed assets	-	(27)
	(3,218)	(2,075)
Total	143	10,426

(*) Restated information.

At 31 December 2022, the Parent Company has disposed the sale of its interest in a building plot for an amount of 137 thousand euros, generating a gain of 42 thousand euros. In 2021 it recorded disposals due to the sale of the joint ownership of three development plots for an amount of 1,249 thousand euros, which generated a profit of 12,385 thousand euros.

At 31 December 2022, the Company AAA Dominicana, S.A. has recorded a profit of 364 thousand Dominican pesos (6 thousand euros), for the sale of vehicles.

Canal Extensia América, S.A. has recorded a revaluation of the commercial office, with its fair value being lower than its carrying value, recognising a loss at 31 December 2022 of 117,435 thousand Colombian pesos (26 thousand euros).

h) Financial income and expenses

Details of finance income and costs are as follows:

	In thousands of Euros	
	2022	2021 ^(*)
From shares in equity instruments	-	-
Finance income from investments held to maturity	1,162	225
Other finance income	5,988	5,274
Translation differences	11,310	1,367
Other finance income	18,460	6,866
Financial expenses of debts with third parties	(10,384)	(6,145)
Financial expenses with regard to provisions (note 23)	(18)	(1)
Other financial expenses	(12,508)	(17,809)
Translation differences	-	-
Investment impairment and loss	(1,531)	(31)
Gains/losses for Disposal and Other Investments	-	-
Total financial expenses	(24,441)	(23,987)

(*) Restated information.

27. TAX STATUS

In accordance with Article 66 of General Tax Law 34/2015, taxes cannot be considered definitively settled until the returns presented have been inspected by the taxation authorities or the inspection period of four years has elapsed.

Furthermore, Article 66 bis. 2 of this Law establishes the right, on the part of the Administration, to examine the tax years or periods in which the right was generated to offset tax bases or payments or to apply the deductions of previous years to be inspected.

As certified before the taxation authorities on 22 October 2013, since 1 January 2014 the Parent and its Spanish subsidiaries have filed consolidated income tax returns, together with their ultimate parent company Canal de Isabel II, under the Special Tax Consolidation Regime set forth in Article 64 et seq. of Royal Legislative Decree 4/2004 of 5 March 2004. All of the subsidiaries are taxed individually in their respective countries. Income is subject to a tax of 25% on the tax base in Spain, 34% in Colombia, 27% in the Dominican Republic, 15.4% in Ecuador, 30% in Uruguay and 34% in Brazil. The Spanish subsidiaries file consolidated tax returns.

As stated in note 3 (r), the Group formed by the Spanish companies is subject to general taxation and is therefore required to file annual income tax returns.

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The breakdown of deferred tax assets and liabilities at 31 December 2022 and 2021 is the following:

In thousands of Euros						
	Assets		Liabilities		Net	
	2022	2021(*)	2022	2021	2022	2021(*)
Concessions	133	141	-	-	133	141
Depreciation	124	193	-	-	124	193
Provisions	1,891	1,027	-	-	1,891	1,027
Other concepts	16,230	11,112	(954)	(1,085)	15,276	10,027
Industry and Trade	-	-	-	-	-	-
Net assets and liabilities	18,378	12,473	(954)	(1,085)	17,424	11,388

(*) Restated information.

The breakdown of deferred tax assets and liabilities, as of 31 December, whose term for realisation or reversal exceeds 12 months is the following:

In thousands of Euros		
	2022	2021(*)
Assets	18,215	12,041
Amortisations	279	287
Other	17,936	11,754
Liabilities	(1,096)	(2,961)
Concessions	-	-
Other	(1,096)	(2,961)
TOTAL	17,119	9,080

(*) Restated information.

The breakdown of expenditure on taxes on profits is as follows:

In thousands of Euros		
	2022	2021(*)
Current tax	3,420	1,678
Deferred tax	(5,096)	2,511
Adjustments in final declaration of prior financial years	(723)	1,582
Positive adjustments on income tax	-	-
Total	(2,399)	5,770

(*) Restated information.

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The relationship between the tax expense and accounting profit for the year is as follows:

In thousands of Euros		
	2022	2021 ^(*)
Income and expenses balance for the year	109,961	160,409
Tax rate at 25%	(27,490)	(40,102)
Tax effect rates other than 25%	1,584	1,017
Presumptive income tax effect	(99)	(91)
Other non-deductible expenditure	(1,471)	(1,154)
Other adjustments	4,134	203
Corporate tax adjustments in previous years	723	(1,582)
Consolidation adjustments	4,799	906
Deductions and credits for the financial year	20,219	35,032
Expense for consolidated tax on profit	2,399	(5,770)

(*) Restated information.

The effective average tax rate in 2022 is 2.18% (3.97% in 2021).

Movement in deferred tax assets and liabilities in 2022 and 2021 is as follows:

In thousands of Euros							
2022							
	Balance as of 1 January	Recognized in Profit and Loss	Other	Translation differences	Net	Deferred tax assets	Deferred tax liabilities
Concessions	141	(8)	-	-	133	133	-
Depreciation	193	(95)	26	-	124	124	-
Provisions	1,027	631	112	121	1,891	1,891	-
Other concepts	10,028	4,567	(88)	769	15,276	16,230	(954)
Industry and Trade	-	-	-	-	-	-	-
Net assets and liabilities	11,389	5,095	50	890	17,424	18,378	(954)

In thousands of Euros							
2021 ^(*)							
	Balance as of 1 January	Recognized in Profit and Loss	Other	Translation differences	Net	Deferred tax assets	Deferred tax liabilities
Concessions	149	(8)	-	-	141	141	-
Depreciation	255	(62)	-	-	193	193	-
Provisions	1,880	(863)	-	10	1,027	1,027	-
Other concepts	11,338	(1,578)	295	(27)	10,028	11,113	(1,085)
Industry and Trade	-	-	-	-	-	-	-
Net assets and liabilities	13,622	(2,511)	295	(17)	11,389	12,474	(1,085)

(*) Restated

At 31 December 2022 there are tax loss carryforwards for an amount of 51,644 thousand euros (30,961 thousand euros at 31 December 2021) registered under the heading "Other items" corresponding to the following companies:

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In thousands of Euros				
Company	2022		2021 ^(*)	
	Accounted for	Not accounted for	Accounted for	Not accounted for
Canal Extensia América, S.A.	4,147	1,531	4,719	1,256
Gestus Gestión & Servicios S.A.S.	-	514	-	493
AAA Dominicana, S.A.	2,528	-	150	-
Emissão, S.A.	44,968	-	26,093	-
TOTAL	51,644	2,045	30,961	1,749

(*) Restated information.

The recoverability of deferred tax assets is assessed when they are generated and subsequently on each balance sheet date, in accordance with the Group's performance as projected in its business plan. In particular, in assessing the recoverability of deferred tax assets, among other factors, the Group takes into account synergies deriving from fiscal consolidation, as well as estimated future tax profits on the basis of the Group's business plan.

In addition, 1,514 thousand euros were recorded under this heading relating to deductions for investments in the Canary Islands corresponding to the subsidiary Canal Gestión Lanzarote, S.A.U., which have been almost fully offset at year-end 2022, leaving a balance of 70 thousand euros. At 31 December 2021, 4,145 thousand euros under this heading were pending compensation.

Likewise, at 31 December 2022 an amount of 2,144 thousand euros is pending recognition and offsetting, corresponding to the tax loss carryforwards of Canal Gestión Lanzarote, S.A.U. from 2013 (2,144 thousand euros in 2021). In 2013, the entity decided not to recognise it as the tax effect of this tax loss carryforward was insignificant.

The Board members of the companies consider that the taxable bases to be applied will be recoverable as the company generates legal benefits.

Likewise, on 18 and 19 April 2017, the investee, Canal Extensia, S.A.U., and the Parent respectively, received a communication regarding the start of the inspection, verification and investigation activities by the Tax Inspectorate.

On 23 May 2018 the Court of Investigation No. 6, in response to the request submitted by the Central Office of High-Income Taxpayers of the Tax Agency, issued an Order that provides for the suspension of ongoing inspection proceedings until the criminal investigation advances and the need to maintain it can be specified in greater detail.

The inspection activities refer to the following taxes and periods:

- Corporate Income Tax: periods 07/2012 to 12/2015.
- Value Added Tax: periods 03/2013 to 12/2016.
- Retention/Lodgement on account. Income from Personal/professional work: periods 03/2013 to 12/2016

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The Company's Directors do not think this inspection will lead to significant liabilities and that there are no further contingencies arising from the years open to inspection. The Group has the following main applicable taxes open to inspection by the Spanish taxation authorities:

Tax	Years pending inspection									
Corporate tax	2012	2013	2014	2015	2016	2018	2019	2020	2021	2022
Value Added Tax		2013	2014	2015	2016	2018	2019	2020	2021	2022
Personal Income Tax		2013	2014	2015	2016	2018	2019	2020	2021	2022
Trade Tax			2014	2015	2016	2018	2019	2020	2021	2022
Social Security						2018	2019	2020	2021	2022
Non-residents						2018	2019	2020	2021	2022

In 2022 permanent differences primarily included as increases the amount of 3,600 thousand euros (2,532 thousand euros in 2021) from the donation given to the Canal de Isabel II Foundation and considered non-deductible pursuant to Article 15.e) of Corporate Income Tax Law 27/2014.

According to article 7 of Law 16/2012, of 27 December 2012, tax years commencing in 2013 and 2014, permits the deduction from taxable income of up to 70% of the amortisation/depreciation that would have been tax deductible had the percentage pursuant to 12.1 and 12.2 of Corporate Tax Law 27/2014 not been applied. Non-tax-deductible accounting amortisation and depreciation that was not tax deductible in accordance with the above, shall be deducted on a straight-line basis over a period of 10 years or the useful life of the asset, as of the first tax period beginning in 2015. Therefore, in 2022, reductions in temporary differences originating in prior years include an amount of 6,145 thousand euros (6,013 thousand euros in 2021) in respect of the reversal of part of the amortisation/depreciation not considered as tax deductible in 2013 and 2014. Also, as a result of integrating in 2022 the Deferred tax assets arising from the merger of Hidráulica Santillana, S.A., in 2022 the deferred tax asset recognised was lower by 4 thousand euros, bringing cumulative deferred tax assets recognised at 31 December 2022 for this item to 124 thousand euros.

In accordance with current tax regulations, Colombian companies are subject to income and supplementary taxes, the applicable rate being 35% in 2022 and 31% in 2021. Taxable income for the purpose of occasional gains tax is taxed at a 10% rate. From year 2021, the presumptive income rate is zero percent (0%).

In Ecuador, in 2022 and 2021 the company declared as final corporate income tax the amount resulting from application of a 17.5% rate on taxable profits, since this was higher than the minimum advanced payment of the relevant corporate income tax.

According to the tax code of the Dominican Republic, corporate income tax is either the result of applying a 27% rate to taxable income or 1% of taxable assets, whichever is higher.

In Brazil, the applicable tax rate is 34% on taxable profits. Emissão recorded deferred taxes results amounting to 29,074 thousand Brazilian reais (5,220 thousand euros) and 11,077 thousand Brazilian reais (1,752 thousand euros in 2021) in its income statement in 2022, as the company recorded losses in both years.

28. BALANCES AND OPERATIONS WITH RELATED PARTIES**a) Balances and Operations with Related Parties**

The consolidated annual accounts include transactions carried out with the following related parties: associates and jointly controlled entities, which are accounted for using the equity method; shareholders of the Company and related companies; and key management personnel of the Group and members of the board of directors.

Details of receivables from and payables to related parties are as follows:

In thousands of Euros				
	2022		2021	
	Debtor balances (Notes 14 and 16)	Credit balance (Notes 20 and 22)	Debtor balances (Notes 14 and 16)	Credit balance (Notes 20 and 22)
Group companies				
Canal de Isabel II (Public Entity)	1,765	(203,096)	6,263	(223,547)
Aguas de Alcalá, UTE	586	-	624	-
Other	1,561	(4,485)	7	-
Associated companies				
Compañía de Acueducto y Alcantarillado Metropolitano de Santa Marta, S.A.E.S.P.	-	(21)	-	(20)
Avanzadas soluciones de Acueducto y Alcantarillado, S.A.	992	-	1,205	-
GSS Venture, S.L.	-	(30)	-	(627)
Other	(89)	(42)	-	(51)
Total	4,815	(207,674)	8,099	(224,245)

In accordance with the Contract-Programme for debt with the Public entity for the sum of 3197,993 thousand euros (212,837 thousand euros in 2021) for the item "Mirror Debt" corresponding to the Company's obligation, as per financing contracts, to pay the Public Entity the sums provided for the purpose of meeting the compliance arising from such Contracts.

The origin of this payable was the non-monetary contribution made in 2012, as described in note 2, whereby the debt of the contributed activity was transferred from the Public Entity to the Parent. Both parties recognised the initial debt and the terms of future repayment, as well as the procedure to be followed to settle interest and repay the debt. The ownership of the above debts with financial institutions correspond to the Public Entity. The Company assumed all of the obligations originally agreed in these contracts with financial institutions for the corresponding sums. The maturities and interest rates applicable to the balances payable by the Parent to the Public Entity are those specified in the contracts between the latter and the financial institutions (see note 20). v). In 2022 the weighted average interest rate of the mirror debt was 1.96%. (2.04% in 2021).

The heading Canal de Isabel II (Public Entity) includes the balances of companies paying tax under the tax consolidation system.

Inside the Group and outside Spain, operations have been carried out with Avanzadas Soluciones de Acueducto y Alcantarillado S.A: during fiscal 2022 and fiscal 2021 for an amount of 244 thousand euros (288 thousand euros in 2021). No transactions were carried out with Acueducto y Alcantarillado Metropolitano de Santa Marta, S.A. E.S.P during 2022 and 2021.

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Details of the Public Entity's balances with financial institutions at 31 December 2022 in thousands of euros, excluding accrued interest payable, as a result of the loan transactions from the mirror debt are as follows:

FINANCIAL INSTITUTIONS	ORIGINAL SUM	TRANSACTION	EXPIRATION DATE	ANNUAL INTEREST RATE	CURRENT	NON-CURRENT	TOTAL
B.E.I. ⁽¹⁾	100,000	Loan	15-oct-35	Fixed (3.268%)	4,762	57,143	61,905
B.E.I. ⁽²⁾	200,000	Loan	21-feb-36	Fixed (1.342%)	10,000	125,000	135,000
TOTAL					14,762	182,143	196,905

(1) Fixed-rate loan from the European Investment Bank.

(2) Fixed-rate loan from the European Investment Bank.

As of 31 December 2021, the balances were as follows:

FINANCIAL INSTITUTIONS	ORIGINAL SUM	TRANSACTION	EXPIRATION DATE	ANNUAL INTEREST RATE	CURRENT	NON-CURRENT	TOTAL
- B.E.I. ⁽¹⁾	100,000	Loan	01-oct-35	Fixed (3.268%)	4,762	61,905	66,667
- B.E.I. ⁽²⁾	200,000	Loan	21-feb-36	Fixed (1.342%)	10,000	135,000	145,000
TOTAL					14,762	196,905	211,667

(1) Fixed-rate loan from the European Investment Bank.

(2) Fixed-rate loan from the European Investment Bank.

Interest accrued and not paid as of 31 December 2022 arising from mirror debt is 1,088 thousand euros (1,170 thousand euros in 2021).

Accrued interest payable relating to the mirror debt at 31 December 2017 amounted to 1,689 thousand euros (1,821 thousand euros in 2016). The receivable from the Public Entity mainly reflects the amounts derived from the tax obligations of the Public Entity that were settled by the Parent in accordance with the Contract-Programme.

At 31 December 2022, other financial assets, other assets and trade and other receivables include 69,841 thousand euros, 66,975 thousand euros and 27,293 thousand euros, respectively, receivable from shareholders that are town or city councils (63,463 thousand euros, 62,488 thousand euros and 36,670 thousand euros, respectively, in 2021). Dividends payable include 8,921 thousand euros payable to these same shareholders (12,820 thousand euros in 2021).

The transactions carried out by the Group with Canal de Isabel II (Public Entity) at December 31, 2022 for financial expenses arising from mirror debt, operating expenses and other operating income amount to 4,009 thousand euros (4,669 thousand euros in 2021); 3,289 thousand euros (3,289 thousand euros in 2021) and 241 thousand euros (220 thousand euros in 2021), respectively.

Transactions carried out by the Group with GSS Venture amount to 2,379 thousand euros (4,036 thousand euros in 2021) and primarily relate to telemarketing activities.

As a result of town councils gaining stakes in its share capital, at 31 December 2022 the Parent has carried out transactions with shareholders, primarily in the form of services and tax settlements totalling 46,201 thousand euros and 24,699 thousand euros, respectively (41,440 thousand euros and 24,136 thousand euros, respectively, in 2021).

b) Information on the members of the Board of Directors and Senior Management Personnel

During 2022, members of the Board of Directors, in accordance with the articles of association of the company, only received expenses for attendance at board meetings for the sum of 97,8 thousand euros, having received no other remuneration for any items (90 thousand euros as of 31 December 2021) nor have they received any advances or loans nor do any outstanding balances as of 31 December 2022 or 2021. Neither the members of the board of directors nor senior management personnel have received any advances or loans at 31 December 2022 and 2021, and the Parent has not extended any guarantees on their behalf. The Parent has a civil liability insurance policy in place for damages caused by acts or omissions while carrying out its functions, with a premium of 1,593 thousand euros. In 2022 and 2021, the Parent has no pension plans or life insurance obligations with former or current members of its board of directors.

Senior management personnel are the members of the Parent Company's Management Committee. In 2022, the Company's senior management received total remuneration of 1,018 thousand euros (935 thousand euros in 2021). Neither the members of the board of directors nor senior management personnel have received any advances or loans, and the Parent has not extended any guarantees on their behalf. The provisions allocated for remuneration pending payment of the AVANZA Performance Management System at 31 December 2022 amounted to 193 thousand euros (182 thousand euros at 31 December 2021). With respect to the Senior Management, the Parent Company has obligations contracts in the shape of pensions and life insurance (see note 3(o)). Furthermore, in 2022 they received 11 thousand euros (9 thousand euros in 2021) for the seniority policy.

c) Conflicts of interest concerning the directors of the Parent..

As of 31 December 2022 and 2021, the Directors of the Parent and their related parties have had no conflicts of interest requiring disclosure in accordance with Article 229 of the Consolidated Spanish Companies Act.

d) Transactions unrelated to normal business or under different market conditions carried out by the Directors

During 2022 and 2021, the Parent's Directors did not carry out any transactions unrelated to normal business or under different market conditions with the Company or with Group companies.

29. RISK MANAGEMENT AND FAIR VALUE**a) Exchange Rate Risk**

The primary objective of the Group's financial risk management policy is to ensure that sufficient funds are available to meet its financial commitments and to protect the value of its cash flows, assets and liabilities. The Group's policy is to hedge against all significant and unacceptable exposure, provided that appropriate instruments exist, and the cost of the hedging operation is reasonable.

Group's activities are exposed to various financial risks: market risk (including exchange rate risk, fair value interest risk and price risk), credit risk, liquidity risk and cash flow interest rate risk. The management programme of the global risk of the Group is based on the uncertainty of financial markets and tries to minimise the potential negative effects on the financial profitability of the Group.

(i) Exchange Rate Risk

The risk arising from exchange rate volatility is not considered to be significant and primarily relates to fluctuations in the Colombian Peso, Dominican Peso and Brazilian Real reflected in the valuation of assets and liabilities located in Colombia, the Dominican Republic and Brazil. This risk is managed using resources denominated in the corresponding foreign currencies.

The Group's exposure to currency risk at 31 December 2021 and 2021 is detailed below. The tables show the carrying amount of the Group's financial assets and liabilities denominated in foreign currency:

In thousands of euros						
2022						
	Colombian pesos	Dominican Pesos	Dollars (Ecuador)	Uruguayan Pesos	Brazilian Reals	Total
ASSETS						
Equity instruments	82	-	-	-	38	120
Credits to third parties	-	-	-	-	23,341	23,341
Other financial assets	635	23	-	-	115	773
Total non-current financial assets	717	23	-	-	23,494	24,234
Trade debtors and other accounts receivable	13,193	7,184	2,102	-	630	23,109
Short-term financial investments	-	8	-	-	78	86
Total current financial assets	13,193	7,192	2,102	-	708	23,195
Total financial assets	13,910	7,215	2,102	-	24,202	47,429
LIABILITIES						
Debt with credit institutions	-	-	85	-	-	85
Other financial liabilities	-	35	411	-	15,954	16,400
Financial debts with group companies	-	-	-	-	-	-
Total non-current liabilities	-	35	496	-	15,954	16,485
Debt with credit institutions	8	-	546	-	430	984
Other financial liabilities	1,171	1,804	2,839	-	2,151	7,965
Trade creditors and other accounts payable	5,151	9	860	-	1,915	7,935
Total current liabilities	6,330	1,813	4,245	-	4,496	16,884
Total financial liabilities	6,330	1,848	4,741	-	20,450	33,369
Gross exposure of the balance sheet	7,580	5,367	(2,639)	-	3,752	14,060

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In thousands of euros						
	2021 ^(*)					
	Colombian pesos	Dominican Pesos	Dollars (Ecuador)	Uruguayan Pesos	Brazilian Reals	Total
ASSETS						
Equity instruments	94	-	-	-	1,094	1,188
Credits to third parties	-	-	-	-	20,815	20,815
Other financial assets	-	25	-	-	354	379
Total non-current financial assets	94	25	-	-	22,263	22,382
Trade debtors and other accounts receivable	21,564	6,614	1,873	-	1,969	32,020
Short-term financial investments	754	31	-	-	107	892
Total current financial assets	22,318	6,645	1,873	-	2,076	32,912
Total financial assets	22,412	6,670	1,873	-	24,339	55,294
LIABILITIES						
Debt with credit institutions	-	-	592	-	-	592
Other financial liabilities	46	85	936	-	12,768	13,835
Financial debts with group companies	-	-	-	-	-	-
Total non-current liabilities	46	85	1,528	-	12,768	14,427
Debt with credit institutions	-	-	736	-	583	1,319
Other financial liabilities	1,250	1,654	2,374	-	1,082	6,360
Trade creditors and other accounts payable	5,112	19	649	-	1,462	7,242
Total current liabilities	6,362	1,673	3,759	-	3,127	14,921
Total financial liabilities	6,408	1,758	5,287	-	15,895	29,348
Gross exposure of the balance sheet	16,004	4,912	(3,414)	-	8,444	25,946

(*) Restated information.

(ii) Credit risk

The Group's exposure to credit risk is mainly affected by the individual characteristics of each customer; however, the Group also considers the demography of the customer base, since this can also affect the credit risk.

The Group establishes a provision for impairment that represents its estimate of losses incurred in relation to trade debtors and other accounts receivable. This provision mainly comprises a specific loss component related to individually significant exposures and a collective loss component for similar groups of assets related to losses incurred but yet to be identified. The provision for collective loss is established according to the historic information of payment statistics for similar financial assets.

The creditworthiness of the trade debtors and other accounts receivable is assessed on the basis of a credit policy established by the management of the Group companies, analysing the customer's credit risk, grouping together trade debtors and other accounts receivable based on their characteristics.

Based on its analysis of the customer's credit risk, the Group considers that, with the exception of the foregoing, a greater provision for impairment for the other trade debtors other than that indicated in note 16, is not necessary.

The bad debt estimates with regard to trade debtors and other accounts receivable and debt instruments measured at amortised cost, are used to record impairment losses unless the Group is satisfied that the

amount owed cannot be recovered; at that point, the amount is considered unrecoverable and it is directly disposed of against the financial asset.

The most significant customer is Madrid City Council, which generates 2.35% of the Group's total revenues (2.21% in 2021).

The following tables show an ageing analysis of financial assets that are past-due but not impaired at 31 December 2022 and 2021:

	2022	2021
0 30 days	395	347
31 60 days	1,528	1,741
61 90 days	6,984	4,863
91 180 days	25,415	20,998
181 360 days	11,761	13,997
More than 361 days	59,173	61,561
Total	105,256	103,507

The Group assesses credit risk, analysing whether there is objective evidence of impairment of a financial asset as a result of one or more events that occurred after the initial recognition of the asset and the event or events have an impact on the estimated future cash flows of the financial asset that can be reliably estimated.

(iii) Interest Rate Risk regarding Cash Flows

Interest rate risk constitutes the impact on profit of a rise in interest rates, which increases the cost of borrowings. The Group endeavours to mitigate this risk through drawdowns on fixed-rate loans and the issuance of bonds, which at 31 December 2021 represent 100% of total fixed-rate borrowings; hence there is no interest rate risk (100% in 2021).

The interest rate on variable-rate net debt is pegged to the Euribor in Spain and the DTF and Libor in Colombia. The estimated sensitivity of the finance costs included in the net finance cost at 31 December 2022 for the year due to changes in interest rates, and the structure of net debt, are as follows:

	Increase of interest rate	Impact on financial result (in thousands of euros)
Euribor	± 10 bp	-
FTD (DTF in Spanish Fixed-Term Deposit)	± 10 bp	-
Libor	± 10 bp	-

Details at 31 December 2021 are as follows:

	Increase of interest rate	Impact on financial result (in thousands of euros)
Euribor	± 10 bp	-
FTD (DTF in Spanish Fixed-Term Deposit)	± 10 bp	-
Libor	± 10 bp	-

(iv) Liquidity risk

The liquidity risk is the risk of the Group having trouble fulfilling its obligations related to its financial liabilities, suppliers and creditors, which are paid in cash or other financial assets. The Group's policy for managing liquidity is to ensure, insofar as possible, that it always has sufficient liquidity to fulfil its obligations when due, both under normal and difficult conditions, without incurring unacceptable losses or risking the Group's reputation.

The Group also analyses incoming cash expected through trade debtors and other receivables together with outgoings expected through trade creditors and other payables.

The Group's exposure to liquidity risk at 31 December 2022 and 2021 is shown below. These tables reflect the analysis of financial liabilities by remaining contractual maturity dates:

In thousands of euros						
2022						
	2023	2024	2025	2026	2027	Subsequent years
Debentures and other marketable securities	7,111	-	499,562	-	-	-
Debt with credit institutions	985	85	-	-	-	-
Other financial liabilities	63,342	28,230	9,186	7,585	7,532	57,786
Debt with group and associated companies	20,350	14,762	14,762	14,762	14,762	123,095
Suppliers	14,341	-	-	-	-	-
Suppliers, group and associated companies	5,160	-	-	-	-	-
Sundry creditors	135,843	-	-	-	-	-
Advance payments from customers	98	-	-	-	-	-
Personnel	18,063	-	-	-	-	-
Total	265,293	43,077	523,510	22,347	22,294	180,881

In thousands of euros						
2021 ^(*)						
	2022	2023	2024	2025	2026	Subsequent years
Debentures and other marketable securities	7,111	-	-	499,360	-	-
Debt with credit institutions	1,318	593	-	-	-	-
Other financial liabilities	57,984	18,358	10,755	8,428	6,883	64,280
Debt with group and associated companies	21,318	14,762	14,762	14,762	14,762	137,857
Suppliers	9,184	-	-	-	-	-
Suppliers, group and associated companies	6,105	-	-	-	-	-
Sundry creditors	106,561	-	-	-	-	-
Advanced payments from customers	99	-	-	-	-	-
Personnel	22,958	-	-	-	-	-
Total	232,618	33,713	25,517	522,550	21,645	202,137

(*) Restated information.

Additionally, at 31 December 2022 the Parent Company has credit facilities with an outstanding amount of 104,000 thousand euros (104,000 thousand euros in 2021).

b) Financial instruments and fair value

The carrying amounts of financial instruments, classified by category, are shown below. The Group has no financial instruments carried at fair value at 31 December 2022 and 2021 and estimates the fair value of its financial instruments carried at cost or amortised cost to be similar to their carrying amount.

In thousands of euros			
2022			
	Loans and items receivable	Debits and Items Payable	Total
Financial assets not valued at fair value			
Loans to group companies	3,086	-	3,086
Equity instruments	65,644	-	65,644
Credits to third parties	450,929	-	450,929
Deposits and guarantees	5,411	-	5,411
Trade and Service Provision Customers	157,433	-	157,433
Other accounts receivable	43,156	-	43,156
Financial liabilities not valued at reasonable value			
Debt with group and associated companies	-	202,492	202,492
Debt with credit institutions	-	1,070	1,070
Other financial liabilities	-	173,661	173,661
GOVERNMENT GRANTS	-	766,282	766,282
Suppliers	-	14,341	14,341
Suppliers, group and associated companies	-	5,160	5,160
Sundry creditors	-	135,843	135,843
Other accounts payable	-	98	98
Personnel	-	18,063	18,063
Total	725,659	1,317,010	2,042,669

In thousands of euros			
2021 ^(*)			
	Loans and Items Receivable	Debits and Items Payable	Total
Financial assets not valued at fair value			
Loans to group companies	6,006	-	6,006
Equity instruments	66,712	-	66,712
Credits to third parties	92,687	-	92,687
Deposits and guarantees	11,768	-	11,768
Trade and Service Provision Customers	157,277	-	157,277
Other accounts receivable	43,983	-	43,983
Financial liabilities not valued at reasonable value			
Debt with group and associated companies	-	218,223	218,223
Debt with credit institutions	-	1,911	1,911
Other financial liabilities	-	166,540	166,540
GOVERNMENT GRANTS	-	761,574	761,574
Suppliers	-	9,184	9,184
Suppliers, group and associated companies	-	6,105	6,105
Sundry creditors	-	106,561	106,561
Other accounts payable	-	99	99
Personnel	-	22,958	22,958
Total	378,433	1,293,155	1,671,588

(*) Restated information.

(i) Net profit and loss by category of financial assets and liabilities

Details of losses and gains on financial assets are as follows:

In thousands of euros		
	Loans and Items Receivable	
	2022	2021
Financial revenue applying the amortised cost method	814	719
Financial costs applying the amortised cost method	(5,188)	(417)
Finance income applying the amortised cost method – Alcalá joint venture	42	48
Finance income applying the amortised cost method Other credits	6	6
Net Earnings/(Losses) on the profit and loss account	(4,326)	356

The amount of financial income and costs is mainly derived from the revaluation in the year of receivables at amortised cost from certain Local Authorities for works carried out on the water distribution and sewer infrastructure, financed through rate supplements.

Details of losses and gains on financial liabilities are as follows:

In thousands of euros		
	Debits and Items Payable	
	2022	2021 ^(*)
Financial expenditure applying the amortised cost method	(2,173)	(2,175)
Interests corresponding to obligations and bonds	(8,603)	(8,599)
Interest from debt with group companies	(4,009)	(4,669)
Interest from debt with group companies	(366)	(1,512)
Net Earnings/(Losses) on the profit and loss account	(15,151)	(16,955)

(*) Restated information.

Finance costs at amortised cost are those derived from the updating of advances received for the use of water during the year.

30. INFORMATION ON EMPLOYEES

The average number of employees, broken down by categories, is as follows:

	2022	2021
Management	27	31
Technical personnel	1,527	1,592
Administrative	1,686	1,768
Workers and auxiliary personnel	256	385
Total	3,496	3,776
Partially retired	84	81

The average headcount of the equity-accounted investees Metroagua, GSS Venture and ASAA, by professional category, is as follows:

	2022	2021
Management	8	12
Technical personnel	22	38
Administrative	34	32
Workers and auxiliary personnel	160	183
Total	224	265

At the 2022 and 2021 reporting date, the distribution by gender of the Group's personnel, members of the board of directors and senior management personnel of the Parent, is as follows:

	2022		2021	
	Women	Men	Women	Men
Members of the board of directors	5	10	4	7
Management	11	14	12	14
Technical personnel	545	948	578	1,044
Administrative	489	1,173	531	1,177
Workers and auxiliary personnel	20	224	30	285
Total	1,070	2,369	1,155	2,527
Partially retired	18	82	14	58

The year-end distribution by gender of personnel, members of the board of directors and senior management of the equity-accounted investees Metroagua, GSS Venture and ASAA is as follows:

	2022		2021	
	Women	Men	Women	Men
Members of the board of directors			-	-
Management	1	7	2	7
Technical personnel	15	4	21	12
Administrative	16	13	15	11
Workers and auxiliary personnel	95	32	120	53
Total	127	56	158	83

The average number of employees of the Cooperative during the financial year 2022 and 2021, broken down by category, is as follows:

	In thousands of euros	
	2022	2021
Technical personnel	12	12
Administrative	41	55
Workers and auxiliary personnel	24	15
Total	77	82

31. AUDIT FEES

AUREN AUDITORES SP, S.L.P., the auditors of the Group's consolidated annual financial statements, have invoiced the following fees for professional services in the periods ended on 31 December 2022 and 2021:

	In thousands of euros	
	2022	2021
For auditing services	314	451
Other audit-related services	87	87
Total	401	538

The concept "Other services", in the financial year 2022, includes the limited review of the TJV Aguas de Alcalá for 3 thousand euros, the agreed procedures report "Ecoembes" for 3 thousand euros, the review of the information of the Internal Control System of Financial Information (SCIIF) for 11 thousand euros, the review of the non-financial information of the Annual Report for 65 thousand euros, and reports on agreed procedures for subsidies and others, of the company Canal Gestión Lanzarote, for 5 thousand euros.

"Audit services" in 2021 includes fees for auditing the Company's balance Sheet at 31 August 2021 in the amount of 136 thousand euros.

Other AUREN International affiliates have invoiced the Group the following fees and expenses for professional services during the year ending 31 December 2022 and 2021:

In thousands of euros		
	2022	2021
For auditing services	77	77
Total	77	77

The amounts detailed in the above tables include the total fees for services rendered in 2022 and 2021, irrespective of the date of invoice.

32. EVENTS AFTER THE CLOSING DATE

- **Canal de Isabel II, S.A., M.P.**

The Parent Company executed, notarised and filed with the relevant public registries for deposit or registration, the resolutions adopted at the Extraordinary General Meeting held on 21 December 2022, which, inter alia, amended certain articles of the Parent Company's Articles of Association.

Pursuant to the provisions of Decree 181/1996 of 5 December, which governs the System of Lease Deposits in the Region of Madrid, as well as the provisions of Law 39/2015, of 1 October, on the Common Administrative Procedure of Public Administrations, the Social Housing Agency of the Region of Madrid, on 12 January 2023, agreed to grant the "consumption advance" deposit agreement to the Parent Company, with the latter having paid an amount of 39.8 million euros within the legally established term.

The Board of Directors of the Parent Company, at its meeting held on 26 January 2023, resolved to set up the Sustainability Committee, in accordance with article 21 of the Articles of Association in force, as well as its composition.

On 16 February 2023, the Public Entity Canal de Isabel II transferred to Moralzarzal City Council the shares corresponding to 0.036 percent of the Parent Company's share capital, under the Agreement of 20 January 2023, relating to the incorporation of Moralzarzal City Council into the management model of Canal de Isabel II, signed between the Region of Madrid, Canal de Isabel II and Moralzarzal City Council.

The Board of Directors of the Parent Company, at its meeting held on 23 February 2023, acknowledged the voluntary resignation of Mr Pascual Fernández Martínez as a Director, from his positions as Vice-Chairman of the Board of Directors and Chief Executive Officer and from the other positions he had been holding in the Canal Group. Likewise, the Board of Directors of the Parent Company, at the aforementioned meeting, following a report from the Appointments and Remuneration Committee, appointed Mr Mariano González Sáez as Vice-Chairman of the Board of Directors and Chief Executive Officer of the Company, being included in the category of executive director.

(See Note 23 (f)).

- **Canal Extensia América, S.A. (formerly INASSA)**

- **Public Interest Action Víctor Díaz:**

On 19 February 2023, Canal Extensia America was notified of the second instance ruling, which was entirely favourable to the company's interests.

- **Corporate liability lawsuits**

It is expected that in the first months of 2023 the Supreme Court of Justice will order the supporting of the cassation appeal filed against the judgement delivered in the case of the former Executive Chairman of Canal Extensia America.

- **AAA Dominicana, S.A.:**

- **Early termination agreement of the contract with CAASD**

The company decided to submit the dispute with the CAASD to arbitration before the Chamber of Commerce and Production of Santo Domingo on 15 February 2022.

The lawsuit seeks, in general terms, the recognition of all amounts owed by the CAASD for commercial management, installation and maintenance of meters, cut-off and reconnection of the service, as well as lost profits due to the early termination of the contract, including the payment of ITBIS due to recent pronouncements by the Dominican courts on the matter, as well as other compensation for the set of irregular conduct carried out by the CAASD in its eagerness to irregularly terminate the contract.

The initial hearing will be continued on 22 March 2023.

Based on the information available up to the date of preparation of these consolidated annual accounts and the external advice received by the Canal de Isabel II Group and the analysis and assessment carried out by Management on the possible impact that could arise from the accounts receivable of the company AAA Dominicana, S.A. against the CAASD, no indications have been detected that would give rise to the recording of any provision or that any additional liability would arise as a result of the aforementioned actions.

- **Avanzadas soluciones de Acueducto y Alcantarillado, S.A. (ASAA)**

- **Verification of the subsidy invoicing process. Audit of the operating contract with the District of- ASAA:**

As a result of this process, the Company carried out the formalities with the Attorney General's Office of the Republic and is pending formalisation with the District of Riohacha of the conciliation reached by the parties as a result of the process of cadastral updating and compensation of the values collected for subsidies, however, the control body stated that this is a matter that should be known by the administrative contentious justice, so the corresponding lawsuit was filed on February 17, 2022.

On 19 January 2023, the Initial Hearing was held at which the parties agreed to conciliate, and the Judge gave the parties a period of 10 days to submit their conciliation agreement.

On 1 February 2023 the parties have submitted to the Court their settlement agreement whereby the District accepts the debt claimed by ASAA and undertakes to pay the amount due by 28 April 2023.

On 07 March 2023 ASAA was notified of the order issued by the Administrative Court of La Guajira where the settlement agreement was rejected, for alleged expiration of the action of contractual disputes, an appeal will be lodged.

- **Extension of the term of the contract:**

On 24 February 2023, ASAA and the District of Rioacha signed an agreement extending the operation contract for the provision of water supply and sanitation services for a period of three months. The contract will thus be effective until 31 May 2023.

• **Sucursal de Canal Extensia América, S.A. in Panama**

- **Commercial management contract and reinstatement of service (Arbitration Award Concerning Contract No. 115-2010)**

On 21 January 2022, the previous request was reiterated and the Chief Justice of the Supreme Court of Justice was again asked to issue the request letter.

On 26 January 2023, Penalty Letter No. 257 of the Fifteenth Civil Court of the First Judicial Circuit of Panama, to which Order No. 2557 issued by the same Court was attached, was filed before the Supreme Court of Justice of Panama. In this Order, the President of the Republic is requested, through the Magistrate President of the Supreme Court of Justice, to take the necessary steps to comply with the award.

- **Contract No. 08-2012 INASSA CLEOP LA PINTADA- CONADES CONSORTIUM**

On 6 February 2023, the Third Chamber of the Contentious Administrative Division of the Supreme Court of Justice handed down a Judgment by which it (i) recognises the illegality of Resolution No. 149 of 22 June 2017, issued by the Ministry of the Presidency-National Council for Sustainable Development (CONADES) Coordinating and Executing Unit of the Programmes; (ii) declares that the State is responsible for the breach of Contract No. 08-2012 of 22 January 2013; and (iii) orders the Ministry of the Presidency-National Council for Sustainable Development (CONADES) to pay to the CONSORTIUM, the expenses incurred by the CONSORTIUM up to the moment in which said Institution administratively terminated Contract No. 08-2012 of 22 January.

• **Emissão, S.A.**

- **Financial liabilities of Emissão, S.A.**

Currently, we are making progress in the negotiations to enter into an Individual Transaction proposal with the Brazilian tax authorities (Receita Federal Do Brasil RFB and Procuradoria General de Fazenda Nacional PGFN), for the total amount of the debt, in accordance with the provisions of the RFB No 247/2022 and PGFN No 6757/2022, these regulations provide important benefits for taxpayers who meet the requirements for the conclusion of the agreement, among the main ones, discounts of up to 65% of the total amount owed, payment in instalments for up to 120 months, as well as various types of flexibility in relation to interest, guarantees, seizures, among others.

According to information from the two entities' computer systems, Emissão has a tax liability amounting to 92,690 thousand Brazilian reais (16,643 thousand euros).

In addition, according to PGFN ordinance 6.757/22, Emissão may make use of accumulated tax loss carry-forwards to offset part of the tax debt, according to the reviews carried out by tax experts

Emissão may offset accumulated tax loss carry-forwards in the amount of 51,706 thousand Brazilian reais (9,284 thousand euros).

- **Petition presented by Sebastião Cristovam no. 0099759-31.2020.8.19.0001**

On 28 February 2023, the Court of Appeal ruled on the appeals lodged by the parties, upholding the claim brought by Sebastião Cristovam. In this regard, the Court has deemed the argument in the appeal filed by Sebastiao to be admissible, in the sense of considering valid the agreement of 15 May 2015, signed by the shareholders, in which their liability was limited, solely, to the shares held by them. At the date of preparation of these annual accounts, the analysis of the relevant appeals against the decision that allowed the claimant's appeal and dismissed the defendant's appeal is pending.

- **Amerika Software**

On 1 March, the action for protection of fundamental rights brought by Triple A against the DNDA seeking to reverse the decision not to consider the objection to the sworn estimate was notified.

On 2 March, the action for protection of fundamental rights was filed, arguing that the objection to the sworn estimate should not be considered. The judge hearing the proceedings for protection of fundamental rights will have 10 working days to rule on the action for protection of fundamental rights.

Currently, we are awaiting the decision of the High Court of the Judicial District of Bogotá on the appeal filed by Triple A and after this, the DNDA will set a date for the initial hearing.

APPENDICES

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Appendix I (1) SEGMENT REPORTING 2022

(In thousand euros)			
	SEGMENTS		TOTAL
	National	International	
Ordinary income	919,613	28,114	947,727
- Services to external clients	919,367	27,841	947,208
- Inter-segment services	246	273	519
Pre-tax profits of segments	115,250	(5,289)	109,961
Finance incomes	6,965	11,495	18,460
Finance expenses	(20,585)	(2,325)	(22,910)
Amortisation and depreciation	(130,274)	(1,591)	(131,865)
Share of profits for the financial year of associated companies entered using participation method	(36)	(1)	(37)
Losses, impairment and variation in provisions	1,777	(1,204)	573
- Losses / (Reversals of losses) for impairment of fixed assets	2,067	37	2,104
- Losses / (Reversal of losses) for investment impairment	(290)	(1,241)	(1,531)
Income tax expense	(587)	2,986	2,399
Segment assets	5,107,962	37,162	5,145,124
Segment liabilities	2,316,187	61,579	2,377,766
Net cash flows related to	(288,439)	(8,818)	(297,257)
- Operating activities	209,180	6,395	215,575
- Investment	(427,318)	(13,064)	(440,382)
- Financing	(70,301)	(2,149)	(72,450)
Acquisition of non-current assets during the financial year	99,879	1,745	101,624

This Appendix forms an integral part of note 4 to the report on the Consolidated Financial Statements, in conjunction with which it should be read.

APPENDICES

Appendix I (2) SEGMENT REPORTING 2021(*)

(In thousand euros)			
	SEGMENTS		TOTAL
	National	International	
Ordinary income	890,602	24,422	915,024
- Services to external clients	890,602	24,174	914,776
- Inter-segment services	-	248	248
Pre-tax profits of segments	169,332	(8,927)	160,405
Finance incomes	5,370	1,496	6,866
Finance expenses	(17,134)	(6,821)	(23,955)
Amortisation and depreciation	(128,076)	(1,521)	(129,597)
Share of profits for the financial year of associated companies entered using participation method	11	(12)	(1)
Losses, impairment and variation in provisions	12,921	53	12,974
- Losses / (Reversals of losses) for impairment of fixed assets	12,944	61	13,005
- Losses / (Reversal of losses) for investment impairment	(23)	(8)	(31)
Income tax expense	(5,685)	(84)	(5,769)
Segment assets	5,066,753	34,751	5,101,504
Segment liabilities	2,312,550	49,390	2,361,940
Net cash flows related to	89,654	2,458	92,112
- Operating activities	292,891	8,031	300,922
- Investment	(57,591)	(1,579)	(59,170)
- Financing	(145,646)	(3,994)	(149,640)
Acquisition of non-current assets during the financial year	81,686	2,379	84,065

(*) Restated information.

This Appendix forms an integral part of note 4 to the report on the Consolidated Financial Statements, in conjunction with which it should be read.

APPENDICES

Appendix II (1) DETAILS OF SUBSIDIARIES AT 31 DECEMBER 2022

Company	Registered Address	Activity	Auditor	Direct	Indirect	Total
Canal Extensia, S.A.U.	Santa Engracia 125 - Madrid	Shareholding	AUREN	100.00 %	-	100.00 %
Canal Gestión Lanzarote, S.A.U.	Ctra. Arrecife-Las Caletas Km.3,5 - Lanzarote	Integral water cycle management	AUREN	100.00 %	-	100.00 %
Canal Extensia América, S.A. (formerly INASSA)	Barranquilla (Colombia)	Integral water cycle operator	AUREN	-	81.84 %	81.84 %
Gestus Gestión & Servicios S.A.S.	Barranquilla (Colombia)	Comprehensive consultancy service provision for tax collection management	AUREN	-	77.03 %	77.03 %
AAA Dominicana, S.A.	Santo Domingo (Dominican Republic)	Integral water cycle	AUREN	-	53.20 %	53.20 %
AAA Ecuador Agacase, S.A.	Ecuador	Public resources management	AUREN	-	82.02 %	82.02 %
Amagua, CEM	Ecuador	Integral water cycle	AUREN	-	57.41 %	57.41 %
Amerika Tecnología y Servicios, S.A.S.	Barranquilla (Colombia)	Design, maintenance, development, support and management of information technology projects	AUREN	-	81.84 %	81.84 %
Soluciones Andinas de Aguas, S.R.L.	Montevideo (Uruguay)	Investment and asset holding	AUREN	-	90.92 %	90.92 %
Interamericanas de Aguas de México, S.A.	Mexico	Integral water cycle	-	-	81.05 %	81.05 %
Mexaqua, S.A.	Mexico	Integral water cycle	-	-	56.73 %	56.73 %
Emissão, S.A.	Brazil	Maintenance, operation, distribution and sanitation of water	AUREN	-	68.19 %	68.19 %
Fontes da Serra Saneamiento de Guapimirim Ltda.	Brazil	Integral water cycle	AUREN	-	66.83 %	66.83 %

This Appendix forms an integral part of the report on the Consolidated Financial Statements, in conjunction with which it should be read.

APPENDICES

Appendix II (2) DETAILS OF SUBSIDIARIES AT 31 DECEMBER 2021

Company	Registered Address	Activity	Auditor	Direct	Indirect	Total
Canal Extensia, S.A.U.	Santa Engracia 125 - Madrid	Shareholding	AUREN	100.00 %	-	100.00 %
Hidráulica Santillana, S.A.U.	San Enrique 3 - Madrid	Maintenance, operation, distribution and sanitation of water	AUREN	100.00 %	-	100.00 %
Canal Gestión Lanzarote, S.A.U.	Ctra. Arrecife-Las Caletas Km.3,5 - Lanzarote	Integral water cycle management	AUREN	100.00 %	-	100.00 %
Ocio y Deporte Canal, S.L.	Santa Engracia no. 125-Madrid	Commercial and sporting operation	AUREN	100.00 %	-	100.00 %
Canal Energía, S.L.	José Abascal 10 - Madrid	Holding company	AUREN	80.00 %	20.00 %	100.00 %
Canal Extensia América, S.A. (INASSA)	Barranquilla (Colombia)	Integral water cycle operator	AUREN	-	81.84 %	81.84 %
Gestus Gestión & Servicios S.A.S.	Barranquilla (Colombia)	Comprehensive consultancy service provision for tax collection management	AUREN	-	77.03 %	77.03 %
AAA Dominicana, S.A.	Santo Domingo (Dominican Republic)	Integral water cycle	AUREN	-	53.20 %	53.20 %
AAA Ecuador Agacase, S.A.	Ecuador	Public resources management	AUREN	-	82.02 %	82.02 %
Amagua, CEM	Ecuador	Integral water cycle	AUREN	-	57.41 %	57.41 %
Amerika Tecnología y Servicios, S.A.S.	Barranquilla (Colombia)	Design, maintenance, development, support and management of information technology projects	AUREN	-	81.84 %	81.84 %
Soluciones Andinas de Aguas, S.R.L.	Montevideo (Uruguay)	Investment and asset holding	AUREN	-	90.92 %	90.92 %
Interamericanas de Aguas de México, S.A.	Mexico	Integral water cycle	-	-	81.05 %	81.05 %
Mexaqua, S.A.	Mexico	Integral water cycle	-	-	56.73 %	56.73 %
Emissão, S.A.	Brazil	Maintenance, operation, distribution and sanitation of water	AUREN	-	68.19 %	68.19 %
Fontes da Serra Saneamiento de Guapimirim Ltda.	Brazil	Integral water cycle	AUREN	-	66.83 %	66.83 %

This Appendix forms an integral part of the report on the Consolidated Financial Statements, in conjunction with which it should be read.

APPENDICES

Appendix III (1) DETAILS OF EQUITY-ACCOUNTED INVESTMENTS AT 31 DECEMBER 2022

Company	Registered Address	Activity	Auditor	% of ownership interest			In thousands of euros					
				Direct	Indirect	Total	Share capital	Reserves	Other Net Asset items	Profit (Loss)	Total equity	Total Net Equity
GSS Venture, S.L.	c/ Guzmán el Bueno, 133 (Madrid)	Communication and telemarketing service	ERNST & YOUNG	25.00 %	-	25.00 %	60	2,126	(281)	(144)	1,761	1,761
Metroagua S.A., E.S.P. ⁽¹⁾	Santa Marta (Colombia)	Integral water cycle operator	-	-	29.35 %	29.35 %	-	-	-	-	-	-
Avanzadas Soluciones de Acueducto y Alcantarillado, S.A. E.S.P.	Riohacha (Colombia)	Integral water cycle operator	AUREN	-	32.74 %	32.74 %	390	494	(1,104)	97	(123)	(123)

Appendix III (2) DETAILS OF EQUITY-ACCOUNTED INVESTMENTS AT 31 DECEMBER 2021

Company	Registered Address	Activity	Auditor	% of ownership interest			In thousands of euros					
				Direct	Indirect	Total	Share capital	Reserves	Other Net Asset items	Profit (Loss)	Total equity	Total Net Equity
GSS Venture, S.L.	c/ Guzmán el Bueno, 133 (Madrid)	Communication and telemarketing service	ERNST & YOUNG	25.00 %	-	25.00 %	60	2,106	(324)	43	1,885	1,885
Metroagua S.A., E.S.P. ⁽¹⁾	Santa Marta (Colombia)	Integral water cycle operator	-	-	29.35 %	29.35 %	-	-	-	-	-	-
Avanzadas Soluciones de Acueducto y Alcantarillado, S.A. E.S.P.	Riohacha (Colombia)	Integral water cycle operator	AUREN	-	32.74 %	32.74 %	444	562	(1,566)	309	(251)	(251)

This Appendix forms an integral part of note 12 of the report on the Consolidated Financial Statements, in conjunction with which it should be read. Figures converted exchange rate at closure, and presented under IFRS.

⁽¹⁾ No information available Company in liquidation.

APPENDICES

Appendix IV (1) DETAILS OF JOINT OPERATIONS AT 31 DECEMBER 2022

Jointly controlled operations				% of ownership interest			In thousands of euros
Name	Corporate	Activity	Type	Direct	Indirect	Total	Ordinary income
UTE Aguas de Alcalá	C/ Federico Salmón, 13 - Madrid	Management of water supply and sanitation to the city of Alcalá de Henares		50.00 %	-	50.00 %	14,723
Unión Temporal de Sociedades A.A. Santa Marta ⁽¹⁾	Santa Marta (Colombia)	Water cycle consulting		-	44.77 %	44.77 %	-
Module ⁽²⁾	Rua Joaquim Laje, 115, Mutondo, São Gonçalo - Rio de Janeiro	Reading of measures, simultaneous delivery of bills, installation of Meteres, water service suspension and reconnection		-	48.96 %	48.96 %	-
Rio Resolve	Rua Visconde de Inhaúma, 134, 20º andar sala 2001 parte, Centro - Rio de Janeiro	Administrative collection, suspension, interruption and restoration of water supply, service suspension and connection, surveillance and control of interruptions and suspensions carried out, investigation to prevent "bypass" and clandestine connections, identification of technical, commercial and operational anomalies, sales service and registration		-	34.09 %	34.09 %	
Magé ⁽²⁾	Av. Ayrton Senna, 3000, Bloco 1 sala 107 Parte, Barra da Tijuca - Rio de Janeiro	Construction and extension of water reservoirs		-	68.18 %	68.18 %	-
Due Fatto ⁽²⁾	Rua Barão de Mesquita, 314 Lojas SS 109 e 110, Tijuca - Rio de Janeiro	Administrative collection, suspension, interruption and restoration of water supply, service suspension and connection, surveillance and control of interruptions and suspensions carried out, investigation to prevent "bypass" and clandestine connections, identification of technical, commercial and operational anomalies, sales service and registration		-	53.87 %	53.87 %	-

Figures converted exchange rate at closure, and presented under IFRS.

⁽¹⁾ No information available Metroagua in liquidation.

⁽²⁾ Inactive consortium

APPENDICES

Appendix IV (2) DETAILS OF JOINT OPERATIONS AT 31 DECEMBER 2021

Jointly controlled operations				% of ownership interest			In thousands of euros
Name	Corporate	Activity	Type	Direct	Indirect	Total	Ordinary income
UTE Aguas de Alcalá	C/ Federico Salmón, 13– Madrid	Management of water supply and sanitation to the city of Alcalá de Henares		50.00 %	-	50.00 %	14,535
Unión Temporal de Sociedades A.A. Santa Marta ⁽¹⁾	Santa Marta (Colombia)	Water cycle consulting		-	44.77 %	44.77 %	-
Module ⁽²⁾	Rua Joaquim Laje, 115, Mutondo, São Gonçalo– Rio de Janeiro	Reading of measures, simultaneous delivery of bills, installation of Meteres, water service suspension and reconnection		-	48.96 %	48.96 %	-
Rio Resolve	Rua Visconde de Inhaúma, 134, 20º andar sala 2001 parte, Centro– Rio de Janeiro	Administrative collection, suspension, interruption and restoration of water supply, service suspension and connection, surveillance and control of interruptions and suspensions carried out, investigation to prevent “bypass” and clandestine connections, identification of technical, commercial and operational anomalies, sales service and registration		-	34.09 %	34.09 %	29
Magé ⁽²⁾	Av. Ayrton Senna, 3000, Bloco 1 sala 107 Parte, Barra da Tijuca– Rio de Janeiro	Construction and extension of water reservoirs		-	68.18 %	68.18 %	-
Due Fatto ⁽²⁾	Rua Barão de Mesquita, 314 Lojas SS 109 e 110, Tijuca - Rio de Janeiro	Administrative collection, suspension, interruption and restoration of water supply, service suspension and connection, surveillance and control of interruptions and suspensions carried out, investigation to prevent “bypass” and clandestine connections, identification of technical, commercial and operational anomalies, sales service and registration		-	53.87 %	53.87 %	-
							14,564

Figures converted exchange rate at closure, and presented under IFRS.

⁽¹⁾ No information available Metroagua in liquidation.

⁽²⁾ Inactive consortium

CONSOLIDATED DIRECTORS' REPORT FOR FINANCIAL YEAR 2022

STATEMENT OF NON-FINANCIAL INFORMATION

Sustainability Report 2022

Canal de Isabel II, S.A., M. P.

Document drafted by the Board of Directors, in accordance with Law 11/2018, of 28 December, amending the Commercial Code, the Revised Text of the Spanish Companies Act approved by Royal Legislative Decree 1/2010, of 2 July, and Law 22/2015, of 2 July, and Law 22/2015, of 2 July, on Account Auditing, ***on matters relating to non-financial information and diversity***, which form part of the **consolidated management report** for the financial year between 1 January and 31 January December 2022.

OUR MISSION

WE LOOK AFTER OUR COMMUNITY BY MANAGING THE
WATER OF EVERYONE WITH TRANSPARENCY, EFFICIENCY AND
SUSTAINABILITY.

GRI 2-23

OUR COMMITMENT

1. To be the public company of reference and the economic and development engine of the Community of Madrid.
2. To work to manage the entire water cycle throughout the Madrid region.
3. Leading the sector's challenges and regulatory developments.
4. To maintain, innovate and plan our infrastructures and services, adapting them to the future needs of society.
5. To minimise the environmental impact in all our processes, favouring the circular economy, the efficient use of resources and energy and promoting renewable generation.
6. To increase the satisfaction of our customers and users, ensuring a level of excellence in the quantity, quality and continuity of service (C3).
7. To ensure progressive, affordable and solidarity-based tariffs that encourage savings in consumption and guarantee access for all to an essential good.
8. To strengthen digital transformation for closer and more efficient management.
9. To carry out rigorous and transparent financial management, ensuring the appropriate economic balance, financial autonomy and sustainability of the company.
10. To support our professionals by attracting, retaining and nurturing talent.

OUR VALUES

COMMITMENT

CERCANIA

TRANSPARENCY

EXCELLENCE

SUSTAINABILITY

Canal de Isabel II en 2022

27 January	The Extraordinary General Shareholders' Meeting of Canal de Isabel II, S.A., M.P. approved the merger by absorption of Hidráulica Santillana (HS) , a subsidiary company that operated 9 mini-hydroelectric plants in the Community of Madrid. Since the merger, this operation is carried out by Canal, with the HS staff that joined our company.
28 February	Canal registered the <i>Sistema Vigía</i> (Monitoring System) with territorial intellectual property register , with the aim of guaranteeing the ownership of its economic and exploitation rights. Vigía is the largest COVID -19 monitoring and early warning initiative ever developed in Spain, due to the large number of sampling points (289) and the population studied (6.8 million inhabitants in 179 municipalities).
20 March	More than 2,300 runners participated in the 39th edition of the Carrera del Agua (Water Race) organised by Canal. This year's edition had a strong sustainable and environmental message at its core. The Carrera del Agua is one of the most popular traditional public road running races in Madrid, along with the San Silvestre Vallecana and the Canillejas race.
20 April	The president of Canal visited the pioneering experimental plant in Europe in the municipality of Meco, where Canal is studying and testing the effectiveness of sustainable urban drainage techniques. The purpose of these systems is to retain the first rainwater in order to reduce the volume of water transported through the sewerage networks and also to filter this rainwater, which contains a higher pollutant load.
26 May	The Ordinary General Shareholders' Meeting of Canal de Isabel II, S.A., M.P. was held to approve the individual annual accounts of Canal and the consolidated annual accounts of the Canal Group; the Statement of Non-Financial Information; the management of the Company's directors and the distribution of a dividend of 103.7 million euros , among other resolutions.
13 June	Canal shared its integrated water cycle management model and sustainability strategy at the first Global Symposium on Sustainable Water and Energy Solutions , organised by Itaipu Binacional and the United Nations Department of Economic and Social Affairs (UNDESA), held at the Itaipu dam on the border between Brazil and Paraguay .
21 July	Canal announced that it will install the first floating photovoltaic panels in the lower reservoir of the Torrelaguna mini-hydroelectric plan for the production of energy within the framework of our Solar Plan . This facility is expected to be commissioned in the second half of 2023.
14 September	In Copenhagen, the International Water Association (IWA) recognised our company as one of the best companies in the sector for its adaptation and mitigation actions to ensure sustainable water management. The award ceremony took place within the framework of the Utility Leader Forum of IWA.
15 September	During the early hours of the morning there was a fortuitous break in a 500 millimetre diameter pipe which, due to its size, caused a significant outflow of water and the dragging of earth in the affected area (Glorieta del Marqués de Vadillo in Madrid). Despite the complexity of the incident, services were restored almost immediately. Canal sent a large group of technicians to the area to work on the repair of the pipe and to collaborate with the Fire Brigade and other municipal services in the cleaning of the streets surrounding the affected area.

27 September	Canal participated in the 36th Congress of the Spanish Association of Water Supply and Sanitation (AEAS) , which took place in Cordoba, the main national meeting forum for professionals, companies and institutions to debate and transfer knowledge on those aspects of greatest interest relating to the integral urban water cycle. Our company participated in 18 of the 95 papers that were presented at Congress.
28 October	The new 100% rebate on water bills for owners of illegally occupied residential properties comes into force. With this measure, our company joins the efforts of the Regional Government of Madrid to provide support to people who cannot access their residential properties and face the economic damage caused by occupation thereof.
9 November	Canal de Isabel II participated in the 27th Climate Summit held in Sharm el-Sheikh (Egypt), where we presented our sustainability strategy in all supply and sanitation processes to meet the commitments of the UN Sustainable Development Goals (SDGs).
22 November	The Canal Foundation presented the new exhibition, ' WE ARE WATER ', with which it seeks to highlight the importance of water for life, for our daily lives and to inspire the necessary change to face the greatest challenge of the 21st century: its conservation and sustainable management. The exhibition opened its doors to the public on 17 December and will run until 30 June 2023.
14 December	The Community of Madrid announced that, for the tenth consecutive year, water rates in the region will not increase in 2023 , while the Consumer Price Index (CPI) has grown by 17.7% between 2014 and 2022. Furthermore, in 2022 our rates remained more than 25% lower than the national average, with the price of one cubic metre at 1.47 euros (the average in Spain in 2022 was 1.97 euros).
21 December	<p>The Extraordinary General Shareholders' Meeting of Canal de Isabel II, S.A., M.P. approved the amendment of the Articles of Association of our company to adapt them to the regulatory changes that have occurred since 2012 and the new needs that arise. Other changes include the designation of our company as an in-house resource of the Regional Government of Madrid; the extension and clarification of some aspects of our corporate purpose; the increase in the number of Board members to 15; and the creation of a new Board of Directors Sustainability Committee.</p> <p>The meeting of the Board of Directors held on the same date after the Extraordinary General Meeting approved the distribution of an interim dividend of 61.7 million euros to Canal's shareholders, the company's budget for 2023 (888 million euros) and the incorporation of the municipality of Moralarzaral as a shareholder of the company.</p>

1. Our Company

Canal de Isabel II, Sociedad Anónima, M.P. is a 100% public company in which the Regional Government of Madrid, through the Public Entity Canal de Isabel II, and one hundred and twelve municipal authorities of Madrid are currently shareholders. The company started its activities on 1 July 2012, assuming a large part of the competences and activities of the Public Entity Canal de Isabel II which, created in 1851, has been the public company of the Regional Government of Madrid responsible for the integral water cycle management in the region.

Canal de Isabel II, S.A., M. P. (hereinafter "Canal de Isabel II" or "Canal") is responsible for the integral water cycle management in practically the entire region; that is, of all the processes aimed at an adequate administration of water resources and the conservation of the environment. These processes, which are the **collection, treatment** and monitoring of **water quality, transport** and **distribution**, the **sanitation** and **treatment** of wastewater, and the **regeneration of** wastewater for subsequent reuse, are necessary for the development and maintenance of the quality of life of the people of Madrid.

Canal de Isabel II has accumulated more than 170 years of management experience which enables us to add value through other activities related to the water sector and in geographical areas other than the Community of Madrid region. Since the 1960s, Canal de Isabel II has integrating various participated companies that, together with our parent company, currently constitute the **Canal de Isabel II Business Group** (hereinafter, "Canal Group").

In 2022, the **Canal Group** will supply water to a total of 7.55 million people (7.04 in Spain and 0.51 in Latin America), and we will employ 3,666 workers, in addition to generating close to 5,000 indirect jobs. We also supplied 593.6 million cubic metres of water in 2022 (548.3 in Spain and 45.2 in Latin America) and managed 40,346 kilometres of supply, sewerage and reclaimed water networks. At the end of the year, we had almost 1.8 million supply contracts (83% of which were domestic) in almost two hundred municipalities (196), with a degree of supply coverage of 99%.



Further details on the companies and key figures of our corporate group at the end of the financial year 2022 can be found in Section 3 of this report: "The Canal Group".

1.1. Principal data on the Community of Madrid region 2022

6.53 million inhabitants served with water supply

(2,329 inhabitants fewer than in 2021).

6.74 million inhabitants served with sanitation

(981 inhabitants less than in 2021).

493.50 hm³ derived for consumption (4.97 more than in 2021).

481.44 hm³ purified at WWTPs (2.03 less than in 2021).

17.05 hm³ of reclaimed water for reuse

(historical maximum / 0.97 hm³ more than in 2021).

91.79 hm³ of reclaimed water discharged into watercourses

(19.77 % of total discharges into watercourses).

17,814 kilometres of supply networks (27.4 more than in 2021).

275.23 GWh of electricity generated (144.68 GWh less than in 2021).

886.13 million euros in Turnover (27.24 million more than in 2021).

184.57 million in investments (43.07 million more than in 2021).

3,052 employees on the payroll (139 fewer employees than in 2021).

1.2. Technical information at the end of 2022

Supply	
<i>Number of Canal-owned dams</i>	13
<i>Canal reservoir capacity (hm³)</i>	943.51
<i>Water extracted for consumption in reservoirs and abstractions (hm³)</i>	493.50
<i>Number of catchment wells in operational status</i>	78
<i>Kilometres of network (adduction and distribution)</i>	17,814
<i>Number of drinking water treatment plants</i>	14
<i>Treatment capacity (hm³ daily)</i>	4.55
<i>Number of large regulating reservoirs</i>	34
<i>Storage capacity large reservoirs (hm³)</i>	3.3
<i>Number of smaller deposits</i>	294
<i>Number of large lifting plants</i>	22

Sanitation	
<i>Kilometres of municipal sewerage networks managed</i>	14,992
<i>Kilometres of network of large collector sewers and emissaries</i>	873
<i>Number of rolling mills and storm tanks managed</i>	95
<i>Capacity of managed storm tanks (hm³)</i>	1.42
<i>Number of managed wastewater pumping stations (WWTPs)</i>	194
<i>Number of wastewater treatment plants (WWTPs) under management</i>	156
<i>Nominal treatment capacity (millions of population equivalents)</i>	16.25
<i>Water treated at WWTPs (hm³)</i>	481.44

Usage

Number of existing reuse plants	33
Kilometres of reclaimed water network	741
Reclaimed water tanks in service	64
Volume of reclaimed water produced for reuse (hm ³ annually)	17.05
Municipalities with reuse services with Canal	26
Golf courses with agreements or reuse contracts with Canal	11
Companies and organisations with a reuse service	13
Volume of reclaimed water discharged to watercourse (hm ³ per year)	91.79

Clients and population served in the Community of Madrid region*

Number of contracts (millions)	1.58
Population supplied (millions of inhabitants)	6.53
Supply coverage (percentage of inhabitants)	96.7 %
Municipalities supplied by Canal de Isabel II	174
Population served in sewerage management (millions of inhabitants)	5.77
Sewerage management coverage (% inhabitants)	85.4 %
Municipalities managed in sewerage	136
Population served by wastewater treatment (million inhabitants)	6.74
Wastewater treatment coverage (% inhabitants)	99.9 %
Municipalities managed in purification	179

(*) Data on population and number of municipalities include Moralarzaral incorporated into integrated management in January 2023.

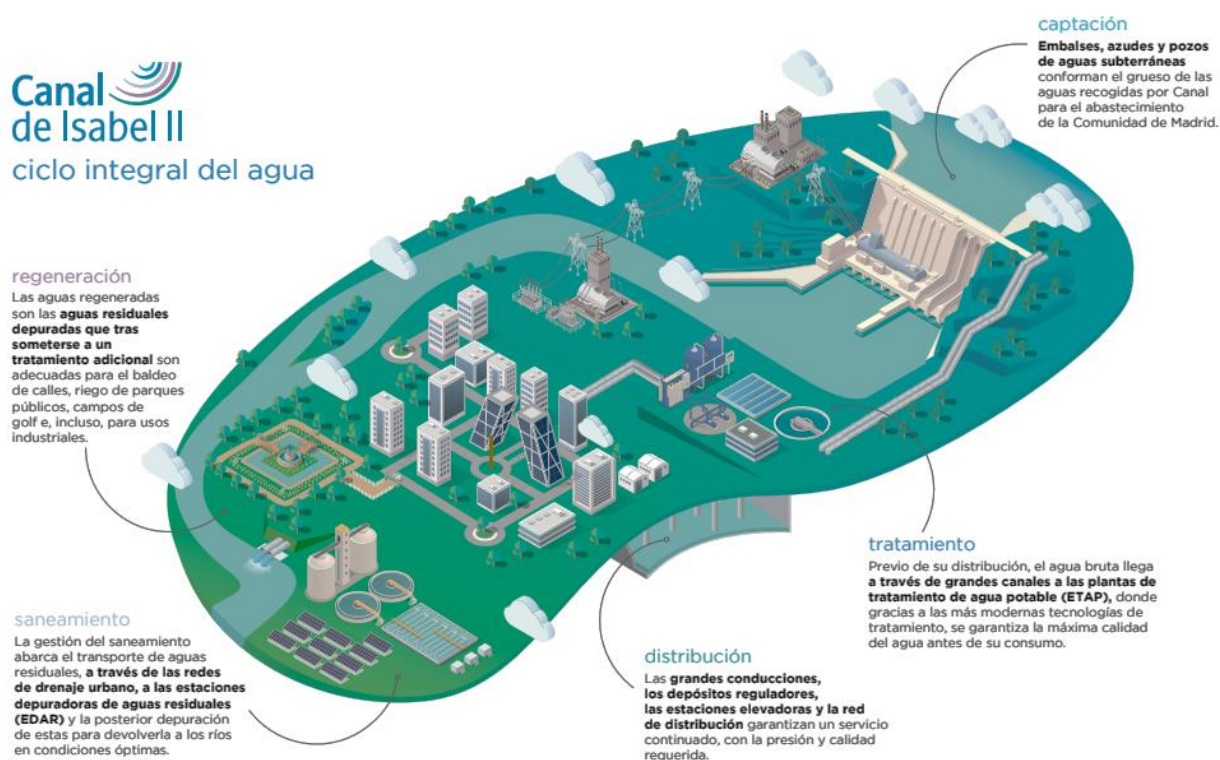
1.3. Our activity

GRI 2-6

GRI 303-1

The main activity of Canal de Isabel II is the integral water cycle management in the Community of Madrid.

The cycle consists of **two main phases, supply and sanitation**, which correspond to the actions necessary to bring drinking water to consumers, and to the collection and treatment of wastewater. A third phase can be added to this cycle, which is the **reuse of** this wastewater after appropriate treatment to guarantee its sanitary characteristics, and which can be used to irrigate gardens, clean streets, water sports areas and even for industrial use. Canal currently manages all the above phases and stages.



All the information on the integral cycle is available on our website:

<http://www.canalciclointegraldelagua.es/>

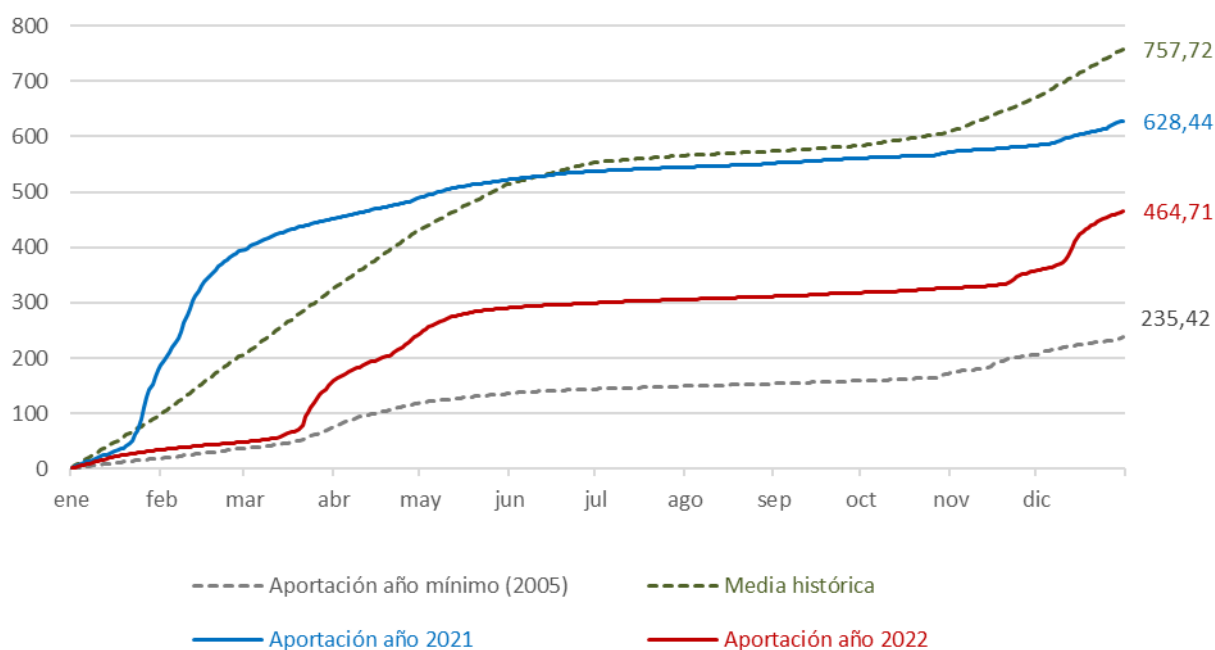
SUPPLY: ADDUCTION (COLLECTION AND TREATMENT)

GRI 303-3

The supply system of the Community of Madrid is mainly based on the collection of surface water, using the **13 reservoirs** that we manage, fed by the rivers Lozoya, Jarama-Sorbe, Guadalix, Manzanares, Guadarrama-Aulencia and Alberche. From these rivers we capture more than 90 % of the water we supply to the networks.

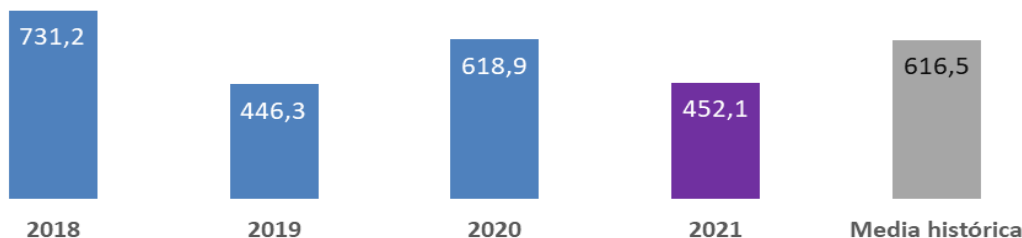
The water supplied by rivers to reservoirs varies greatly depending on whether the year is wet, dry or average. The average **annual** inflow is **757.7 million cubic metres**, although on occasions it has reached more than 1.7 billion cubic metres (in 1941) or as low as 237.7 million cubic metres (in 2005). **2022 was a very dry year: 464.71 million cubic metres of water was recorded, 39% below the historical average.**

Cumulative natural inflows (million cubic metres in calendar year)



The dry character of the year 2022 is also reflected if we consider the rainfall in the reservoirs of the Canal dams, which has been significantly lower than the historical average (12.12 % less).

Precipitation recorded in the Canal reservoirs (litres per m² per year)



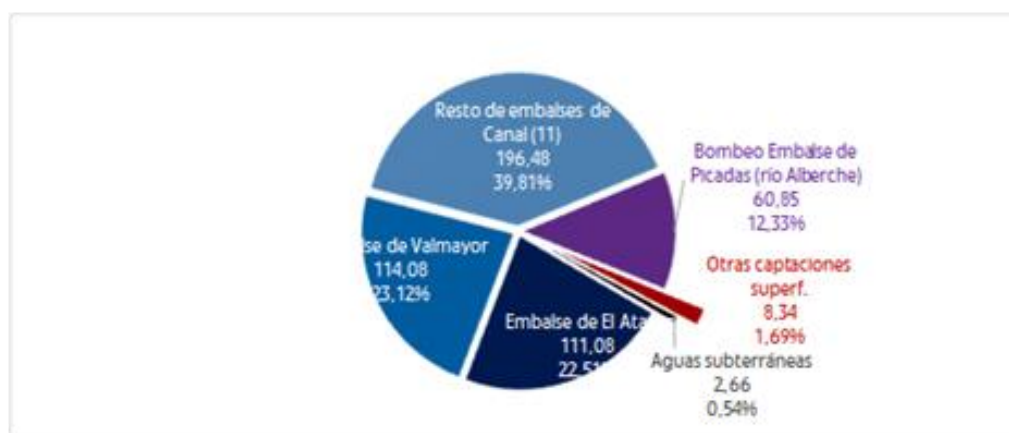
The **13 reservoirs** that we manage at Canal de Isabel II have a total storage capacity of **943.51 million cubic metres**, 62.4% of which is located in the basin of the river Lozoya. The main reservoir in this region is the **El Atazar** reservoir, with a storage capacity of over **425 million cubic metres**.

More details about our reservoirs and catchments can be found at this link <https://www.canaldeisabelsegunda.es/es/captacion>

Groundwater capture, in support of surface water supply, is a key element in the management of the supply system during periods of drought or water scarcity and can provide up to 90 million cubic metres per year of operation. To guarantee this volume we have **78 wells** in operational status.

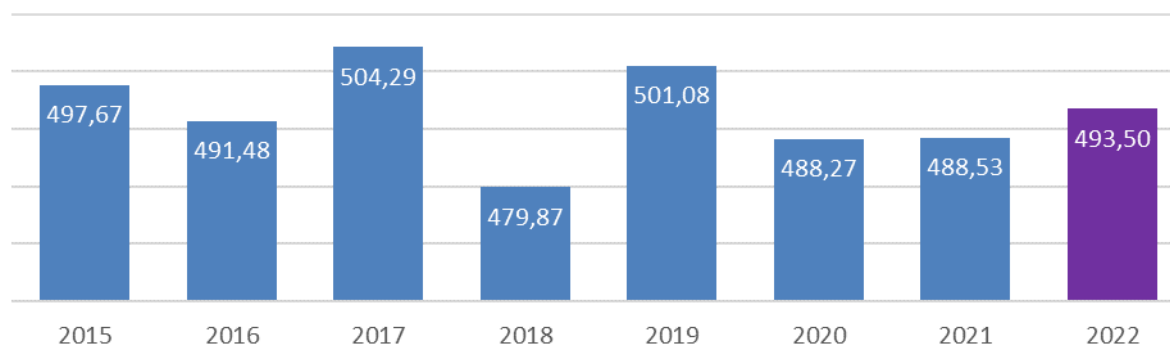
We also have the possibility of **transferring water** from the San Juan, Picadas and Los Morales reservoirs in the **Alberche river** basin, and from the Guadarrama and Sorbe rivers via the Las Nieves and Pozo de Los Ramos dams. We can also supply water from the San Juan reservoir for treatment at the Rozas de Puerto Real DWTP and the Pelayos de la Presa DWTP. Finally, we can also take water from the Tagus river to supply the networks once it has been treated at the Tagus DWTP.

Origin of water derived for consumption in 2022 (hm³ and % of total)



The total volume of water derived for consumption in 2022 was **493.50 million cubic metres**, almost the same as the average of the previous five years and 1.02 % more than in 2021.

Water derived for consumption (million m³ per year)



From all the catchment possibilities described above, Canal obtains the resources that are subsequently sent to the treatment plants, through a network of large canals and raw water pipelines that, at the end of 2022, had a length of 262 kilometres.

Canal manages **14 drinking water treatment plants (DWTP)** with a total nominal capacity to treat 4.55 million cubic metres per day.

For more information about our treatment plants, please follow this link: <https://www.canaldeisabelsegunda.es/en/treatment>

SUPPLY: DRINKING WATER DISTRIBUTION

On the water's journey from the DWTP to the user's tap, we have a series of facilities that ensure that **the service is maintained: large pipelines, regulating reservoirs, drinking water lifting stations and the distribution network** guarantee a continuous service, with the appropriate pressure and quality. The networks managed by Canal in 2022 reached a total length of **17,814 kilometres**.

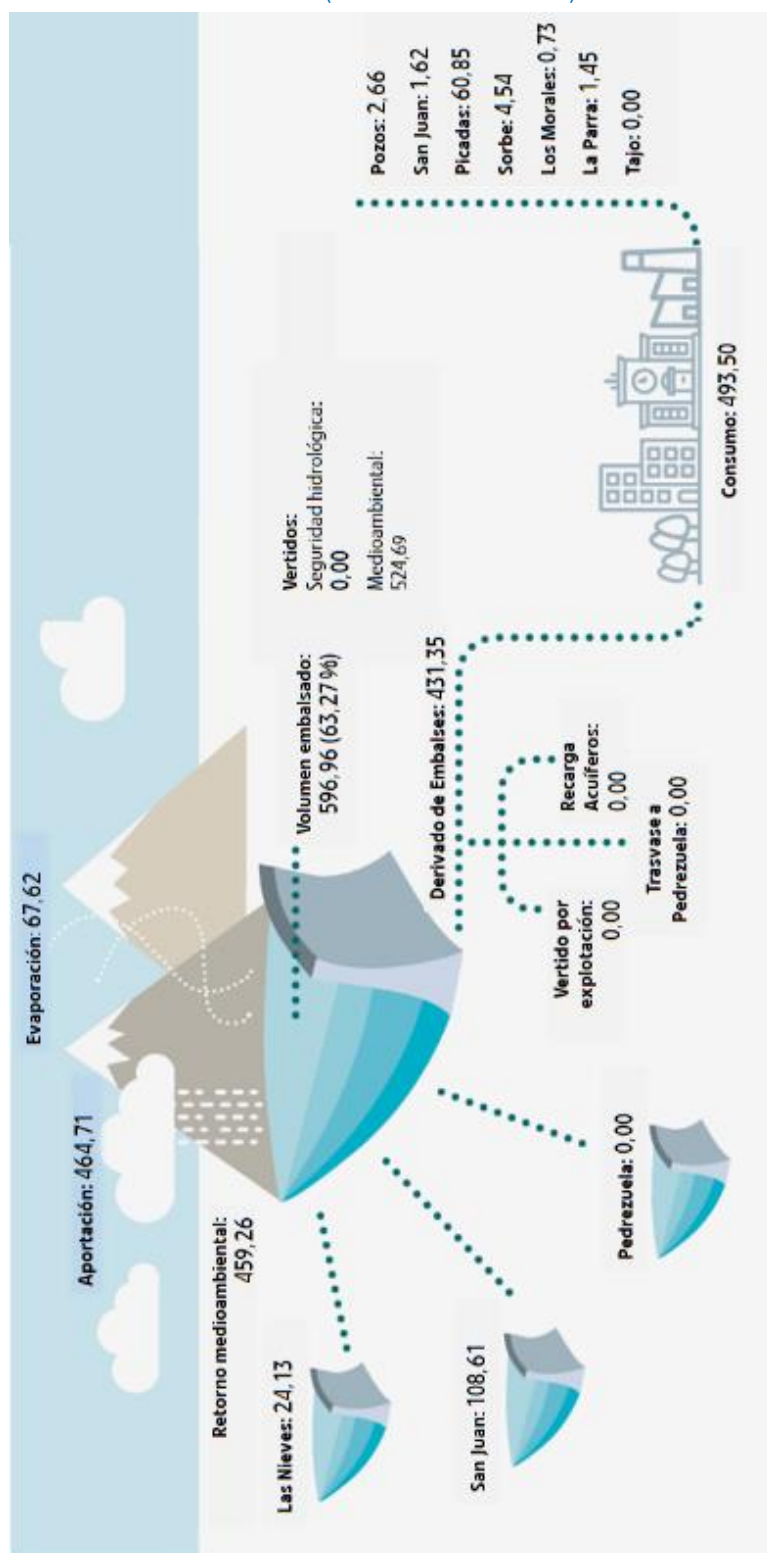
Regulating reservoirs are enclosures designed to store the water that supplies the population. We currently manage **34** of these large regulating reservoirs, with a total capacity of **3.3 million cubic metres**, in addition to 294 smaller capacity reservoirs distributed throughout the region.

In order to take the water from the corresponding reservoirs and lift it to a higher elevation, thus guaranteeing the water supply in the higher areas, Canal has **22 large lifting stations** and **109 smaller lifting stations**.

If you want to know more details about the distribution, visit this link: <https://www.canaldeisabelsegunda.es/es/web/site/distribucion>

Supply scheme for the Community of Madrid in 2022

(in million cubic metres)



SANITATION: SEWERAGE AND URBAN DRAINAGE

GRI 303-2

The collection of wastewater and rainwater and its transport to wastewater treatment plants is the function of **sewerage and urban drainage networks**. Currently, Canal carries out the maintenance of these networks in **136 municipalities**, thus collecting the wastewater of **5.77 million inhabitants**.

The length of the municipal sewerage networks managed totals **14,992 kilometres**. In turn, Canal manages **873 kilometres of large collectors and supra-municipal outfalls**, pipelines that collect and transport wastewater from the municipalities to the corresponding WWTPs.

Other important facilities we manage are the **194 wastewater pumping stations (WWPS)**, whose mission is to lift wastewater when it cannot be conveyed to the WWTP by gravity. In addition, to prevent flooding, as well as to retain the first rainwater, which is the most polluting, we have **95 installations called storm tanks and rolling mills**, with a total capacity of 1.42 million cubic metres.

SANITATION: TREATMENT OF WASTEWATER

GR1 303-2

GRI 306-1

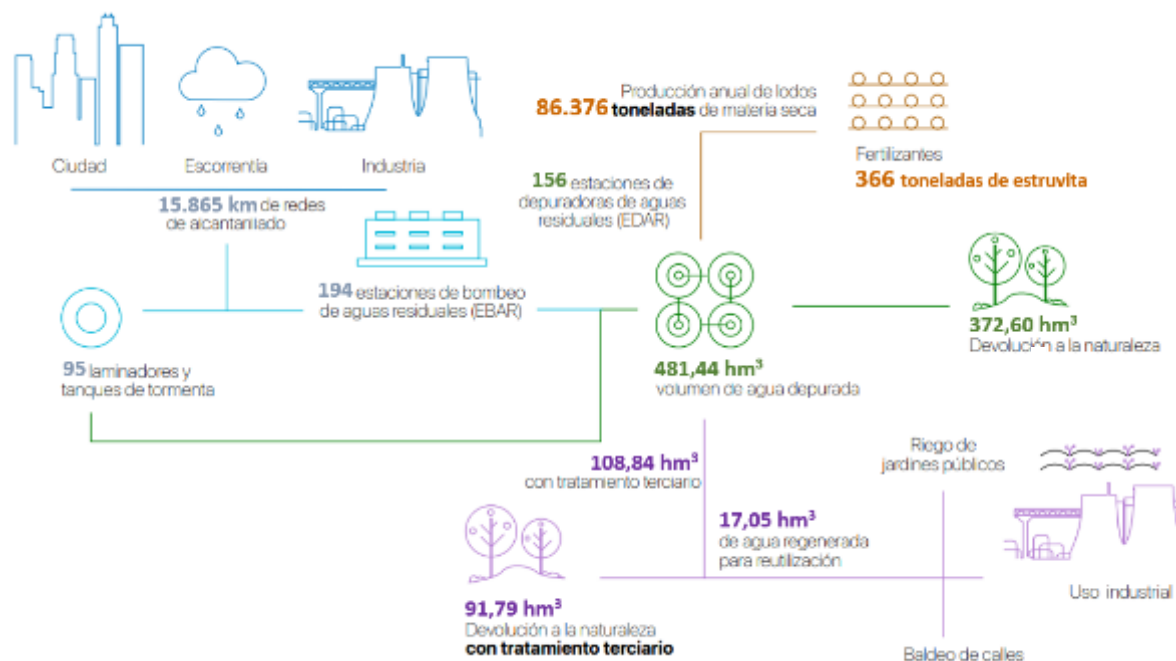
After the collection and transport of wastewater through the sewage systems of towns and cities, it is **treated** before being **discharged into natural watercourses**, in accordance with the quality standards set by the European Union and national, regional and local legislation, or for **subsequent reuse**.

At Canal we take care of this task in all the municipalities of the Community of Madrid and the town of Ontígola in Toledo (180 municipalities in total) and we have excellent infrastructures that allow us to provide a continuous, quality, efficient and highly technical service. In 2022, the 156 wastewater **treatment plants (WWTP)** managed by Canal, with a **nominal** treatment capacity of **16.25 million population equivalent**, treated and discharged a total of **464.39 million cubic metres of wastewater (91.79** of them **with tertiary treatment** to contribute to the improvement of river quality) and managed to remove 95.67% of suspended solids, 97.61% of BOD5, 92.44% of COD, 91.42% of phosphorus and 66.79% of nitrogen contained in the wastewater

the treated water discharged to watercourses, Canal's WWTPs in 2022 treated a further **17.05 million cubic metres** that were destined for reuse.

More details on sewerage management and wastewater treatment are available at this link: <https://www.canaldeisabelsegunda.es/en/sanitation>

Sanitation scheme in the Community of Madrid in 2022



REGENERATION OF TREATED WASTE WATER FOR REUSE

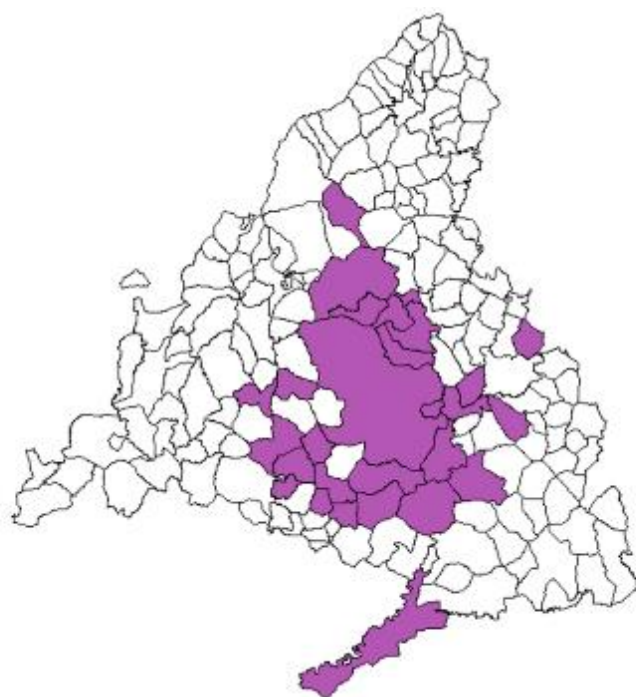
GRI 303-2

The **reuse of treated wastewater** is an essential component of integrated water resource management because it contributes to the net increase of water availability in the region. For this reason, in recent years, we have increasingly developed the activity of distributing reclaimed water for uses that do not require drinking water, especially for **street cleaning** and **irrigation of public parks, golf courses** and even for some **industrial processes**.

At the end of 2022, we had **33** reclaimed water production plants (tertiary treatments) with a capacity to produce **395,493 cubic metres per day** and **741** kilometres of reuse networks that supplied **17.05 million cubic metres** of reclaimed water to the **26 municipalities** that had this service and a population of more than 5.22 million.

With the reclaimed water produced by Canal, **2,893 hectares** are currently irrigated across **401 municipal green areas** in the region (1,876 ha), **11 golf courses** (789 ha) and **13 companies and entities** that have contracted the reuse service (228 ha).

Municipalities with a reclaimed water reuse service by 2022



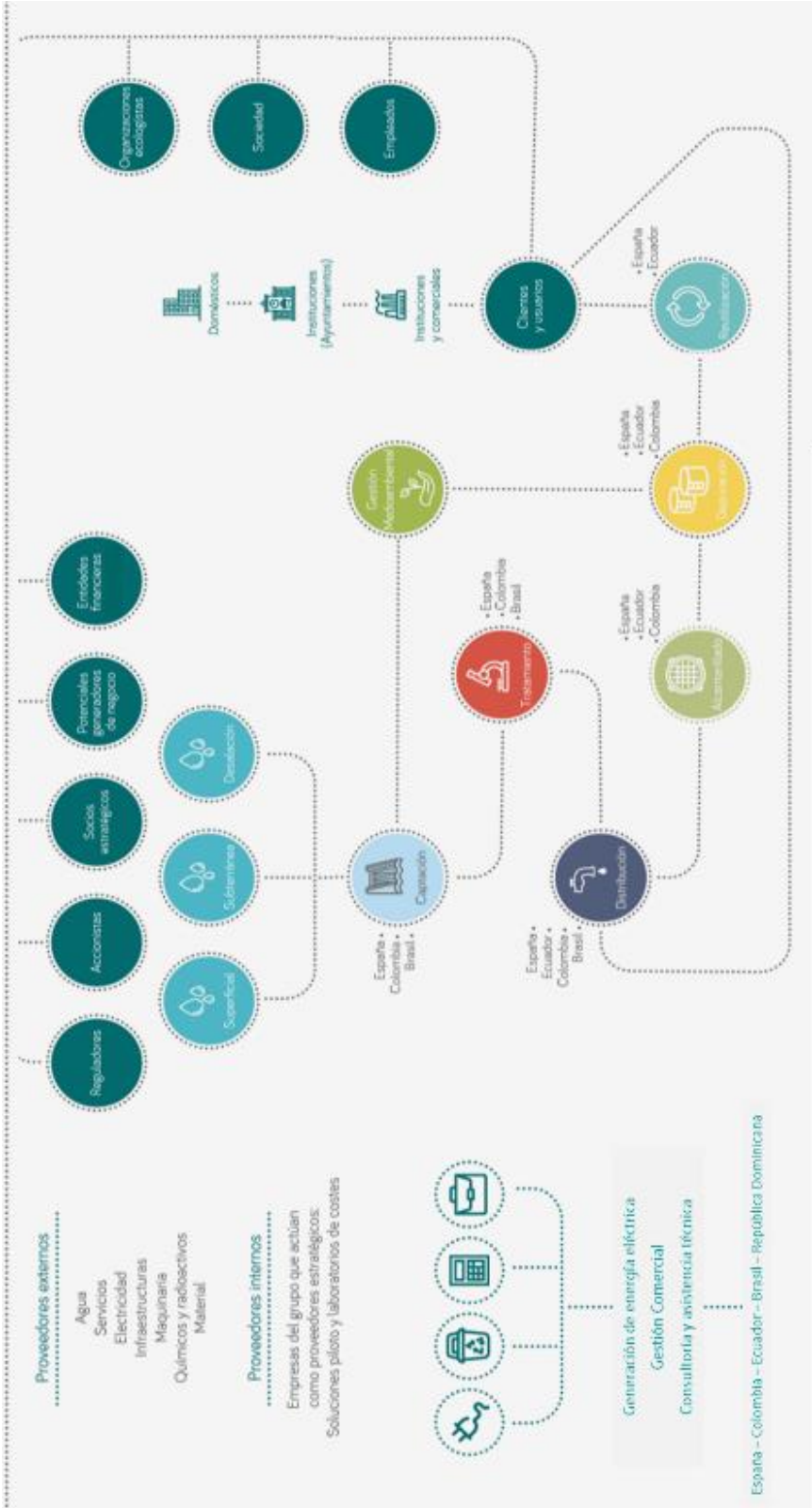
Alcobendas
Alcorcón
Aranjuez
Arganda del Rey
Arroyomolinos
Colmenar Viejo
Coslada
Fuenlabrada
Getafe
Humanes de Madrid
Madrid
Majadahonda
Meco
Miraflores de la Sierra
Móstoles
Parla
Pinto
Rivas Vaciamadrid
San Fernando de Henares
San Martín de la Vega
San Sebastián de los Reyes
Torrejón de Ardoz
Alameda Towers
Tres Cantos
Villanueva de la Cañada
Villaviciosa de Odón

More details on reclaimed wastewater can be found at the link:

https://www.canaldeisabelsegunda.es/documents/20143/635007/Agua+regenerada_OK.pdf/be0baa6c-92ba-f7cf-0766-c11b46949288?t=1567753138898

THE VALUE CHAIN OF CANAL DE ISABEL II AND THE WIDER GROUP

GRI 2-6



1.4. Organisation of our company

GRI 2-1

The corporate structure and governing bodies of our company are in line with the requirements of its legal status as a public limited company since its establishment in June 2012.

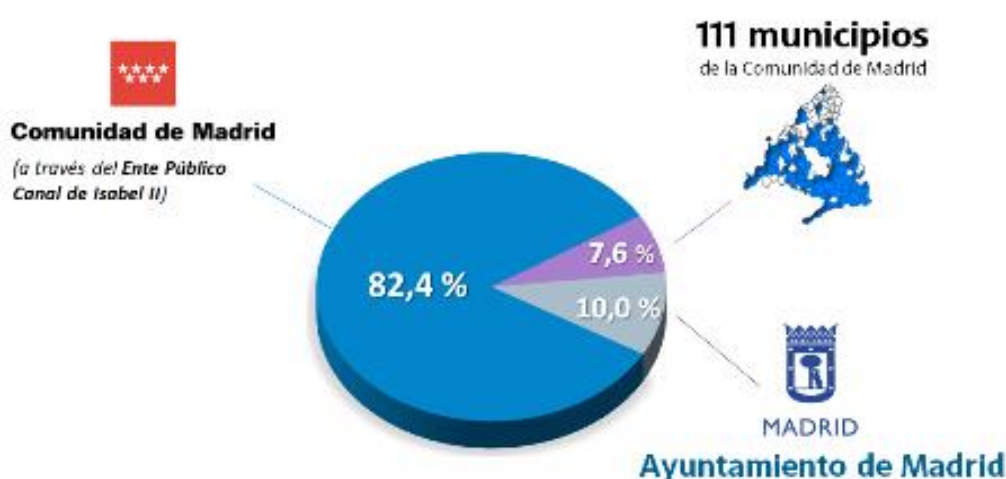
SHAREHOLDERS

The share capital of Canal de Isabel II, S.A., M.P. is represented by 1,074,032,000 ordinary shares with a par value of one euro each. The incorporation of the Company was authorised by a resolution of the **Governing Council of the Regional Government of Madrid on 14 June 2012**. The delivery of shares to the company's **first 111 shareholding municipalities** was formalised in December 2012, in compliance with the agreement with these municipalities.

With the approval in 2018 of *Law 8/2018¹*, the possibility of incorporating new municipalities into the shareholding structure was opened up, as recently occurred with the municipality of Moralzarzal², bringing the total number of shareholding municipalities to 112.

The population of these 112 Canal shareholder municipalities totals **6,070,532 inhabitants**, i.e. **89.93%** of the population of the Community of Madrid (**92.63%** if we exclude Alcalá de Henares, which is not part of the Canal system).

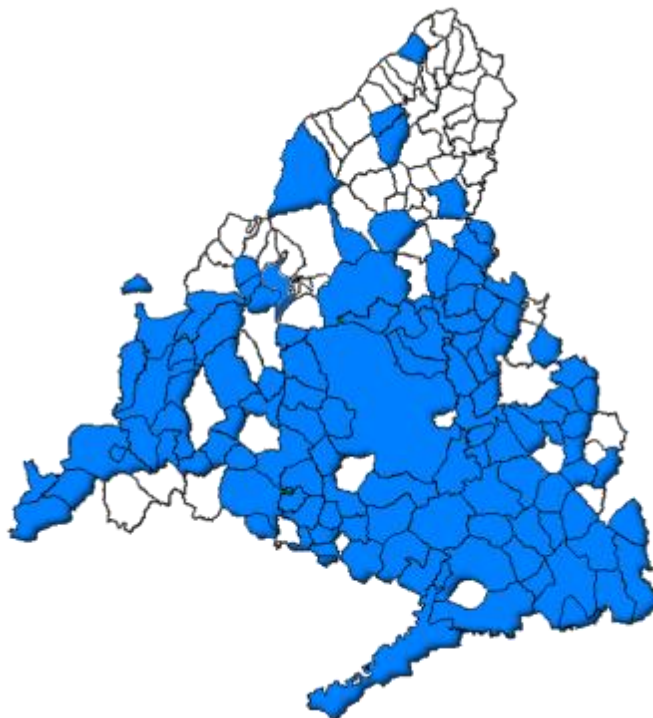
Current shareholding structure of Canal de Isabel II, S.A., M.P.



¹ Law 8/2018, of 26 December, amending Law 3/2008, of 29 December, on Fiscal and Administrative Measures, to guarantee the public nature of Canal de Isabel II

² The incorporation of the municipality of Moralzarzal as a shareholder was approved by the company's Board of Directors on 26 December 2022 and the membership agreement was signed in January 2023.

Canal's 112 municipalities shareholders (17.6 % of the share capital)



Ajalvir	Collado Villalba	Las Rozas de Madrid	Rivas-Vaciamadrid	Valdelaguna
Alcobendas	Colmenar de Oreja	Loeches	Robledo de Chavela	Valdemaqueda
Alcorcón	Colmenar del Arroyo	Los Santos de la Humosa	Rozas de Puerto Real	Valdemorillo
Algete	Colmenar Viejo	Madrid	San Fernando de Henares	Valdemoro
Alpedrete	Corpa	Majadahonda	San Lorenzo de El Escorial	Valdeolmos-Alalpardo
Ambite	Cubas de la Sagra	Meco	San Martín de la Vega	Valdepiélagos
Anchuelo	Daganzo de Arriba	Mejorada del Campo	San Martín de Valdeiglesias	Valdetorres de Jarama
Aranjuez	El Álamo	Moraleja de Enmedio	San Sebastián de los Reyes	Valdilecha
Arganda del Rey	El Escorial	Moralzarzal	Santa María de la Alameda	Valverde de Alcalá
Arroyomolinos	El Molar	Morata de Tajuña	Santorcaz	Velilla de San Antonio
Belmonte de Tajo	Estremera	Móstoles	Serranillos del Valle	Villalbilla
Boadilla del Monte	Fresnedillas de la Oliva	Navalcarnero	Sevilla la Nueva	Villamanrique de Tajo
Brea de Tajo	Fresno de Torote	Navas del Rey	Soto del Real	Villamantilla
Cadalso de los Vidrios	Fuenlabrada	Nuevo Baztán	Talamanca de Jarama	Villanueva de la Cañada
Campo Real	Fuente el Saz de Jarama	Paracuellos de Jarama	Tielmes	Villanueva de Perales
Carabaña	Fuentidueña de Tajo	Parla	Titulcia	Villanueva del Pardillo
Casarrubuelos	Garganta de los Montes	Pelayos de la Presa	Torrejón de Ardoz	Villar del Olmo
Cenicientos	Gargantilla del L. y Pinilla de B.	Perales de Tajuña	Torrejón de Velasco	Villarejo de Salvanés
Chapinería	Getafe	Pinto	Torrelaguna	Villaviciosa de Odón
Chinchón	Griñón	Pozuelo de Alarcón	Torrelorones	Zarzalejo
Ciempozuelos	Guadalix de la Sierra	Quijorna	Torres de la Alameda	
Cobeña	Humanes de Madrid	Rascafría	Tres Cantos	
Collado Mediano	La Acebeda	Ribatejada	Valdaracete	

GOVERNMENT BODIES

GRI 2-9

GRI 2-12

GRI 2-14

The governing bodies of the corporate governance of Sociedad Canal de Isabel II are the **General Meeting of Shareholders**, -of which all the shareholders of the company are members-, and the **Board of Directors**.

The Shareholders' Meeting

The Shareholders' Meeting, among other legally attributed powers, is responsible for **approving the corporate management, the accounts, the Statement of Non-Financial Information (NFI/Sustainability Report)** for the previous year and resolving on the **application of the profit** for each year.

Since the creation of the public limited company Canal de Isabel II, in 2012, and up to 2022 (including the interim dividend for the 2022 financial year), a total of **1,453.02 million euros in dividends**: 1,197.28 corresponds to the Regional Government of Madrid, 145.30 to Madrid City Council and 110.44 to the remaining Canal shareholder municipalities. **42.13 per inhabitant** in the shareholder municipalities.

Three shareholders' meetings were held in 2022, one ordinary (26 May) and two extraordinary (27 January and 21 December). The main resolutions adopted at the three shareholders' meetings held were as follows:

- The **approval of the Individual Annual Accounts** of the Company (Balance Sheet; Profit and Loss Account; Statement of Changes in Equity; Cash Flow Statement and Annual Report) and the Management Report, corresponding to the financial year 2021.
- The **approval of the Consolidated Annual Accounts** of the Company and its Group (Consolidated Balance Sheet; Consolidated Profit and Loss Account; Consolidated Statement of Changes in Net Equity; Consolidated Cash Flow Statement, Consolidated Report) and Consolidated Management Report (including the Statement of Non-Financial Information), for the financial year 2021.
- The **approval of the Consolidated Statement of Non-Financial Information** included in the Consolidated Directors' Report of the Company and its Group for the financial year 2021.
- The **approval of the management of the Directors** of the Company.

- The **approval of the Application of the Result** for the financial year 2021.
- The **merger by takeover of the subsidiary Hidráulica Santillana, S.A.U.** by the company Canal de Isabel II.
- **Amendment of the Articles of Association.**
- The maintenance of the maximum sum of **annual remuneration for all of** the company's **directors** for the financial year 2022.
- **The re-election of the External** Auditor of the Company and its Group for the financial year 2022 (*AUREN AUDITORES SP, S.L.P.*).
- The **number of members of the** Board of Directors was fixed at 15.
- **The appointment of an independent director** (Mr. Salvador Marín Hernández), of **three proprietary directors** (Ms. Cristina Aparicio Maeztu, Fernando Arlandis Pérez and José Ignacio Tejerina Alfaro) and the **re-election of a proprietary director** (Guillermo Hita Tellez).

The Board of Directors and its committees

GRI-2-15

The **General Meeting of Shareholders** determines the number and appoints the members of the Board of Directors. At the end of 2022, the **number of directors** was **fifteen**, plus one non-member secretary. In February 2023, a vacancy arose on the Board, temporarily consisting of 14 members.

Persons declared unqualified to the extent and under the conditions established by *Law 14/1995, of 21 April 1995, of the Community of Madrid, Article 213 of Royal Legislative Decree 1/2010, of 2 July 2010, approving the revised text of the Capital Companies Act* and other applicable legislation, where applicable, may not hold office in the Company.

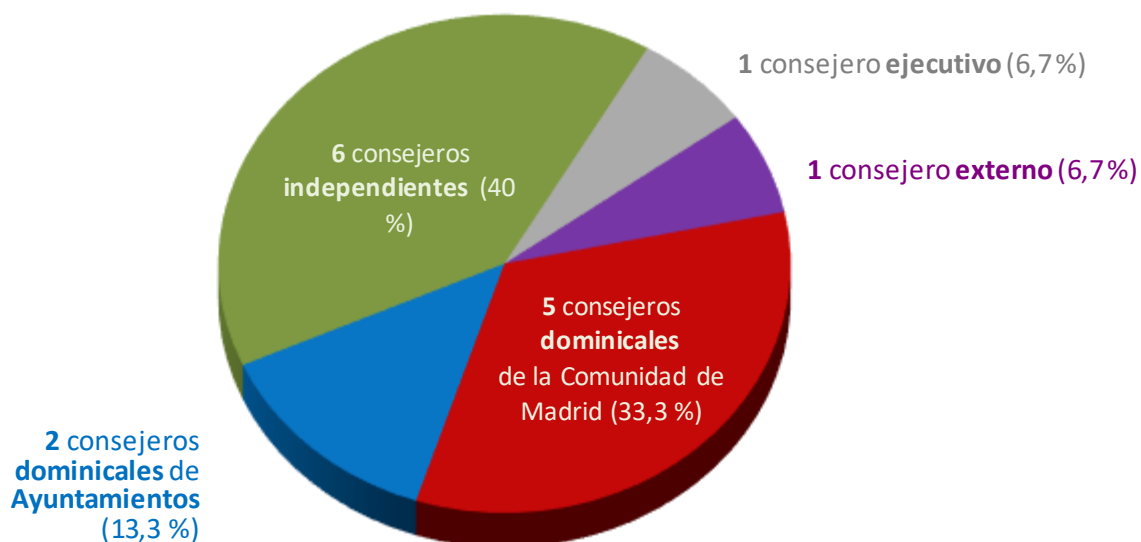
Although **we are not a listed company**, we are an issuer of non-convertible fixed-income securities on a regulated market. Furthermore, one of the priority lines of action for our Board of Directors is to **promote good governance**, and we therefore consider that the *Code of Good Governance for Listed Companies* of the Spanish Securities and Exchange Commission (CNMV) should serve as a guiding document for our activity.

Therefore, at the end of 2022 we had **six independent directors** (40% of the total), which means complying with Recommendation 17 of the CNMV code, which indicates that, for

companies with a shareholder controlling more than 30% of the share capital, such as Canal de Isabel II S.A., M.P., the number of independent directors must represent at least one third of the total number of directors.

Structure of the Board of Directors at year-end 2022

GRI 2-10



The **Board of Directors** generally meets once a month and when the Chairperson decides to convene it.

At the end of 2022, there were **three Board Committees**: the **Audit** Committee, the **Appointments and Remuneration** Committee and the **Sustainability** Committee, chaired and composed of a majority of independent directors as established in our Articles of Association.

You can consult the annual reports of the committees and the professional profiles of the members of our Board of Directors at this link:

<https://www.canaldeisabelsegunda.es/web/site/accionistas>

Current composition* of the Board of Directors and its committees

GRI 2-11

GRI 405-1

CONSEJEROS	TIPO	CONSEJO DE ADMINISTRACIÓN	COMISIÓN DE AUDITORÍA	COMISIÓN DE NOMBRAMIENTOS Y RETRIBUCIONES	COMISIÓN DE SOSTENIBILIDAD
D ^a . Paloma Martín Martín	Dominical Comunidad de Madrid	Presidenta del Consejo			
D. Mariano González Sáez	Ejecutivo	Vicepres. del Consejo y Consejero Delegado			
D ^a Isabel Aguilera Navarro	Independiente	Vocal			Vocal Comisión
D ^a Cristina Aparicio Maeztu	Dominical Comunidad de Madrid	Vocal	Vocal Comisión		Vocal Comisión
D. Fernando Arlandis Pérez	Dominical Comunidad de Madrid	Vocal			Vocal Comisión
D. Antonio Javier Cordero Ferrero	Independiente	Vocal	Vocal Comisión		Vocal Comisión
D. Jaime García-Legaz Ponce	Independiente	Vocal	Presidente Comisión		
D. Guillermo Hita Téllez	Dominical ayuntamientos	Vocal			
D. Salvador Marín Hernández	Independiente	Vocal	Vocal Comisión	Vocal Comisión	
D. Francisco Muñoz García	Dominical ayuntamientos	Vocal			
D ^a . Alicia Muñoz Lombardía	Independiente	Vocal		Presidenta Comisión	
D. Jaime Sánchez Gallego	Externo	Vocal		Vocal Comisión	
D. José Ignacio Tejerina Alfaro	Dominical Comunidad de Madrid	Vocal	Vocal Comisión		
D ^a . Lourdes Vega Fernández	Independiente	Vocal		Vocal Comisión	Presidenta Comisión
D ^a . María del Carmen Tejera Gimeno		Secretaria, no consejera			

(*) February 2023

NEW SUSTAINABILITY COMMISSION

GRI 2-17

In relation to the governing bodies of our company, the main novelty during 2022 has been the creation of a new specialised committee of the Board of Directors, the Sustainability Committee, with the aim of continuing to strengthen good governance and the commitment of our company to society as a whole. The creation of this committee has been carried out following the express request of several directors during the last financial year.

To this end, following the growing good practices observed in listed companies, it has been decided to create this new committee which will analyse **ESG** (*Environmental, Social and Governance*) issues, including sustainable development and compliance.

The committee is of an internal, consultative and informative nature and is currently composed of five directors, two proprietary and three independent, one of whom chairs the committee. Its functions include, inter alia, the following:

To report on our company's **strategies, objectives and action plans** in environmental and social matters and any other matters relating to sustainability.

To monitor our **actions related to sustainable development** and, in particular, that environmental and social practices are in line with the strategy and policies approved by the Board of Directors.

Report to the Board of Directors on the content of the **statement of non-financial information**, without prejudice to the powers that, in relation to the process of its preparation and presentation, may be attributed to the Audit Committee.

Supervise and oversee the application of our company's **corporate governance** system, taking into account the degree of compliance with the rules and recommendations of good governance applicable to us.

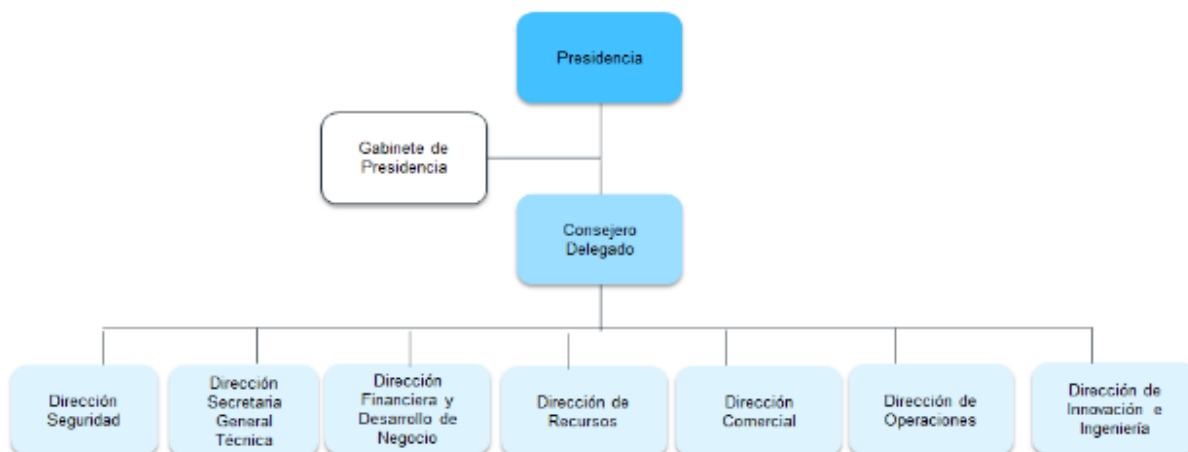
ORGANISATION AND SENIOR MANAGEMENT

GRI 2-12

GRI 2-13

GRI 2-14

Our organisation has a structure composed of directorates (7), sub-directorates (28) and operational areas (101). The organisation chart in force at the end of 2022 at directorate level is as follows:



In October 2022, our Board of Directors approved the **adaptation of the organisational structure** with the following objectives:

- Modernise to make the existing structure more efficient.
- Increase the number of staff through the stabilisation rate authorised by the Regional Government of Madrid, in order to reduce the temporary nature of public employment.
- Integrate into Canal's workforce the jobs from the subsidiaries that have been absorbed over the course of 2021 and 2022: Hispanagua, Canal de Comunicaciones Unidas, Hidráulica Santillana and the company Ocio y Deporte Canal, registering the corresponding posts.

The most important novelties with respect to the previous structure include the creation of the General Services Sub-Directorate, integrating the functions of Document Management, Fleet Management, Parks and Gardens; the creation of the Energy Sub-Directorate, integrating the functions of Cogeneration and Biogas, Purchase and Sale and Lines, Hydraulic and Solar; and the adaptation of the Environmental Management Sub-Directorate as the Circular Economy Sub-Directorate, integrating the functions of Waste Management and Environmental Control.

Details of our new organisation down to area level can be found on our transparency portal at this link:

<https://www.canaldeisabelsegunda.es/web/site/accionistas>

Canal has a **Management Committee**, chaired by the **CEO** and formed by the **directors**, which meets periodically to resolve relevant issues affecting the company in any matter (analysis of economic, strategic, operational, commercial and/or environmental information), as well as to deal with any other substantial matter at the proposal of its members. The **Management Committee** regularly reports to the Chairman of the Board on all relevant issues that may affect the Company's activities.

In addition to the Management Committee, Canal regularly holds different committees composed of members of senior management. They deal with a wide range of issues such as the **Supply Management Committee**, the **Energy Committee**, the **Information Systems Committee**, the **Compliance Committee** and the **Strategic Plan Monitoring Committee**, among others.

You can find more information about our organisation and the members of the Canal de Isabel II Management Committee at this link:

<https://www.canaldeisabelsegunda.es/web/site/quienes-somos>

MONITORING OF THE 2018-2030 STRATEGIC PLAN

GRI 2-12	GRI 2-14	GRI 2-24	GRI 3-3
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The Strategic Plan 2018-2030 of Canal de Isabel II, S.A., M.P. is a living and necessarily flexible tool, a lever of the sustainability strategy of our company to, among others, achieve compliance with the **Sustainable Development Goals** of the United Nations. Thanks to the participatory nature of the Plan since its design and creation, as well as the constant improvement to which it is open, our Plan has a quarterly monitoring and control system for results, as well as a continuous process of strategic review, which involves our entire organisation.

The implementation of our Strategic Plan involves the implementation of transversal projects that involve professionals from different areas of our company, so that, in addition to the formal and hierarchical structure of Canal, there is an *ad hoc* transversal structure responsible for the implementation of the plans and actions of each strategic line.

Each of the **10 strategic lines** is led by a member of the Management Committee and coordinated by a Line Coordinator, who in turn leads those responsible for the specific plans and actions associated with their line. In addition, the **Strategy Implementation and Monitoring Office**, an internal team specifically set up with the mission of promoting, coordinating and facilitating the execution of plans and actions, monitors all the objectives of the lines and plans as well as supporting decision-making.

In the financial year 2022 **the targets of our Strategic Plan have been met by 98.3%**, which is the highest compliance value since 2018.

Further information on the Strategic Plan can be found on our website:
<https://www.canaldeisabelsegunda.es/en/quienes-somos>

Structure of the Canal de Isabel II Strategic Plan 2018-2030



GRI 2-20

GRI 2-23



CUMPLIMIENTO PLAN ESTRATÉGICO

2022

98,3%

2021

90%

CUMPLIMIENTO DE CADA LÍNEA ESTRATÉGICA



Further information on the Strategic Plan can be found on our website:
<https://www.canaldeisabelsegunda.es/en/quienes-somos>

1.5. Our stakeholders

GRI 2-28

GR1 2-29

At Canal de Isabel II we consider it essential to engage with our stakeholders on a continuous basis. With them, and thanks in part to their direct involvement throughout the process of designing the Strategic Plan, we make specific commitments on a daily basis that we see as part of our responsibility as a public company.

Our main stakeholders include the following:

- **Regulatory bodies:** the European Union, the Ministry for Ecological Transition and the Demographic Challenge, the Tagus River Basin Authority and the Ministry of Health.
- The Regional Government of Madrid, **the Regional Parliament of Madrid** and the five parliamentary groups represented therein (PSOE, PP, Más Madrid, VOX and Unidas Podemos).
- **Our shareholders:** the Regional Government of Madrid and the 112 local councils that currently form part of our shareholding structure.
- **Customers and users:** local councils in the municipalities we serve, as well as domestic, commercial and industrial customers and domestic users, commercial and industrial customers and users; large customers such as housing estates or homeowners' associations.
- Our **business partners:** our company's **employees, suppliers** and contractors with whom we work.
- **Other companies in our sector** with which we collaborate, as well as the **sector associations** in which we actively participate (AEAS, AGA, EUREAU, EBC and IWA).
- **Society in general**, with special interest in certain sectors and agents of society, such as:
 - The **school community** (teachers and students) with whom we interact through Canal Educa's activities.
 - The **media** and opinion-makers.

- The **scientific community** and innovation-focused entities.
- Business analysts and **experts in our sector**.
- Managers and those responsible for the protection and improvement of our environment.
- Other social entities (NGOs, foundations and entities with which we collaborate).

The frequency with which we interact with different stakeholders is as follows:

- In addition to the bimonthly bill, we are in regular contact with our **customers and users** through our customer service centre and telephone campaigns. In addition, we have customer satisfaction surveys through which we contact our customers to find out what they think about our services.
- The company maintains a permanent relationship with its **employees** through personal contact and new technologies. A notable example of this is the daily update of our **Canal&Tú intranet**, which includes all the news that affect the day-to-day running of the company. In addition, regular meetings are held with employee representatives through the Works Council or in other thematic forums such as meetings on training, overtime or the Health and Safety Committee.
- We also maintain constant and fluid contact with our **suppliers and contractors**. On a daily basis, through their telephone, e-mail and web enquiries, the management of offers, small orders and complaints through our SRM web system and our SAP ERP, in addition to the necessary direct engagement with each of the services that work with them. Annually, we contact them through the balance circulation required for the annual accounts audit, and also when conducting the annual satisfaction survey.
- The main communication event with **shareholders** is the general meetings, which are convened by the management body (Board) when it considers it in the best interests of the company. The Ordinary General Meeting, previously convened for this purpose, meets within the first six months of each financial year to approve, where appropriate, the management of the company, the accounts of the previous year and to decide on the allocation of profits, among other important resolutions.
- With the **rest of our stakeholders** (regulators, strategic partners or society in general), this engagement is continuous, constant and increasingly intense. Our intention is to continue to deepen the fluidity of our relationship with all our

stakeholders by intensifying engagement with them. We are convinced that we will only achieve our goals if we work in the same direction.

In order to open up this participation, which began in 2018, we have continued to host focus groups and several interviews to find out their opinions and expectations of the company.

In order to promote fluid communication with stakeholders, Canal de Isabel II also uses the communication channels available to us to learn about and respond to the demands and queries of society in the economic, environmental and social spheres.

Map of most common communication channels used by Canal

GRI 2-16	GRI 2-23	GRI 2-26
CANAL DE COMUNICACIÓN	COMUNICACIÓN INTERNA	COMUNICACIÓN EXTERNA
 <p>Personal o presencial</p>	<p>Reuniones. Formación y sensibilización. Actividades de ocio y deporte para los empleados y sus familias</p>	<p>Oficinas centrales de la empresa. Centro de atención al cliente. Servicio de atención al cliente. Visitas organizadas a las instalaciones. Campañas educativas (Canal Educa)</p> <p>Áreas recreativas y de deporte. Participación y organización de congresos, foros y otros encuentros. Actividades de la Fundación Canal. Junta General de Accionistas. Oficina de atención al accionista.</p>
 <p>Teléfono, fax, correo</p>	<p>Teléfono, fax, correo ordinario. Buzón de sugerencias.</p>	<p>Teléfono de atención al cliente. Teléfono de atención a proveedores.</p> <p>Teléfono de contacto de las iniciativas educativas. Mensajes en la factura.</p>
 <p>Internet</p>	<p>Web corporativa e Intranet. Espacio online Canal Contigo.</p>	<p>Oficina virtual de atención al cliente. Página web de la empresa. Portal de transparencia. Portal del accionista. Página web de Canal Educa. Página web de Canal Voluntarios. Página web de la Fundación Canal.</p> <p>Canal en YouTube. Canal en Instagram. Canal en LinkedIn. Perfil en Facebook. Redes sociales de la Fundación Canal. Aplicación móvil de Canal de Isabel II para Android y iOS.</p>
 <p>Publicaciones / Informes técnicos</p>	<p>Informes y comunicados internos. Revista Canal&tú.</p>	<p>Envío de información personalizada a los clientes. Informe de Sostenibilidad de Canal de Isabel II. Revista Canal&tú</p> <p>Publicaciones de la empresa. Publicaciones de la Fundación Canal. Cuadernos de I+D+i</p>
 <p>Medios: TV, prensa, radio y medios digitales</p>		<p>Notas de prensa. Convocatorias a los medios. Sala de prensa en la web.</p> <p>Campañas de concienciación dirigidas a la población. Blog de Canal de Isabel II</p>

2. Our performance in 2022 and the challenges in the decade of action

GRI 3-1

GRI 3-2

GRI 2-23

The **Sustainable Development Goals (SDGs)** of the 2030 Agenda have been one of the most relevant aspects that our company has taken into account from the design phase to the implementation of our Strategic Plan 2018-2030. In this way, progress on the SDGs forms part of our current management and is part of the "roadmap" that Canal will follow throughout this decade to address the challenges posed by the management of such a basic resource for life as water.

At Canal we have the great challenge in this **decade of action**, as the United Nations has called it, to consolidate our management as an leading company in terms of sustainable development, implementing all the actions and measures planned in accordance with our **Strategic Plan 2018-2030**, which are framed in the areas of **circular economy**, the **fight against climate change**, the protection of **biodiversity** and care for the **environment**, among others.

In this regard, and in line with the sustainability reports we have published in recent years, **in this section of the Sustainability Report 2022** we will show **the progress we have made in the different Sustainable Development Goals (SDGs)**, grouping together the issues we have identified as **most relevant for our stakeholders**. To this end, since 2020, we have been analysing and assessing the company's priority objectives together with our stakeholders. This analysis, called "**materiality analysis**", was carried out to measure the impact of the COVID-19 pandemic not only on Canal's operations in the Community of Madrid, but also in the rest of Spain where we are present, as well as in the Latin American countries where we conduct activities.

As a result of this analysis, in the 2021 Sustainability Report we publish the review of our materiality matrix, which we built based on the importance of each of the "material" topics for our stakeholders and for our company.

Canal de Isabel II Materiality Matrix (Rev. 2021)

GRI 3-2



Our matrix considers the degree of importance that stakeholders assign to material issues, as we believe that their contribution is very important for the real and effective achievement of the SDGs. By participating in working groups with other companies in the sector at European level, as well as holding workshops with citizens or Canal's own employees, we have been able to identify the issues to which we need to devote more attention in order to make progress on sustainability.

The role of water (and sanitation) as a major **accelerator** on the road to **achieving the SDGs** has already been highlighted by the United Nations. Its availability contributes in an integral way to the development of the other lines of action due to its impact on hygiene, health, education, equality, lifestyle and nutrition, among others. **Water is a vital resource for development.**

For this reason, Canal's contribution to the United Nations 2030 Agenda has sought to go beyond the SDG 6 objectives (clean water and sanitation) directly related to our activities and has sought to take advantage of the aforementioned cross-cutting nature of water with respect to the rest of the SDGs. To achieve this from the outset, we established the correlation between the 17 SDGs and the **objectives of the 10 strategic lines** that make up our 2018-2030 Strategic Plan.

Thanks to the efforts of the people who work in each of the **10 lines of work of the Strategic Plan**, we are making progress in specific aspects of each of the **17 SDGs**. This progress is achieved by developing and implementing 45 plans and 100 actions included in the Strategic Plan and is monitored on a quarterly basis using more than 50 indicators developed to measure the degree of compliance with each strategic line of action measuring the degree of compliance with each strategic line.

Correlation of the 2022 goals of the Canal Strategic Plan with the SDGs

GRI 2-24



This **measurement of Canal's contribution to the SDGs** is carried out through a proprietary monitoring tool that allows real-time consultation of the degree of compliance with each SDG based on the associated performance indicators. Based on a participatory process with the heads of the main areas of the company and several interviews, appropriate indicators were selected to measure Canal's contribution to each of the Sustainable Development Goals.

All results are published on our website on an annual basis with the main achievements and progress of each of the actions of our Strategic Plan. In addition, this commitment also translates into part of the remuneration of Canal's employees, as it is linked to the achievement of the objectives of the actions included in the Strategic Plan.

Degree of compliance with the indicators of the Canal Strategic Plan associated with each of the SDGs in 2022 (% of target)



In the following sections of this report, we elaborate in more detail the description of our company's activities and achievements in 2022 in the plans and actions that correlate with each of the SDGs.



SDG 6 (clean water and sanitation)

GRI 303-1

Water as a major accelerator of the SDGs

The main responsibility of our company is to ensure the current and future supply of water to all our users. To do this, we need to have the right infrastructure and tools in place to manage the resource in an efficient and sustainable way.

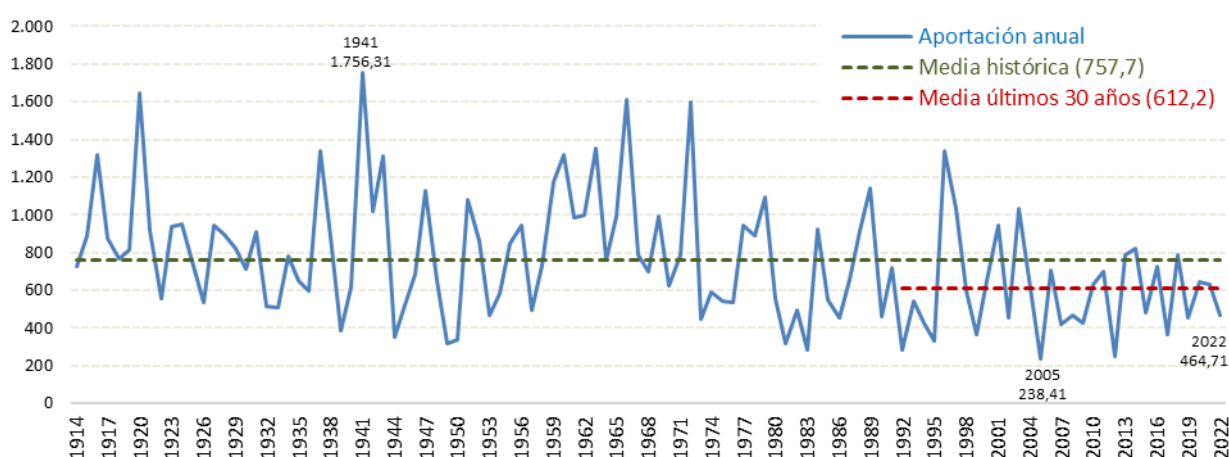
ENSURING ACCESS FOR ALL TO A QUALITY RESOURCE

GRI 3-3

Achieving maximum efficiency and continuing to provide quality and sustainable services over time is one of the main challenges we face. As a consequence of climate change, situations of water scarcity and "water stress" are expected to become increasingly frequent in Spain.

In the case of the Community of Madrid, we are already experiencing some of these risks. This is shown, for example, by the reduction of almost 20% in the average water inflow to our reservoirs over the last thirty years compared to the historical average since 1914 years compared to the historical average since 1914.

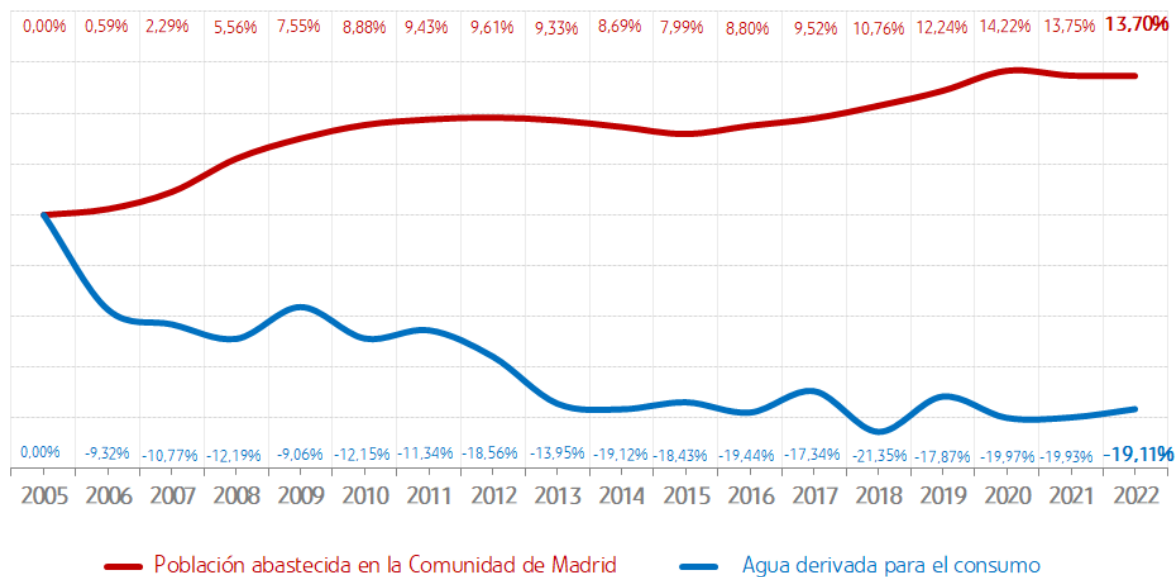
Natural river inflows to Canal reservoirs (1914-2022)
(million cubic metres per year)



Despite the lower inflows, since the external drought episode in 2005, Canal has managed to cope with a large population increase with the same reservoir capacity. In those 17 years our

population supplied in the Community of Madrid has increased from 5.74 million inhabitants in 2005 to 6.53 million inhabitants in 2022; this represents an increase of almost 14% in those sixteen years, while consumption has decreased by 19%.

Evolution of the use of the resource (derived water) and the population supplied 2005-2022 (% increase compared to 2005)



Tackling this challenge means acting in various ways, seeking solutions through the capture of **alternative resources** and new infrastructures, through policies to promote **consumption savings**, through greater **efficiency in the management** of the resource and through the extension of the supply of **reclaimed water** for compatible uses.

Alternative sources of supply

In the area of supply, our objective is to have more resources that allow us to mitigate the effect of the **decrease in natural inflows** and, on the other hand, to have facilities that allow us to operate with sufficient flexibility from the different sources of supply available to us.

Among these resources, our capacity to transfer water from the Picadas and San Juan reservoirs and, to a much lesser extent, from the Los Morales reservoir, all of which are located in the **Alberche river basin**, where we have the corresponding concessions, stands out. With 2022 being such a dry year due to the lack of rainfall, it was necessary to transfer more than 170 million cubic metres from these reservoirs (77% more than in 2021).

We also have the possibility of exploiting **groundwater** through the exploitation of **78 wells**, an essential strategic reserve for drought situations. Our wells exploit the **Cretaceous carbonate aquifer of Torrelaguna** (Madrid) and, fundamentally, the **Tertiary Detritic aquifer**

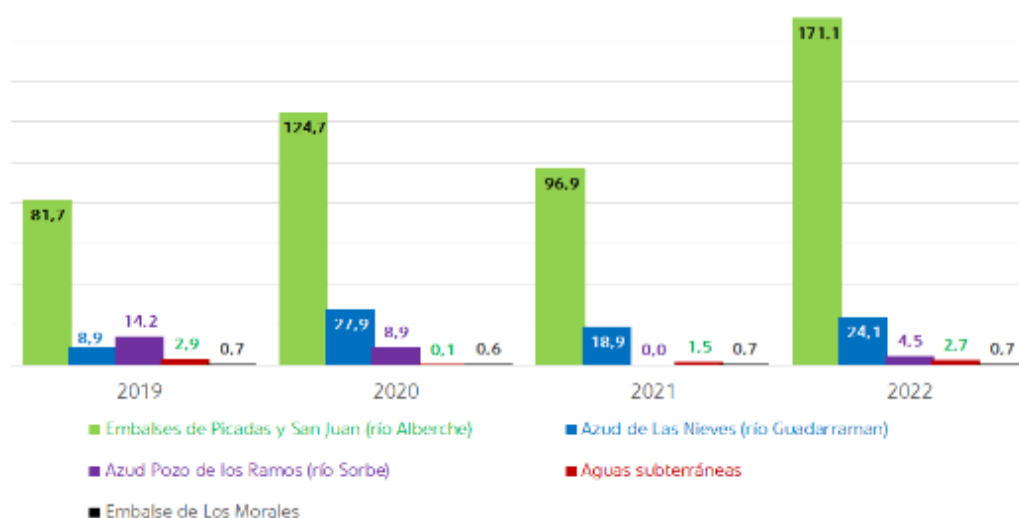
of the Madrid Basin (one of the most important in the Iberian Peninsula) in which we have **wells up to 800 metres deep**. In 2022, the wells have brought us 2.7 million cubic metres.

On the other hand, in recent years the use of the **Guadarrama river** has been boosted, transferring water to the Valmayor reservoir via the Las Nieves weir. We also have the possibility of obtaining water from the **Sorbe river** using the Pozo de los Ramos weir in the province of Guadalajara, which connects to the Jarama Canal. In 2022, between the two dams, we will have obtained more than 28 million cubic metres.

Finally, since 2010, the **Tagus DWTP** has enabled us to provide the people of Madrid, if necessary, with resources from this river thanks to the most advanced reverse osmosis and ultra-filtration technologies.

All these possibilities, together with **communication between the supply systems** of the Community of Madrid, give us great flexibility in operation and enhance our ability to guarantee the availability of water for users. In 2022, a dry year, the volume provided by these catchments was 203.15 million cubic metres, 77% more than in 2021.

Use of alternative resources to Canal reservoirs in the period 2019-2022 (million cubic metres per year)



Reclaimed water: a real alternative

GRI 301-2

GRI 303-3

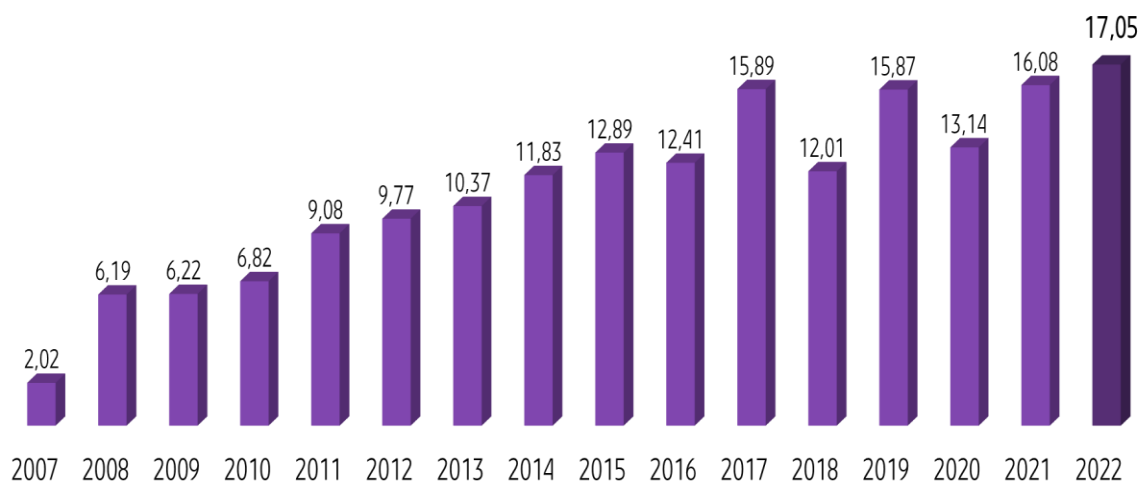
The regeneration of wastewater for subsequent reuse is one of our major commitments for the future. Thanks to reclamation, we will be able to obtain a large volume of water **for certain uses not related to supply** for human consumption which, however, today represent an important part of the demand: irrigation of public parks and gardens, golf courses, street cleaning and even for certain industrial processes. By using reclaimed water we manage to

reduce the pressure on the resources stored in our reservoirs, which means a more rational and sustainable management of these resources.

Canal manages **33 reclamation plants, 741 kilometres of reuse networks** and **64** reclaimed water **reservoirs**. With these infrastructures, we serve **26 municipalities** and **11 golf courses** (789 hectares), as well as one industry (International Paper) and 13 other entities (228 irrigated hectares). Thanks to agreements signed with municipalities, 401 municipal parks and green areas in the region (1,876 hectares) will be irrigated with reclaimed water by 2022.

in 2022, **we reclaimed the largest quantity of water for reuse ever recorded**, reaching a total of **17.05 million cubic metres** of water, **beating our previous record recorded in 2021** (16.08 hm³). In addition, a total of **91.79 million cubic metres of regenerated water were discharged into riverbeds** to improve the quality of their water bodies. The reused water consumed in 2022 is equivalent to **3.45% of total drinking water consumption** in the region.

Annual production of reclaimed water for reuse (million cubic metres)

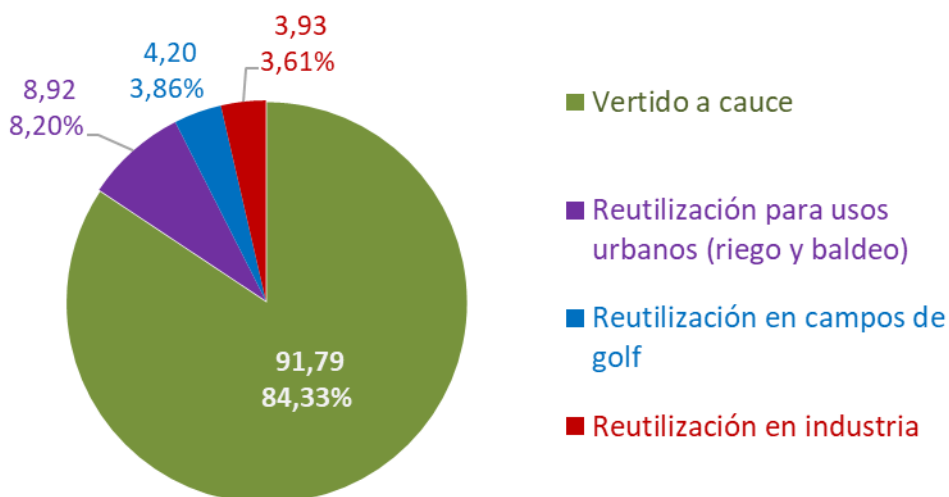


In the last 10 years (from 2013 to 2022), 137.5 million cubic metres of reclaimed water have been reused in the Community of Madrid, equivalent to slightly more than the capacity of the Valmayor and Navacerrada reservoirs combined.

In 2022, the **total volume of reclaimed water** produced in our tertiary treatment plants was **108.84 million cubic metres**, equivalent to **22.05% of the drinking water consumed** in the Community of Madrid. Our tertiary plants have operated at **95.5% of their nominal production capacity**.

Distribution by uses of reclaimed water produced in 2022

(hm³ and % of total consumption)



In relation to the consumption of reclaimed water in 2022, the company *International Paper* (located in Fuenlabrada and dedicated to the manufacture of cardboard from recycled paper) has beaten its production record by consuming almost **4% more reclaimed water** than in 2021, avoiding the consumption of resources from reservoirs.

Distribution in % of water reused in 2022 (% of total consumption)



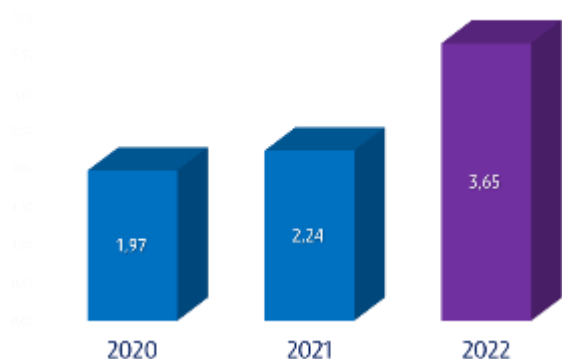
Fight against fraud water fraud

Canal has a specific area dedicated to **combating water fraud**. The task of detecting fraud involves several stages, the final result of which is often channelled through a **complaint to the Judicial Authority**, as it is understood that we are dealing with activities that may be included in Chapter VI of the Criminal Code - *Fraud*. In other cases, the preventive condemnation of non-contracted connections is carried out to avoid their illegal use; occasionally, the result of the action is transferred to other Canal areas when it is understood that this case may be within their competence, due to its special characteristics.

Throughout 2022, as a result of our efforts in the fight against fraud, we have detected fraudulent situations involving more than **3.65 million cubic metres of water** (63.15% more than in 2021) and we have also recovered **350.7 million euros for the amounts of water defrauded**. In addition, we have made **477 convictions** of fraudulent connections and **253 contracts** have been negotiated and signed to regularise fraudulent situations

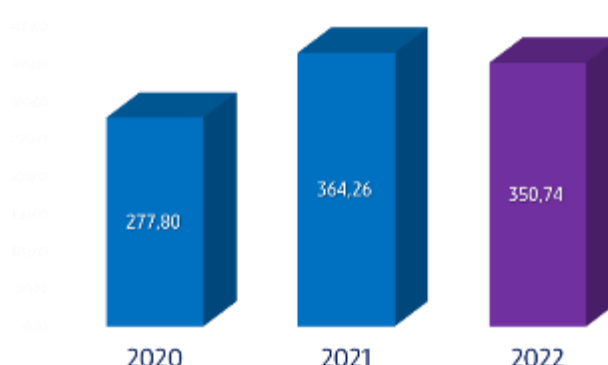
Fraudes de agua detectados

(valor acumulado anual del fraude detectado en hm³)



Resultados económicos de la lucha contra el fraude

(valor en miles de euros de los ingresos por fraude detectado a lo largo del año)



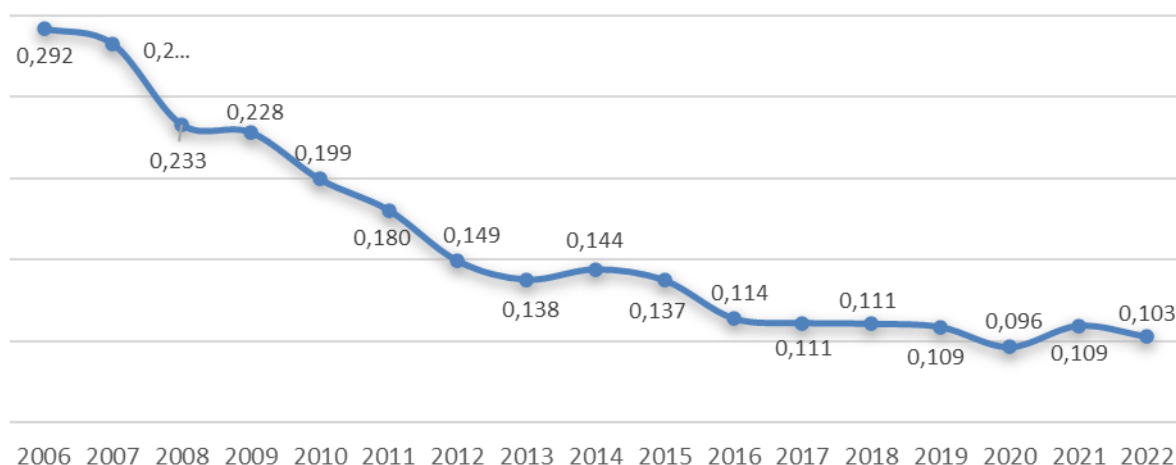
The efficiency of our network

Canal's strategic priority is to implement internal actions that allow water to be managed with the greatest efficiency in the distribution network, with the aim of reducing leaks and breaks in the network and at service connections.

The policy of renewal and improvement of the distribution network aims to minimise water losses due to leaks and breaks and to reduce damage to third parties due to flooding.

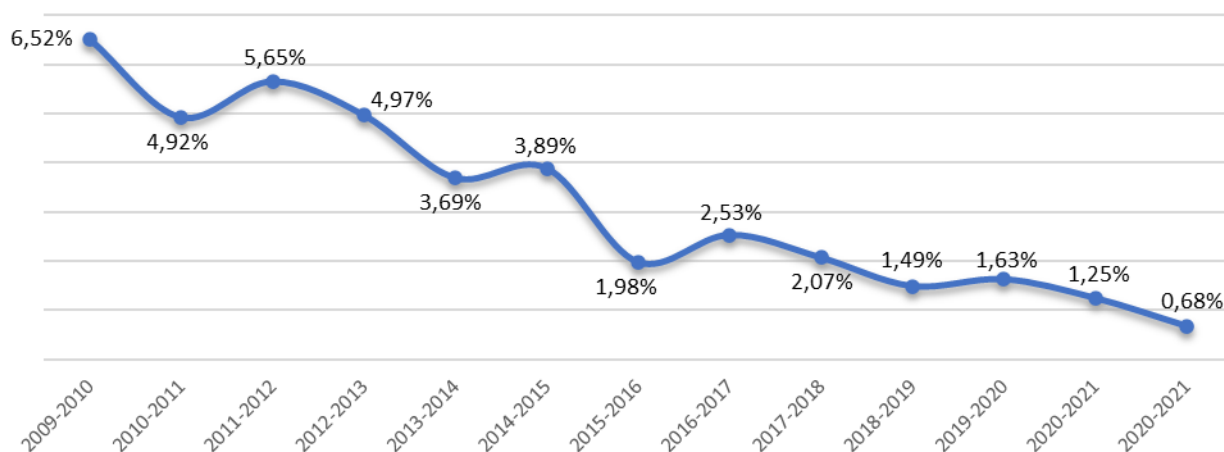
Canal's historical efforts have resulted in a significant improvement in our break rates over the past 17 years, with a **54% reduction in pipe breaks**. This is despite the growth of the network and the incorporation in 2012 of networks in new municipalities with a poor level of maintenance. In 2022 compared to 2021, the reduction is 6%.

Pipe breaks per kilometre of network



The result of all Canal's efficiency efforts is reflected in the efficiency data available for our network. In this way, real losses in adduction and distribution caused by leaks, breaks and breakdowns in the supply network, as well as apparent losses due to metering errors, fraud and unmeasured consumption, have been significantly reduced in recent years. In fact, **according to data published by the National Statistics Institute (INE)³, apparent losses in the Community of Madrid were 15% lower than the national average in 2020 and real losses were 76% lower.**

Hidden losses in the distribution network (% of water abstracted for consumption per water year)



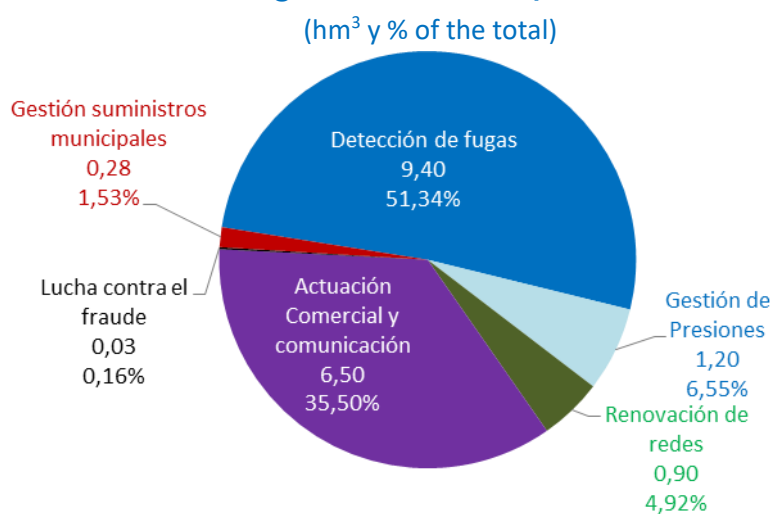
In terms of efficiency, in recent years our **network renewal** actions have been in the region of 100 to 120 kilometres per year. Until the implementation in 2021 of the **first phase of the RED Plan**, included in our Strategic Plan, the **largest investment made by Canal** and whose

³ Statistics on water supply and sanitation published by INE in 2022 with data at the end of 2020.

objective is to guarantee the quality and supply of water in the region and increase the efficiency of the distribution network. This phase includes the renovation of **1,200 kilometres** of water supply pipes in **163 municipalities**. In **2022**, thanks to the effective start-up of the Plan, the **kilometres renewed have almost doubled** compared to our historical average, reaching **190**.

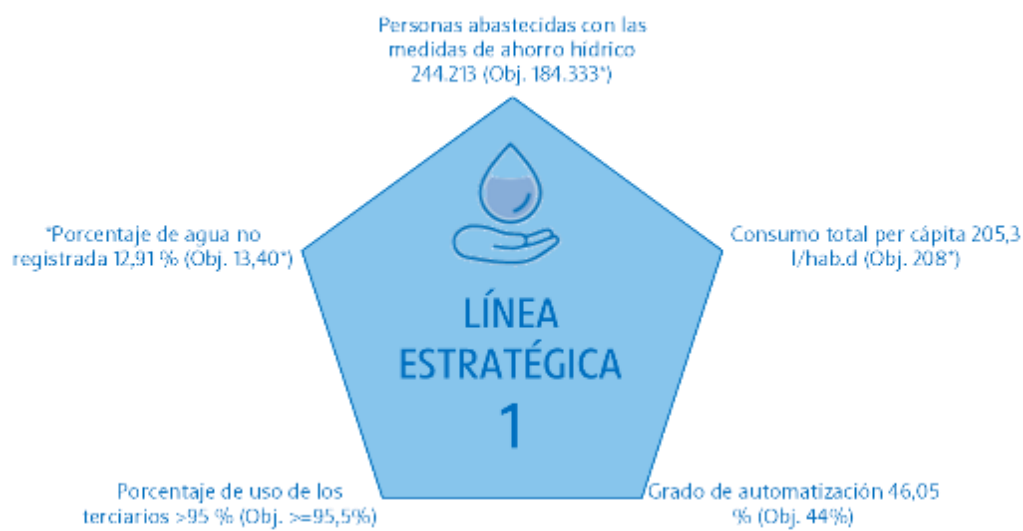
The renovation is also complemented by other measures that seek to improve our efficiency, such as **leak detection** campaigns, **pressure management** in the network, the aforementioned **fight against fraud**, the regularisation of some municipal supplies and **communication and awareness campaigns** on the **rational use of water** aimed at our customers and society in general. The combination of all these efforts over the course of 2022 is estimated to avoid the consumption of 18.3 million cubic metres of water, equivalent to 3.7% of the water derived for consumption in 2022 or the water needed to supply 244,213 people (the sum of the inhabitants of Fuenlabrada and Colmenar Viejo) for one year.

Estimated savings from efficiency measures in 2022



Monitoring of indicators as part of Strategic Plan. Strategic Line 1

Ensuring security of supply



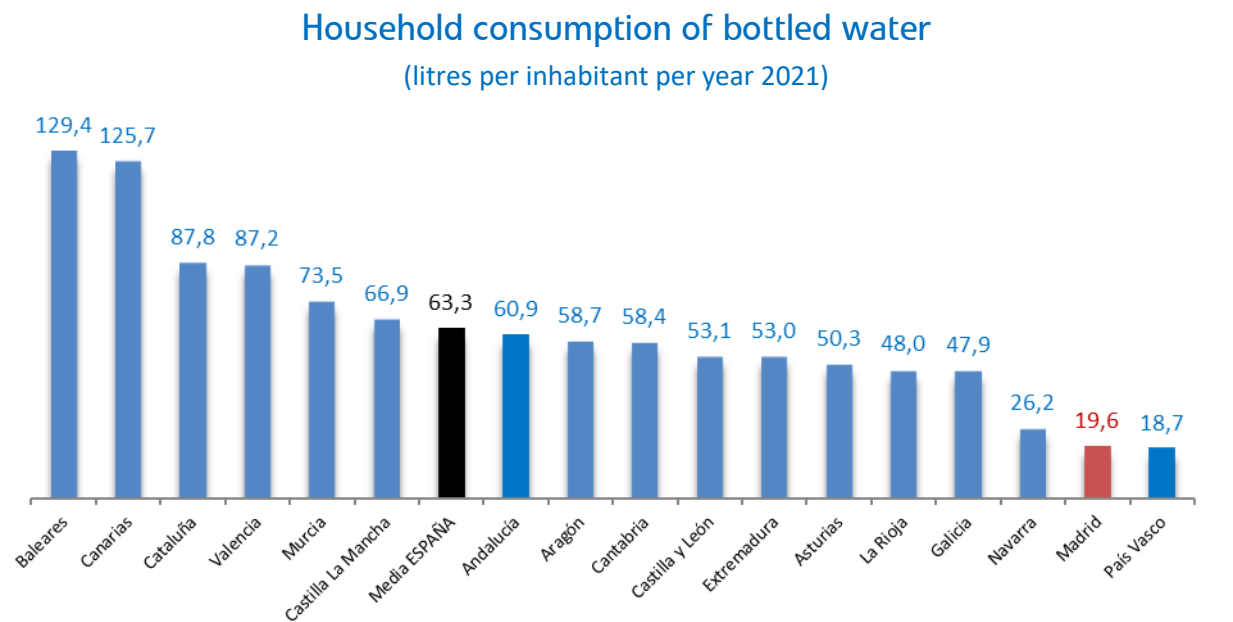
*Los objetivos se corresponden con los de año seco

ENSURING QUALITY: THE BEST WATER IN SPAIN

GRI 3-3

The quality of the water that Canal de Isabel II serves to the people of Madrid is one of the hallmarks of the Community of Madrid.

Madrid's water is considered to be of the highest quality in Spain. For example, **bottled water consumption** in the region in 2021 (19.6 litres per inhabitant per year) is 69% lower than the Spanish average (63.3 litres) year) is **69% lower than the Spanish average** (63.3 litres). There are many reasons for this quality. **We have excellent raw materials at source** (our reservoirs and catchments), adequate and **advanced treatment systems** and the great **effort we make to preserve and maintain the quality of the water**.



Source: Ministry of Agriculture, Fisheries and Food Household Consumption Database (2022)

How we guarantee water quality

GRI 416-1

In order to guarantee the quality and safety of the water, Canal has established a monitoring programme from the source of supply to its delivery to the consumer.

The analyses corresponding to the water supply water quality **monitoring and control programme** are carried out in five laboratories integrated in the Water Quality Subdirectorate and in another twelve laboratories integrated in the treatment areas. In them, the determinations required by the legislation on sanitary criteria for the quality of water for

human consumption are carried out. Canal also manages the quality control of the effluents treated in the WWTPs and the quality of the reclaimed water used to irrigate green areas.

Throughout 2022, we have taken more than 3.28 million water quality samples and performed 21.53 million analytical checks to ensure water quality. This means more than **9,000 checks per day** or **41 analyses per minute**.

Water control at source

The control of water at source considers the two possibilities of available resources: surface water and groundwater.

Surface water **monitoring** is carried out by means of a **limnological study of the reservoirs and rivers** used for catchment, while groundwater monitoring is aimed at the analytical characterisation of the resource, in compliance with the environmental conditions for groundwater established by the Regional Government of Madrid.

Surface water for drinking water production is usually of a high quality. **Most of the surface water captured** by Canal is **classified at the highest quality levels** established by current legislation.

Monitoring of distributed water

For the monitoring of treated and distributed water, we use two programmes based on classical manual sampling

- **Systematic programme** at the inlet and outlet of DWTPs, header and regulating reservoirs, and official sampling points located throughout the network.
- **Ancillary programme**, without established programming for complaint handling and specific studies

The manual sampling system is complemented by a network of **65 automatic monitoring stations (EVA)**, installed at the outlets of the DWTPs, the large reservoirs and the most important nodes of the supply network. All of them are equipped with sensors to measure a series of chemical parameters continuously and send the results in real time through Canal's own communication network to our Control Centre canal's own communication network, to our Control Centre.

The parameters we measure in the EVAs are chosen specifically for their importance in **diagnosing water quality**. Their number is in the process of increasing through a multi-annual programme. Analytical determinations in EVAs include chlorine, ammonium, nitrites, pH and conductivity, among others.

Monitoring of waste and reclaimed water

Our company also manages the quality control of effluents treated at WWTPs and the quality of reclaimed water used for irrigation of green areas and street cleaning.

For this purpose, we have a **Purified Water Laboratory** located in Majadahonda (Madrid), which in its 2,200 square metres has a physicochemical laboratory, a microbiology laboratory, a laboratory for the analysis of organic pollutants and another for metals and solid samples, an incubation room and a data and microscopy room, among other facilities. In addition, we have three other laboratories for wastewater analysis at some of our WWTPs.

Our monitoring programme allows us to maintain a permanent alert system through an **network** of automatic monitoring stations (EVAs in Spanish) **consisting of 95 stations for treated water and 60 for reclaimed water**, which we also use for strict control of treated water from the entry into the WWTPs until it is returned to the rivers, and for the control of water from the reuse networks.

Compliance with drinking water regulations

In 2011, Canal **obtained for the first time from the National Accreditation Entity (ENAC)** the accreditation according to **standard UNE-EN ISO/IEC 17025** for the performance of **physicochemical and microbiological analyses**, at our **Central Laboratory** and those located in **La Poveda**, Arganda del Rey and **Griñón**. The accreditation has been extended by the incorporation of new test methods and now includes inland and drinking water and reclaimed water in its scope.

Furthermore, all our laboratories and EVAs are included in the scope of application of the quality and environmental management systems implemented in the company and certified, since 1997, according to **UNE-EN ISO 9001** and UNE-EN ISO 14001 standards. Our latest incorporation was in 2017, with the entry into service of the laboratory for drinking water analysis in Collado Villalba, which reinforces the control of drinking water in the northwest of the Community of Madrid

Our latest incorporation was in 2017, with the entry into service of the laboratory for drinking water analysis in **Collado Villalba**, which reinforces the control of drinking water in the northwest of the Community of Madrid.

Since 2009, we have also had accreditation for the **cold water meter verification laboratory in Majadahonda** (file 278/ LE1569), which was later extended to flow meters. During 2022, the degree of compliance of the water distributed, in percentage of samples complying with the standard out of the total number of samples analysed for the self-monitoring protocol, was **92.69%**.

Monitoring of indicators as part of Strategic Plan. Strategic Line 2

Ensuring drinking water quality



CORONAVIRUS MONITORING - The *Vigía* System in 2022

Under the idea that wastewater provides a snapshot of the state of health of the population that generates it, and in the face of the pandemic caused by COVID-19, Canal de Isabel II launched an ambitious project for the detection, monitoring and visualisation of SARS-CoV-2 (the coronavirus that causes the disease COVID-19) in July 2020: **the Vigía monitoring system**

Vigía is the largest COVID -19 tracking and early warning initiative that has been developed in Spain to date, both in terms of the large number of sampling points (289) and the population studied: the system covers the 179 municipalities of the Community of Madrid, with 6.8 million inhabitants. The system is made up of two fundamental components: on the one hand, the protocol for **taking samples** and their **physiochemical and genomic analysis**; and on the other hand, the **analysis of the results** and their subsequent communication, both to the health authorities on a daily basis and to the general public on a weekly basis.

The results obtained by Vigía have been so positive that we have created a permanent warning network with its own **genomics laboratory** that will play an important long-term role in predicting, analysing and anticipating possible future adverse situations.

Since its launch in July 2020, Vigía has become an effective element in the health authorities' management of the pandemic and **has managed to anticipate the 6 waves of the disease** in the region. For this reason, **in 2022 Canal registered the Vigía System with the territorial intellectual property register**, with the aim of guaranteeing the ownership of its economic and exploitation rights.

Since its inception, Canal de Isabel II has made available to citizens a freely accessible interactive map where they can consult the trend in each area, the date of the last validated analysis, the indicator of the presence of the virus and a comparative value of the latest data with respect to the previous ones at the same point. In addition to the map, Canal publishes summary reports with the general trend of presence in the municipalities of the Community of Madrid, the city of Madrid and the variation in sampling points. All this information is available on our website and has received hundreds of thousands of hits throughout the months of the pandemic.

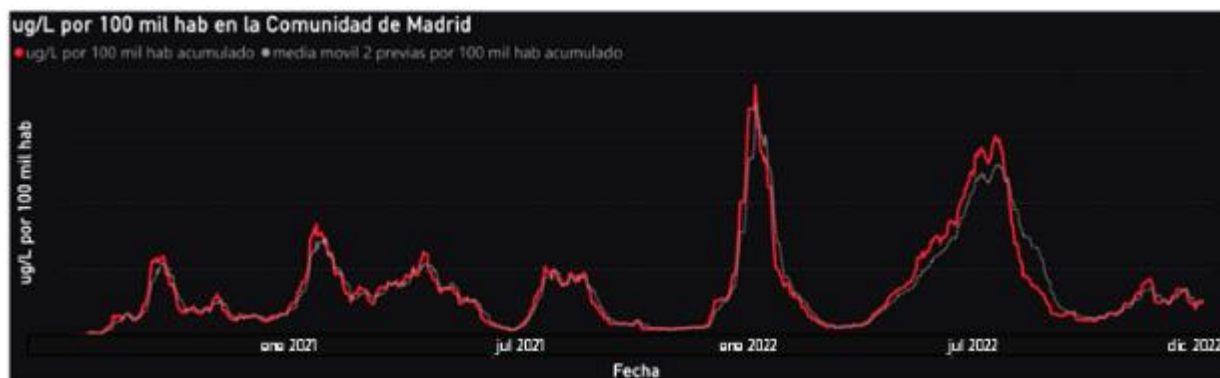
In 2002, given the evolution of the COVID-19 pandemic, the frequency of SARS-CoV-2 related sewage sampling has been reduced. As of April, the frequency of updating the presence map has changed to monthly. However, a small network is maintained which, on a weekly basis, carries out these same analyses as an early warning indicator and whose results are currently still published in the weekly report format.

Since its inception, Vigía has attracted the interest of institutions such as the United Nations and the European Union; medical events like *the World Pandemic Forum* as well as dozens of scientific publications such as *The Lancet* and *Environmental Research*, among others.

As a result of this interest, Canal de Isabel II was chosen by the EU-WOP programme to develop the Vigía System for tracking, monitoring and early warning of COVID-19 in wastewater in the metropolitan areas of Lima and Callao, which have more than nine million inhabitants (30 % of Peru's population) and are managed by the Peruvian state-owned company SEDAPAL. In 2022 we have continued to develop this project, highlighting the visit made to our company in November by a delegation of project managers from SEDAPAL.

Evolution of the results of the Madrid Surveillance System for the Community of Madrid

(July 2020 - December 2022)



CONTINUITY OF SERVICE: *24/7 RELIABLE SERVICE*

GRI 3-3

Canal must guarantee the security of service that allows continuous supply and contributes to the well-being of all the people of Madrid. To this end, we must have systems in place to ensure the security of our facilities, some of which are critical, our information systems and our personnel.

Ensuring the safety of facilities and people

In order to ensure the supply of drinking water to the citizens of the Community of Madrid, Canal de Isabel II must guarantee the management and control of the safety of all its facilities and premises.

To this end, we deal in a coordinated manner with key aspects such as building and facility security services, self-protection plans, security at large dams, coordination with the State Security Forces and the protection of customer-related data.

Operational security

GRI 410-1

Canal de Isabel II manages a large number of infrastructures liable to be considered of special risk, in addition to an important heritage that is subject to different pressures in some of the infrastructures we manage.

At the end of 2022, 393 people were responsible for Canal de Isabel II's security, guarding our 1,111 different facilities throughout the territory of the Community of Madrid. As of 31 December 2022, we had 89 fixed guard posts in place and 24 external monitoring and security patrols, which allow for increased monitoring when needed. All security personnel, as required by current regulations, have received training in the fundamental rights of citizens.

As of 31 December 2022, the existing coverage of electronic security systems includes CCTV surveillance, intrusion detection systems and card or electronic key access control to multiple facilities. Our closed-circuit television (CCTV) systems manage more than 1,000 cameras, many of which perform automated monitoring without human intervention, increasing operator efficiency and responsiveness.

Self-protection of buildings and installations

During the year 2022, our company has continued to make progress in this area. The main actions carried out include the preventive maintenance of the self-protection systems in 52 of our buildings and the preparation and/or renewal of four self-protection plans (twice as many as in 2021).

The implementation of self-protection plans is organised on two solid bases: training and involvement. For this purpose, the personnel who will form the teams are selected on a voluntary basis, and then all staff are trained. In 2022, with the most severe stages of the COVID-19 pandemic behind us, the number of evacuation drills at our sites and workplaces increased by 36% and we were able to conduct 106 over the course of the year. We have also been able to resume classroom training for our employees and, for example, 46 fire training courses have been held, including practice with real fire.

Data protection in relation to customers and suppliers

GRI 418-1

The **protection of the data** that our customers and suppliers, among other groups, make available to us to facilitate our work is a very important aspect for Canal and we manage it with special care.

In 2022 we have continued the process of continuous improvement and reassessment of all processes and procedures to ensure that they are compliant with the indications of *Regulation (EU) 2016/679 of the European Parliament and of the Council of 27 April 2016 on the protection of natural persons with regard to the **processing of personal data** and on the free movement of such data and with *Organic Law 3/2018 of 5 December on the Protection of Personal Data and Guarantee of Digital Rights*.*

In this regard, with the aforementioned objective in mind, the principles of data protection continue to be implemented in the different processes and procedures, applying technical, organisational, training and legal measures. During the year **2022**, there has been **a very significant increase in the exercise of data protection rights**, specifically **273 have been dealt with**. In addition, data protection clauses have been included in **256 contracts** and **27 suggestions and complaints from customers and users** have been resolved.

On the other hand, **data protection training** continues to be provided through induction sessions **for all employees** and specific training has been provided in the area of the contract relating to customer and user services.

You can consult our Personal Data Protection Policy at the following link on our website:

https://www.canaldeisabelsegunda.es/documents/20143/2458494/Política+de+Protección+de+datos_13022020_.pdf/e910105c-e05b-675e-2c73-f939c3baa3ae?t=1581675971614

Information systems security and business continuity

In the area of information security at Canal, we seek to achieve a **higher degree of maturity** in cybersecurity management aligned with international standards and commonly accepted best practices in the field of information security.

In the area of Operational Technology (OT) assets, we work to increase **cybersecurity levels** by taking into account the nature of this technology and its specific requirements; to reinforce systems to prevent and detect cyber-attacks through better use of Threat Intelligence; and to establish operational protocols to respond to cyber-attacks.

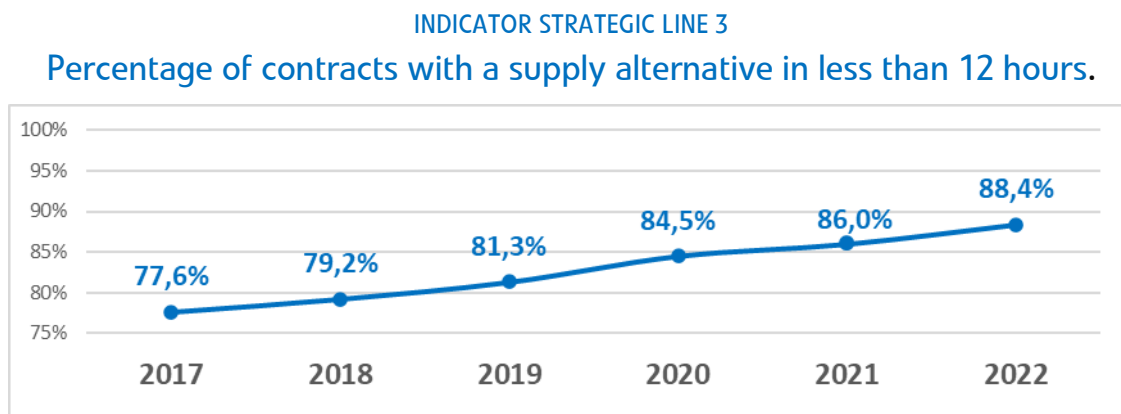
Our objective is to position Canal de Isabel II among the companies in the sector with the highest rates of cyber resilience.

Monitoring of indicators as part of Strategic Plan. Strategic Line 3

Strengthening continuity of service

The objectives set for strategic line 3 during 2022 **have been 100% met**. For **security reasons Canal does not publish detailed information** on these targets except for the one directly related to **continuity of supply**.

This indicator measures the percentage of contracts with customers who, in the event of an incident, have an alternative supply within 12 hours. Its evolution since the year prior to the start of the 2018-2030 Strategic Plan has been as follows:





SDG 13 (climate action)

We

care for the planet

The environment is in Canal de Isabel II's DNA. As managers of a natural resource that is essential for life and responsible for the treatment and correct discharge of wastewater from more than 6.7 million people into watercourses, it could not be otherwise. Therefore, conservation and protection of the environment is part of our mission and one of the main daily tasks at Canal. In the future, we want to go one step beyond legal compliance in our commitment to the environment.

THE CHALLENGE OF CLIMATE CHANGE

GRI 3-3

GRI 201-2

Most experts in the international scientific community agree on the importance that the effects of climate change may have on a potential change in the distribution of water resources at the global level.

Here at Canal we cannot be oblivious to this concern about the future sustainability of our supply model and, therefore, we work both in the field of **mitigation** of **greenhouse gas (GHG)** emissions associated with our activities and in the field of **adaptation** to the consequences of climate change in order to be prepared to face the adverse effects.

Our greenhouse gas (GHG) emissions

GRI 305-1	GRI 305-2	GRI 305-3
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In 2022, our estimated greenhouse gas emissions will amount to **148,133 tonnes of CO₂ equivalent**. This represents a reduction in our GHG emissions of 39.15% compared to those recorded in 2021 and 27.745% less than the average of the previous five years (2017 to 2021). This decline was mainly due to a significant decrease in activity at our thermal drying facilities, where 50% less WWTP sludge was treated than in 2021 and 388,493 fewer megawatt hours of natural gas were consumed (54.33% less than in 2021).

Precisely, the only two installations of Canal subject to the regulation on **greenhouse gas emission allowance trading** are those related to the thermal drying of WWTP sludge: the **WWTP Sludge Treatment Unit with cogeneration at Loeches (UTL)** and the **South WWTP Sludge Thermal Drying Plant**. Both facilities have offset their emissions in 2023 by

contributing the equivalent of **65,884 tonnes of CO₂** to the National Emission Allowances Registry (approximately half of those contributed in 2021).

In terms of the origin of our emissions, three scopes can be distinguished:

- **Direct emissions**, originating from **processes and/or at Canal installations** (Scope 1), accounted for **57.82 %** of the total in 2022. These include our main combustion activities, the cogeneration at the Loeches STU, the cogeneration of the sludge drying plant of the South WWTP, the sludge composting processes or those associated with emissions from our fleet of vehicles. Emissions from drying, which in 2021 alone accounted for 67 % of all our company's emissions, will be limited to 49.97 % in 2022.
- **Indirect emissions**, associated with the **consumption of electricity we buy** from the grid (Scope 2), which since 2018 **are zero**, as all the electricity we consume comes from renewable sources. Otherwise, these emissions would account for more than 28.89% of our total emissions in 2022.
- **Indirect emissions**, associated with **supplies and services provided by third parties** (scope 3), such as waste transport, reagent consumption and paper consumption. These accounted for **42.18 %** of our emissions in 2022 and also include emissions associated with Canal employees travelling from their homes to the company's workplaces.

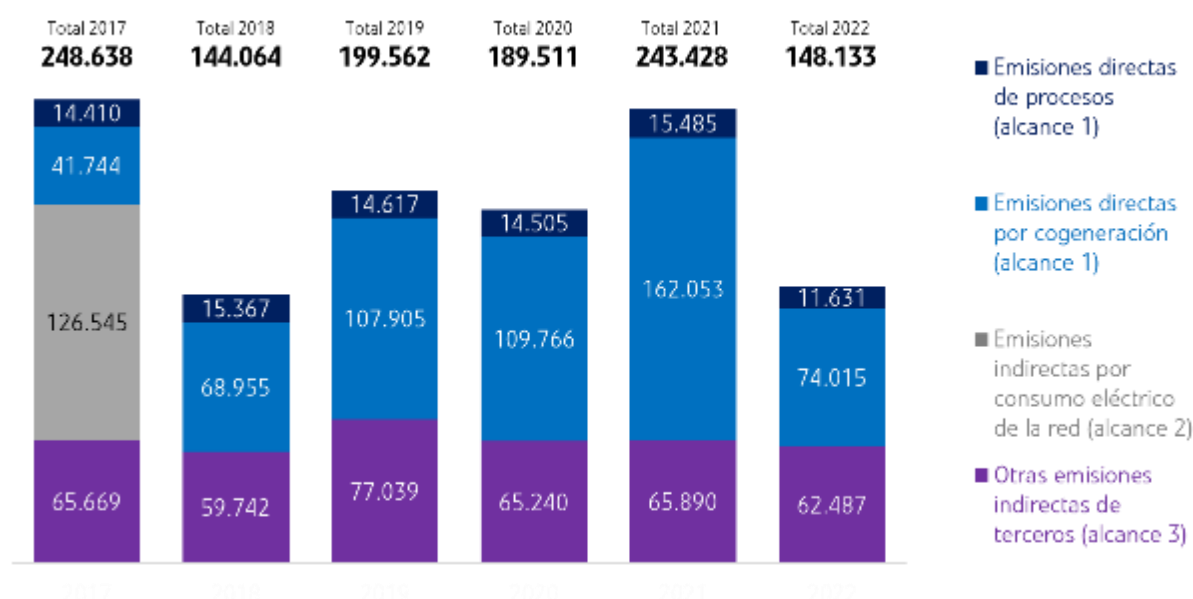
Historically, as in the rest of the companies in our sector, **our electricity consumption was one of the main sources of greenhouse gas emissions**. In dry years, which require higher electricity consumption to ensure adequate supply, emissions could almost double (as was the case in 2012). Canal has therefore focused its efforts on **reducing emissions, generating clean energy** and pursuing **energy efficiency**. **All the electricity purchased by Canal de Isabel II from the grid since 2018 has been from renewable sources**, which, together with our own generation, means that our emissions level linked to electricity consumption (Scope 2) is zero tonnes.

GRI 305-4 GRI 305-5

In terms of **emissions specific** to our activity in 2022, **0.152 kilograms of CO₂ equivalent** were recorded for **each cubic metre of water managed**⁴, 38.83% lower than in 2021.

Greenhouse gas emissions by source (2017-2022)

(tonnes of CO₂
equivalent)



Other air emissions

GRI 305-7

Atmospheric emissions of greenhouse gases other than CO₂ and other acidifying and tropospheric ozone precursor substances that can be attributed to Canal operations come from:

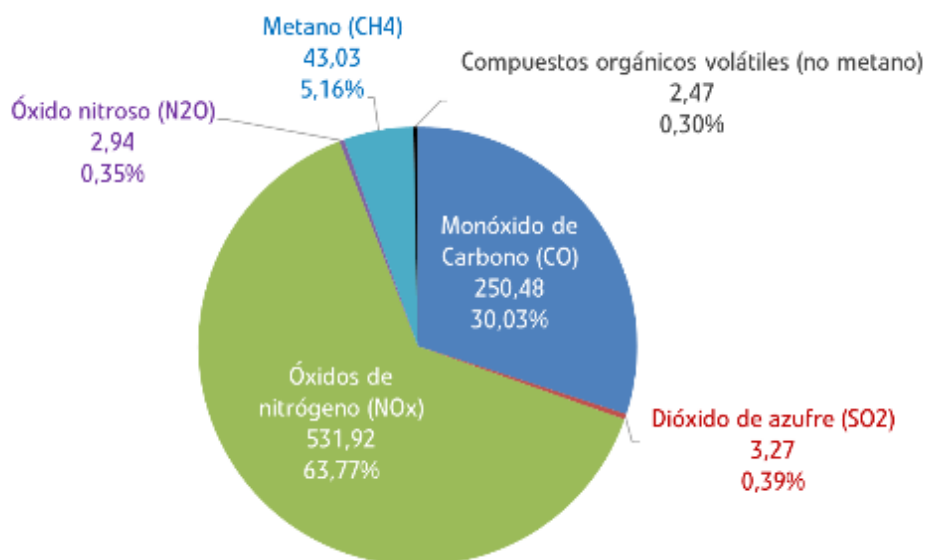
- Emissions associated with the **composting processes of sludge** from our WWTPs.
- Direct emissions from **existing combustion facilities at Canal's facilities**, particularly from the Sludge Treatment Unit (STU) with cogeneration at Loeches and the thermal sludge drying plant with cogeneration at the South WWTP.
- Emissions from the exhaust gases of our **776 vehicles and machines**, which in 2022 have travelled **12.57 million kilometres**, as well as from diesel used in some processes.

⁴ Water managed: sum of the amount of water derived for consumption, the amount of wastewater treated in WWTPs and the amount of reclaimed water produced for reuse.

The total of all these emissions (excluding CO₂) was **834.11 tonnes** in 2022.

Distribution of atmospheric emissions (except CO₂) in 2022

(tonnes/year and
% of total)



Mitigation actions

GRI 302-5

In addition to the actions directly related to our electricity consumption and generation (see section on SDG 7), in recent years we have implemented other important measures to reduce our greenhouse gas emissions. These include the following:

Awareness-raising for water consumption reduction and rational water use

Efforts to raise awareness of water efficiency and rational use of water have a direct impact on GHG emission savings. With every cubic metre of water saved **in 2022 we** are avoiding emissions of 0.152 kilograms of CO₂ equivalent. In this way, the reduction of water consumption by our customers and users is reflected in a reduction of emissions. Considering the saving in consumption in **2022⁵** compared to the average of the previous **10** years was **3.15** million cubic metres, this means that almost 480 tonnes of CO₂ equivalent will no longer be emitted.

Reforestation actions

During the financial year 2022 **we have planted 36,121 units of plants, trees and shrubs**. Canal carries out such new planting and seeding that contributes to carbon

⁵ Specific emissions per cubic metre consumed vary depending on Canal's activity each year.

sequestration every year. They are a useful short-term response to global warming caused by the accumulation of carbon dioxide in the atmosphere.

Promoting the use of public transport among employees

Canal finances nearly **80% of the cost of the Transport Season Ticket** in the Community of Madrid for all employees who request it, promoting the use of public transport among its staff. In 2022, more than 44% of employees (1,346) used this pass to travel to work by train, metro or bus, which contributed to avoiding emissions of 1,077 tonnes of CO2 equivalent.

Sustainable mobility

Canal promotes low CO2 emission rates in its vehicle procurement tenders. In the tender documents, one of the most important evaluation elements for the award of the contract is the CO2 emission indexes, with the vehicles with the lowest index being rated positively. In these processes, the lower consumption of vehicles and the possibility of using biofuels are also particularly valued.

In the year 2022 we have continued with the renewal of our company's vehicle fleet with the progressive replacement of different vehicles with low eco-efficiency, for new units that are much more eco-efficient or even with 100% electric mobility with zero emissions.

By the end of 2022, **almost one third of our** vehicle fleet (233) was 100% electric and we had **404** electric vehicle charging points at our facilities, of which 17 (at 14 sites) are courtesy charging points for employees to charge their private vehicles. Thanks to our fleet of electric and hybrid vehicles, we have avoided the emission of more than **441.5 tonnes of CO2** by 2022.

The quest for energy efficiency

Canal seeks efficiency in energy management from an integral point of view (operational, technological, economic and environmental), promoting coordination between the different areas of the company. Thus, in 2020, the **Canal de Isabel II Integrated Energy System (SIEC)** was launched. This platform's mission is to integrate information from the energy area with that of the full water cycle operations in a common data repository to feed applications that support decision-making on energy efficiency, purchase and management of electricity contracts and investment in renewable energies.

In 2022 we have further improved the quality of the data represented by the SIEC, the reports and analyses carried out by the task force will be increased and energy efficiency measures based on these analyses will be promoted.

Biogenic emissions⁶ and emissions avoided in the period 2017- 2022 (in t CO₂ eq.)

Biogenic emissions (t CO ₂ eq.)	2017	2018	2019	2020	2021	2022
Emissions of a biogenic nature*	98,852	102,278	102,691	96,669	97,447	99,611

Avoided GHG emissions (t CO ₂ eq.)	2017	2018	2019	2020	2021	2022
Avoided through self-consumption of renewable energies	31,500	28,813	21,413	14,995	14,518	17,190
Avoided through renewable energy generation sold to the grid	30,714	40,097	38,745	31,364	34,828	22,168
Avoided by the purchase of electricity of guaranteed-renewable origin	-	73,957	56,226	48,299	42,673	60,264
Avoided through the use of hybrid vehicles	29.69	9.74	6.33	6.30	5.78	3.12
Avoided through the use of electric vehicles	3.38	10.88	117.96	79.71	322.68	438.39
TOTAL AVOIDED GHG EMISSIONS	62,247	142,887	116,508	94,743	92,348	100,063

⁶ Biogenic emissions are emissions related to the natural carbon cycle, as well as those resulting from the combustion, digestion, fermentation, decomposition or processing of bio-based materials.

WE ARE COMMITTED TO DECARBONISATION

Hydrogen plant at Arroyo Culebro WWTP C.M.A. (Pinto - Madrid)

Decarbonisation is one of the **main challenges** we will have to face before 2050. For this, we will increasingly need to rely on alternative energy sources, such as one of the main renewable energy sources of the future, **green hydrogen**, which, with the support of European administrations, will help to replace fossil fuels. Canal de Isabel II's Strategic Plan establishes objectives that seek the decarbonisation of its processes and energy self-sufficiency.

At our Arroyo Culebro Cuenca Media-Alta WWTP, located in Pinto (Madrid), we will carry out the production of hydrogen from treated wastewater through electrolysis using photovoltaic solar panels as a source of energy which, in the future, may also be combined with the cogeneration of biogas from the use of waste from the WWTP itself.

We are currently working on a pilot hydrogen production facility with an initial capacity of around **30,000 kilograms of hydrogen per year**. Thanks to the tertiary treatment with reverse osmosis at the WWTP, we will be able to supply reclaimed water, instead of drinking water, to cover the entire water demand required by the installed electrolyser. As of July 2022, we have already started generating renewable photovoltaic energy (515 MWh produced in 2022) and in 2023 work will commence on the installation of a first electrolyser with a capacity of 1 megawatt.

This way, the future plant will be unique because it will obtain all the energy necessary for its operation from renewable sources, produced at the facility itself, and because it will be the **first plant** in our country (and possibly also internationally) **to use regenerated water as a source of hydrogen generation**. In addition, the oxygen produced during electrolysis will be used to enhance the aeration/ventilation of the treated wastewater in the plant and thus increase the treatment capacity of the WWTP itself and improve the quality of effluent.

This project links renewable generation and recycling technologies with circular economy measures that have a positive impact on the decarbonisation process.

The planned investment for this first pilot plant exceeds 7 million euros, which will be co-financed with European Union ERDF funds.

MANAGEMENT SYSTEM

GRI 2-24

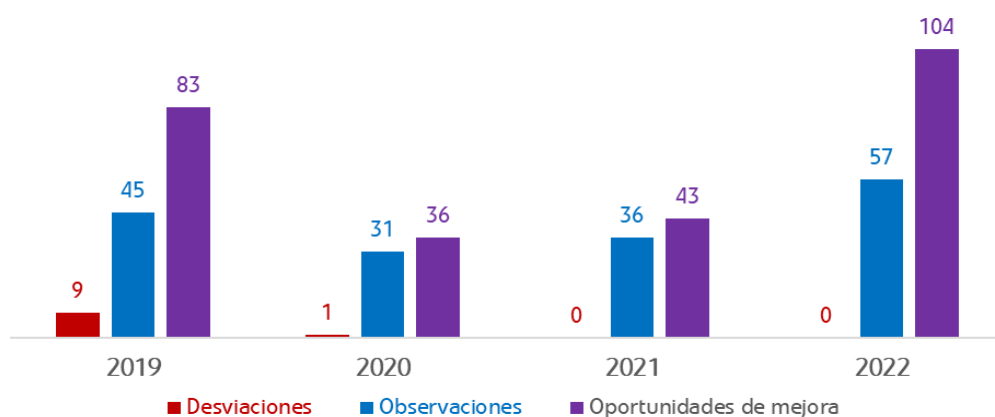
GRI 403-1

At Canal de Isabel II we carry out all our activities contributing to the health and safety of people, the protection of the environment and the care for the quality of our services. That's why we have in place a management system certified under the standards AENOR **ISO 9001:2015**, ISO 14001:2015 and **ISO 45001:2018**.

Our management system supports the accreditation of testing laboratories in the environmental sector and the meter laboratory by ENAC in UNE-EN ISO/IEC 17025:2005, as well as the technical inspection activities of the measurement set accredited by ENAC in UNE-EN ISO/IEC 17020:2012. It also contributes to the implementation of the safety system at facilities subject to *Royal Decree 840/2015, of 21 September, approving measures to control the risks inherent to major accidents involving hazardous substances*, and the development of the **Water Health Plan (PSA)**, where Canal is a reference company.

The management system is led by the top management through a sub-committee where all company departments are represented. Key processes within the management system are the audit work and the assessments of legal requirements and environmental aspects. In 2022, the 51 units included in the annual internal audit programme established at the beginning of the year were audited, including the first internal audit of the Water Health Plan. As a result, a total of 230 findings were obtained.

Results of management system audits (2019-2022)



With regard to the identification and assessment of environmental and occupational legal health and safety requirements, 249 new **legal** provisions have been analysed of which a total of 19 are applicable. The **environmental aspects** of more than **650** Canal de Isabel II **centres** have been assessed. During 2022, work has been carried out on the integration of Hidráulica

Santillana's management system into Canal de Isabel II following the merger by absorption of this subsidiary company.

Innovative activities within the management system and contributing to Plan 10.3 "Plan to improve process efficiency" of the Strategic Plan 2018-2030 include:

1. **Coordination of improvement projects** and dissemination of the culture of improvement through 18 people who serve as liaisons in different units of the company.
2. The development of an **enterprise architecture** that contributes to **process management**.

At national and international level, Canal de Isabel II collaborates with the Spanish Quality Association (AEC) and participates in different committees of UNE (Spanish Association for Standardisation) and ISO (*International Organisation for Standardisation*).

You can consult all the information about our certifications and accreditations at the following link on our website: <https://www.canaldeisabelsegunda.es/es/quienes-somos#certificaciones>

PREVENTION OF POTENTIAL ADVERSE IMPACTS AT SOURCE

GRI 2-23

Canal incorporates in its philosophy of action the **principle of prevention** ("*the best way to correct an environmental impact is to prevent it from occurring*"), with an approach based on the analysis of the life cycle of our processes and activities.

All projects drafted at Canal de Isabel II **are environmentally assessed** in accordance with the provisions of *Law 2/2002 of the Regional Government of Madrid on Environmental Assessment* and other applicable legislation (highlighting *Law 21/2013, of 9 December, on Environmental Assessment*). In addition to aspects of the natural and **physical** environment, these assessments analyse **social and economic aspects** and, where necessary, any important impacts on **local communities**.

In 2022, a total of **23 projects** in the company's areas were **submitted for environmental impact assessment** and the environmental administration issued a positive environmental impact declaration for our projects.

Our environmental management system contemplates the **principle of continuous improvement** of our performance and includes among its objectives the **prevention and minimisation of pollution**, the commitment to **comply** with applicable environmental **legislation** and the monitoring and control of significant environmental aspects.

MAIN ACTIONS APPLIED BY CANAL DE ISABEL II FOR THE PREVENTION AND REDUCTION OF ENVIRONMENTAL IMPACTS

Projects and works	Assessment of environmental aspects in planning and projects
	Completion of environmental impact studies
	Environmental protection clauses in tender documents
	Adoption of preventive, protective and corrective measures
	Monitoring and surveillance of environmental aspects during and after the construction work
	Correction and mitigation of environmental impacts
Reservoirs	Reservoir protection plans
	Monitoring of the ecological quality of the reservoir environment
	Dam emergency plans
	Maintenance of environmental flows
Wells	Sustainable exploitation of groundwater resources
DWTP	Efficiency in processing and reduction of rejects and wastage
Tanks and nets	Continuous quality monitoring
	Plan for sectorisation and control of network pressures
Drinking water distribution networks	Renewal of networks - RED PLAN
	Non-revenue water reduction plan
	Plan for new network technologies
Sewerage networks	Improvement and renovation of networks - SANEA PLAN
	Research on sustainable drainage networks
WWTP and WWTP	Upgrading treatment systems and increasing effluent with tertiary treatment
	Implementation of the National Water Quality Plan
	Discharge of surplus reclaimed water from tertiary to watercourses
	Monitoring of discharges
	Sludge reuse with cogeneration
	Plan for the reuse of reclaimed wastewater
	Electricity generation from biogas
Management Commercial and support processes	Water saving communication campaigns
	Virtual office and electronic billing
	Environmental education (Canal Educa)
	Paper and energy saving schemes in offices
	Energy efficiency actions
	Low-emission, hybrid and electric vehicle fleet

PREVENTION AND COMMUNICATION ON ENVIRONMENTAL ASPECTS OF OUR OPERATIONS

GRI 413-1

The prevention of potentially negative environmental effects of operations and facilities is integrated into our internal procedures and instructions for their identification, analysis and assessment and for their monitoring and control. The centralised management of the company's waste and the control of its emissions is carried out by the Circular Economy Sub-Directorate, while the control of discharges and the quality of effluents from the WWTPs is the responsibility of the Water Quality Sub-Directorate. In addition, **communication channels** have been established **with internal and external stakeholders**.

In the case of the **execution of projects** subject to the administrative procedure of **environmental impact assessment**, there are always bilateral communications between the autonomous administration responsible for the environment and our company, aimed at requesting and providing sufficient documentation for the correct definition of the works we carry out and the impacts they cause. In addition, other potentially affected entities are also consulted. Furthermore, within the framework of the management systems, there are documented internal procedures related to environmental stakeholder communications.

Although Canal de Isabel II has taken out an **environmental liability policy** for possible damages that may be caused to third parties or to the environment as a result of its activity, this policy expressly excludes from said cover the penalties that any regulatory body may impose as a result of non-compliance in this area.



SDG 7 (affordable and clean energy)

Our commitment to renewables

The situation of the energy markets in 2021 and 2022 has clearly shown the absolute necessity for large energy consumers to be prepared to adapt to a changing and uncertain energy future. At Canal we have the firm vocation to be the first company in our sector in Europe to achieve self-sufficiency in electricity consumption by 2030.

OUR ENERGY CONSUMPTION

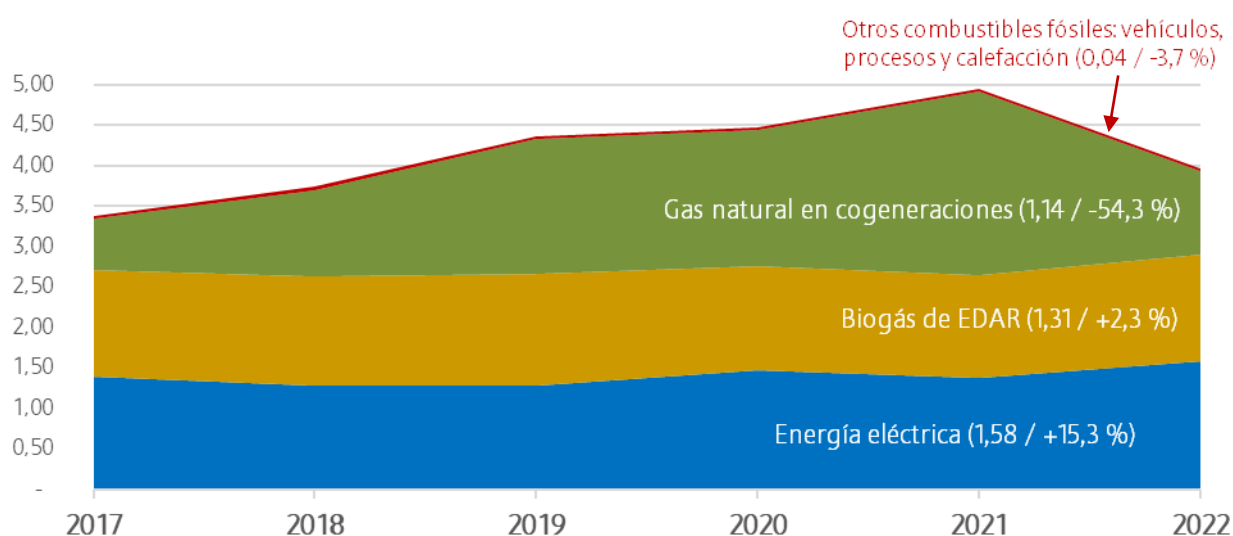
GRI 3-3

GRI 302-1

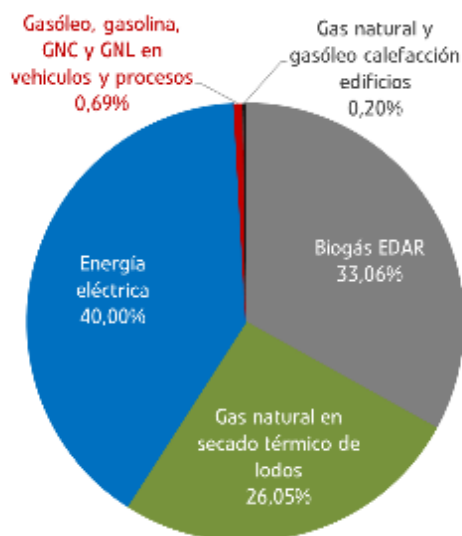
Canal de Isabel II needs to consume a large amount of energy to carry out all its processes. In 2022, the **direct energy consumption** for the operation of our facilities **has been reduced by 19.98 %** compared to that recorded in 2021 (which was an all-time high) and amounted to **3,960,369 Gigajoules**. This decrease is mainly due to the decrease in natural gas consumption in the co-generations of the thermal sludge drying plants of the Loeches WWTP and the SUR WWTP (54.33 % less than in 2021). This is because these plants, due to breakdowns, scheduled maintenance and the high price of gas, have only operated for the equivalent of 2,842 hours (5,606 in 2021).

Evolution of energy consumption 2017 - 2022

(million Gigajoules and % change compared to 2021)



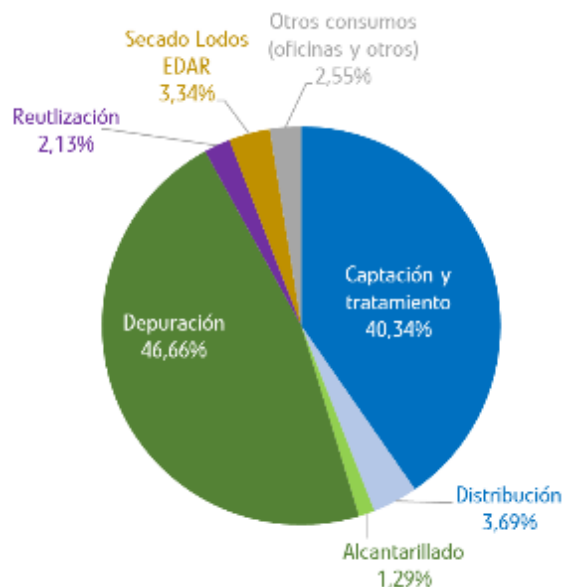
Percentage distribution of energy consumption in 2022



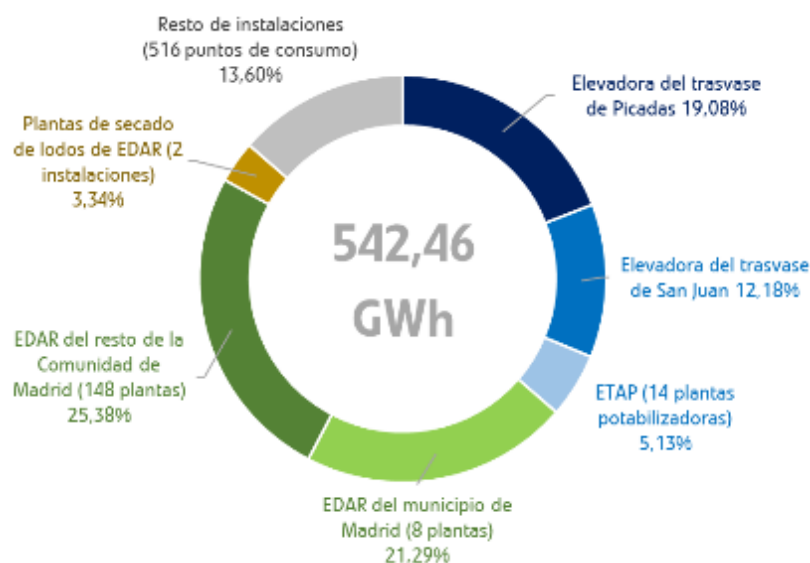
GRI 302-4

The reduced operation of cogeneration for thermal sludge drying means that in 2022 **our main energy consumption** was **electricity**, which accounted for 40 % of the total. In 2022 we consumed **542.46 million kilowatt hours** of electricity, **11.73%** more than in 2021, mainly due to the hydrological situation in 2022 (dry year) which made it necessary to make greater use of transfers from the Alberche river (San Juan and Picadas reservoirs), with 169.59 million kilowatts being consumed for these transfers, 73.40 more than in 2021. Thanks to this consumption, which represents 31.26% of the total, we have been able to transfer 169 million cubic metres in 2022 (74.2 hm³ more than in 2021).

Percentages of electricity consumption by phases of the full water cycle in 2022



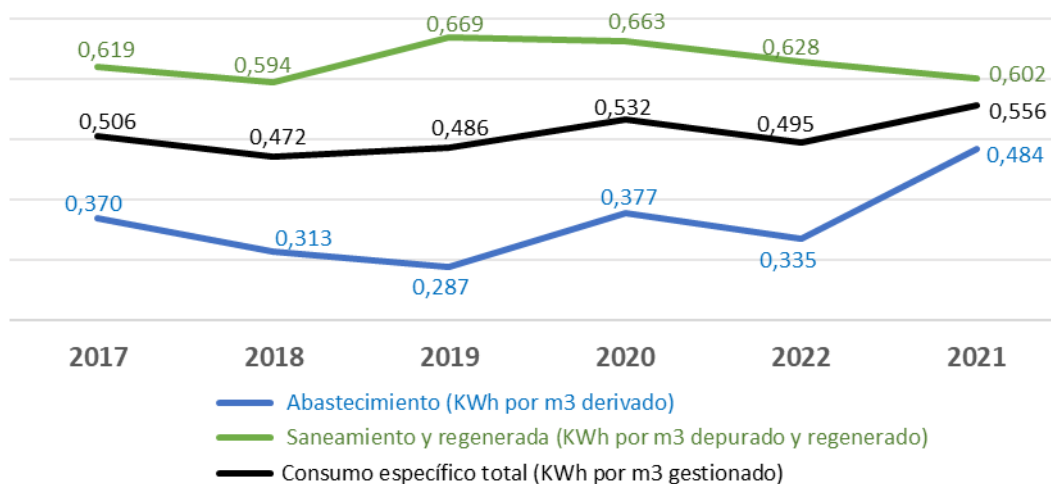
Distribution in % of electricity consumption by installations in %



GRI 302-3

Our **specific electricity consumption** for each activity varies greatly, depending on the rainfall characteristics of the year. So, when river inflows are very low, it is necessary to use the well fields and make greater use of the elevators, which almost doubles energy consumption. The specific consumptions recorded in recent years have been as follows.

Specific electricity consumption by stages of the full water cycle



In 2022, the significant increase in consumption due to the greater use of the transfers from the Alberche River is clearly reflected in an increase of 44.18% in specific supply consumption compared to 2021. This increase is also reflected in the company's total specific consumption, which grows by 12.12 % compared to 2021.

CLEAN ENERGY GENERATION

GRI 302-5

Aware of the importance of our consumption, for decades Canal has been equipping itself with facilities for the **generation of electricity** through processes that are synergic with water management. At the end of 2022, we were the company with the **largest installed capacity** in electricity generation in the Community of Madrid, with a total of **109.31 megawatts** (2 MW more than at the end of 2021) in the following facilities:

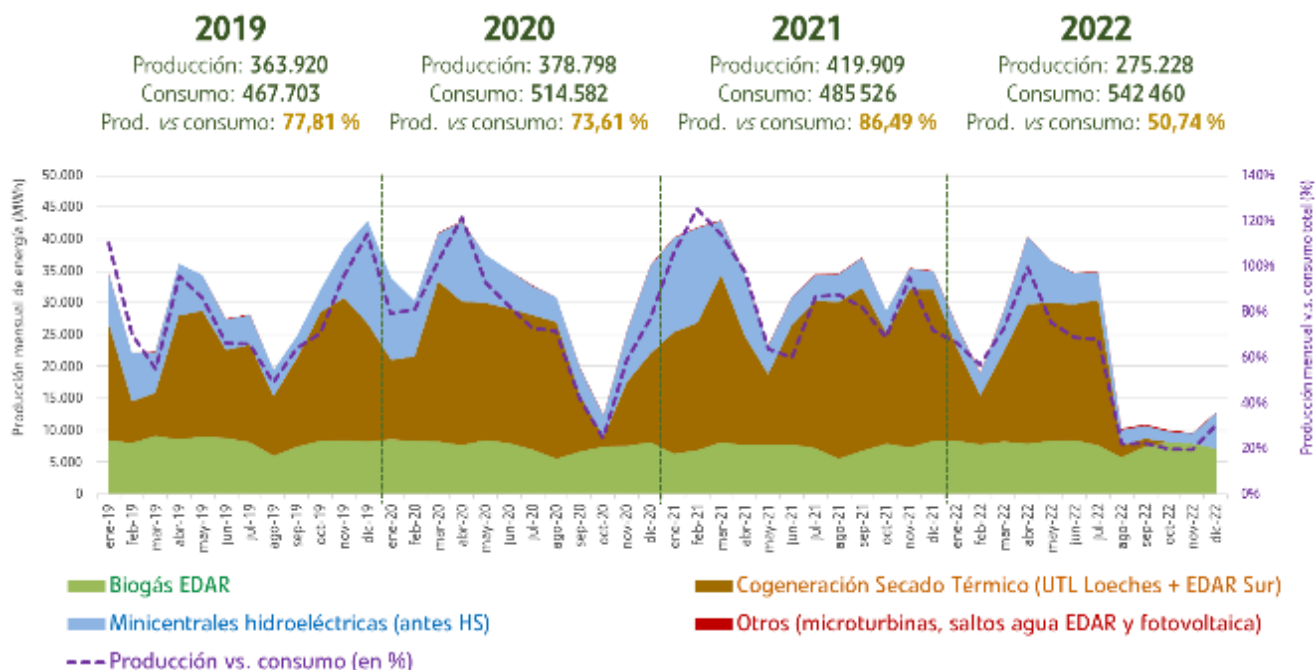
- **9 hydroelectric power plants**, with a total installed capacity of **35.52 megawatts**.
- **18 WWTPs** equipped with **motor-generators** (39) and **turbines** (7) that generate electricity using the **biogas produced in the purification processes** as fuel, with a total installed capacity of **26.60 megawatts**.
- **9 microturbines** installed at different points in the **supply network** with a total installed capacity of **0.83 megawatts**.
- **2 cogeneration plants** (Sludge Treatment Plant at Loeches and WWTP Sur), **associated with the thermal drying process of WWTP sludge**, with an installed capacity of **44.70 megawatts**.
- **3 small wastewater overflows** equipped with **micro-hydro turbines** at the South WWTP (2) and the La Gavia WWTP, which take advantage of the difference in height at the discharge point with an installed power of **0.26 megawatts**.
- **9 solar photovoltaic installations** located at seven WWTPs, one elevator, in the Loeches STU and in some offices, with a total power of **1.39 megawatts**.
- **A small installation that acts as a pump and turbine** at the Vallecas water tank with an output of **0.012 megawatts**.

In addition to the facilities in operation, by the end of 2022 a new 420 kilowatt biogas motor-generator was being installed at the Arroyo de la Vega WWTP, a 100 kilowatt photovoltaic plant at the Velilla de San Antonio Elevator and a 1,698 kilowatt floating solar photovoltaic plant at the Torrelaguna lower reservoir. This floating plant is the first to be installed in the Community of Madrid and will serve as a pilot experience to extend this technology to other Canal facilities in the future.

Thanks to the energy generated both in processes associated with supply and sanitation, Canal has a high **degree of electricity self-sufficiency** that in **2021** allowed us to generate up to **86.49%** of our consumption (410 million kilowatt hours produced). However, in 2022, the reduced operation of the cogeneration at thermal drying plants and lower hydroelectric production, due to a dry year, reduced **our production to 275.2 million kilowatt hours**. This low production, combined with very high consumption due to the increased use of the transfers from the Alberche River, means that the **energy produced in 2022** will account for only **50.8% of the energy consumed**.

Electricity production by Canal technologies 2019 - 2022

(production in MWh and % produced compared to total consumption)



Despite lower electricity generation in 2022, our production has managed to avoid the emission of 39.36 thousand tonnes of CO₂. In addition, by purchasing electricity with a 100% renewable energy guarantee, we have avoided the emission of **60.26 thousand tonnes** of CO₂. In 2022.

CANAL DE ISABEL II SOLAR PLAN 2022

We are making progress in our commitment to electric self-sufficiency.

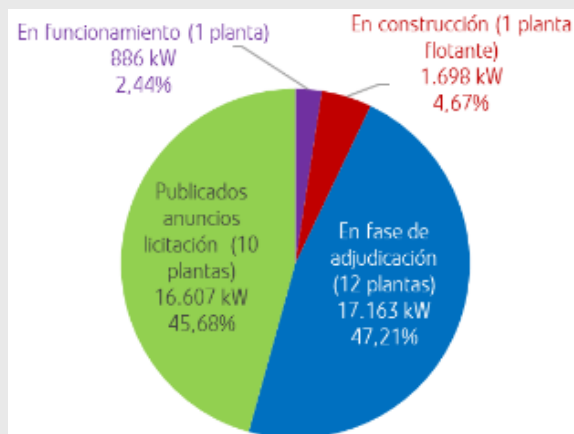
As part of the sustainability-related actions included in our **2018-2030 Strategic Plan**, Canal is developing our **Solar Plan**. This Plan is part of our company's actions to **promote energy production** through **renewable and high-efficiency** generation sources, reducing our grid consumption and helping mitigate our CO₂ emissions.

Our goal with the Solar Plan is to **be the first company** in our sector in Europe to **produce as much or more electricity than we consume**. Most of the production of the photovoltaic installations will be consumed *on site*, thus reducing the electricity demand of the grid for each of these infrastructures. Some of these facilities will also produce occasional surpluses that can be fed into the electricity grid, thus helping increase the share of renewables in the energy mix.

Furthermore, in some of these infrastructures, photovoltaic installations will be hybridised with pre-existing generation technologies (hydro and mini-hydro, biogas, biogas engines and turbines and cogeneration), thus increasing the possibilities for energy management and optimising the use of existing resources.

The **Solar Plan**, in its initial phases (0, 1 and 2), contemplates a total of **24 installations** with an installed capacity of **36.35 megawatts** and will involve an investment of around **55 million euros**, which will be financed in part with **REACT-EU funds** from the European Union. By the end of 2022, one plant was in operation, one was under construction and 22 were under tender.

Situation of the Solar Plan plants at close of 2022 (kW installed and % of total capacity).





SDG 12 (responsible production and consumption) Advancing the Circular Economy

At Canal, we manage all our facilities with sustainable criteria, we try to rationalise the consumption of materials and energy, we avoid unnecessary discharges and emissions into the atmosphere and we manage our waste properly, periodically controlling the noise and odours we produce with our activities.

CONSUMPTION OF REACTIVES

GRI 3-3

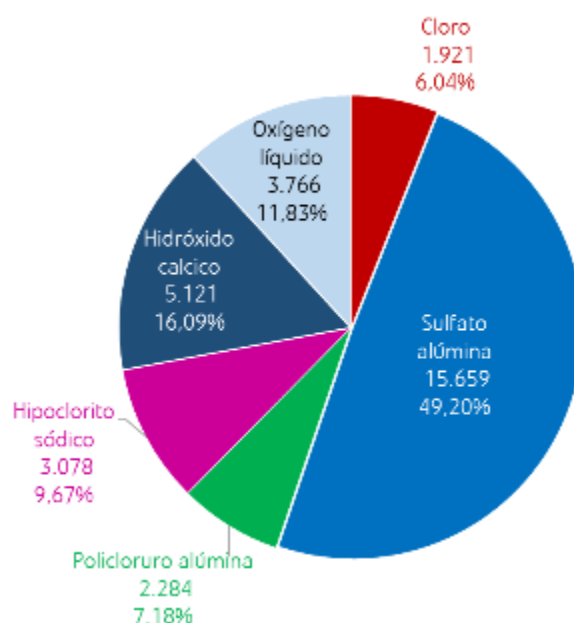
GRI 301-1

The main materials we consume by weight are the reagents we use in drinking water treatment plants (DWTPs) and wastewater treatment plants (WWTPs).

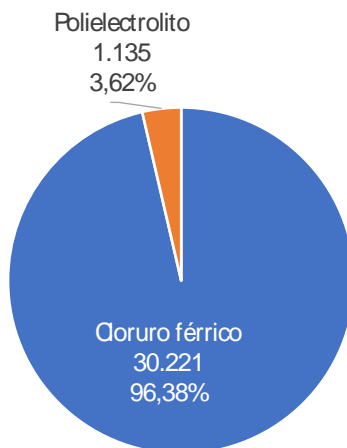
In 2022, we recorded a total reagent consumption of **65,358 tonnes**. Of these, **34,002** were earmarked for drinking water treatment and **31,357** for wastewater treatment and reclaiming.

Reagents used in 2022 for potabilisation in our DWTPs

(tonnes consumed and % of total)



Reagents used in 2022 for wastewater treatment in our WWTPs (tonnes consumed and % of total)



PAPER CONSUMPTION

GRI 301-1

GRI 301-2

In administrative activities, commercial management and for sending bills, the most consumed material is paper.

Canal maintains, as a quality and environmental objective, the **reduction of paper consumption**, establishing for years a set of printing and document management policies, as well as a continuous monitoring by those responsible, which have resulted in an **accumulated reduction** of paper consumption of **37%** in the last 5 years.

Of the **11.8 tonnes of paper** used **internally** in the company in 2022, **58%** was **recycled paper**. We aim to reduce paper consumption in internal administrative tasks and have managed to reduce paper consumption by 5.2% compared to 2021.

On the other hand, the printed documents we send to our customers, mostly consumer bills, are handled by a service provider with Forest Stewardship Council (FSC) certification, which guarantees the use of paper produced through responsible forest management.

In 2022 we use **80.5 tonnes of paper** for **shipments to our customers**, almost 20 tonnes less than in 2021, a reduction of 19% less than in 2021 and 25% less than in 2020. This reduction is mainly due to the progressive implementation of electronic billing (*e-billing*) among our customers, which was strengthened in 2021 and 2022 through communication actions. As a result, by the end of 2022, more than **797,000 of our customers had switched to e-billing** (111% more than in 2020), thus avoiding the paper consumption associated with sending bills for more than 58% of contracts.

WATER SELF-CONSUMPTION

GRI 303-5

Apart from the water we distribute to our users, **like all companies we need to consume our own water** to carry out the different **processes related to our activity** (cleaning new pipes, cleaning tanks, purging the network, wastage in drinking water purification processes, water consumption for works or watering the gardens of our facilities and parks open to the public, among other examples).

The self-consumption of water necessary to provide our services to the people of Madrid was **6.42 million cubic metres**, 1.30% of the water derived for consumption in the last hydrological year (2021/2022). This consumption is **28% lower** than that recorded in the 2020-2021 water year

WASTEWATER TREATMENT

GRI 303-4

GRI 306-1

100% of the urban wastewater and rainwater that Canal de Isabel II is responsible for is treated to the highest quality standards. Practically the entire population of the urban centres of the Community of Madrid is covered by the Canal's wastewater treatment system. To this end, we have **156 facilities** to treat water from a total of 179 municipalities.

Our wastewater treatment plants (WWTP) are located in the basins of different rivers that cross the orography of the Community: Alberche, Aulencia, Cofio, Guadalix, Guadarrama, Guatén, Henares, Jarama, Lozoya, Manzanares, Perales, Tajo and Tajuña. However, not all of them carry out each of the possible purification processes but are adapted according to factors such as the size or number of inhabitants for which they are designed, economic imperatives, seasonal variations in river flow, the origin of the wastewater or possible industrial discharges of river flow, the origin of the wastewater or possible industrial discharges. The type of processes that are followed in the purification process even determine the physical appearance of the facilities. Currently the Canal WWTPs have a design capacity of **16.25 million population equivalents⁷** and can treat a combined flow of up to **2.21 million cubic metres per day**.

To ensure compliance with the requirements for phosphorus removal, we have made the necessary adaptations to the treatment plants included in our **Nutrient Removal Plan** (nitrogen and phosphorus) from 2010 to the present day. The aim of this plan is to comply with the **Water Framework Directive⁸** in relation to water discharge conditions in sensitive

⁷ An "equivalent inhabitant" is the biodegradable organic load with a 5-day biological oxygen demand (BOD5) of 60 grams oxygen per day. They are calculated for each of the WWTPs on the basis of the average daily value of biodegradable organic load, corresponding to the week of maximum load of the year, without taking into account situations caused by heavy rainfall or other exceptional circumstances.

⁸ Directive 2000/60/EC of the European Parliament and of the Council of 23 October 2000 establishing a framework for Community action in the field of water policy

areas (practically the whole of the Community of Madrid) as per the **National Water Quality Plan (PNCA)**.

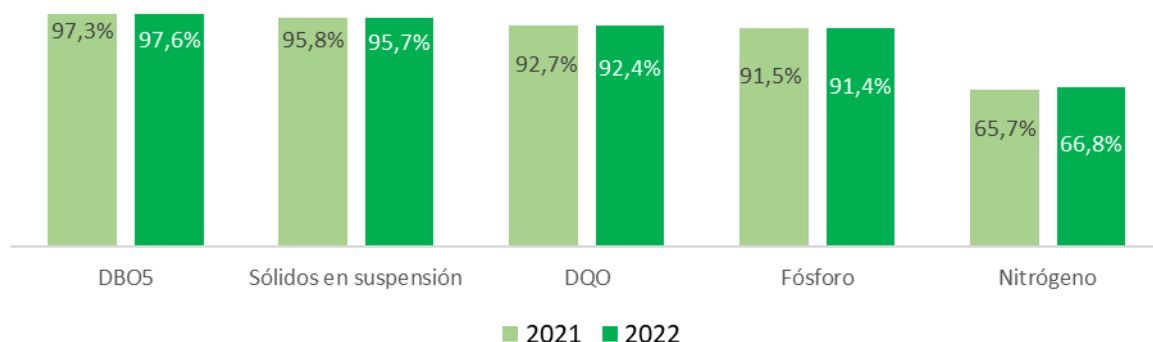
Since 2015, Canal has been developing its Plan for compliance with WWTP discharge authorisations. The objective is to ensure that at least 80 % of the samples taken for self-monitoring at the WWTPs are complied with in the discharges, and to carry out exhaustive monitoring of all discharges in order to minimise non-compliance. The main actions envisaged are as follows:

- Study of the discharges that reach the WWTPs.
- Amendment, extension or new construction of WWTP.
- Reduction of relieved flows in dry weather.
- Various operational improvements.

In 2022 we have continued with the development of the actions contemplated in the PNCA, whereby the treatment plants must have the necessary processes to eliminate phosphorous and nitrogen. This obligation involves making a series of investments with the aim of equipping wastewater treatment plants with advanced treatments for the elimination of nutrients. This is part of the National Water Quality Plan, whereby, in order to comply with the Water Framework Directive 2000/60/EEC, wastewater treatment plants must have the necessary processes to eliminate phosphorous and nitrogen. This obligation entails carrying out a series of investments with the aim of equipping the treatment plants with advanced processes for eliminating nutrients. Among the **most important works carried out in 2022** is the extension of the Soto Gutiérrez WWTP in Ciempozuelos, as well as the adaptation and strengthening of the processes at the La Poveda WWTP in Arganda del Rey and the Arroyo Culebro Cuenca Baja WWTP in Getafe; the extension works at the El Endrinal WWTP in Villalba, the Arroyo El Plantío WWTP in Majadahonda and the Arroyo de Soto WWTP in Móstoles have also made significant progress. The extension of the Arroyo de la Vega WWTP in Alcobendas is nearing completion in the first half of 2023, which will provide it with capacity for the production of "kilometre 0" energy by means of a 420 kilowatt biogas motor-generator.

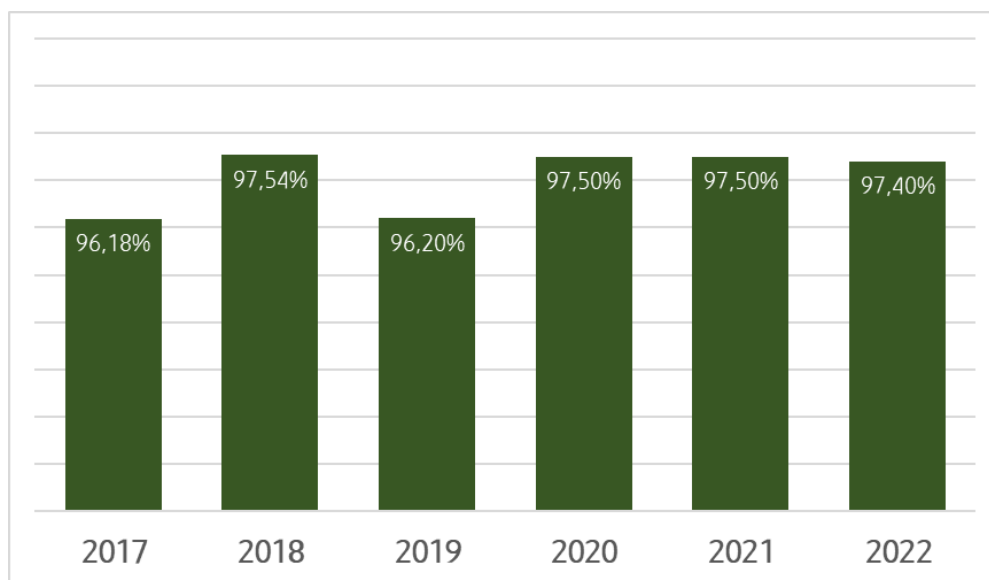
By 2022, our WWTPs will have treated and returned a total of **464.69 million cubic metres** of treated wastewater and rainwater to the rivers, equivalent to **94%** of the water derived for consumption. The quality of the effluent treated in the plants managed by Canal maintains the high level that characterises the system. In addition, at certain treatment facilities, an additional treatment has been applied to the treated water, a **tertiary** refining treatment, which has allowed up to **91.79 million cubic metres** to be discharged into Madrid's rivers with reclaimed water quality (19.8% of the water discharged into watercourses). A further **17.05 million cubic metres** have also been produced for direct reuse - the highest figure achieved to date - for a total of **108.84 million cubic metres reclaimed**.

Purification performance (in percentage of pollutant load removed)



As a result of Canal's commitment to quality and the environment, our indicator of the degree of excellence in the treatment of our WWTPs in 2022 remains at values above 97%.

Degree of excellence in purification 2017-2022 in %



In the normal operation of the facilities, Canal's activities do not produce any discharge of chemicals. There were no incidents of note in this regard in 2022.

WASTE MANAGEMENT

GRI 306-2

The control of waste management at the production centres and grouping points of Canal starts with the correct **separation of waste at source** and is complemented with the monitoring of the collection routes, scheduled fortnightly and carried out by **authorised waste managers**, ensuring compliance with the legislation in force.

In recent years, we have been actively working on the proper management of **non-hazardous waste** with the aim of increasing the amount going to **reuse** or **recovery**.

GRI 306-3

GRI 306-4

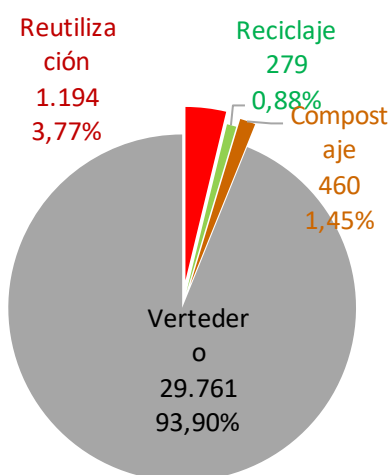
GRI 306-5

In 2022, we generated and managed a total of **31,695 tonnes of non-hazardous waste**, including **29,745 tonnes of pre-treatment waste from WWTPs and WWPSs** (93.85% of the total). Construction and demolition waste (432 tonnes) and pruning waste from parks and gardens (460 tonnes) were also used at the composting and thermal drying plant for WWTP sludge with cogeneration in Loeches as structural material for composting. A further 63 tonnes of paper and cardboard were also managed.

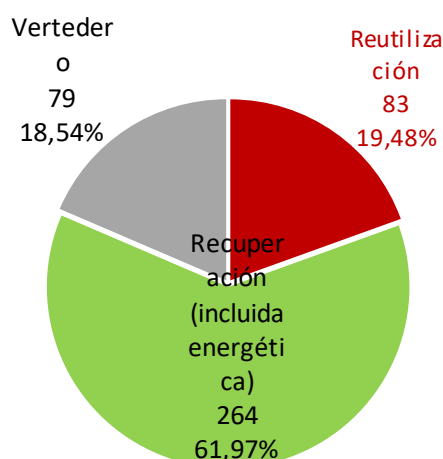
In terms of **hazardous and biohazardous waste**, **426 tonnes** of waste was generated in 2022. These include **144 tonnes of laboratory waste** and 76 tonnes of motor oils and lubricants.

Final destination of managed waste in 2022 (in tonnes and % of total)

Residuos no peligrosos



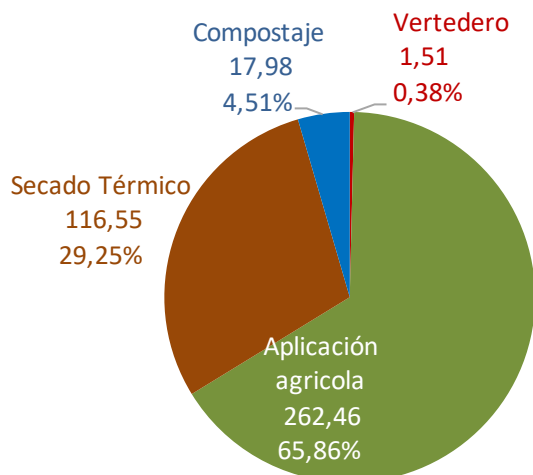
Residuos peligrosos



In addition to the hazardous and non-hazardous waste associated with our processes, the sludge generated in the production of drinking water at the DWTPs, a total of **29,101 tonnes** in 2022, and **the sludge generated in the treatment of wastewater at the WWTPs, 398,496 tonnes**, stand out in terms of volume.

Final destination of sludge produced at WWTPs in 2022

(thousand tonnes and % of total)



The final destination of the dewatered sludge from WWTPs in 2022 has been, for the most part, its use in agriculture in agriculture. Of the total 86,376 tonnes of dry sludge produced in 2022, 326 tonnes have been sent to landfill. In 2022, a total of 25,262 tonnes of sludge were processed at the Loeches Sludge Treatment Unit and the one located at the South WWTP. In the case of sludge from the DWTP, 96.59% was used for agricultural purposes (4,590 tonnes of dry matter) and 3.41% (162 tonnes of dry matter)

NOISE AND ODOUR MANAGEMENT

Canal manages all its facilities with sustainable criteria, periodically controlling the noise and odours produced by our activities.

In terms of noise , since 2004, our company has had a **programme in place to control the noise levels generated at our facilities** that may disturb the population or affect areas of particular sensitivity. In 2022, the number of installations monitored by the programme was **242** (106 more than in 2021) and **1,069 acoustic measurements** were taken, of which only 37 exceeded the limits established in our internal standard in one of the monitored installations.

With regard to **odours** from our facilities, in 2022, we carried out **78 emission controls** and have only recorded one instance of non-compliance.

CANAL AND THE CIRCULAR ECONOMY

GRI 3-3

GRI 306-2

GRI 306-4

Preserving the environment and preventing the depletion of natural resources are the objectives of Canal de Isabel II; we are committed to the three Rs (reduce, reuse, recycle)

Along this line, we obtain alternative, recycled and reusable products from the waste we receive at our purification facilities. Reusing all these products is part of our strategy to promote the circular economy, which also **allows us to make progress in the decarbonisation of our activity.**

At Canal, **waste has gone from being a problem to being seen as an opportunity.** It is no longer the final link in the chain but occupies an intermediate step by giving rise to new raw materials and forms of energy. In this regard, wastewater treatment plants are able to recover and transform waste and extract fuels, fertilisers, compost, reclaimed water or electricity and heating energy from it. To this end, we have incorporated various technologies in recent years:

- We currently have **the largest struvite production plant in Spain.** It is located at the South WWTP, where up to two tonnes per day of what is considered the "**white gold**" **of waste** can be produced, due to its high phosphorus content, an indispensable element for life, which is not renewable and cannot be replaced. Struvite is one of the by-products of water treatment. The phosphorus present in the liquid waste can be crystallised in a controlled manner to produce this high-value fertiliser. **By 2022 we have produced 365 tonnes of this fertiliser.**
- Agriculture benefits doubly from wastewater treatment. The **dehydrated sludge** extracted from them also acts as an organic fertiliser that fertilises and improves the structure of agricultural soils, where it can be applied to benefit crops. **In 2022,** although our plants have not been able to operate at full capacity, **we have treated 25,262 tonnes by thermal drying.**
- Another important use of the sludge carried by wastewater is to generate energy. The sludge that concentrates the pollution and is removed from the wastewater is treated in large digesters to produce a versatile **renewable energy**, biogas, whose calorific value can be used to produce heat, electricity or fuel for vehicles. Canal de Isabel II obtained almost 52 million cubic metres of biogas during 2022. From this gas, we have generated **93.66 million kilowatt hours** at the **18 WWTPs with biogas-fired power generation facilities.** Our production in 2022 is equivalent to the annual electricity consumption of a town like Majadahonda, with more than 72,000 inhabitants.

- The possibilities of **biogas** are not limited to electricity generation. This biogas is composed of approximately 65% methane and 35% CO₂. **If we remove that CO₂ we can convert it into biofuel and use it in vehicles**, a utility we are already testing in three wastewater treatment plants: La Gavia (Vallecas), Butarque (near Perales del Río in Getafe) and Viveros (Puerta del Hierro). There we have installed **what are known as 'gas stations'**, where more than twenty cars **can fill up with biomethane, a zero-emission fuel** with high calorific value. Vehicles using biogas do not emit particulate matter or sulphur dioxide and their CO₂ emissions are zero, as biogas, being of human origin, does not cause a greenhouse effect. In addition, their use reduces both nitrogen oxides released (by 85 % less) and noise emissions (by 50 %).
- But, in addition to using the elements carried by wastewater, **we can also recover the water itself, giving it a second life**. Apart from being subjected to a purification process to return it to the watercourses, it can be given **tertiary treatment** that makes it suitable for supply for uses that do not demand the highest quality. In this way, **reclaimed water allows pressure to be released on drinking water** when it is used to irrigate green areas and golf courses, to clean streets and even for industrial purposes. By 2022 we will have produced almost 109 million cubic metres of reclaimed water in our 33 tertiary treatment plants. Of this, **17.05 cubic hectometres were reused** in one industry, in street cleaning and, mainly, in the irrigation of 11 golf courses and 401 green areas in 26 municipalities totalling almost 2,900 hectares, thanks to a distribution network of 741 kilometres. The volume of water reused in 2022 is the highest volume Canal has ever produced.

COMPLIANCE WITH ENVIRONMENTAL LEGISLATION

GRI 2-27

At Canal we have procedures for the identification of, and access to, the requirements established in environmental legislation and for the periodic evaluation of their compliance within the framework of the environmental management system that we have implemented and certified.

In 2022, **34 sanctioning proceedings** were opened (11 fewer than in 2021) by the Tagus River Basin Authority, most of them linked to unintentional discharges of wastewater from our 156 WWTPs. These files are at different stages of processing, most of them having been appealed through administrative channels or even by means of the corresponding contentious-administrative appeal. The cumulative amount of penalties associated with these proceedings amounted to **378 thousand euros** at the end of 2022 (down 625,000 euros from 2021).

EXPENDITURE AND INVESTMENTS IN ENVIRONMENTAL MANAGEMENT AND ACTIVITIES

GRI 201-1

GRI 203-2

Apart from the environmental expenses in relation to compliance with our legal obligations (waste management, sludge management, among others) or linked to the processes necessary for the integral water cycle management (water treatment expenses), Canal dedicates other **economic resources to voluntary aspects of environmental management**. These resources amounted to **EUR 51.92 million in 2022** (EUR 2.25 million more than in 2021) and account for **18 %** of the **total expenditure associated with environmental management** (almost **EUR 289 million** in 2022).

Among the main items of voluntary expenditure, thermal drying of WWTP sludge stands out, accounting for 63 % of the total, followed by reuse.

Given the intrinsically environmental nature of many of our processes (we manage a natural resource and deal with wastewater treatment), many of our investments have a focus on environmental protection. Thus, in 2022, the total investment made by Canal de Isabel II with an ultimately environmental objective was **17.39 million euros**.

Monitoring of indicators as part of Strategic Plan. Strategic Line 4

Promoting environmental quality and energy efficiency





SDG 15 (terrestrial life and ecosystems) We protect biodiversity

The location of our reservoirs in the middle and upper basins of rivers and in places that were originally little frequented has boosted the local ecosystems associated with water and has welcomed, in terms of birdlife, the emigration of species that have been displaced by the progressive pressure on wetlands.

PRESENCE IN PROTECTED AREAS

GRI 3-3

GRI 304-1

GRI 304-2

Since the origins of our company, **peculiar and very interesting ecosystems** have developed in and around **our reservoirs**, which have coexisted with the agricultural and livestock farming activities of the **Sierra de Guadarrama**. These ecosystems play an important role in the modulation of climatic conditions and the hydrological cycle, not to mention their landscape and socio-cultural value.

In the *Catalogue of Reservoirs and Wetlands of the Community of Madrid*, drawn up in accordance with *Law 7/1990*, 9 reservoirs belonging to the supply system managed by Canal are included among the reservoirs selected on the basis of their values and characteristics.

You can find the Catalogue of reservoirs and wetlands of the Community of Madrid at the following link: <http://www.comunidad.madrid/servicios/urbanismo-medio-ambiente/embalses-humedales-catalogados>

The surface area occupied by the facilities and infrastructures managed by Canal on land subject to some form of legal protection amounted to **6,507 hectares in 2022**. It represents **58%** of the total area occupied by our facilities, of which **14.43%** were **Special Protection Areas for Birds (SPAs)** and **86.30%** were **Sites of Community Importance (SCIs)** belonging to the **Natura 2000 Network** of the European Union's *Habitats⁹ Directive*.

⁹ Council Directive 92/43/EEC of 21 May 1992 on the conservation of natural habitats and wild fauna and flora.

Protected species present

GRI 304-4

The surroundings of Canal's facilities are home to high-value plant species that are included on the **Regional Catalogue of Threatened Species of Wild Fauna and Flora**. These include: *Ilex aquifolium* (holly), *Taxus baccata* (yew), *Arbutus unedo* (strawberry tree), *Corylus avellana* (hazel), *Fraxinus excelsior* (ash), *Ulmus glabra* (mountain elm), *Betula alba* (birch), *Sorbus aria* (mustard), *Sorbus aucuparia* (rowan), *Fagus sylvatica* (beech), *Quercus suber* (cork oak), and *Viburnum opulus* (guelder-rose).

Within the *Regional Catalogue of Singular Specimen Plants and Flora of the Community of Madrid*, there are 3 specimens of singular trees located on land owned by our company, which are:

- **In the category of remarkable trees:** a specimen of *Morus alba* (Valdehondillo mulberry tree), in El Vellón.
- **In the category of outstanding trees:** two specimens. An *Avies numidica* (Algerian fir) and a *Cedrus deodara* (the candelabrum) in the gardens of our Santa Lucía work centre in Torrelaguna.

MAINTENANCE OF THE PLANT HERITAGE

GRI 304-3

Every year Canal carries out a series of works and conservation and improvement works in green areas to achieve an optimal level of **maintenance of the extensive plant heritage**, both of the surfaces integrated in its facilities, and of the areas open to the public for use and enjoyment, such as the *Third Depot Park* in Avenida Islas Filipinas, and the *Fourth Depot Park* in Plaza de Castilla in the city of Madrid; the *Riosequillo* recreational area in Buitrago del Lozoya; the *La Marina* sailing club in Cervera de Buitrago and other areas of great richness and diversity located in enclaves of high ecological value. In addition, since the implementation of our 2018-2030 Strategic Plan, we are opening our facilities to the public, such as the new *Ríos Rosas* and *Bravo Murillo* parks, both located at our headquarters.

The **clearing of spontaneous vegetation** for fire prevention has been carried out in 2022 on a total of **638 hectares**. In addition, throughout the year, the necessary phytosanitary treatments have been carried out to prevent pests and plant diseases with the application of chemical products with a low environmental impact. In addition, the elimination of invertebrates that could be harmful is promoted by installing "nest boxes" or "nesting boxes" for insectivorous birds.

Throughout 2022, we also carried out **reforestation work**, planting a total of **36,121 plants, trees and shrubs**.

ENVIRONMENTAL FLOWS

GRI 304-2

With the approval of *Royal Decree 270/2014 of 11 April 2014 on the Hydrological Plan for the Spanish part of the Tagus river basin district*, the environmental flows of the following bodies of water were fixed in the new plan for 2015: the Jarama river downstream of the El Vado dam, the Lozoya river from the El Atazar reservoir to the Jarama river and the Manzanares river from the Santillana reservoir to the El Pardo reservoir. For the rest of the river sections, an environmental demand is set as a guideline.

In 2022, the **environmental discharges to rivers** carried out by Canal de Isabel II for the conservation of river sections accounted for a total volume of **68.44 million cubic metres**.

GRI 3-3



SDG 14 (underwater life) Canal on the island of Lanzarote

The island of Lanzarote, with almost 846 square kilometres and a landscape more similar to that of the moon than our planet's, is one of the driest territories in Spain. However, it was one of the first places in the world to be declared a Biosphere Reserve in its entirety.

Since 2013, our subsidiary company **Canal Gestión Lanzarote** has been operating the integral water cycle on this island and on the nearby island of La Graciosa, where water scarcity has historically been a struggle for its inhabitants, who through their efforts have managed to make up for this deficit. Home catchment systems and the use of run-off are some examples of ingenuity and savings in a region, the Canary Islands, which was the first to have a desalination plant in Spain more than fifty years ago.

In 2022, Canal Gestión Lanzarote's project on the island has been running for 10 years, in which important investments have been developed and undertaken that have contributed not only to improving the quality of service, but also to caring for the environment and protecting biodiversity in a territory where sustainability is part of the island's DNA. Here, our responsibility, as it is everywhere else we operate, is to return to the environment (in this case, the ocean) a resource that we obtain directly from the sea. The protection of the island also includes care for life under water, where the richness of species and the seabed of Lanzarote are a very important attraction for tourism.

In the last decade, scientists who have dived to explore its waters have discovered new species of unknown molluscs and sponges. These findings have made the island's coastline a site of great scientific interest. Canal Gestión Lanzarote contributes to the protection of underwater life with tertiary treatment processes for treated water, improving the water returned to the sea through its underwater outfalls. The reuse of water on the island also supplies the agricultural sector, ensuring that crops are grown in a sustainable manner. The energy efficiency achieved in the desalination process is another of the measures being implemented to achieve a one hundred percent sustainable management model in harmony with the so-called "*land of fire*".



SDG 11 (Sustainable Cities and Communities) Building a *Smart Region*

Canal de Isabel II's supra-municipal management model is based on long-term agreements signed with local councils for the operation of the different services in their municipalities.

The supply networks, which were the origin of Canal more than 170 years ago, are now managed with excellent results. However, municipal sewage networks, most of them recently incorporated into our management, present great needs for improvement and require specific plans and additional effort to achieve adequate conditions and prevent incidents affecting citizens and the environment.

We take a **supra-municipal approach** to our activities, generating **economies of scale** and **synergies in the operation**, representing important advantages for the municipalities.

CANAL AND THE MUNICIPALITIES OF THE COMMUNITY OF MADRID

GRI 2-6

The relationship with the municipalities is especially important for Canal de Isabel II, as it facilitates the provision of an efficient and quality service to all citizens. As every year, throughout 2022, we have held numerous meetings with the different town councils in the region to discuss different aspects of water management with a particular focus on everything related to the improvement of their sewerage networks.

To provide different types of services, Canal establishes management agreements and other types of agreements with municipalities and large customers. All agreements and commitments are negotiated and signed individually with each municipality.

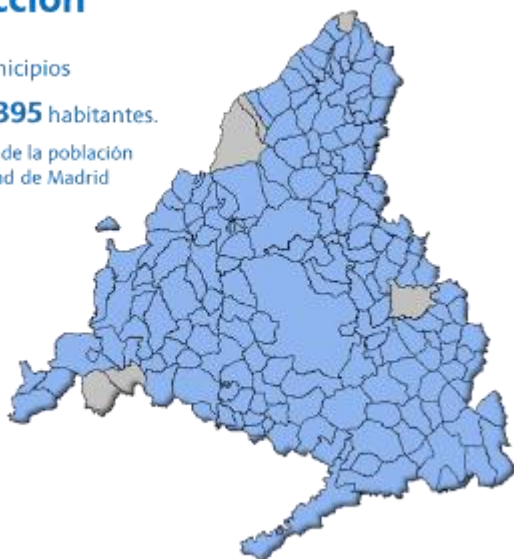
Through these agreements we currently provide water supply services (upstream, downstream or both) to a total population of **6,526,725 inhabitants** in 174 of the 179 municipalities of the Community of Madrid. This is equivalent to **96.69%** of the inhabitants of the region on 1 January 2022 according to the Municipal Register published by the National Statistics Institute (INE).

In terms of sewerage services, Canal currently manages the **sewerage of 136 municipalities** in the Community of Madrid, with a total of **5,766,557 inhabitants**, providing this service to **85.43%** of the region's population. In wastewater treatment, we manage the treatment of **178 municipalities** with a population of **6,741,501 inhabitants**, almost **100%** of the region's population (99.9%).

Municipalities of the Community of Madrid in which Canal provides its services in the different phases of the full water cycle

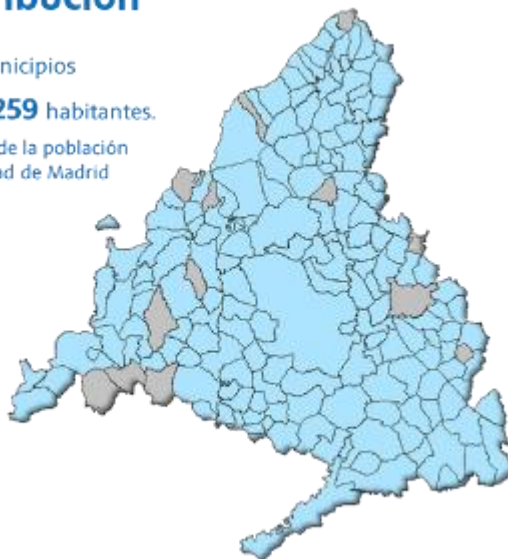
Aducción

173 municipios
6.250.395 habitantes.
96,59 % de la población
 Comunidad de Madrid



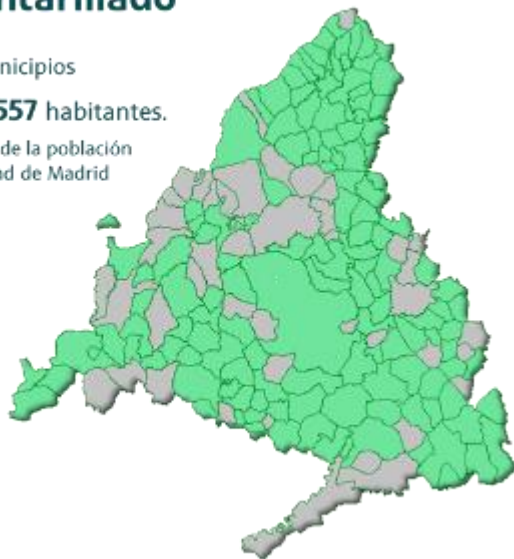
Distribución

166 municipios
6.472.259 habitantes.
95,88 % de la población
 Comunidad de Madrid



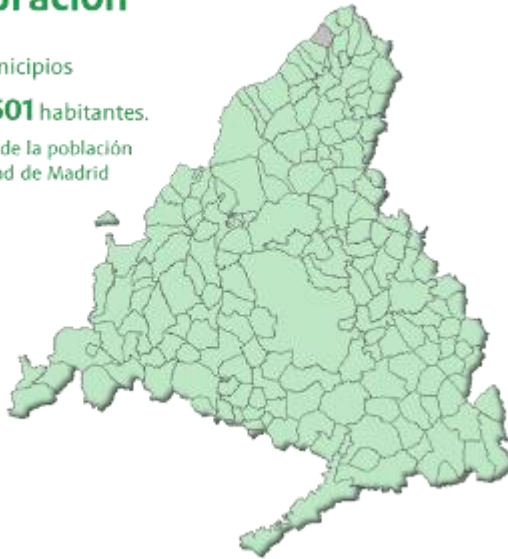
Alcantarillado

136 municipios
5.766.557 habitantes.
85,43 % de la población
 Comunidad de Madrid



Depuración

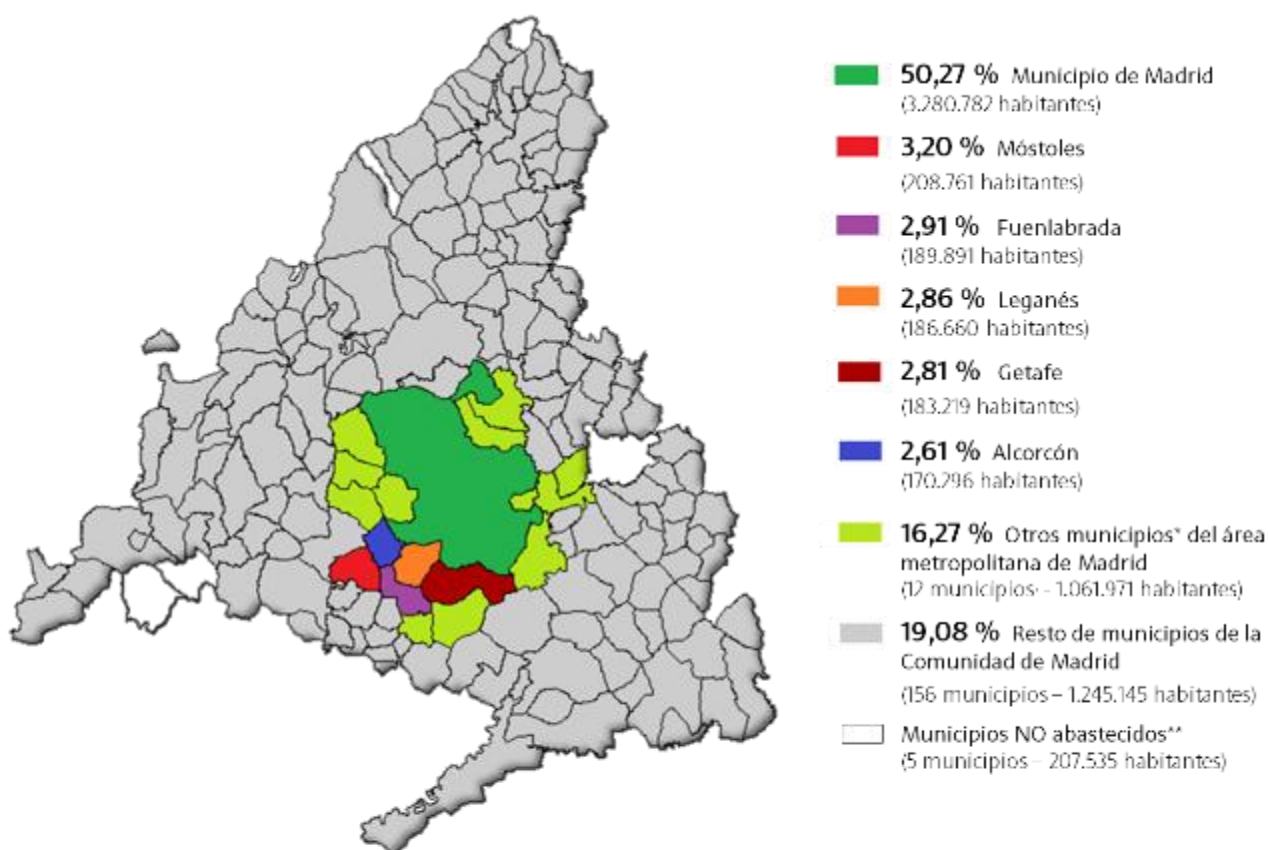
178 municipios
6.741.501 habitantes.
99,87 % de la población
 Comunidad de Madrid



The population structure of the Community of Madrid means that there is **enormous variability in the population** of the municipalities in which we provide services related to the full water cycle. Our services range from a city like **Madrid** with **3.28 million inhabitants**, to a municipality of **62 inhabitants** like **La Acebeda** or municipalities like **Coslada** with a **population density of 6.711 inhabitants per square kilometre** to **Puebla de la Sierra** with a density of **1.51 inhabitants per square kilometre**.

Most of the population served in the Community of Madrid (**81 %**) is located in the city of **Madrid and the 17 large municipalities** in its metropolitan area. The rest of the population is distributed among **156 municipalities**, which account for **19%** of the total.

Distribution in % of the population served in the Community of Madrid



* Alcobendas, Boadilla del Monte, Coslada, Majadahonda, Parla, Pinto, Pozuelo de Alarcón, Rivas-Vaciamadrid, Las Rozas de Madrid, San Fernando de Henares, San Sebastián de los Reyes y Torrejón de Ardoz.

** Alameda del Valle, Alcalá de Henares, Aldea del Fresno, Somosierra y Villa del Prado.

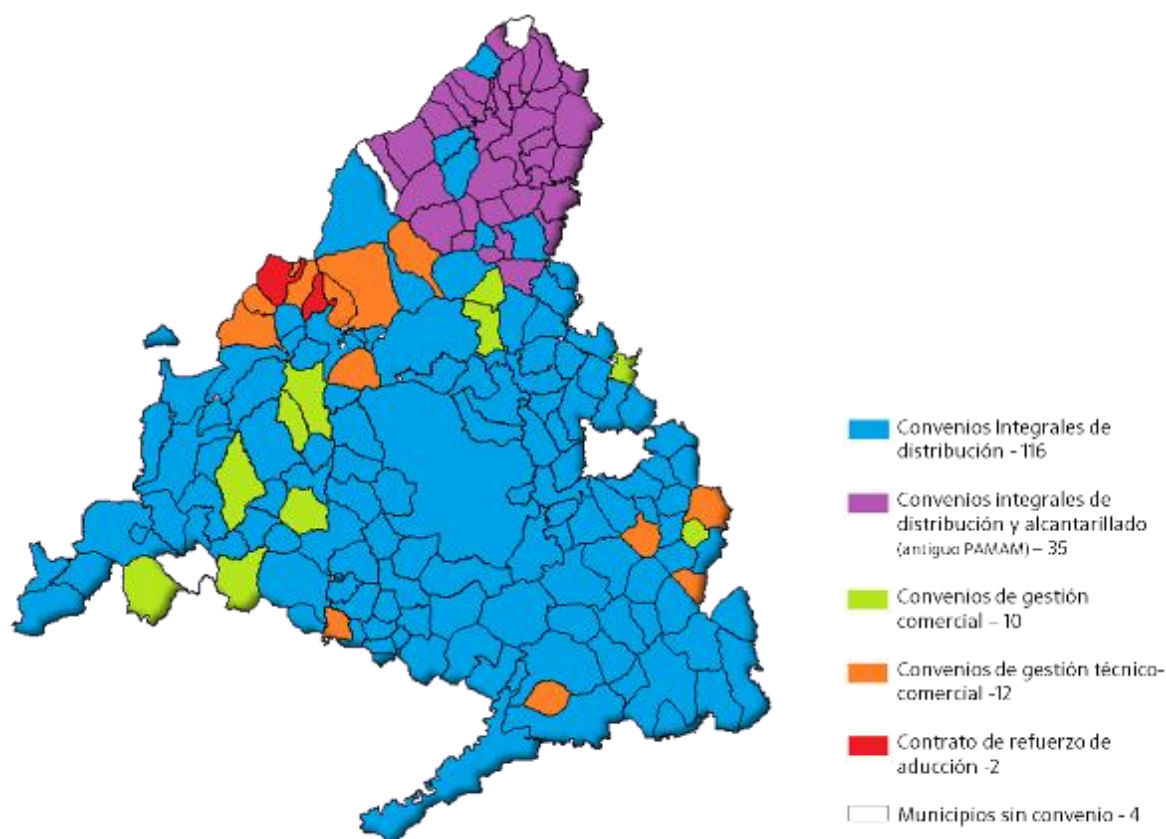
In addition to the municipalities of the Community of Madrid, by the end of 2022 the Canal system also supplied water to 8 neighbouring municipalities belonging to the autonomous community of **Castilla-La Mancha** (Valdesotos, Valdepeñas de la Sierra, Tortuero, Uceda, Pióz, Pozo de Guadalajara and Ontígola) and Castilla y León (Navahondilla). The population served in the neighbouring municipalities in 2022 was **14,743 people**. In the case of Ontígola (Toledo) we also provide wastewater treatment services to its 4,752 inhabitants.

In the case of the municipalities of the Community of Madrid, the most common type of agreement we sign is for **integrated supply management**. Through this type of agreement, Canal carries out the maintenance, operation and renewal of the distribution network, with networks attached to the general supply system of the Community of Madrid.

There are also other types of agreements, such as **commercial management agreements**, in which Canal carries out such management (contracting, reading, billing and collection management), as well as the adaptation and maintenance of service connections. In the **technical-commercial supply** type where we carry out the maintenance and operation of the municipal distribution network: this includes the **renewal of the distribution networks** against a **supplementary distribution fee**, which is paid by the customers.

Apart from the municipal management agreements, Canal also enters into other agreements with municipalities and urbanisations for specific issues.

Types of Canal agreements with municipalities in the Community of Madrid



ENSURING SEWERAGE AND URBAN DRAINAGE MANAGEMENT

Sanitation management is absolutely vital for the maintenance of public health in urban environments, safety from floods and river flooding, and to ensure the protection of the environment and the maintenance of the region's water bodies in good condition.

The purpose of urban drainage networks is the collection of wastewater, domestic, industrial and runoff, for subsequent transport to wastewater treatment plants. Canal is currently responsible for maintaining the **municipal networks in the 136 municipalities** with a signed agreement. By the end of 2022, **these networks totalled 14,992 kilometres** and we also managed **873 kilometres of sewers and supra-municipal outfalls**. We also have **194 wastewater pumping stations (WWPS)**, which lift the water to enable it to be transported to the WWTP, and **95 storm tanks and laminators**, whose purpose is to prevent flooding and discharges into watercourses. Thanks to these facilities, **up to 1.42 million cubic metres** of the first rainwater, which is the most polluting water, can be **retained**.

The **maintenance work we carry out** consists of **monitoring the networks, inspecting and cleaning the pipes, cleaning the scuppers** and occasional spillages, resolving every warning and incident in the network and carrying out the necessary conservation and improvement work on the network. In 2022, **29,359 warnings** were received at Canal and **29,942 incidents** were attended to.

In addition to this work, we carry out cartographic updating and the preparation of network diagnostic studies, as well as the processing of technical conformity files for requests for connections or network modifications.

In recent years and given the deficient state of the network in some municipalities, Canal has promoted the preparation of **diagnostic studies of the networks** and the development of **sanitation master plans for these municipalities**. Our objective is to ensure that all municipalities have their own master plan. In 2022 we have continued with the delivery of sewerage plans to municipalities. These actions will lead to an improvement in the network, a significant reduction in discharges and, in turn, an **improvement in the receiving watercourses**, while at the same time reducing the risk of flooding in the municipalities managed.

With regard to the renovation of sewerage networks, a total of 29.64 km of sewerage networks were renovated in 2022 and we have continued to work on an advanced system for sustainable urban drainage management.

MOVING FORWARD WITH PLAN SANEA

Towards excellence in sewerage management in the Community of Madrid.

Adequate systems for the collection of wastewater and rainwater from urban areas through efficient **sewerage networks** and urban drainage systems are vital to ensuring quality of life for our citizens.

In order to manage sewerage without incident, avoiding the generation of blockages, odours and other nuisances for citizens, it is necessary to invest in networks that allow for adequate sizing and operation, especially in a scenario in which **climate change will cause extreme weather phenomena** such as torrential rains **with greater frequency and intensity** in the future.

However, the current reality is that many of the municipal sewerage networks, many of which have been incorporated into Canal's management in recent years, require major improvement works which, in turn, require a considerable technical and investment effort.

To respond to these problems, the **2019-2030 Strategic Plan of Canal de Isabel II** included the **SANEA Plan**, an ambitious plan whose main objective is to improve the sewerage networks of the municipalities of the Community of Madrid to make them the most efficient and modern in our country, ensuring **sustainable water sanitation** and **preventing overflows** in the drainage systems.

Through this Plan, we want to ensure that all the municipalities in which we provide sewerage maintenance services have **sewerage and urban drainage master plans**, documents that establish the necessary measures and actions, setting priorities for network renovation actions and estimating the investments that will be necessary to avoid incidents and inconvenience to users, as well as to contribute to the protection and improvement of the environment.

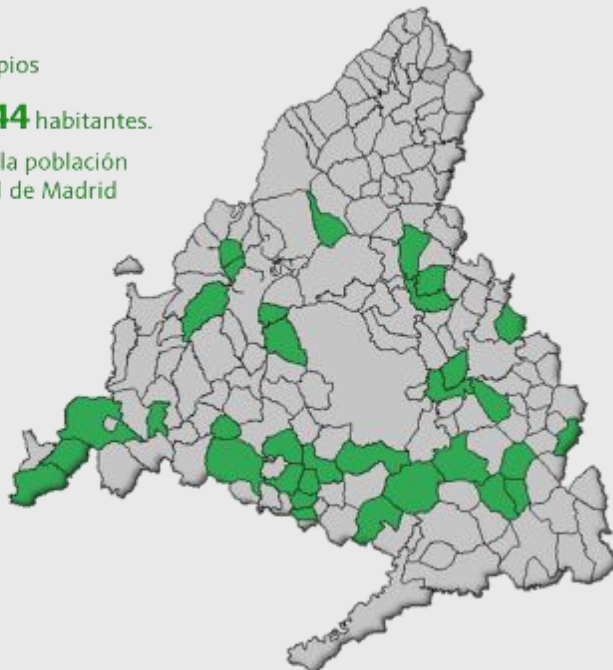
Once the master plans have been drawn up, a legal and economic analysis is carried out for each municipality, the feasibility of which leads to the signing of **specific municipal agreements for the SANEA Plan**. These agreements set out the deadlines and proposals for the execution and financing of priority actions, as well as the actual plans for the execution of investments in each municipality. **The initial disbursement of the investments is made by Canal** and is recovered through the sewerage rate over the years of the agreement, with **no interest** applied to the financing.

Plan Sanea

33 municipios

1.250.344 habitantes.

18,52 % de la población
Comunidad de Madrid



Algete
Alpedrete
Ambite
Arganda del Rey
Cadales de los Vidrios
Cenicientos
Chapinería
Collado Mediano
Cubas de la Sagra
Escorial, El
Fuenlabrada
Fuente el Saz de Jarama
Getafe
Grinón
Humanes de Madrid
Meco
Molar, El
Moraleja de Enmedio
Móstoles
Navalcarnero
Perales de Tajuña
Rozas de Madrid, Las
San Fernando de Henares
San Martín de la Vega
San Martín de Valdeiglesias
Sevilla la Nueva
Soto del Real
Tielmes
Torrejón de Ardoz
Torrelodones
Torres de la Alameda
Valdemoro
Valdilecha

In the five years between **the start of the SANEA Plan** and the end of 2022, a total of **33 municipalities** with **1.25 million** inhabitants in our region had signed up to the Plan. This means that **investments worth 374 million euros** have already been committed, which will allow **569 actions** to **renovate 293 kilometres** of municipal sewerage networks.

Monitoring of indicators as part of Strategic Plan. **Strategic Line 5**

Developing cooperation with the municipalities of Madrid consumption



COMMITTED TO OUR CUSTOMERS

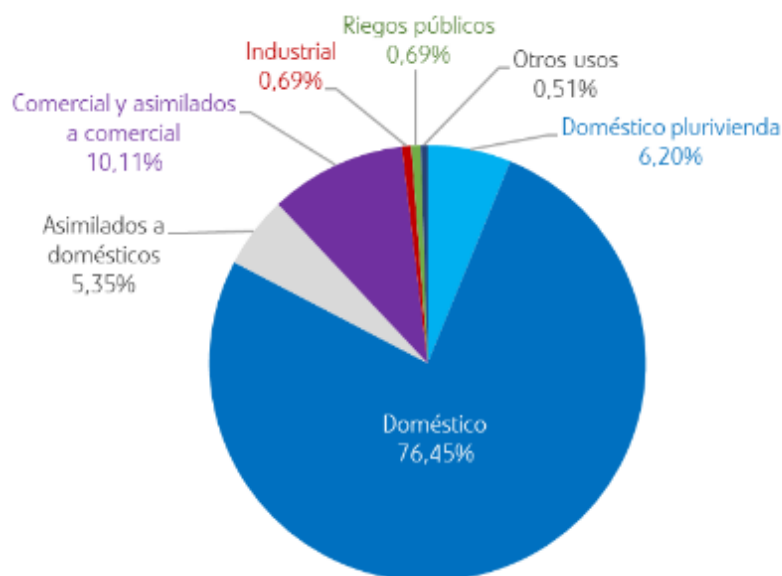
Customer and user satisfaction is one of the main objectives of our company. This satisfaction is obtained by providing dependable, quality services at fair rates, but it is also very important to provide adequate customer service, fulfilling their expectations and needs in an flexible and simple way. To this end, our company is equipped with the means and resources that make our commercial work one of the best valued in the sector in Spain.

Our clients in the Community of Madrid: types of contracts

GRI 2-6

In 2022, Canal de Isabel II has reached the figure of **1,576,209 active contracts** with customers, which represents an increase of **1.41%** compared to 2021.

Percentage distribution of customer contract types in 2022



Rates and customer billing

GRI 3-3

Our rate scheme (which is approved by the Regional Government of Madrid) is based on a series of basic principles such as the inclusion of the provisions of the transposition of the **Water Framework Directive** into Spanish law, the promotion of **efficient consumption** and the achievement of a **fair and equitable rate system**. All this without forgetting that the citizens of Madrid enjoy some of the highest quality water in Europe.

Our rates are:

Progressive and subsidised: tailored to the particular situations and needs of citizens.

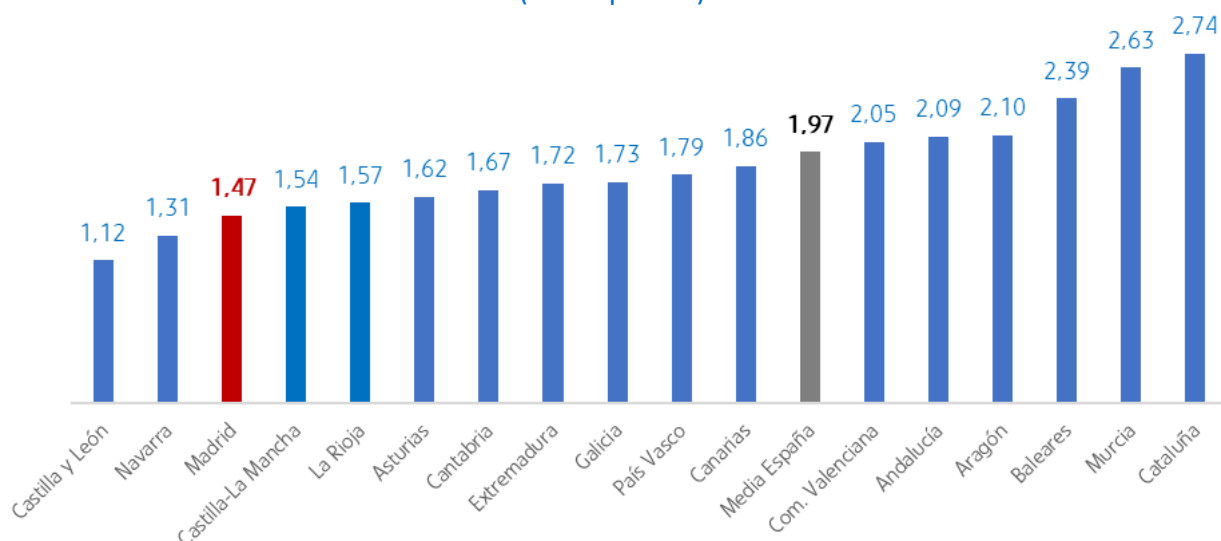
Seasonal: encouraging rational use in periods of scarcity and high consumption.

Committed to the environment: providing for a specific rate for reusable water, which is an essential component of integrated water resources management in line with environmental sustainability.

To ensure better communication and greater understanding of the rates by customers, Canal carries out an annual campaign through explanatory documents that are made available to the public in our commercial office and on our website www.canaldeisabelsegunda.es. Specifically, we publish a rates document for distribution to our offices that includes information on the general rates for domestic use as well as commercial and industrial rates.

In recent years, Canal's pricing policy has been characterised by moderation. Thus, **our rates have remained frozen since 2015**, while the cumulative increase in the Consumer Price Index (CPI) between January 2015 and December 2022 was **17.7 %** according to the INE. According to data published by the Spanish Association of Water Supply and Sanitation (AEAS) and the Spanish Association of Urban Water Services Management Companies (AGA), **our rates for the year 2022 were 25.38% lower than the average** for all Spanish autonomous communities.

Rates for supply and sewerage services by Autonomous Regions in 2022 (euros per m³).



Source: Study on water supply and sanitation rates in Spain (AEAS - AGA 2022)

Actions to ensure correct billing to the customer

GRI 3-3

Canal always seeks to guarantee the highest accuracy in the billing issued to our customers, based on their actual consumption, and to this end we carry out the following actions:

Meter reading: in 2022, we have performed **9.36 million readings** (3.03% more than in 2021) on **1.64 million meters**. The percentage of bills issued by estimate, as the meter reading could not be obtained, was only 3.45%.

Audit and analysis of consumption: in order to guarantee the correct emission of the consumption to be billed, we have a quality control system for reading and billing. The consumption audit, within the aforementioned system, is a tool to assist in the review of consumption that shows a significant variation. When deviations are detected, the customer is alerted to avoid possible interior leakage in their property.

Maintenance and verification of metering equipment: as an essential support for billing, actions are carried out to improve the accuracy of this equipment, mainly focused on the maintenance and constant renewal of the meter fleet.

To ensure their correct operation, we have a volume meter verification laboratory that meets all the requirements for verifying that its verifications and certificates are of the required quality and are recognised by national and international authorities. It has ENAC accreditation as a testing laboratory for the verification of meters and, since 2011, accreditation for the verification of flow meters. The control of the counters is carried out at the following levels:

- Control of new meters.
- Customer complaints.
- Carrying out studies to gain a better understanding of the operation of meters: verification of meters in use, evaluation of new technologies, influence of installation conditions, verification of the devices that measure the water derived from the network, among others.

During 2022, the **metrology laboratory** carried out **3,497 checks** of new meters (35.5% more than in 2021) and **4,900 checks** of the metering set for other reasons. On the other hand, **108,490 meters were renewed for maintenance and campaigns** (almost 7,800 more than in 2021). A total of **21,956 meters** have been installed for **new contracts**.

Customer and user service

GRI 2-23

GRI 2-24

GRI 2-25

Canal's primary objective is to provide the best possible services to our users. We have an ISO 9001 certified quality system and, as part of our policy of maintaining the quality of the services we provide, we have made specific commitments to our clients. Thus, in 2019 we published our **Charter of Commitments to customers** with the aim of adapting to their needs and requirements. To this end, our company assumes a total of ten commitments ("*10 crystal-clear commitments*") in order to offer clear and transparent solutions to the needs of users. Failure to comply with any of these commitments can lead to automatic compensation ranging from 30 to 420 euros. We ended the year 2022 with a **high level of compliance** (96.26 % on average) and 108,540 euros in compensation payments.

The Charter of Commitments to our customers is available at the following link:

https://www.canaldeisabelsegunda.es/documents/20143/77594/10+Compromisos+claros+como+el+agua+de+Madrid_Canal+de+Isabel+II.pdf/6884a57d-2700-0ebb-5f16-126c5c82d395?t=1569837945730

Communication channels with customers

We are a company committed to our environment and sensitive to the demands of our users. In recent years, we have made major efforts to improve accessibility to the various contact channels available for fast and efficient transactions in order to meet the needs of our customers. The main communication channels available to Canal's customers and users are:

Telephone helpline

The most widely used by customers, who can choose to speak directly with specialised agents or use automated solutions for their transactions. **By 2022, we have handled more than 4.99 million customer calls.**

Customer Service Centre

Located at 10 Calle José Abascal, Madrid, the Customer Service Centre can be used to resolve any request related to commercial management. This centre remains a basic channel that builds trust with certain groups of customers who prefer face-to-face service. In 2022 **we served 20,259 people in person**, 48% fewer than in 2021, when the peripheral offices remained open.

Website, virtual office and Canal app for mobiles and tablets

Within the framework of new information technologies, and for greater convenience and simplicity in the management of self-service, Canal offers customers an Internet office that is available 24 hours a day. In 2022, this platform recorded **almost 32 million interactions**, three times more than in 2021.

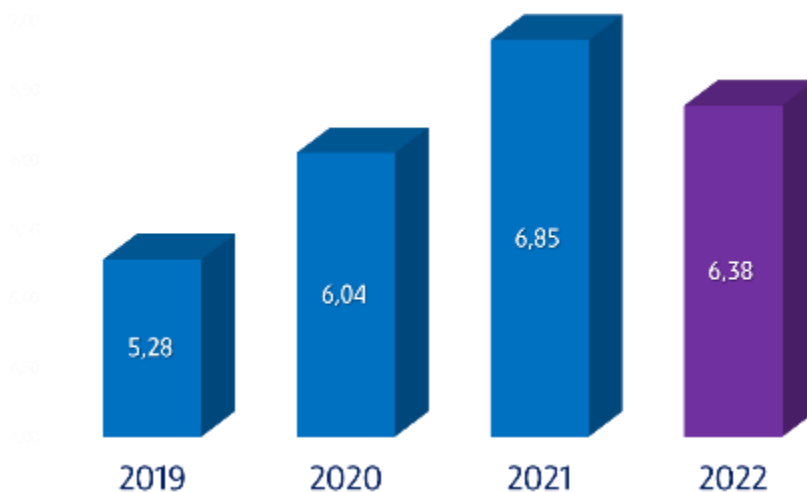
In writing.

We also offer our clients a special channel of customer service in writing by letter or fax, with which any procedure can be carried out without waiting or travelling in person. Through this channel we received 4,200 communications in 2022.

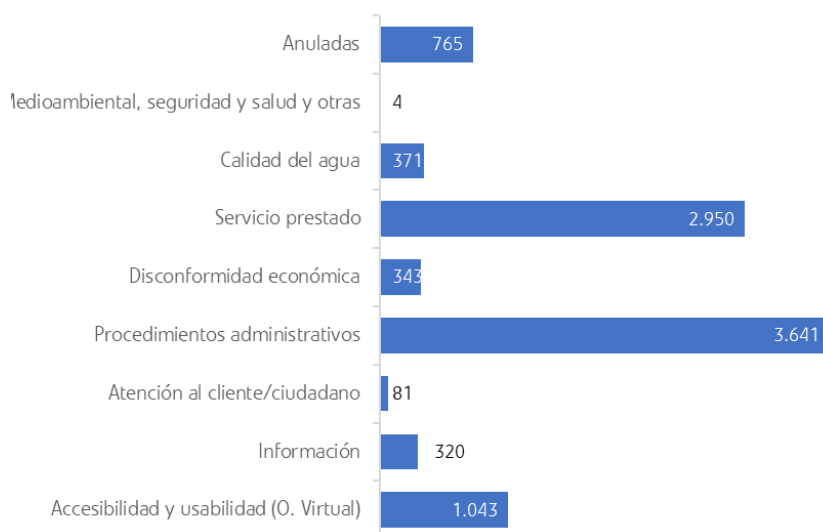
Suggestions and complaints management

GRI 2-25

At Canal we have a complete system for the reception and treatment of **suggestions, complaints and claims of invoices** from our customers. In the case of complaints received, i.e. those disagreements related to the service provided to the customer, our **Complaints Office** is responsible for the personalised management of all of them. Using a communication number assigned to the complaint, the customer can track the progress of the complaint throughout the process. In 2022, a total of **10,058** complaints were received, i.e. 6.38 complaints per thousand customers, 6.87 % less than in 2021, which was a somewhat anomalous year due to the problems caused by the storm Filomena in the Community of Madrid.

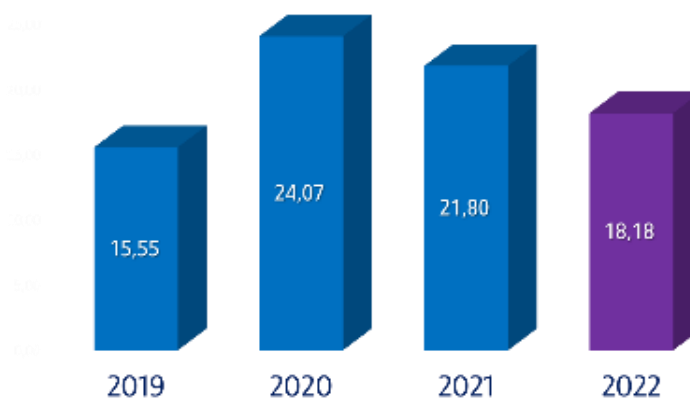
Evolution of the number of complaints received per 1000 customers

Causes of complaints in 2022



In terms of **complaints received** regarding bills, this number fell 15.45% compared to 2021, standing at 28,648. This amounts to just over 18 complaints per 1,000 customers, affecting only 0.31% of the bills issued during the year (over 9.3 million). **72.54% of complaints were resolved favourably for the customer** in 2022.

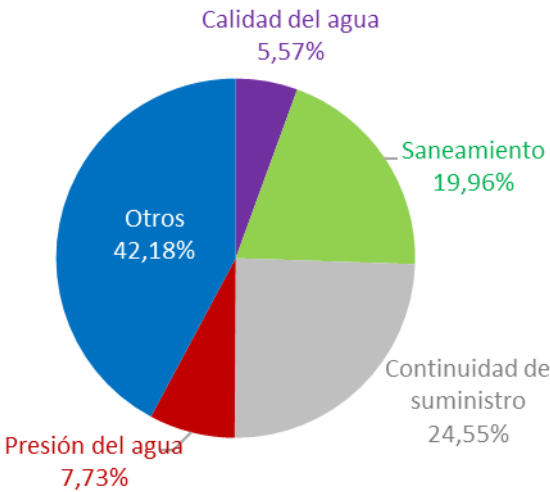
Complaints received per 1,000 customers per year



Both bill claims and complaints have a **maximum processing time of 30 days**, which in 2022 was met in 78% and 85% of cases, respectively.

In addition to the claims and complaints received in the commercial sphere, we have a **service for dealing with incidents** related to the provision of the different services. In 2022, a total of **140,070 notifications** were received related to different incidents (quality, sewerage, continuity of supply, water pressure and other causes). The number of warnings in 2022 is 30 % lower than in 2021, which was an anomalous year due to the multiple occurrences caused by the storm *Filomena*.

Distribution of causes of incidents in 2022 (Percentage of total)



The voice of the customer at Canal: from data to words

GRI 2-29

At Canal we apply cognitive technologies to automatically classify and analyse the written comments we receive from our users in surveys. To this end, throughout 2022 we have consolidated the use of the Text Analytics tool, applied to the results of the transactional surveys we receive, which has meant a qualitative leap in the interpretation of the customer's voice when their opinion arrives in open text. We are now able to automatically classify and process mentions, categories and even sentiment, optimising the understanding of our customers' words.

The *Text Analytics* model makes it possible to extract the maximum value from the answers to users' open questions (*verbatim*¹⁰), both in terms of topics and their volume, as well as the overall sentiment they express: positive, negative or indifferent, through the application of cognitive technologies associated with natural language processing and artificial intelligence. This facilitates a more robust and coherent classification of the comments received and therefore a more accurate analysis and processing of the comments received.

Below is a summary of the main magnitudes and findings of *Text Analytics* during 2022 for the five transactions we are currently measuring:

¹⁰ In our case we use verbatim to refer to the exact reproduction of an oration,sentence, quote or other sequence of text from our clients.

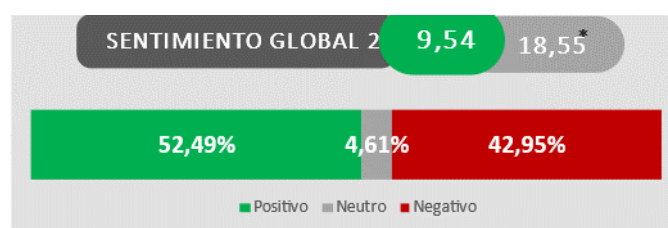
Text Analytics 2022

Nº COMENTARIOS ANALIZADOS 2022

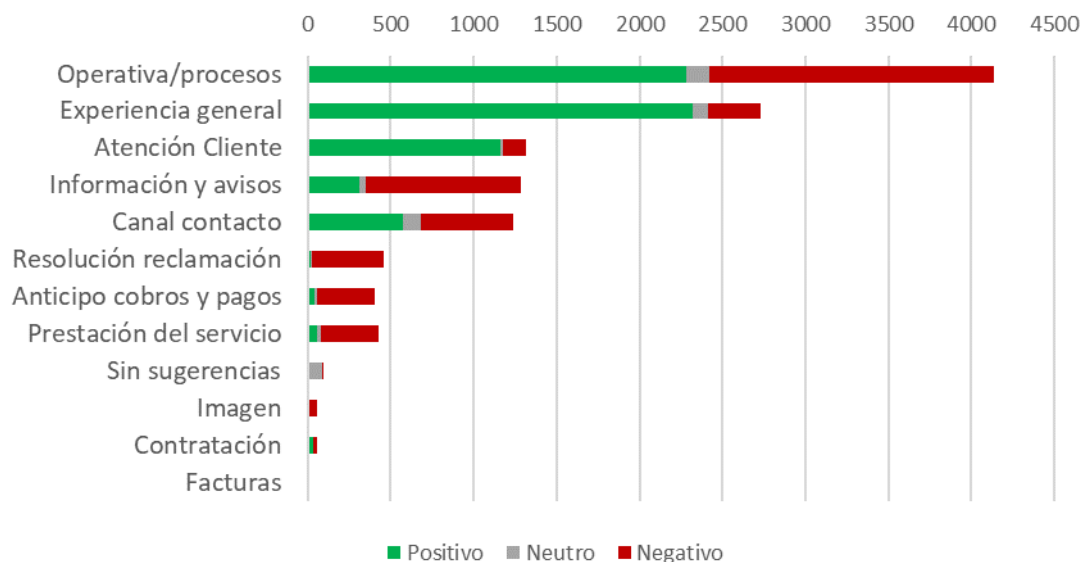
8.510

8.375 *

ENTORNO	Nº COMENTARIOS		TASA DE VERBATIMS		SENTIMIENTO	
	2021	2022	2021	2022	2021	2022
RECLAMACIONES	2.797	2.082	64,6%	62,4%	-25,85	-19,40
CONTRATACIÓN ABASTECIMIENTO	5.340	4.654	45,5%	46,8%	42,75	38,81
ACTUACIONES EN CAMPO	227	1.488	55,4%	56,6%	-17,73	-35,42
CONTRATACIÓN SANEAMIENTO	11	81	33,3%	50,0%	27,27	-39,51
AVISOS POR INCIDENCIAS	-	205	-	58,1%	-	-15,12



DISTRIBUCIÓN SENTIMIENTO POR TOPICS 2022



The metrics we can obtain from the *Text Analytics* tool are:

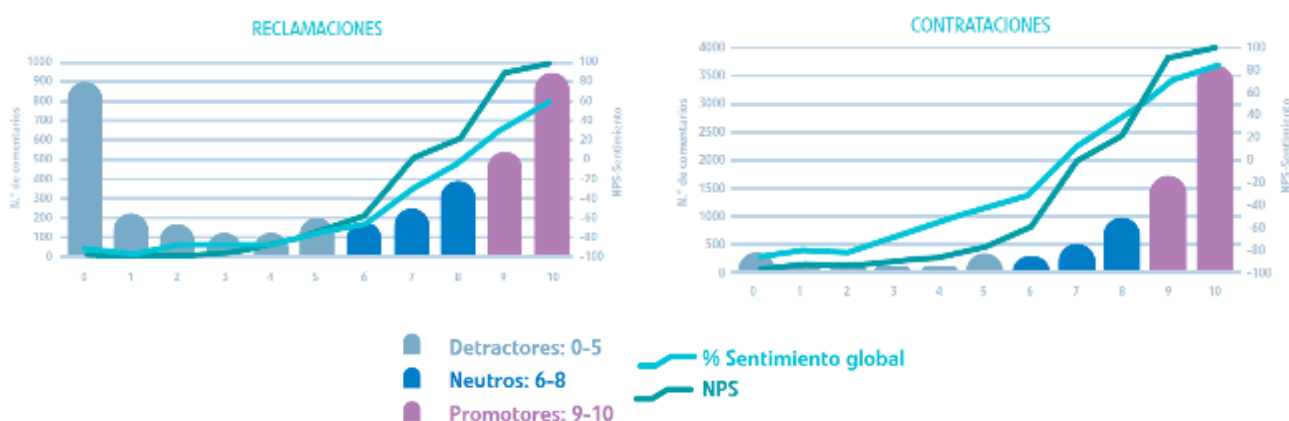
- Total number of surveys, comments and mentions.
- Sentiment associated with comments and mentions: positive, negative or neutral.
- Percentage of surveys with comments.
- Breakdown of mentions by categories and sub-categories and associated sentiment.
- Individualised metrics of the author of the comments: NPS, satisfaction, etc.

- Evolution of positive mentions.
- Global sentiment graph by municipality.do, bidirectional: listening and response in real time.

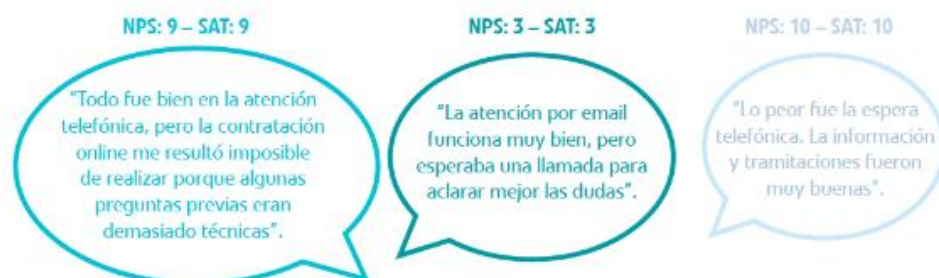
Analysing sentiment: Do numerical assessments and written comments go hand in hand?

One of the objectives of this approach is to check whether the sentiment expressed by users in comments and their numerical ratings (e.g. from the NPS¹¹) coincide. The answer is that is not quite the case. Six out of ten surveys analysed contain *verbatim* (verbal comments). Customers respond to these questionnaires after a complaint, a contracting process or a field action by Canal. The tone and volume of the messages vary according to such scenarios, yet they all follow a similar trend.

The sentiment associated with textual messages is analysed through *Text Analytics* so that its algorithm identifies the mentions within each comment and categorises them as positive, negative or neutral. Canal then correlates these sentiments with the levels of recommendation (NPS) given by the users themselves. It is then that we observe some divergences in the curves, as seen, for example, in the Complaints and Recruitment environments:



The conclusion is that: *the bad is not so bad, and the good is not so good*. **Numerical customer ratings** are **fragile** and the real improvement lies in listening, understanding and acting on their words.

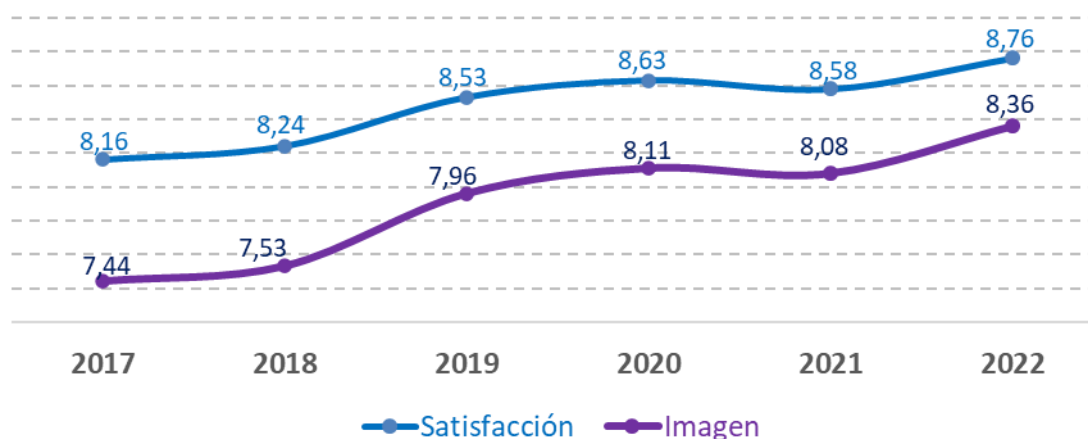


¹¹ One of the objectives of this approach is to check whether the sentiment expressed by users in comments and their numerical ratings (e.g. from the NPS) coincide.

Canal's customer satisfaction

Canal's overall customer satisfaction has been increasing steadily over time, although it stagnated in 2020 as a result of lock-down and the early months of the COVID-19 pandemic (reading estimates, delay in works, call centre saturation, etc.) and declined slightly in 2021 due to the impact of Storm Filomena at the beginning of that year. However, **in 2022** under normal operating circumstances, we have achieved **the best valuation** ever recorded (a B+). In the case of the image in 2022, we also recorded the best annual value in the historical series. The **overall satisfaction indicator** is measured, like the **Image indicator**, on a **scale of 0 to 10**.

Evolution of the overall image and satisfaction 2017 - 2022 (score from 0 to 10)



Monitoring of indicators as part of Strategic Plan. Strategic Line 6

Reinforcing commitment and proximity to the user



OUR REMOTE METER READING PLAN

Our aim is to achieve a **friendlier and more efficient management** for our customers. The implementation of smart meters incorporating the latest technologies **in 100% of the supplies of the Community of Madrid** will allow us to obtain new services for our customers and new utilities for Canal, based on the advanced processing of meter data.

This way, **with the massive implementation of the remote metering service**, which **we will start at the beginning of 2023**, customers will be able to consult, in their personal area in the Canal **Online Office**, their consumption up to the previous day, on a daily and hourly basis.

With the implementation of remote metering, Canal will go from measuring meters every 2 months to **every hour 365 days a year**, which will multiply the available information by 1,460 times. The correct processing of this information will provide a very precise knowledge of customers' usual consumption and will allow, in the near future, to alert them if anomalous consumption, leaks or losses occur in their indoor installation, almost as soon as they occur, instead of detecting them several weeks later, when the next bill is generated.

Remote reading with smart meters is important not only for the customer, but also for our company, as it will **allow us to ascertain consumption patterns of all our customers** and group them by type and use. This way, we can personalise savings advice, provide comparisons or manage demand in certain areas more efficiently.

Moreover, in a context in which environmental and natural resource care is at the heart of our company's management, remote sensing will provide us with valuable information for the optimisation and efficient management of the supply network, which is nearly 18,000 kilometres long and divided into more than 700 sectors. Along these lines, smart meters and real-time metering will also lead to an optimisation of demand and a better estimation of consumption, resulting in more efficient planning and a reduction of greenhouse gas emissions. All this without forgetting the early detection of anomalous consumption.



SDG 16 (peace, justice and strong institutions) We are the company of all the people of Madrid

As a public company providing an essential public service, we have an obligation to be excellent and rigorous in our corporate governance and in the behaviour of our employees. We owe it to citizens and we must be absolutely transparent in our management and, in the field of Social Responsibility, we must develop open and participative activities for all the groups with which we interact.

The corporate organisation and the governing bodies of Canal de Isabel II respond, on the one hand, to the requirements derived from our legal nature as a **public limited company** and, on the other hand, to the objective of achieving a level of excellence in **transparency and good governance**.

In this regard, we are working on the progressive incorporation of best practices in terms of good governance and transparency that go beyond the standards required of unlisted companies, as in the case of Canal. We have a **Code of Conduct**, a **Compliance Policy** and a **Crime Prevention Policy**, all of which are mandatory.

RELATIONS WITH PUBLIC ADMINISTRATIONS AND TRANSPARENCY OF MANAGEMENT

GRI 2-16

GRI 3-3

GRI 2-26

Canal's relationship is generally developed with three levels of public administrations:

Local Authorities (councils) of the municipalities in which we provide our services.

Autonomous Communities where we operate, especially the Community of Madrid.

General Government in the countries where we operate the service.

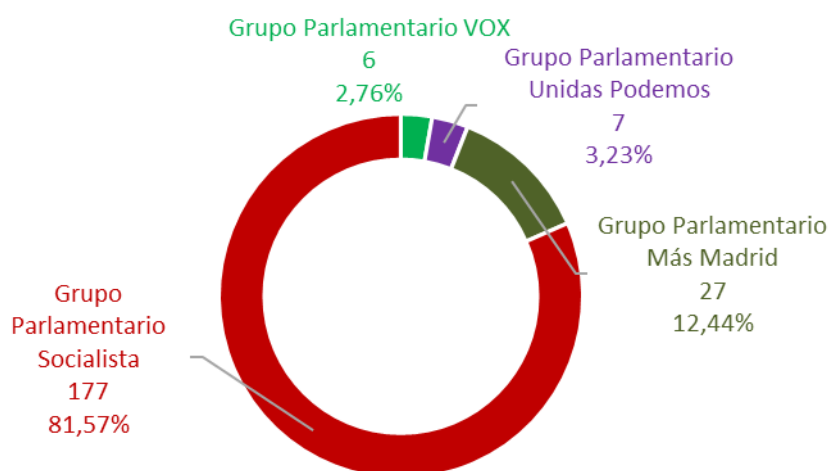
In addition, as a public company, we are obliged to respond to requests for information and auditing from all the political groups represented in our regional parliament: the **Assembly of Madrid**. These requests reflect the issues relevant to stakeholders in all aspects (economic, environmental and social) and, in addition to reporting on the performance of the company and its Group, help us understand the principal concerns in terms of responsibility, solvency and sustainability.

The response to these requests is sent to the Regional Ministry of the Environment, Housing and Agriculture through the Chief Executive Officer

Requests made to Canal from the Madrid Assembly (2019-2022)

		2019*	2020	2021*	2022
C	Appearance in plenary or committee	2	1	5	2
PCOP	Question for oral answer in plenary	2	3	11	3
PCOC	Question for oral answer in Committee	1	14	27	8
PE	Question for written answer	40	26	32	100
IP	Request for Information	145	385	108	104
Other	Non-legislative proposal, Bill, Parliamentary Questioning	3	1	0	0
TOTAL		193	430	183	217

(*) 2019 and 2021 were years with regional elections in which parliamentary activity was lower.

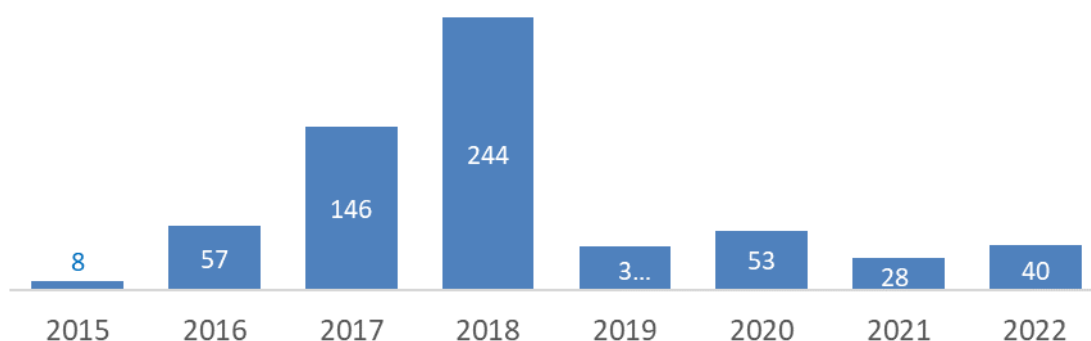
Requests made by the parliamentary groups of the Assembly of Madrid in 2022
(number of requests and % of total)

In addition, since 2015 we have established an electronic communication channel on our website to receive and answer queries from citizens, the **Transparency Mailbox** created to comply with the provisions of the legislation on transparency in the public sector¹² regarding the exercise of the **right of access to public information**. This mailbox can be accessed through our **Transparency Portal**, a space on our website that contains all the information related to active publicity established by law. In 2022 we received and responded to a total of

¹² In 2022 we approved an internal instruction that regulates the procedure for processing requests for access to public information to ensure that they are processed and answered in due time and form in accordance with the provisions of the Law 10/2019, of 10 April, on Transparency and Participation of the Regional Government of Madrid and Law 19/2013, of 9 December, on Transparency, Access to Public Information and Good Governance, at the state level.

40 requests for access to public information. Of these, 20 requests have been assessed and the required information has been provided, and a further 4 requests have been forwarded to the competent administration or body. Since its launch on 28 October 2015 and until the end of 2022, the Canal Transparency Mailbox has handled a total of **615 requests**.

Number of requests received annually in the Transparency Mailbox



Other management audits

GRI 207-2

In addition to the aforementioned transparency actions, Canal de Isabel II has numerous **internal and external** audit and control **mechanisms** focused on ensuring that our management complies with the principles of legality, effectiveness, efficiency and economy. The main external control mechanisms of our company are:

- The **Audit Chamber of the Madrid Regional Government** audits the economic and financial activities and operations of the Madrid public sector, including those of our company and the companies of our Group in Spain and Latin America.
- Our **external auditor** (in 2022 the firm AUREN auditors) issues a report on the true and fair view of the financial statements and the **Statement of Non-Financial Information (SNFI)**.
- Our annual accounts are filed with **the Commercial Register** , which makes them public.
- Although we are not a listed company, we are an issuer of negotiable securities (bonds) and this obliges us to publish all relevant information related to the corporate governance of our company on the website of the **National Securities Market Commission (CNMV)**, which contributes to the control and transparency of our activities.

- Our tendering procedures and practices are supervised by the **Administrative Contracting Tribunal of the Community of Madrid**, when required.
- All documents relating to our tenders and minor contracts are published in the **Electricity Procurement Portal of the Canal de Isabel II Group** and in the **Public Procurement Portal of the Regional Government of Madrid**. On both separate portals interested parties can bid electronically 24 hours a day, 365 days a year.
- We are also audited by the **Ministry of Finance and Public Administration**, the Spanish **Court of Auditors** and the **European Court of Auditors (ECA)**, especially in relation to the European funds we receive.

In addition to the aforementioned external control mechanisms, our company has also set up **internal control mechanisms**, including the following:

- The **Sub-Directorate of Internal Audit, Risk Management and Internal Control**, which carries out specific analyses of our company's practices.
- We have a **Risk Management system and corporate controls**.
- Our **Procurement** and **Coordination sub-directorates** ensure the correct application of tendering procedures in accordance with the law.
- We have a **Code of Conduct**, a **Compliance Policy** and a **Crime Prevention Policy**, all of which are mandatory.
- Systems for the control of our Quality and Environmental certifications in accordance with standards ISO-9.000 and ISO-14.001, among others.
- We have an **Audit Committee of the Board of Directors**.
- A **hierarchical system of contract authorisations and payments** is also in place.
- Our SAP R3 system has automated **controls for the chain monitoring** of any payment authorisations that are made.
- We have a **System of Internal Control over Financial Reporting (ICFR)** and from 2022 a **System of Internal Control over Sustainability Information (SCIIS)** focused on **non-financial** information.
- Our **Compliance Department** analyses compliance risks, in particular those related to the criminal liability of legal persons.

CORPORATE GOVERNANCE AT CANAL DE ISABEL II

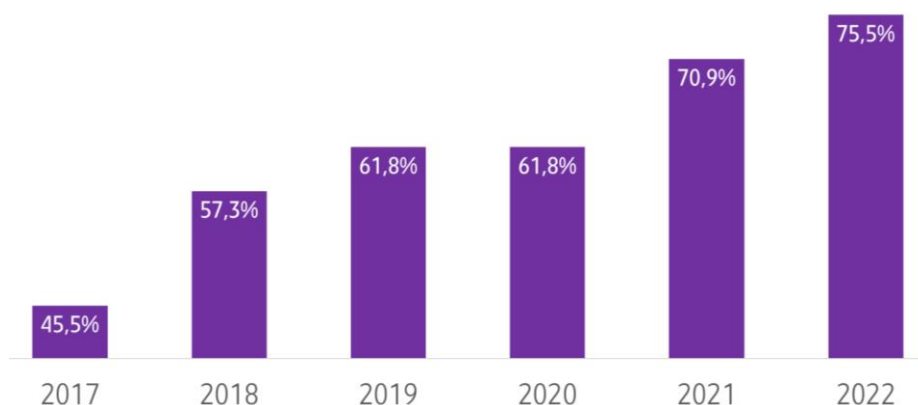
GRI 3-3

At Canal, one of our priority lines of action is to comply with all applicable **good governance** recommendations, both the mandatory ones applicable to us as issuers of securities and the voluntary ones included in the main codes in this area. The mandatory ones, of course, we comply with in their entirety, and as for the voluntary ones, we already follow many of them.

Our Board of Directors considers the **CNMV's Good Governance Code for Listed Companies** as the main guiding document for our activity.

For this reason, since the beginning of the implementation of the 2018-2030 Strategic Plan, we have measured the degree of progress in compliance with Good Governance practices through an indicator. In the first years of the Plan we managed to achieve a compliance rate of around 65% of these practices. In 2021, the approval by the Board of Directors of its operating regulations increased the number of Good Governance practices implemented by almost 10%, and in 2022 we have continued to make progress, with **more than 75%** implemented.

Degree of implementation in Canal of the voluntary recommendations of the CNMV's Code of Good Governance and other reference documents



Internal Code of Conduct and the Ethics and Compliance Committee

GRI 2-23	GRI 2-24	GRI 2-26	GRI 205-1	GRI 205-2
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The **Code of Conduct**, approved by our Board of Directors, expresses our company's commitments to best practices in **ethics, integrity and transparency**. It also lists the behaviours that the company expects of its employees, officers and directors, and which are required of our contractors, suppliers and all those who deal with us. The commitments contained in the Code of Conduct are as follows:

- 1. Commitment to people:** commitment to people is based on respect, whether they are employees, customers and users, suppliers, contractors or any other citizen.
- 2. Commitment to the responsible use of information:** information to which we have access in the exercise of our professional responsibilities is reserved or confidential and must be treated with confidentiality.
- 3. Commitment to integrity:** both for employees and in our relations with third parties, including public administrations, we have implemented a policy of not accepting gifts or hospitality.
- 4. Commitment to people's safety:** we ensure the protection of our own safety, the safety of other people in the company and the safety of third parties.
- 5. Commitment to conflicts of interest:** we must avoid situations or decisions where there could be perceived to be a conflict between our personal interest, or that of people close to us, and that of the company.
- 6. Commitment to clarity:** we do not use misleading or misrepresentative information for the purpose of obtaining subsidies, allowances or other aid or benefits.
- 7. Commitment to trustworthiness:** We conduct ourselves in accordance with the principles of clarity and transparency and ensure that none of our actions can be interpreted as deception.
- 8. Commitment to the responsible use of company assets:** the people of Canal de Isabel II use the resources that the company places at their disposal in a prudent and diligent manner. They limit their use, in general, to professional purposes and always in accordance with the established rules.
- 9. Commitment to environmental protection:** the people of Canal de Isabel II must minimise the environmental impact of their actions. In the event of environmental impacts, they ensure that protocols are activated quickly so that they can be corrected immediately.

Canal de Isabel II has an **Ethics and Compliance Committee**, which, among its functions, in addition to promoting the dissemination, knowledge and **compliance with the Code of Conduct**, is the **supervisory and control body of the crime prevention model** required under the Criminal Code when regulating the criminal liability of legal persons.

The Ethics and Compliance Committee held four ordinary meetings during 2022, on dates previously agreed by the Committee itself. In these sessions, in addition to promoting initiatives to improve ethics and integrity in our organisation, it has also carried out a review of the elements of the existing crime prevention model.

The composition and operation of the Ethics and Compliance Committee are established in its operating regulations, which were approved by the Board of Directors of Canal de Isabel II on 8 May 2019, and were last amended by the Board of Directors on 24 November 2022. The members of the Ethics and Compliance Committee, at the end of 2022, were as follows:

Chair - Director of **Resources**

Member - **Operations Director**

Member - Director of the **Technical General Secretariat**

Member - **Commercial Director**

Member - **Finance** and Business Development Director

Member and Secretary - Head of **Compliance Area**

GRI 2-16

Any employee, supplier or contractor of Canal may contact the Committee to consult doubts regarding the interpretation or practical application of the principles and values contained in the Code of Conduct, to send their suggestions or to notify, in good faith, possible breaches they may have observed of the principles and values that govern our organisation. To do so, please contact **our Ethics Line** (linea.etica@canal.madrid) Notifications are treated with absolute confidentiality, as established in the response protocol that regulates the treatment of notifications or consultations that reach the Ethics and Compliance Committee.

We periodically review the Code of Conduct and develop the policies, processes and controls necessary, not only to comply with the legal requirements, including transparency requirements of the securities market, but also to reinforce our organisation's internalised commitments to ethics, integrity and transparency.

The Canal Code of Conduct is available at the following link:

https://www.canaldeisabelsegunda.es/documents/20143/734868/Codigo_de_Conducta_Canal.pdf/

Compliance Policy and Crime Prevention Policy

GRI 2-27

GRI 205-1

GRI 205-2

On 28 February 2018, the Board of Directors of Canal de Isabel II approved the **Compliance Policy, which** is enforceable not only internally, but also for those who deal with the company. The purpose of the Compliance Policy is to detect and manage compliance risk, not only with regard to the regulations applicable to the organisation, but also with internal regulations, as well as those to which the company voluntarily adheres.

Under the guidance and responsibility of the Board of Directors and senior management, the objective of the Compliance Policy is to define the basic principles and general framework for action in the Company. This Policy has been modified by agreement of the Board of Directors on 24 November 2022, in order to adapt it to the organisational changes that have taken place in the company and with the intention of incorporating it in the companies of the group, always adapted to their areas of activity with respect for their governing bodies.

Similarly, since 2019, Canal de Isabel II has had **a compliance function**, with the aim of reinforcing the three lines of defence already in place in the organisation, improving the existing control systems in the organisation

With regard to the Crime Prevention Policy, it is part of the process of reviewing and adapting the duties imposed by the Criminal Code following the incorporation of criminal liability of legal entities. The purpose of this policy is to project to all managers and employees of the company, as well as to third parties who have dealings with it, an unequivocal commitment to oppose the commission of any criminal offences and the will to combat them and to prevent any possible deterioration of the company's image and reputation.

This Policy has also been subject to modification by agreement of the Board of Directors of Canal de Isabel II dated 24 November 2022, to adapt it to the organisational changes produced in the company and with the will to incorporate it in the companies of the group, always adapted to their areas of activity with respect to their governing bodies.

In this regard, applicable criminal risks to the Company have been identified and controls to mitigate them have been established. Likewise, a supervision and control body has been defined as established by the amendment to the Criminal Code.

Canal's compliance and crime prevention policies are available at the following link:
<https://www.canaldeisabelsegunda.es/web/site/accionistas>

Internal Control Systems for Financial Information (ICFR), Sustainability (SCIIS) and Internal Rules of Conduct

We aim to incorporate best practices in corporate governance, ethics and integrity into our organisation. In this regard, Canal de Isabel II has in place an **Internal Control System for Financial Information (ICFR)**. This management system, which identifies and manages financial risks, is fully implemented in the Group's main companies. The existence and maintenance of the ICFR is a legal obligation, in compliance with *CNMV Circular 2/2018 of 12 June*, which applies to Canal, as an institutional public sector entity that issues securities traded on official markets.

The objective of the ICFR is transparency with regard to the activity carried out by the company, ensuring that its processes are duly coordinated and that all of them operate jointly to prevent, detect, compensate, mitigate or correct errors with a material impact on, or fraud in, financial and non-financial information.

These activities are reported annually to the Board of Directors, through the Audit Committee, and reviewed by audit (both external and internal).

With the entry into force of *Law 11/2018* on Non-Financial Information, the obligation was established for companies to prepare this type of information (in terms of sustainability) following the same criteria of formulation, approval and registration as the financial statements (the ultimate responsibility of the Board of Directors) and external verification. For all these reasons, Canal's external audit recommended, already by 2020, that the process of preparing our company's Statement of Non-Financial Information (SNFI) within the ICFR be protocolised, identifying and designing the key controls that can subsequently be evidenced. To this end, in late 2020 and early 2021 Canal developed a procedure for incorporating the information from the SNFI into the company's ICFR system. This procedure has been improved and implemented throughout the years 2021 and 2022 in different processes related to the SNFI, resulting in the creation of an **Internal Control System for Sustainability Information (SCIIS)** of Canal, which includes the definition, description and calculation methodology of the main sustainability indicators, as well as their associated controls. Today it is a mature and functioning process.

In addition, as issuers of marketable securities (bonds), we have an **Internal Code of Conduct on Securities Markets**. The Regulation provides for a corresponding Register of Obligated Persons. During the year 2022 we have updated the Register.

Remuneration and incentive policy

GRI 2-19

GRI 2-20

GRI 404-3

By resolution of the General Shareholders' Meeting, the **members of the Board of Directors of Canal**, with the exception of the Chief Executive Officer, **do not receive any remuneration except for the allowances for attending meetings** of the Board and its committees for those directors who are not incompatible by virtue of *Law 14/1995 of 21 April 1995 on Incompatibilities of Senior Officers of the Community of Madrid*. These per diems were fixed by the Shareholders' Meeting at 600 euros per meeting

The Chair of the Board and the other members of the Board who are proprietary directors appointed by the majority shareholder (Community of Madrid) do not receive any remuneration for their position in the company.

The salaries of senior management and their annual increases are regulated, as for the rest of the staff, by the regulations of the Community of Madrid, and must be approved by the **Regional Ministry of Economy, Finance and Employment**. This regulation expressly prohibits the agreement of severance pay clauses of any kind for termination of the employment relationship.

On the other hand, as an incentive policy, we have defined a **variable remuneration system** linked mainly to the **annual fulfilment of the objectives corresponding to Canal's 2018-2030 Strategic Plan**. This variable remuneration system is established for all staff with management responsibility in any area of activity, including employees with recognised higher education qualifications.

The 2022 remuneration of Canal's senior management is published in the **Annual Corporate Governance Report** that we publish together with the financial statements and the management report of each financial year. Furthermore, in the case of the Chair and the CEO, their salaries are public and can be consulted, like those of the other senior officials, on the transparency portal of the Madrid Regional Government (<https://www.comunidad.madrid/transparencia/organizacion-recursos/altos-cargos>).

Pension commitments to senior management are developed on the same terms and conditions as for the rest of the workforce. In 2022, the company has not made contributions in accordance with the provisions of *Law 3/2014 of 22 December on the General Budget of the Community of Madrid* since 2015.

CORPORATE RISK MANAGEMENT, AUDIT AND INTERNAL CONTROL

GR1 2-12

Canal de Isabel II has a Sub-Directorate of Internal Audit, Risk Management and Internal Control, reporting organically to the Chief Executive Officer and functionally to the Audit Committee of the Board of Directors.

Internal Audit Activity

During 2022, the Internal Audit function continued at Canal as an independent and objective assurance and consulting activity, designed to add value and improve the organisation's operations, constituting a benchmark within Spanish public companies.

On 17 February 2022, the Audit Committee approved the **Internal Audit Plan 2022-2024**, which determines the projects to be carried out in the coming years. The Plan is based on the company's risks, the strategic objectives, the requests of the Audit Committee, the needs of our *stakeholders*, the processes detected by the Internal Audit area itself, as well as the follow-up of the recommendations arising from the audits already carried out.

The total number of **recommendations for improvement** issued was **233**, of which 199 were completed by the end of 2022.

Corporate risk management

Risk Management is a control activity permanently linked to the risks that may condition the fulfilment of the strategic objectives of the organisations.

The **Risk Management Policy** at Canal de Isabel II was reviewed and approved by the Board of Directors in January 2020 and its correct application requires the involvement of all the company's staff. Canal conducts Risk Management based on the internationally recognised **COSO (Committee of Sponsoring Organization of the Treadway Commission)**, **COSO Internal Control** and **COSO ERM (Enterprise Risk Management)** frameworks, adapted to the characteristics of our company.

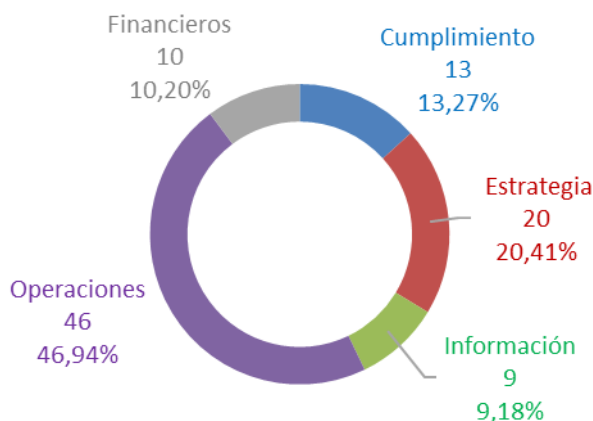


The risks that may affect the achievement of the company's objectives are classified on the basis of the categories used in COSO, adapted to the reality of the company, with the following Risk Taxonomy, in line with best practices:

- **INFORMATION RISKS.** Those regarding data and information of a financial, non-financial, internal and external nature at the Company.
- **COMPLIANCE RISKS.** Regulatory compliance. These risks relate to the aim of ensuring that the regulator and society as a whole have the utmost trust in the Company's activity.
- **OPERATIONS RISKS.** Those pertaining to operational processes at the organisation. They relate to processes, persons and services rendered.
- **STRATEGY RISKS.** Those pertaining to the set of decisions taken by the Company in order to fulfil its remit.
- **FINANCIAL RISKS.** Those pertaining to economic and financial processes at the organisation.

Typology of risks active in Canal at the end of 2022

(number of risks and % of total)



We have a **Risk Map**, with the three levels of consolidation (Sub-directorate, Management and Company) assessed mainly by the Directors and Assistant Directors, which has been **updated twice in 2022**, increasing the frequency recommended in the *CNMV Technical Guide 3-2017 on audit committees of public interest entities*.

The main risks to the company, in terms of impact and probability, are managed through the monitoring of key risk indicators (KRIs) and the effectiveness and design of the controls that mitigate them, by the company's risk managers and risk officers.

The situation at the end of 2022 is that **73 risks** associated with **277 indicators** and **107 controls are managed**.

Internal control

According to the international COSO framework, internal control is a process conducted by a company's management and the rest of its staff, designed in order to provide a reasonable degree of certainty in connection with the achievement of goals.

In this regard, and connected with Risk Management, Canal de Isabel II uses controls and/or measures to mitigate or maintain said risks, the design and effectiveness of which are assessed with the frequency established by the party responsible. In 2022, **89 design tests** and **204 effectiveness tests** were launched.

In the area of Internal Control and adaptation to the COSO Framework, with the aim of verifying that the principles and components are present, in operation and coordinated with each other, in 2022 the assessment of the applicable transversal controls that affect the entire company has continued, using the SAP-GRC tool, increasing the number of controls and the participants in this assessment.

Likewise, areas with specific (non-transversal) controls in the COSO model have been encouraged to perform analyses within the specific goals. There are specific controls for the Internal Control over the Financial Reporting System (ICFR) and Compliance, the Crime Prevention Model (CPM), identifying 17 and 9 controls, respectively.

The Internal Audit, Risk Management and Internal Control Branch has only assumed the role of facilitator of the process of loading and launching controls in the SAP GRC tool, the Internal Control over the Financial Reporting System (ICFR), the system of Internal Control over the Sustainability Reporting (ICSR) and the Crime Prevention Model (CPM), a task entrusted by the Audit Committee so that controls are performed by a single unit.

COMMUNICATIONS TO THE NATIONAL SECURITIES MARKET COMMISSION (CNMV)

GRI 3-3

Although Canal is not a listed company, we are an issuer of non-convertible fixed income securities in a regulated market (AIAF) and this implies the obligation to **communicate the facts and other relevant information** based on the principle of complete information, as well as the obligation to publicly provide true and updated information, in accordance with the Securities Market regulations.

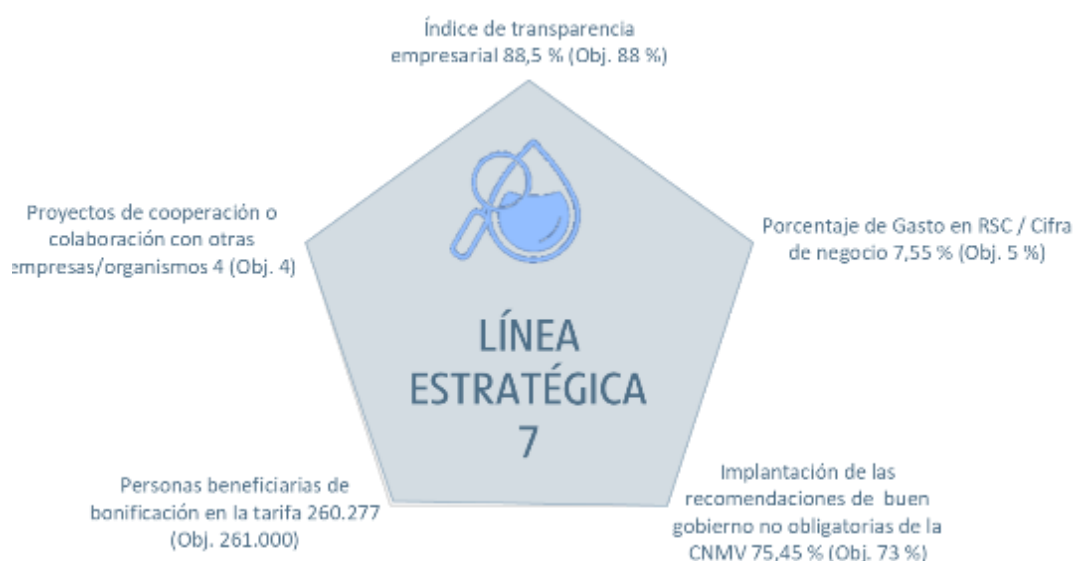
The publication of this information allows investors to, on one hand, make an informed judgement of the real situation of the company and, on the other hand, maintain the good function and transparency of the securities market.

During the year 2022, Canal de Isabel II made **8 submissions of relevant information** National Securities Market Commission (CNMV) which, together with the rest of the information published by our company, can be consulted on the website of the CNMV at the following link:

<https://www.cnmv.es/portal/Consultas/DatosEntidad.aspx?nif=A86488087>

Monitoring of indicators as part of Strategic Plan. Strategic Line 7

Strengthening Transparency, Good Governance and Commitment to Society



NEW ARTICLES OF ASSOCIATION AND CHANGE OF NAME OF CANAL

The Extraordinary General Meeting of Shareholders held on 21 December 2022 approved, among other relevant resolutions, **the amendment of Canal's Articles of Association** that had been proposed by resolution of the Board of Directors on 17 November 2022.

In 2019, the company initiated a corporate restructuring, which has involved the merger by absorption or the extinction of up to 5 companies of our Corporate Group, contributing to its simplification in order to achieve greater efficiency. This restructuring involved the **need to declare Canal de Isabel II an 'in-house resource' of the Regional Government of Madrid**, solely and exclusively for the provision of telecommunications services. But it was also a necessary modification, given the numerous **regulatory changes** that have taken place at European, state and autonomous community level since the approval of the previous Articles of Association in 2012, many aspects of which were out of date or out of context.

Among the changes introduced, in addition to the aforementioned declaration as an in-house resource, the following stand out:

- The **modification of the corporate purpose** to clarify terminology and include **complementary activities** related to the integral water cycle, **energy** or **circular economy**, among others.
- The Statutes are adapted to the **changes that have occurred in the legislation** on public sector contracts, capital companies and the law that reflects the public nature of our company¹³.
- Everything related to the use of telematic means at shareholders' meetings is improved and extended.
- The **number of members of the Board of Directors** is increased to **15** and the term of office of directors is limited to 4 years.
- The Council's new **Sustainability Committee** is created.

The approval of the declaration by the Governing Council of the Community of Madrid as a medium of its own also implies the addition of the initials M.P. to the company's name and, as of the approval of the new Articles of Association and their registration in the Companies Register, our company has been renamed: **Canal de Isabel II, Sociedad Anónima, M.P.**

¹³ Law 8/2018, of 26 December, amending Law 3/2008, of 29 December, on Fiscal and Administrative Measures, to guarantee the public nature of Canal de Isabel II.



SDG 8 (decent work) Empowering our people

Human resources management is a strategic aspect of our processes, as it deals with one of Canal's main assets: our people.

GRI 3-3

We are aware that achieving service excellence and customer satisfaction within a framework of responsible and efficient management of water resources are objectives that can only be achieved with the cooperation and qualification of each and every one of the workers that make up our company

STRUCTURE OF OUR STAFF

GRI 2-7

GRI 401-1

The total number of Canal workers has grown by **8.7%** in the last five years despite the restrictions on hiring established in the General Budget Laws of the Regional Government of Madrid, which prevent indefinite hiring. At the end of 2022, the total workforce of the company (Community of Madrid plus Cáceres) was **3,052 people**. This figure is also a consequence of the integration of the workforce of the subsidiaries that were absorbed in 2021 and 2022: Hispanagua, Canal de Comunicaciones Unidas, Hidráulica Santillana and Ocio y Deporte Canal.

We are very aware of the great importance of reducing the percentage of **temporary** staff (talent retention is part of our Strategic Plan), which reached almost 45% in 2018. Reducing this temporary nature and ensuring the continuity of our professionals and the stability of the workforce is a key element for the quality of the service provided and sustainability over the medium and long term. Canal has worked over the last few years to obtain Community approval for the creation of new public employment positions. Approximately 1,000 posts have therefore been approved for permanent employment. In 2022, a total of **229 selection processes** were published and **176 professionals** were hired on permanent contracts, **reducing the temporary employment rate to 20% at the end of 2022**, a reduction that will continue to increase throughout 2023 as the recruitment processes already approved are completed. This will achieve a double objective: **facilitating participation** and **recognising the achievements** of all employees, as well as achieving **greater job stability**.

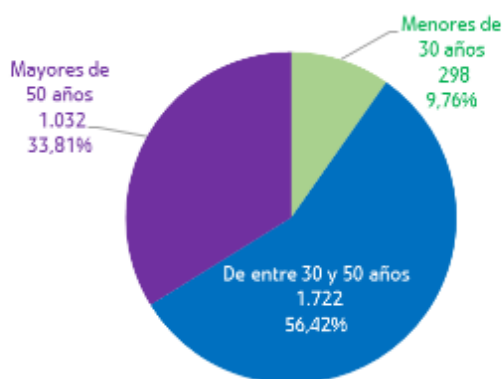
It is worth mentioning that, in these calls for permanent employment, the company has promoted the socio-occupational integration of people with functional diversity, for whom a higher quota than that legally established (2 %) is reserved. At the end of 2022 , **the percentage of people with functional diversity** in our workforce was **2.42%**.

In 2022 and after the latest additions of employees from our subsidiaries absorbed in 2021 and 2022 , **the average age** of Canal's workforce in 2022 was **44.16 years**. The **average age of** the workforce in 2022 was **13.6 years** and more than half of the workforce is in the 30-50 age bracket.

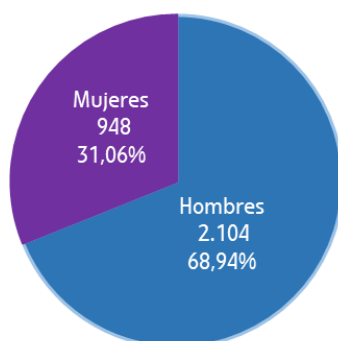
GRI 401-1

GRI 405-1

Distribution of staff by age (persons and % of total)



Distribution of the workforce by gender (persons and % of the total)

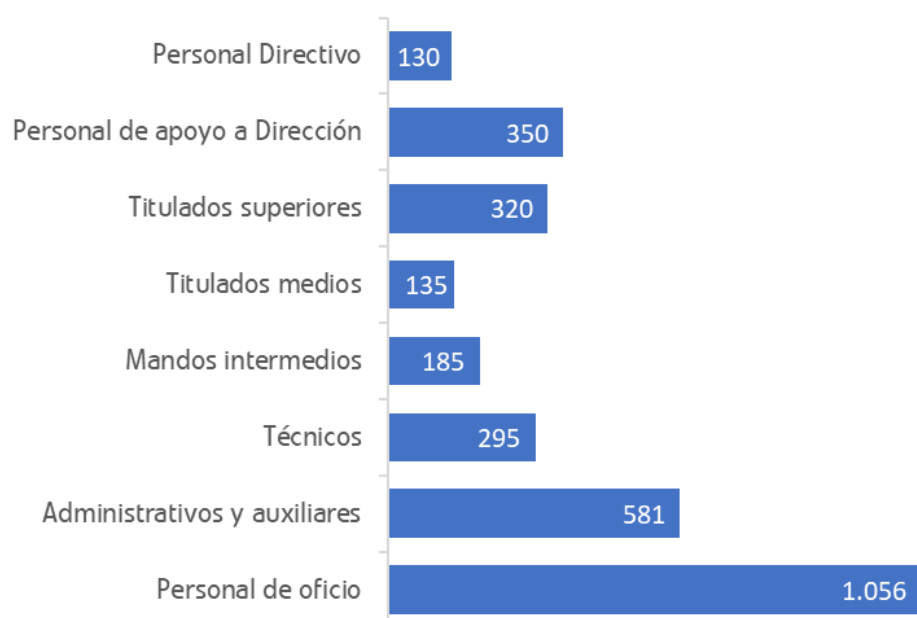


Over the course of 2022 the company has had a net decrease in staff of **160** people, with a **turnover rate of 27%** of the workforce.

	TOTAL	Hombres	Mujeres	< 30 años	30-50 años	>50 años	Nacionales	Extranjeros
Incorporaciones totales	669	455	214	304	321	44	657	12
Bajas totales	829	554	275	382	344	103	813	16
Bajas voluntarias	64	50	14	37	24	3	63	1

In terms of the **categories held** by Canal employees, almost **31%** of Canal's workforce had a university degree by the end of 2022.

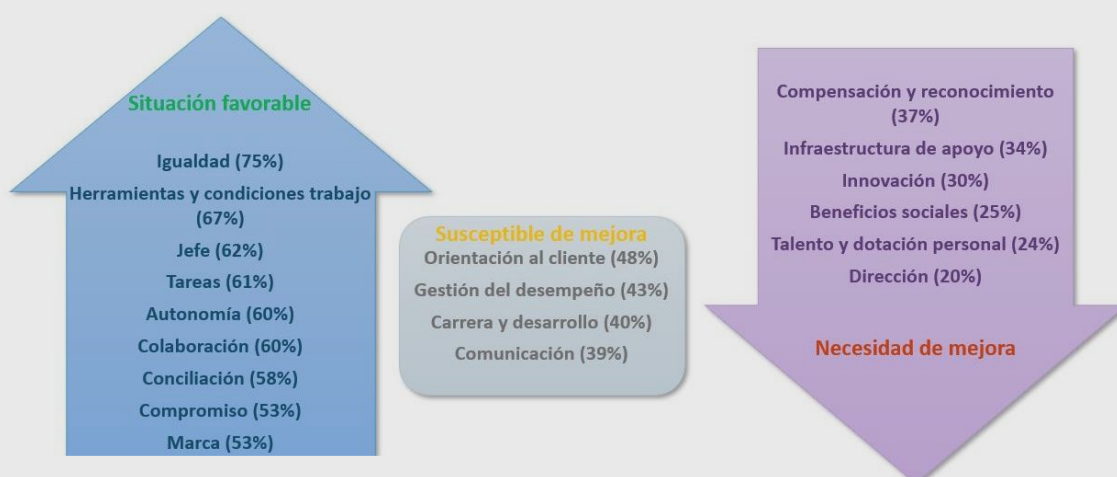
Distribution by functions of Canal de Isabel II employees in 2022



3RD EMPLOYEE ENGAGEMENT AND SATISFACTION SURVEY (2022)

As part of the actions included in the 2018-2020 Strategic Plan to increase the **commitment and sense of belonging** of the people who work at Canal, we carry out a survey aimed at measuring the working environment within our company every two years: the **Employee Engagement and Satisfaction Survey**. Participation in the survey is voluntary and the results are treated anonymously and with the utmost confidentiality.

In 2022, **1,151 employees took part**, representing almost **40% of the workforce**, who responded to a questionnaire of 68 questions grouped into **19 categories**. The results revealed that **9 of these categories are in a favourable situation**, 4 have **room for improvement** and 6 are in need of improvement.



In addition to the results by category, the survey also allows us to obtain the **Engagement Index** (Strategic Plan indicator) which in **2022 stood at 53%**. Compared to the results of previous surveys, we have slightly surpassed the **51% achieved in 2018** and we are down from **68% in 2020**, when, due to the pandemic, the environmental and working conditions, as well as the actions taken were exceptional and many of them limited in time.

In the **open question** in 2022, more than **700 comments** were received from **40% of the participants**. The main topics are related to remote work, work-life balance, management, corporate communication and supporting infrastructure.

During 2023, we will work on an action plan to improve the most unfavourable factors and strengthen the best evaluated ones.



SDG 3 (health and well-being)

We care for our people

Making Canal a safe environment and making it safe for everyone is the goal we have set ourselves. To this end, we rely on the collaboration not only of the areas most exposed to risks -such as operations and engineering-, but also of all Canal employees coordinated from our Prevention Area.

ENSURING THE HEALTH AND SAFETY OF ALL

GRI 403-8	GRI 403-9	GRI 403-10	GRI 403-3
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In 2022, there was a 9 % increase in the number of accidents compared to 2021, although their severity was lower, resulting in a 17 % reduction in medical leave due to accidents. This is also evident in the number of days lost, the average duration of medical leave and the severity rate, where a reduction has been recorded in the last year due to the fact that the type of accidents and injuries produced have led to shorter medical leave.

	2020	2021	2022		
	Toda la plantilla	Toda la plantilla	Hombres	Mujeres	Toda la Plantilla
Accidentes de trabajo in labore (excluido <i>in itinere</i>)	78	106	103	13	116
Accidentes con baja (excluido <i>in itinere</i>)	47	64	49	4	53
Duración media de la baja	20	23	13	58	16
Jornadas perdidas	956	1.480	616	230	846
Índice de Frecuencia accidentes con baja (exc. <i>in itinere</i>)	10,24	12,69	14,41	2,62	10,76
Índice de Frecuencia de accid. totales (excl. <i>in itinere</i>)	16,99	21,01	30,29	8,52	23,55
Índice de Gravedad excluido <i>in itinere</i>	0,21	0,29	0,18	0,15	0,17
Indice de Incidencia accid. con baja (excluido <i>in itinere</i>)	1.677	2.067	2.339	423	1.743
Víctimas mortales (número)	0	0	0	0	0

2022 saw **absenteeism** increased from 5.33% in 2021 to **6.10%** of hours lost by the total workforce. This increase is largely due to the high incidence of the sixth wave of the COVID-19 pandemic (caused by the Omicron variant), which resulted in a high number of cases of medical leave in the first months of the year. In January 2022, absenteeism of 8.37% was the highest ever recorded by Canal.

The notification procedure for occupational accidents is carried out in accordance with the regulations in force on the prevention of occupational hazards. All accidents are analysed and, if necessary, lead to corrective or preventive measures. Workers' representatives also receive information about accidents that occur.

So far, **Canal has not recorded the existence of any occupational disease** associated with its facilities or the activities carried out in the company.

Within the scope of the **Occupational Risk Prevention Plan**, annual safety inspections are carried out at the facilities, aimed at detecting possible deviations in the fields of safety, industrial hygiene and ergonomics.

GRI 403-2

GRI 403-5

GRI 403-6

Canal's prevention service addresses the most important characteristics of the elements that must be contemplated in the preventive activity, such as training and information, emergency measures, health monitoring, preventive resources and coordination of business activities. In the area of Occupational Risk Prevention, a total of **27,582 hours** of training were given in 2022 to our company's employees, with special emphasis on those newly hired, those promoted or transferred to new workplaces or moving into a higher category. During the year, first aid training also continued to be provided in different workplaces.

Canal has **its own medical service** that carries out a wide range of health monitoring activities in the company, including health examinations, medical protocols according to risk assessment, a smoking cessation programme, and disease prevention programmes.

During 2022, due to the pandemic caused by the COVID-19 disease, our prevention service has continued to work intensively on drafting and updating several documents and operational guidelines with exceptional measures against the coronavirus to prevent the risk of the spread of the disease, as was done since the beginning of the pandemic in the two previous years.



SDG 5 (gender equality)

SDG 10 (reducing inequality)

We are committed to equality

Non-discrimination is one of the fundamental policies in the management of people in our company. In addition, the rules for recruitment and entry to Canal ensure the absence of any discrimination, as they expressly state the principles of equality, merit and ability.

GRI 3-3

GRI 405-1

GRI 405-2

GRI 406-1

EQUAL OPPORTUNITIES FOR ALL

A fundamental aspect of ensuring equal opportunities is to do so from the moment of entry into the company. For this reason, the **rules for recruiting and hiring new people** in our company ensure the absence of any kind of discrimination, as they expressly include the **principles of equality, merit and ability**.

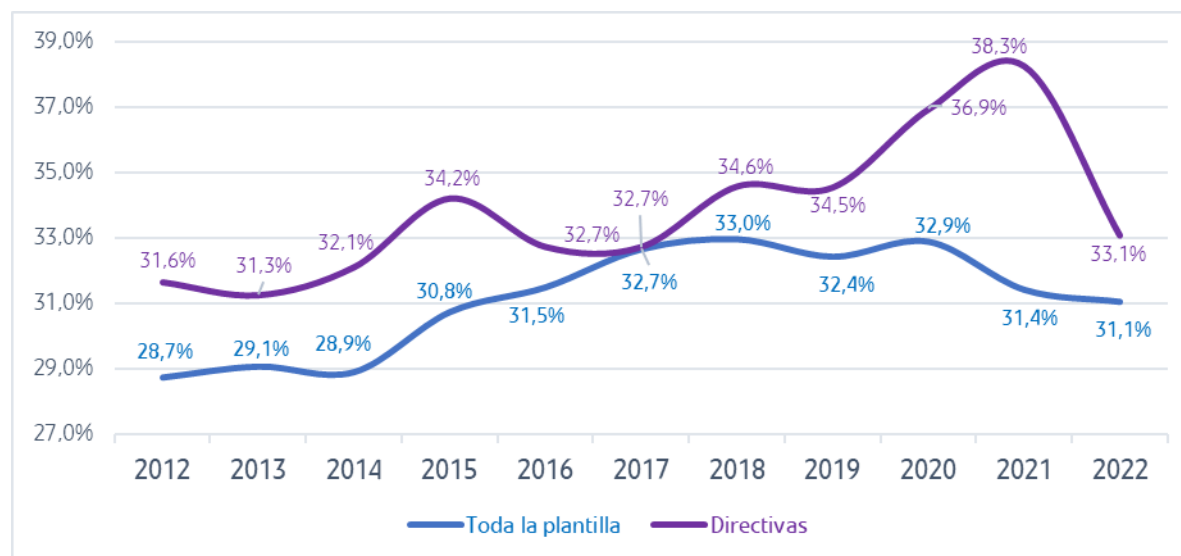
The **percentage of women in the company's** workforce, which had been on an upward trend since the establishment of the limited liability company in 2012 with a growth of almost 4 percentage points, has been reduced in 2021 and 2022 from a peak of almost 33 % in 2020 to 31.4 % in 2021 and **31.1 %** in 2022. This decrease was mainly due to the incorporation into our company of the workforces of the subsidiaries absorbed by Canal in 2021 and 2022 (Hispanagua, Canal de Comunicaciones Unidas, Ocio y Deporte Canal and Hidráulica Santillana), in which the presence of women was lower in percentage terms. However, despite this reduction, the percentage of women in our workforce is **significantly higher than the sector average**¹⁴, which in 2020 (latest available data) was **24%**.

The **percentage of women holding managerial positions** within the organisation (heads of area, deputy directors and directors) is higher than the average for the workforce, standing at **33.1% of the total workforce** in 2022.

Another noteworthy aspect is the **percentage of women with university degrees**, which in the case of our company is **almost 42%**, seven percentage points above the average for our sector in 2020, which was 35%. Among our **male** staff, the percentage of **university graduates** is **25.6%**.

¹⁴ According to the 17th National Study on Drinking Water Supply and Sanitation prepared by the Spanish Association of Water Supply and Sanitation (AEAS) and the AEAS and Spanish Association of Urban Water Services Management Companies (AGA) published in 2022 with data from the sector for the year 2020.

Evolution of the percentage of women in the workforce and of women managers since the creation of Canal de Isabel II in 2022



Equality was the highest rated aspect (75 out of 100 %) by Canal employees among all those included in the **Engagement and Satisfaction Survey** conducted in 2022, in which all employees of our company could participate.

GRI 202-1

In terms of wages, **our Collective Bargaining Agreement ensures equity between men and women**, with the same wage concepts and the same amount for both in all professional categories, with no *gender gap* possible.

By the end of 2022, the company's **minimum wage** was **152.56 %** higher than the minimum wage and the minimum wage for trainees was **137.30 %** higher. These percentages have improved significantly following the implementation of the company's new Collective Bargaining Agreement, which includes a process of homogenisation of salaries for permanent and temporary staff.

The company's 2016 agreement incorporated the **Equality Plan** with a committee for its development and monitoring. The purpose of this Committee is to establish the measures and action plan for each objective set out in the Collective Bargaining Agreement in the areas of staff selection, classification and professional promotion, training, remuneration, reconciliation of work and family life, prevention of sexual and gender-based harassment, and information and communication. The new agreement that came into force in 2022 also includes an anti-harassment protocol.

Throughout 2022 we have been carrying out various actions to develop the Equality Plan, which include the following:

- Completion of a salary analysis of the company.
- Legal study of the application of the guidelines of the National Institute for Safety and Health at Work in relation to the assessment and prevention of risks associated with the handling of loads for women.
- Awareness-raising activities in officer and middle management positions to raise awareness of work-life balance management.
- Courses on equality.
- Communication actions to eliminate stereotypes.
- Internal dissemination of the Equality Plan.

GRI 401-3

Under the law, all Canal employees have the right to request **maternity or paternity** leave. Return to work and retention rates after maternity and paternity leave are also 100% for both sexes. The number of Canal employees benefiting from this entitlement in 2022 amounted to **61 persons** (17 women and 44 men).

UNION REPRESENTATION

GRI 2-30

The **2nd Collective Bargaining Agreement** agreed by the company and the workers' representatives in 2021 and which came into force in 2022 clearly establishes a framework of stable labour relations aimed at achieving the company's optimal level of productivity based on the best use of its human and material resources and on the mutual collaboration of the parties in all those aspects that may have an impact on the best performance that enables development.

GRI 403-4

The **Works Committee** is the representative body of Canal's employees and has the functions and powers established by the *Workers' Statute*, including those related to the monitoring of health and safety at work.

At the end of 2022 it covered **94 %** of the workforce (2,891 employees). Only some senior company managers (27) fell outside the scope, as well as the workforce of the company in Cáceres (98 employees who are subject to the sector agreement) and some of the employees from the subsidiaries absorbed in 2021 and 2022 that were subject to agreements other than Canal's, but which have been progressively incorporated, as shown by the fact that this group has gone from 375 employees at the end of 2021 to only 36 at the end of 2022.

By the end of 2022, a total of **615** employees were members of the **trade union sections represented at Canal** (20 % of the total workforce).

INTERNAL COMMUNICATION

The year 2022, although to a lesser extent than the previous two years, has continued to be marked by the health crisis caused by COVID-19. The company has therefore continued to carry out various internal communication actions with the intention of caring for employees (core staff and remote workers) and recognising their work and effort.

Communication has been constant and direct. From the beginning of the health crisis, a corporate communiqué was sent by email to all employees to keep them informed of all developments. The mailing started daily in 2020, then became weekly and finally monthly; after the sixth wave of the COVID-19 pandemic in January 2022, it has returned to weekly until today. There has also been very fluid communication with the structure through meetings and the "Lidera Canal" *teams*, where the actions, problems and solutions of Canal and the companies in which it participates have been shared.

The three official communication channels were the "*Canal Conectados*" *teams*, the "*Canal Contigo*" web portal and the "*Stream*" application for our company videos. So, in 2022, a public, collaborative and corporate team called the "*Connected Canal*" has continued to be used in the *Microsoft Teams* tool. The aim since its creation has been to communicate directly and closely with all employees during the pandemic, to create a feeling of togetherness and support among all, as well as to train us in this new way of living and working.

We have also taken advantage of this channel to take care of other needs of the family and personal environment, offering training, leisure, internal knowledge of the company, etc., through the creation of different channels: *En casa contigo!*, *Aprendo en casa*, *Estamos Contigo*, Remote Work, Apps 365... and other channels that appeared later according to the needs of the employees and the company.

Also as a result of the needs arising the pandemic, since 2020 we have a new communication channel, **Canal Contigo**. A web portal, accessible from anywhere and from any device, with which to bring all professionals (especially field staff and employees who do not work in front of a computer) all the company's latest news, news and information. It includes functionalities designed to facilitate day-to-day work: face-to-face or telework clocking, payroll, calendar of events, information on the condition of the reservoirs, *Canal Maps*, among others. This way, taking advantage of the digital transformation process, we implemented a new communication tool that also contributed to the containment of COVID-19 disease by avoiding crowds and dispensing with the need for manual contact at the points where people clock in

and out of our facilities, and which has proved so useful that we will continue to use it in the future.

Employee health and safety has been the priority this year. Thanks to *Prevenblog* (a specialised blog focused on all aspects related to occupational health and safety), employees have been able to learn about all the company's actions and the protocols to be followed in each workplace.

SOCIAL BENEFITS FOR EMPLOYEES

GRI 201-3

GRI 401-2

Since 2015, in application of the budgetary regulations in force in the Community of Madrid, **the social benefits of the employees** of Canal and the subsidiaries in Spain **have been suspended**, including the company's contribution to the employees' pension fund. However, **a system of financing is maintained for transport expenses** and, specifically, for the purchase of the transport pass of the Regional Transport Authority both in Canal and in the companies of the Canal Group located in the Community of Madrid.

Employees have the possibility to take out a group medical and dental policy for themselves and their family members at advantageous conditions and also enjoy some discounts and benefits on access to certain sports and recreational facilities.



SDG 4 (quality education) Educating the professionals of the future

At Canal we believe that the training and development of current and future employees is a strategic element that requires optimal management to achieve the greatest efficiency in the service we provide to citizens.

TRAINING AND DEVELOPMENT OF OUR EMPLOYEES

GRI 3-3	GRI 404-1	GRI 404-2	GRI 404-3	GRI 412-2
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In our company, we work to provide continuous development and training to our employees as a key element of **building employee loyalty and preparing them**, while reinforcing our **70/20/10 learning model**: 70% of learning efforts are focused on the day-to-day work place, 20% on social and collaborative learning with colleagues, and 10% on training courses. With this model we aim to become an organisation that learns beyond its participation in formal courses.

Over the course of 2022, plans were established for 50 % of employees, a slightly higher percentage than in 2022. The plans are established through the **AVANZA performance management system**, which allows us to drive the performance and growth of our employees by learning about their professional concerns and areas of interest in their career development. In addition, we have consolidated formal social learning programmes such as *mentoring* and *coaching*.

When planning training, we usually work with a time dimension of one year. Thus, a training plan is drawn up that includes the planned actions and addresses all those actions necessary for the optimal performance of the employees' functions, as well as actions that may be useful in other positions in the company to facilitate their future professional development. These are the so-called "development courses". They are voluntary, open to all employees and take place outside working hours.

The subjects that make up the Training Plan cover all the needs of the employees from a technical point of view and the methodology followed is adapted to the group; it is, therefore, heterogeneous. It should be noted that online and streaming training has experienced significant growth in 2020, 2021 and 2022 due to the impossibility of conducting courses in face-to-face methodology due to the health and safety measures adopted as a result of COVID-19.

In addition to training, our company also designs and implements professional development programmes aimed at enhancing development programmes aimed at strengthening competencies and leadership skills. These programmes combine sessions outside the working day with inter-session work and conclude with an action plan that each participant carries out in which they define how to apply the behaviours, linked closely with our values, that they have worked on in their daily work.

Throughout 2022, a total of **85,360 hours** (an average of **27 hours per employee**, including trainees) and 3,218 employees and trainees have received training. The total cost incurred for employee training was 361.51 thousand euros.

Training by subject in 2022	Number of hours	% vs total
Languages	12,529	14.7 %
Administration and Management of Computer Systems	3,953	4.6 %
Quality	1,404	1.6 %
Commercial and Customer Relations	1,156	1.4 %
Skills/Competencies Development	3,759	4.4 %
Technical Training	15,397	18.0 %
Legal and Financial	4,094	4.8 %
Office and Computer Applications	6,772	7.9 %
Prevention of Occupational Risks	27,582	32.3 %
Anti-corruption and Human Rights	110	0.1 %
Other + On-the-job training	8,602	10.1 %
Total hours taught	85,360	100 %

Regarding the average number of hours of training received according to the **professional category** of our employees:

	2020	2021	2022		
Average hours of training	Total staff	Total staff	Men	Women	Total staff
Management	51.0	45.3	32.2	18.4	27.1
Support to management	57.5	55.0	33.0	38.4	34.8
Graduates	54.5	46.8	32.0	55.5	44.0
Middle graduates	45.4	46.6	35.0	40.6	37.5
Middle management	17.7	26.7	20.8	34.3	22.1
Technical personnel	43.4	37.6	32.2	36.7	33.6
Administrative staff and support staff	32.3	27.1	20.3	18.6	19.1
Tradespersons	20.5	21.9	18.5	30.4	18.9

GRI 2-24

GRI 205-2

GRI 404-2

In relation to the specific training hours provided on **anti-corruption**, at Canal during 2022 this has been reduced to **110 total hours**.

Trained future professionals in the water sector

In 2022 we have continued Canal's policy of **collaboration with academic and training institutions** in order to facilitate contact with the business world for young people and students. To this end, and with the aim of complementing their academic training, we promote different internship programmes, formalised through collaboration and educational cooperation agreements, such as the scholarships of the **GAIA Programme of the University-Business Foundation** (for university graduates) and the Workplace Training (FCT) and **Dual Vocational Training** programmes.

Likewise, within the activities included in our Strategic Plan 2018-2030, we include the **solution to a growing concern in our sector: the shortage of professionals with expertise in water management**, both at the intermediate and higher vocational training level, as well as university postgraduates of all types (engineers, scientists, lawyers and economists). To provide solutions at Canal, we are developing a **Centre for Advanced Water Studies** to specialise future water professionals in Spain and other countries.

In 2022, we have continued with the agreement established between the Regional Ministry of Education, Universities, Science and Spokesperson's Office; the Virgen de la Paloma Secondary School (IES) and Canal, resulting in the Centre for Advanced Water Studies. Since its inception in 2018, a total of **192 students** have already studied at IES Virgen de la Paloma the **two Dual Vocational Training degrees of the integral water cycle**.

In addition, we have maintained continuous contact with other companies in our sector so that all students, from both training cycles, could pursue their internships in the second year of training. At this point, we have achieved our objective thanks to the high level of commitment shown by all parties.

RAISING AWARENESS FOR FUTURE GENERATIONS: Canal Educa

The **Canal Educa** programme, currently managed by our Foundation, celebrated its 30th anniversary in 2021 and its main objective is to promote responsible water consumption among the school community and to transmit values of environmental sustainability.

To this end, from the outset we set ourselves the goal of offering schools attractive activities and resources that would facilitate the important task of educating, by focusing on an action-

oriented methodology, in which pupils not only learn new content and skills, but also acquire fundamental values such as solidarity, respect and coexistence.

Our challenge is to reach more people with our message every year. That's why, every year, **Canal Educa** adapts its programme of activities and expands its educational offering. Our most recent additions are **languages** and **digital technology**: a large part of our educational programme is offered in English, and if a school is committed to technology, Canal Educa has a complete web portal where you can access a virtual classroom, which allows schools outside the Community of Madrid to participate in the programme's activities. The school is also committed to the sustainability of the planet, the Water Eco-audit activity can be carried out, in which students, teachers and non-teaching staff work together to improve the use of water on the school grounds.

During the 2021-2022 school year our educational programme had a total of **50,491 face-to-face participants** in all organised activities.

To keep up to date with all the activities we propose throughout the year, we encourage the educational community to subscribe to the programme's *newsletter* or follow us on our social networks.

More information about our educational programmes is available at the following link: www.canaleduca.com

Monitoring of indicators as part of Strategic Plan. **Strategic Line 8**

Fostering talent, commitment and the health of our professionals





SDG 9 (industry, innovation and infrastructure) Towards water management 4.0

Canal de Isabel II, since its origins, has always been a company that has been committed to innovation and technological development to face the challenges posed by the integral water cycle management. We were pioneers in many areas, including telecontrol, communications and information technology, and today we are one of the companies in our sector that invests the most in innovation.

WE CONTRIBUTE TO THE DEVELOPMENT OF R&D&I IN OUR SECTOR

GRI 3-3	GRI 201-1	GRI 203-2
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Our company's innovative efforts in recent years are evidenced by a portfolio of **39 R&D&I projects initiated**, under development or completed during the 2022 financial year.

The figure used for the **R&D&I expenditure budget** in 2022, associated with contracts, agreements and minor expenses, amounts to more than **768,000 euros**. Adding the internal costs, arising from the dedication of the Canal staff involved, and the activities and investments of other areas related to the projects, the total figure allocated to R&D&I projects amounts to **26.7 million euros** (discounting the subsidies received). This is **equivalent to 3.01% of our** individual turnover for the financial year 2022.

The R&D&I projects and agreements that we develop in Canal are framed within the following lines of work:

- Ensuring a balance between water availability and demand.
- Ensuring the strategic continuity of the supply service.
- Strategic infrastructure management.
- Drinking water and health.
- Environmental integration and sustainability.
- Efficiency in management.

Active R&D&I projects (completed or under development) during 2022 were as follows:

Projects completed in 2022
Genetic characterisation of geosmin precursors
Development of a <i>dashboard</i> for citizen information on water quality parameters
Development of an inspection system for sewerage galleries using Canal de Isabel II's self-guided drones
Design and construction of the first public test bench in Europe for flow meters up to 1,000 millimetres in diameter
Feasibility study of biofilters for ammonium reduction in the drinking water treatment process at Canal de Isabel II
Experimental study and modelling of pressure transients in supply pipelines and their relationship with the service life and deterioration of pipelines and installations
Implementation of artificial intelligence algorithms to detect defects in Canal de Isabel II's sewerage network by watching videos
Obtaining bathymetry of reservoirs using drone-implemented devices
Leak, threat and interference detection and location pilot using fibre optic technology
Recovery of aluminium from DWTP sludge and its subsequent use as a coagulant in the DWTP or WWTP of Canal de Isabel II
Validation of satellite technology for water and snow level measurement
Vigía: early warning tool for the detection of COVID-19 in the sewage system ¹⁵

¹⁵ VIGÍA in 2022 has ceased to be an innovation project and has become a consolidated system that is managed from the area dedicated to water quality monitoring, as well as other systems related to the operation of our company.

Ongoing projects by the end of 2022
Microbiological risk analysis (QMRA) at the DWTP of Canal de Isabel II
Characterisation of <i>biofilm</i> in the supply system
Canal Centre of Excellence and Research - Genomics
Definition, development and calibration of a new methodology for the determination of supply endowments in the Community of Madrid
Development of digitisation technologies at Canal de Isabel II WWTPs. Boadilla 4.0
Development of a flood risk warning and prevention system in the urban environment of the Community of Madrid
Development of a non-intrusive optical monitoring system for water quality
Development and calibration of a tool for calculating evapotranspiration in reservoirs
Design and implementation of a pilot system to quantify infiltration in the Madrid Aquifer
Vermicompost feasibility study for sludge valorisation
Decision support tool for reservoir management based on the design and calibration of a hydrological-nival model for simulating inflows in the Pinilla Basin
HORIZON EUROPE INTODBP: Innovative tools for the control of organic matter and disinfection by-products in drinking water
Research on the formation of dimethylnitrosamine in the drinking water treatment process, a study at the Valmayor DWTP of Canal de Isabel II
<i>Life Rubies</i> : project for the creation of intelligent urban drainage systems, based on real-time pollution measurement
<i>Life Safe_T_Water</i> : new one-step water treatment based on a natural polymer
<i>Life Zero Waste Water</i> : wastewater treatment with positive energy balance, combining wastewater treatment with organic waste
Porous materials for the minimisation of chlorates and chlorites in treated water
CFD(<i>Computational Fluid Dynamics</i>) model of the <i>accelator</i> dynamic decanter at the La Jarsa DWTP
Hydrodynamic and water quality model of water bodies in reservoirs managed by Canal de Isabel II
Green hydrogen production plant from reclaimed water
Prediction of inflows to the Pinilla Reservoir using machine learning techniques
Advanced validation project of the different applications of fibre optic technology in hydraulic infrastructures
Proof of concept for the development of a predictive digital twin of the Fuencarral Wellfield
Permanent network for epidemiological monitoring of waste water
HYDRA System: design and development of a modular telecontrol system
Validation of a new design and manufacturing method of lamellae for decanting in drinking water treatment, full-scale experience at the Majadahonda DWTP.

The dissemination of the knowledge generated and the results of the most relevant research projects have led to the publication of titles in the **R+D+I Notebooks** collection , completing those published in previous years to a total of **29 notebooks**.

All the R&D&I notebooks published by Canal are available at this link:

<https://www.canaldeisabelsegunda.es/publicaciones-idi>

We also have the **Canal Innovation Community**, made up of a large group of Canal employees with an interest in innovation. Any company employee with an interest in innovation can belong to this Community where:

- Information on **INNOVATION** is received, both from Canal de Isabel II and from outside the company.
- Participation in visits to innovative facilities.
- Members are facilitated to attend innovative congresses and forums.
- Priority is given to innovation-related training.
- Subscriptions to innovation-related journals and websites are facilitated.
- Experiences, knowledge and discussions with other innovators are shared.

The best thing about belonging to the community is **having the opportunity to share, debate, be inspired and collaborate** in order to identify and, of course, implement innovative initiatives and projects.

Positioning as an innovative company

Throughout 2022, Canal has played an active and prominent role in the main international forums. Canal has **participated in the most important events on water management, research, development and innovation** in the sector, as well as new technologies applied to the different phases of the integral water cycle. Canal's presence at the following events is noteworthy:

- 36th Congress of the Spanish Water Supply and Sanitation Association - AEAS (Córdoba)
- UNDESA - United Nations Sustainable Water and Energy Solutions Network Symposium (Itaipu, Brazil/Paraguay)
- *Global Water Summit* (Madrid)

- *European Benchmarking Co-operation workshop* (Krakow, Poland)
- *International Water Association - IWA World Water Congress and Exhibition* (Copenhagen, Denmark)
- *Smart Water Networks Forum-SWAN 12th Annual Conference* (Washington, United States)
- *39th International Association for Hydro-Environment Engineering and Research World Congress - IAHR* (Granada)
- *8th International Workshop of Layered and Nanostructured Materials* (Toledo)
- *27th United Nations Climate Change Conference -COP-* (Sharm el-Seikh, Egypt)
- *High-Level Political Forum on Sustainable Development (online side event, United Nations)*
- *7th International Association for Hydro-Environment Engineering and Research - IAHR Europe Congress* (Athens, Greece)

TECHNOLOGY AT THE SERVICE OF THE CUSTOMER: INTERNAL AND EXTERNAL

At Canal de Isabel II we apply technologies that promote the efficient use and management of resources, demands and infrastructures in all its processes. In this respect, the application of advanced information and communication technologies (ICTs) stands out.

Operational actions in the field of technologies focus on advancing technological innovation and enhancing advanced information, communication and remote control systems and technologies. Canal's net ICT expenditure in 2022 amounted to **24.12 million euros** (14.48% more than in 2021) and the investments made amounted to **12.78 million euros** (8.1% more than in 2022). **The most important ICT projects** carried out in 2022 were the following:

- Commissioning of Call Centre in the cloud for the Main Control Centre.
- Updating of the TETRA system for the emergency service of the Community of Madrid and use for remote control.
- Installation of 202 kilometres of fibre optic (FO) for a total of 1,287 kilometres installed by Canal.
- Installation of communications systems in 16 new installations and technological upgrades at 46 sites out of a total of 221 sites.
- Replacement of lead batteries with lithium energy accumulators at 2 sites.
- Installation of WiFi connectivity at 12 company sites.
- Implementation of a global data network and application performance monitoring system(*Netscout NGeniusOne*).
- Integration of the dual authentication mechanism for employees on remote telework connections.
- Updating the version of the corporate risk management system.
- Updating the version of the remote control system.
- Adaptations to the commercial system and work orders for the implementation of meters with remote reading (*smart meters*).
- Implementation of a new system for consulting and analysing data from the commercial system (*Data WareHouse*).
- Implementation of the New Virtual Office.
- Implementation of Segregation of Duties in access profiles in the financial system.
- Implementation of the new FUSION application for the Management of Legal Files.

- Implementation of the application for monitoring the RED Plan works.
- Incorporation in the Human Resources system of the employees of Canal de Comunicaciones Unidas and Hidráulica Santillana into the Canal Collective Bargaining Agreement.
- Incorporation of the MC3 mobility solution, developed by Canal, in the work orders of the Water Treatment Stations and in our Main Warehouse, integrating it with the SAP financial system.
- Development of dashboards on water consumption data and irrigation recommendations for publication on the web

TELECONTROL AND COMMUNICATIONS: KEY TO MODERN WATER MANAGEMENT

Canal pioneered the development of **remote control systems** for the integral water cycle management as early as 1995. We currently have a complete remote control system that allows us to know **in real time** the hydraulic situation of the supply and sanitation infrastructures, the state of water quality, groundwater abstractions and other parameters.

By the end of 2022, the telecontrol network monitored a total of **2,154 remote stations** from our Control Centre (35 more than in 2021) and managed a total of **28,721 measuring instruments**. In addition, we had **137 installations with remote control** (20 more than in 2021) from which a large number of manoeuvres are carried out in the installations and networks (more than 10,400 in 2022).

Our fibre optic network has grown by 88 kilometres in 2022 to 1,287 kilometres by year-end. We **also** have **154 radio links distributed throughout the region of the Community of Madrid**. Thanks to these means, since 2021 our company has fully assumed the provision of the integral technical management service of the **TETRA digital trunking system¹⁶** for **emergencies** as the Community of Madrid's own means.

¹⁶ Previously, the TETRA service was provided to the Regional Government of Madrid by our subsidiary Canal de Comunicaciones Unidas, S.A.U. which was taken over by Canal. Its employees (52 people) joined our company following the merger by absorption of this subsidiary.

Monitoring of indicators as part of Strategic Plan. Strategic Line 9

Leading innovation and development





SDG 17 (partnerships to achieve the goals) Acting and collaborating with our social environment

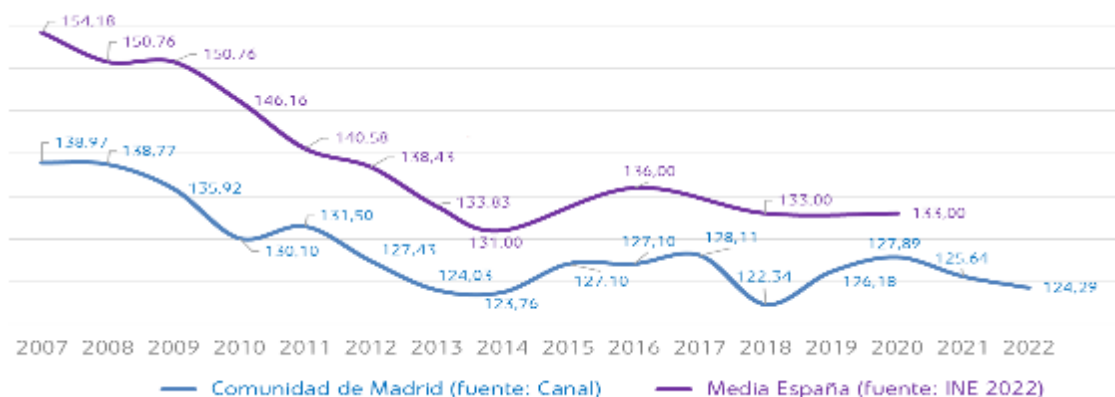
Canal de Isabel II has traditionally been a benchmark for the citizens of the Community of Madrid as a very active agent in everything related to social issues. As a public company, our commitment to society is a very important element in our management and this is reflected in our Strategic Plan 2018-2030.

SEEKING THE COLLABORATION OF ALL FOR THE RESPONSIBLE USE OF WATER

Caring for water and giving it the importance it deserves **is everyone's job**. To this end, all citizens must take permanent care of this scarce resource. Our company has more than three decades of experience in the development of communication campaigns to save water and care for the environment. Campaigns that are recognised by communication professionals and their target audiences.

Our communication campaigns are permanent and their high impact has placed Madrid among the regions that have reduced water consumption the most in recent years.

Domestic water consumption in the Community of Madrid and Spain (litres per inhabitant per day)



In 2022, the person responsible for delivering our savings advice to households, residents' associations and businesses in Madrid has been **"Isabel, la del 2º" (Isabel, from the 2nd floor)** a friendly and likeable character, around whom our media campaigns have been created and which have had a high impact and acceptance.

For more details on our communication campaigns, please click here:

<https://www.canaldeisabelsegunda.es/cuidamos-el-agua>

Collaboration with other entities

GRI 3-3

GRI 2-28

In terms of rational use, Canal de Isabel II actively participates with external entities related to water and especially with its rational use and quality. In recent years, it has collaborated, among others, with the following entities:

- Ministry of Health.
- AEC (Spanish Quality Association).
- IMDEA Water.
- SWAN - Smart Water Networks Forum.
- European Benchmarking Co-operation.
- IWA (International Water Association).
- Regional Ministry of Health of the Community of Madrid.
- Madrid City Council.
- Chemical and Pharmaceutical Associations.
- AEAS (Spanish Association of Water Supply and Sanitation).
- AGA (Spanish Association of Urban Water Service Management Companies).
- EUREAU (European Water Suppliers Association).
- FELAB (Association of Testing, Calibration and Analysis Entities).
- Independent Business Confederation of Madrid (CEIM)

SOCIAL COMMITMENT

GRI 3-3

For years, Canal de Isabel II has had the firm vocation of being a benchmark in the field of culture, sport, leisure and support for social initiatives. For this reason, it carries out numerous activities and makes its facilities and its technical, human and economic resources available to society.

Our support for culture

In the cultural field our efforts are led by our Foundation. Created in the year 2000, the **Canal Foundation** works for a double mission: the generation of knowledge and the promotion of water care.

More than two decades after its creation, it has carried out more than a thousand activities on innovation, environment, art and culture in which more than 6 million people have participated.

Through its environmental programmes, it contributes to the dissemination of information on the integral water cycle and solutions to climate change, both mitigation and adaptation. In the field of innovation, it develops studies and applied research projects in collaboration with Canal de Isabel II and prestigious organisations. From the artistic and cultural sphere, culture is used as a tool for the dissemination of knowledge, mainly through the work of the great masters of music and modern and contemporary art. Canal de Isabel II and its Foundation have contributed to the dissemination of knowledge in the artistic and cultural field through numerous renowned exhibition projects.

As of 2017, by decision of Canal's Board of Directors, our Foundation has taken over the **Canal Educa** and **Canal Voluntarios** programmes and the management of the activities of the **Centro de Exposiciones Arte Canal**.

Throughout 2022, the Canal Foundation has been able to visit **4 exhibitions** whose visitors, together with those attending **92** other cultural, scientific and social events of various kinds, totalled **182,255**. In addition, the Foundation's website received **almost 820,000 visits** during the year.

The exhibitions organised in 2022 at the Foundation's headquarters at Calle Mateo Inurria 2 in Madrid were the following:

"Clifford. Views of Isabel II's Madrid", an exhibition dedicated to the work of one of the pioneers of photography. It consisted of a selection of almost a hundred images divided into four sections: The Pleasures of Photography: Old and New Madrid, At the Service of the Monarchy and ***The Construction of the Isabel II Canal: a Work Worthy of the Romans***. The exhibition provided an insight into the Madrid of before the arrival of water, a Madrid very different from the one we know today and to which the most ambitious engineering work of its time (the Canal itself) managed to open, almost a century late, on the precipice of the modern era.

"Uncovered. Selected works from The Howard Greenberg Gallery". This exhibition presented a fascinating selection of 111 photographs from one of the world's leading photographic archives, that of *The Howard Greenberg Gallery* (New York). In the exhibition, visitors had the opportunity to discover, in an exceptional manner, images of the main masters of photography that are not usually available to the public and to take a particular journey through the Photography of the 20th century.

"Alice in Wonderland by Dalí, Ernst, Laurencin & Tenniel," which showed the works based on Lewis Carroll's immortal work by Salvador Dalí, Max Ernst and Marie Laurencin. The exhibition also featured a large representation of John Tenniel's original illustration prints for the first edition of the novel in 1865, the two pioneering films based on the publication and the short film "Destiny" by Walt Disney and Salvador Dalí, released in 2003.

You will find more information about the Canal Foundation's activities on its website: <http://www.fundacioncanal.com>

In addition to the exhibition facilities of the Foundation, Canal has the **Arte Canal Exhibition Centre**, located in the Fourth Underground Water Reservoir, with a structure dating from the first half of the twentieth century and offering a surface area of 2,000 square metres for exhibitions. This space, located at number 214 Paseo de la Castellana in Madrid, has hosted fourteen major thematic exhibitions since 2004, which have attracted more than 3.5 million visitors, making it one of the city's cultural venues in recent years. During 2021, due to the constraints associated with the COVID-19 pandemic, no exhibition could be organised, but in 2022 this cultural space has reopened its doors with the exhibition: **WE ARE WATER**.

EXHIBITION "WE ARE WATER"

Water from beginning to end.

On 17 December 2022, the exhibition '**WE ARE WATER**', organised by the Canal Foundation, opened its doors to highlight the importance of water for life, for our daily lives and to inspire the necessary change to face the greatest challenge of the 21st century: its conservation and sustainable management.

Through an environmental, cultural and historical perspective, the exhibition has not only sought to highlight the value of water but has also linked it to the **essential work carried out by the public company Canal de Isabel II as the manager of the integral water cycle in Madrid.**

'SOMOS AGUA' offers a 360-degree view of the water environment, with informative approaches to technical and scientific content, through captivating installations, images and audio-visuals. The exhibition will be open until 30 June 2023.

WATER FROM START TO FINISH: FROM THE RIVER THROUGH THE CITY TO THE SEA

'WE ARE WATER' is an informative exhibition for all audiences, with a focus on families and secondary school students. Its content, of general interest, is divided into 12 thematic sections that deal with concepts ranging from the role of rivers in shaping cultural and natural landscapes; the richness of the different ecosystems; the relationship between water and energy; or their physical and chemical properties, to more everyday issues for citizens, such as how water is brought to the city; its consumption in homes and industry; or the explanation of the concept of the water footprint, also applied to our daily activities.

Some of the most important sections are dedicated to the different climate change mitigation and adaptation solutions that are being developed in relation to sustainable water management. The sea, with its richness, usefulness and beauty, concludes the natural water cycle through which the visitor's journey will flow.

In the exhibition discourse, special emphasis is placed on a positive, present and future-oriented approach to environmental issues. Also towards innovative good practice and the sustainable development to which we must aspire.

It is a very visual exhibition, in which the visitor is immersed in a fascinating journey through the meanders of a river, full of powerful images, impressive audio-visuals, sounds of waterfalls, rainfall or the murmur of streams, and with a great didactic component that will fascinate the public, both adults and children.

The route passes through large-scale audiovisual installations, some of which are 6 metres high and more than 30 metres long, and the longest LED tunnel in Europe. Visitors of all ages will discover aspects of water that will lead them, in a playful yet highly educational way, to appreciate its importance for life on Earth.

IN ORDER TO BRING KNOWLEDGE CLOSER TO THE PEOPLE

Canal de Isabel II and the Canal Foundation have been working together for more than two decades for a double mission: the generation of knowledge and the promotion of water care. During that time we have helped to translate this commitment into hundreds of activities involving nearly seven million people.

This exhibition, created through company-foundation collaboration, is the result of this mission and aims to bring quality content presented in an attractive and accessible way, the hallmark of the Canal Foundation in all its activities.

Also located in the city of Madrid is the **Sala De Exposiciones Canal De Isabel II** exhibition space (First Water Tower). Built in 1911, it is now a unique space that houses exhibitions of contemporary photographic and audiovisual creation, managed by the Regional Ministry of Culture of the Community of Madrid. He collaborates annually with the ARCO and PhotoEspaña events. In 2022, four major exhibitions have taken place:

- **Alfonso. Beware of memory.** The graphic memory of many Spaniards is populated by the historical images of Alfonso, the firm that covered the most important events of the first half of the 20th century for the press.
- **Vari Caramés. Something, Nothing, Always.** This exhibition, dedicated to the photographer Vari Caramés (Ferrol, 1953), brings together the majority of his production, focused on representing the lyricism of the everyday with emotional and close photographs that capture the simplicity of events through veiled and subtle references.
- **Aleix Plademunt. Matter.** This exhibition by the Catalan artist was made up of a series of scientifically oriented photographs that refer to the world around us. The selected images are a journey through different countries, resulting from a visual investigation into human culture, its origins and evolution, as well as its relationship with the universe, the earth and the material reality of things.

- **Sybilla *The invisible thread***. This exhibition, the result of long conversations with the fashion designer Sybilla, aimed to show these codes articulated by that invisible thread that connects all her work. Around 80 sets of clothing and 80 documents helped us to understand his universe through five sections: The Thread that Spins, The Thread that Weaves, The Thread that Weaves, The Thread of Time and A Thread of Voice.

The exhibition dedicated to Sybilla was the most visited in the history of the Sala de Exposiciones Canal de Isabel II with almost 50,000 people visiting the retrospective the designer's career based on eighty of her outfits and a collection of documents.

Both Canal de Isabel II and the Canal Foundation have editorial lines. The Canal Foundation focuses its publications on the publication of exhibition catalogues and other activities, while Canal has a wider publishing collection, compiled throughout its years of existence, ranging from technical studies to more informative editions, whose central theme is water.

Promoting leisure and sport

Canal provides the people of Madrid with various recreational facilities and sports areas in the Community of Madrid.

In the urban area of Madrid, we have twelve hectares located on the **surface of Water Tank 3**, dedicated to football, paddle tennis and running, as well as for leisure and walking for users. Also in the urban area, there are swimming pools and various sports facilities in the **Depósito del Campo de Guardias (Canal de Isabel sports facilities)**, which are currently managed by the Community of Madrid.

It is worth mentioning the **Bravo Murillo park** inaugurated in late 2020, which is located in the vicinity of the Head Offices of Canal de Isabel II. This construction is located in the western area occupied by the Head Office, adjacent to Calle Bravo Murillo and has play area adapted for children with different abilities, a **sports area**, a vertical garden made up of 15 different species with an efficient irrigation system, as well as a walking area with sustainable paving, 50 trees, nearly 1,000 shrubs and landscaped areas not only with grass, but also with low water consumption species.

Also next to our Head Offices is the **Ríos Rosas Park**, a 2,500 square metre space located in pleasant surroundings, at the foot of the First Water Tower (Sala de Exposiciones Canal de Isabel II). The park has 1,800 square metres of gardens with various shrubs such as bamboo, rosemary, santolina and lavender, as well as walking areas with benches and drinking fountains. But perhaps the most important feature upon opening in late 2018 was the creation of a children's play area adapted for children with disabilities.

These will be joined in 2023 by the remodelling and refurbishment of the area formerly occupied by the golf facilities at the **Third Water Tank Leisure and Sports Centre** on Avenida Islas Filipinas, work on which began in 2021.

These three facilities will involve the provision of more than **123,000** square metres of Canal de Isabel II space for the use and enjoyment of citizens and an investment of some **18 million euros**. To these would be added the more than 45,000 square metres of the **Fourth Water Tank at Plaza de Castilla** Park. Making part of our facilities available to the public is one of the objectives set out in our 2018-2030 Strategic Plan to broaden our commitment to society.

In addition to the facilities located in the urban area of Madrid, we also have two other non-urban recreational areas, one in the El Atazar reservoir, managed by the Cervera de Buitrago Town Council and focused on sailing, rowing and canoeing; and another at the Riosequillo reservoir, managed by the Buitrago del Lozoya Town Council, which features one of the largest swimming pools in the Community of Madrid. During 2022, the Riosequillo area was closed for renovation and maintenance works until mid-July, receiving only 59,573 visitors (the usual figure is around 90,000). The Atazar area received more than 14,469 visitors in 2022.

A very relevant milestone in 2022 was the recovery, after several years of absence due to the COVID-19 pandemic, of the traditional **Water Race**, organised by Canal our company.

39TH EDITION OF "THE WATER RACE"

After a hiatus of several, on 20 March 2022 **more than 2,300 runners** took part in the **39th edition of the Water Race** organised by Canal de Isabel II. The company Chairwoman, the Regional Minister for the Environment, Housing and Agriculture of the Community of Madrid, Paloma Martín, was responsible for inaugurating the event at 9:00 a.m. On Calle Mateo Inurria.

Barely half an hour later, the first runner reached the finish line, located on Paseo Francisco de Sales. The ten-kilometre route, approved by the Spanish Athletics Federation, ran between two of the most emblematic water tanks in the city of Madrid: the one located in Plaza de Castilla (Fourth Tank) and the one in Islas Filipinas (Third Tank).

The Water Race began more than 40 years ago as an initiative to highlight the importance of water as a scarce and essential resource. This year, moreover, it was **held on the eve of World Water Day**, which was celebrated on Tuesday 22 March.

This last edition had a strong sustainable and environmental character. With the aim of limiting the use of plastic containers, the organisation offered tap water from Madrid in recyclable cardboard cups at the refreshment areas. In addition, the official race vehicles, including the timing car, were electric in order to reduce the carbon footprint of the event.

The Water Race is one of the most traditional popular races in Madrid, along with the San Silvestre Vallecana and the Canillejas race. In 2022, it has returned under auspices of Canal de Isabel II after several-year hiatus. Throughout its history, more than 50,000 people have run in all editions.

Cooperation in water and sanitation and other social initiatives

GRI 3-3

GRI 2-28

On 28 July 2010, through *Resolution 64/292*, the United Nations **General Assembly** explicitly recognised the human right to water and sanitation. This resolution calls on states and international organisations to provide financial resources, capacity building and technology transfer to assist developing countries and to provide healthy, clean, accessible and affordable drinking water supply and sanitation for all.

In this area, Canal supports the Sustainable Development Goals on water and sanitation, adopted by the United Nations General Assembly in September 2015. We are aware of the importance of achieving these objectives and, in order to contribute to this, we develop projects to assist **development and cooperation projects** in other parts of the world.

The most significant initiative that Canal carries out in the field of cooperation is **Canal Voluntarios**, a corporate volunteer programme aimed at developing water and sanitation development aid projects, in order to provide drinking water and sanitation in areas of the world where the population suffers from a serious lack of both services. Since 2007, Canal Voluntarios has completed more than 65 projects in 29 countries with 1.7 million people benefited.

More information about Canal Voluntarios can be found at this link:
<http://www.canalvoluntarios.es/>

WOP Project with Sedapal (Lima, Peru)

In 2021, Canal Isabel II's proposal was chosen by the EU-WOP programme to develop the Vigía System for tracking, monitoring and early warning of COVID-19 in wastewater in the metropolitan areas of Lima and Callao, which have more than nine million inhabitants (30 % of Peru's population).

The EU-WOP programme is a collaborative initiative between water operators, led by UN-Habitat's Global Water Operators' Partnerships Alliance (GWOPA) and funded by the European Commission DEVCO. The Alliance has chosen Madrid's *Vigía* system to monitor the Peruvian sanitation network, with the aim of anticipating coronavirus waves and also to fight climate change through reclaimed water.

The project was submitted in collaboration with Sedapal (Lima's water and sewerage operator) and was selected, out of more than 140 proposals, to be implemented under

the EU-WOP programme of the European Union. This action manages to leverage the ability of utilities to help each other achieve the Sustainable Development Goals (SDGs), in particular SDG 6 on improving water and sanitation services.

The main activities between the two companies began in 2022. Thus, in November, a technical delegation from the Peruvian public company visited Madrid to see Canal's facilities first hand and to carry out the training planned within the framework of the project. During this visit, Sedapal professionals were able to visit the Majadahonda wastewater laboratory where samples taken for the *Vigía* System are analysed, the Arroyofresno storm tank, the centre of excellence for sustainable urban drainage techniques at the Meco WWTP and the thermal drying and cogeneration plant at Loeches, among others.

UNDESA sustainable water and energy solutions network

In 2022, Canal de Isabel II joined the United Nations **Sustainable Solutions Network for Water and Energy**, specifically the Office of Economic and Social Affairs (DESA) responsible for leading the implementation of the 17 Sustainable Development Goals of the 2030 Agenda worldwide. This UN department is also responsible for the follow-up of major UN summits and conferences, as well as for assisting countries in setting their agendas and taking decisions to address economic, social and environmental problems.

The agreement reached between Canal and the United Nations in this network has as its main objective the creation and improvement of technical capacities at all levels, to foster an integrated and cross-sectoral approach to SDG6 (water) and SDG7 (energy) and their interrelationships with other SDGs, in order to accelerate progress towards a correct implementation of the 2030 Agenda for Sustainable Development.

The expected achievements of this agreement include improved **knowledge** management and **best practice** sharing on the water-energy nexus and interconnections with other SDGs, as well as global advocacy and outreach on the water-energy nexus and other Sustainable Development Goals.

During this first year of the agreement, Canal has actively participated in the different activities and events organised by the Network. Canal's presence at the **I Water and Energy Symposium** organised by ITAIPU Binacional on the border between Brazilian-Paraguayan and its participation in the **COP27** held in November in Sharm el-Seikh (Egypt) should be highlighted.

In turn, this agreement with the United Nations contemplates the publication of several **articles** and **case studies** by Canal's technicians in the different communication platforms of the network, as well as in the United Nations' own academic journal dedicated to Sustainable Development (*National Resources Forum*).

Collaboration with other social entities

GRI 2-23

GRI 2-28

GRI 408-1

Canal is a signatory and **participating partner** of the **United Nations Global Compact** and annually prepares its progress report, which is submitted to this organisation.

In addition, Canal de Isabel II is one of the **founding partners of the Spanish Global Compact Network** since March 2006. The Global Compact, which has been joined by 14,000 companies in 165 countries, is a freely adhered-to United Nations instrument that promotes the implementation of 10 universally accepted principles to promote corporate social responsibility. These principles are grouped into four areas: human rights, labour, environment and anti-corruption.

In 2022 Canal resumed its membership of the **Fundación Sociedad y Empresa Responsable (Fundación SERES)**, in which our Foundation had been present in previous years. Among the aims of this Foundation are to promote a more relevant role of business in the improvement of society, focusing on encouraging companies to help create value and assume their role as a key agent in solving social problems.

Finally, every year Canal participates in activities of social entities organised with the participation of employees. In recent years we have collaborated with initiatives of the Spanish Red Cross, the Spanish Cancer Association, Action Against Hunger, *Save the Children* and Oxfam Intermón Spain, among others.

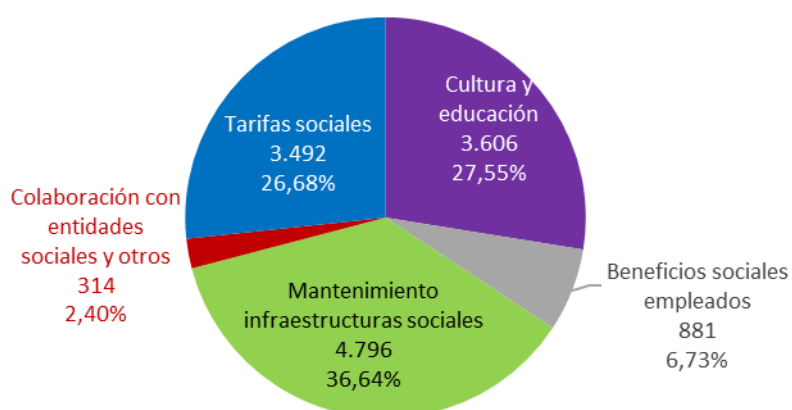
Financial resources earmarked for society

GRI 201-1

GRI 203-2

During 2022, Canal de Isabel II has allocated a total of **13.1 million euros** for activities related to its social commitment to employees, society and customers.

Expenditure related to Canal's social commitment in 2022 (thousands of euros and % of total)



Expenditure of **4.8 million euros** on **social infrastructure** was incurred in 2022.

Creating value for our stakeholders: our "social dividend"

As a public and socially committed company, Canal's vocation is to provide its stakeholders with more than just the services we provide. Therefore, in many cases we go beyond what is established in the regulations in order to favour them.

Creamos valor para nuestros grupos de interés



MEDIO AMBIENTE

- Producción eléctrica en 2022: 275 GWh con tecnologías renovables o de alta eficiencia (más del 50% de nuestro consumo. Mayor productor eléctrico del sector en Europa.
- Secamos térmicamente casi el 30 % de los lodos producidos en las EDAR (116,549 t).
- Primera planta de obtención de estruvita de aguas residuales de España (365 t).
- Para mejorar la calidad de nuestros ríos, casi el 20 % de los vertidos a cauce son con tratamiento terciario (91,79 hm³ en 2022).

SOCIEDAD

- Empleo (directo, indirecto e inducido): más de **8.600 personas trabajando para nuestro Grupo**.
- Innovación: **3,01 % de los ingresos** destinados proyectos de I+D+i.
- Gasto en **actividades sociales: 13,1 mill. euros**.
- Nuestra **Fundación** recibió más de **182.000 visitantes** en 2022.

MEDIOS DE COMUNICACIÓN

- **Transparencia** e inmediatez informativa con los medios.
- Colaboración constante y actitud proactiva.
- Amplias **campañas de comunicación** (*Matilda – Isabel, la del 2º*).

EQUIPO HUMANO

- 361,5 miles de euros invertidos en formación (**27 horas por empleado**).
- Integración laboral de **personas con discapacidad (2,5% de la plantilla)**.
- **229 procesos selectivos** publicados en 2022 e incorporación de **176 profesionales** fijos.



ACCIONISTAS

- Dividendos a ayuntamientos y Comunidad de Madrid de **más de 1.453 millones** hasta 2022.
- Hemos repartido **42.13 euros por habitante en dividendos** desde la creación de la Sociedad.
- Contribuimos a las arcas públicas con **más de 25,6 millones de impuestos y tributos**.

ORGANISMOS REGULADORES

- **217 solicitudes del parlamento** respondidas.
- **Transparencia institucional** (Cámara de cuentas, auditor externo, Registro mercantil, CNMV, Trib. Admin. Contratación, Tribunal de Cuentas...).
- **Buen gobierno: implantadas el 75,5 % de las recomendaciones** voluntarias la CNMV.

CLIENTES

- Nota media récord: un **8,76 sobre 10** en **satisfacción de clientes**.
- **Tarifa social** más amplia de nuestro sector, que supera el **75% de bonificación**, con **más de 260.000 personas** beneficiarias
- **Séptimo año de congelación de tarifas**, que son **más de un 25% inferiores** a la media de España.

PROVEEDORES

- En 2022 hemos adjudicado a nuestros proveedores **294 contratos, que suman 535,6 millones de euros**.
- Un **87,55 %** de los importes adjudicados por **procedimiento abierto**.
- **57,6 %** de adjudicatarios eran **pymes**.
- Periodo medio de pago a proveedores **23,9 días**.



SDG 1 (end poverty)

SDG 2 (zero hunger)

Contributing to others

Poverty goes beyond the lack of income and resources to ensure sustainable livelihoods. Poverty is a human rights issue. The various manifestations of poverty include hunger, malnutrition, lack of decent housing and limited access to other basic services such as education or health.

At Canal de Isabel II we are aware of this problem and, for this reason, in recent years we have created new formulas to subsidise the rate that may affect the most sensitive groups.

OUR SOCIAL RATES

GRI 3-3

Canal has the responsibility to adapt to the needs of each person, family or household, especially if they are going through a difficult period or if they are large families or households. We have therefore established **four** different types of discounts:

- **Large family** discount.
- **Large household** discount (from 5 persons).
- **Social exemption** discount (in situations of need).
- **Widow's or widower's pension** discount.

We group the four different discounts under the concept of **social rates**. It highlights the **social exemption** whereby the user will pay only 50 % of the fixed service fee. The variable part is fully subsidised up to 25 cubic metres per two-month period, i.e. 417 litres per day free of charge. This means that, for a bill of 40.87 euros per two-month period, applying this rebate, the total sum due would be 8.71 euros.

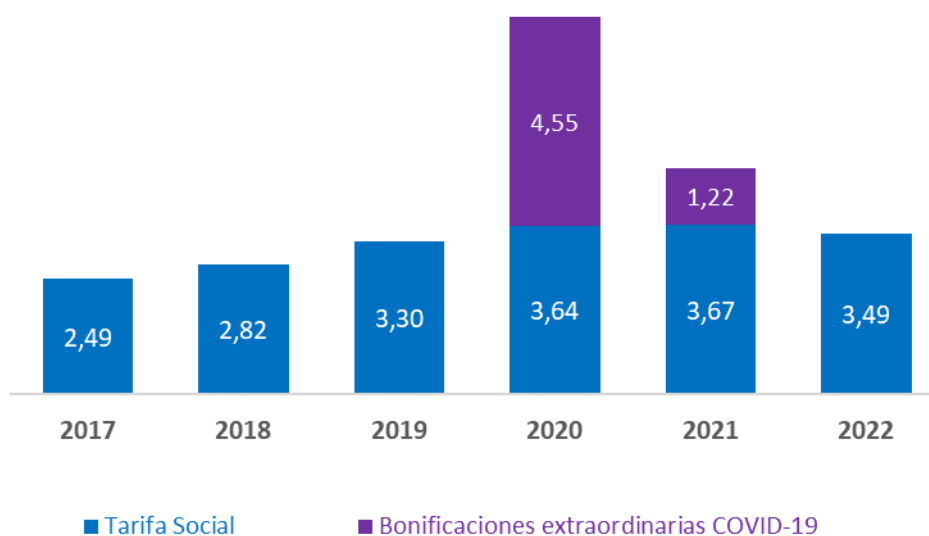
The **social exemption allowance** can be applied for by all those who receive the **Minimum Living Income**, the **Minimum Insertion Income** of the Community of Madrid, the **Active Insertion Income**, any type of **non-contributory pension** or when the **social services of the local council** certify that the applicants have difficulty or cannot pay the full bill for the services provided by Canal. This type of subsidy can also be applied for by **non-profit**

organisations managing **supervised apartments or community housing** for people at risk of exclusion or for other reasons.

The **allowance for widow's and widower's pension** is applicable to all persons who are beneficiaries of such pensions and whose total income does not exceed 14,000 euros per year.

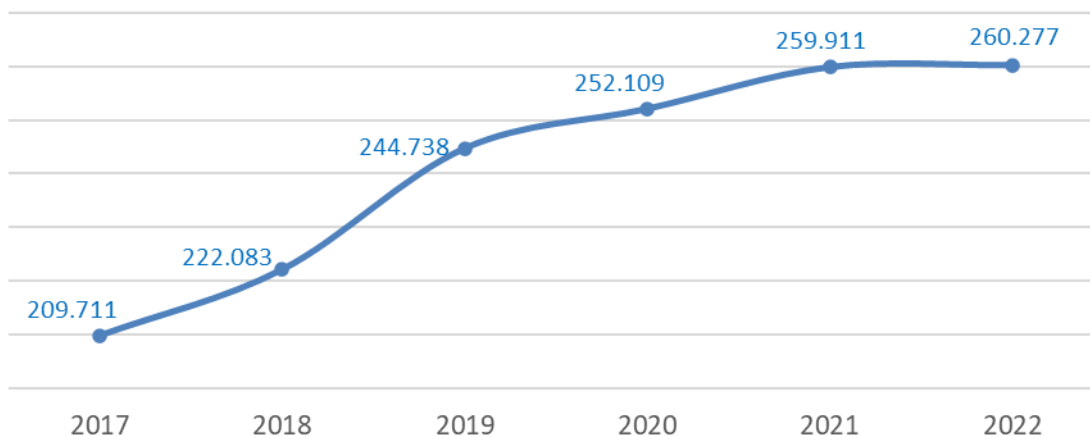
In addition to the above, in 2020, due to the circumstances caused by the **coronavirus pandemic**, Canal designed and urgently approved a new discount for all groups that have suffered the economic consequences of COVID-19 affected by an ERTE, self-employed or employed by SMEs that have seen their business fall by at least 30%. These discounts were also extended to 2021 and ceased to exist in 2022, with more than 15,000 contracts having been subsidised in this way.

Evolution of the economic resources allocated to subsidies (in millions of euros per year)



In 2022 , we subsidised a total of 61,651 contracts, 3.91% of Canal's total contracts with its customers. This means that 260,277 people benefited from our social rates at the end of 2022 (in some months of 2022, the number exceeded 262,000). The number of beneficiaries has grown by 24% since the start of the Strategic Plan 2018-2030 until 2022.

Evolution of the number of people benefiting from social rates (not including COVID-19 pandemic discounts)



Canal Collaborates

All this social work is led by Canal's group of social workers under the name of **Canal Colabora** in the commercial sphere, providing specialised attention to the most vulnerable users and seeking to bring them closer together. In addition to our social workers, the team is also made up of administrative staff who carry out all the support work to achieve the objectives.

Since the beginning of *Canal Colabora*, dozens of visits have been made, holding joint meetings with professionals from Social Services Centres and Associations, as well as the Municipal Housing and Land Company of the Madrid City Council and the Social Housing Agency of the Community of Madrid. The aim is, on the one hand, to provide information on and explain the social rate among professionals working directly with the most vulnerable groups and to establish two-way coordination channels for the most complicated cases. During the visits carried out, the subsidies are explained in detail, clarifying any doubts that may arise. The initiative is generally well received and after each visit we maintain fluid coordination and communication.

In January 2020, we started running workshops on consumption savings, targeting two profiles:

- **Vulnerable population.**
- **Coordinators** work on a daily basis with those in difficult situations, with the aim of making them our "water ambassadors" so that they can spread the word about social rates and responsible consumption in their environment, and so that they can help with the procedures for subsidies.

These are environmental talks and workshops, adapted and aimed at the public we work with, with the aim of explaining, in simple and understandable terms, the water cycle, the importance of responsible consumption, saving measures, the main leaks in our homes and how to manage discounts.

Canal has also promoted alternative means to minimise disconnection due to non-payment. Under no circumstances is water cut off to families in economic difficulties. Because of the pandemic, from March 2020 to February 2021 all supply cuts were suspended.

You can find more details about the discounts and how to apply for them at the following link:

<https://oficinavirtual.canaldeisabelsegunda.es/informacion/tarifas-y-bonificaciones>

NEW DISCOUNT FOR OWNERS OF ILLEGALLY OCCUPIED HOMES

Squatting is a worrying phenomenon throughout Spain, mainly affecting the owners derelict properties which are broken into or occupied and cannot be access, but who must continue to pay the costs arising from their acquisition and maintenance.

In order to tackle this issue, the Regional Government of Madrid has an extensive programme to help victims of this type of crime. In October 2022 Canal has joined these efforts by establishing **a new discount for owners and users of illegally occupied properties, covering up to 100% of the bills** for the services provided by Canal during the period during which the property is illegally occupied.

After its entry into force at the end of October 2022, the rebate applies from the date of submission of the application and **for the duration of the illegal occupation**. It is initially valid for six months and may be extended for periods of the same duration for as long as the dwellings remain illegally occupied and this is justified.

In order to process it, those affected must provide **documentation justifying** the initiation of **legal proceedings** aimed at recovering possession of the occupied property. The rebate can be requested in person at the commercial office of Canal de Isabel II (José Abascal, 10 Madrid), through the Online Office or by mail at clientes@canaldeisabelsegunda.es.



SDG 8 (economic growth)

A sustainable business for the long term

The economic and social sustainability of public organisations is an increasingly relevant aspect of our growth and welfare model.

OUR ECONOMIC PERFORMANCE

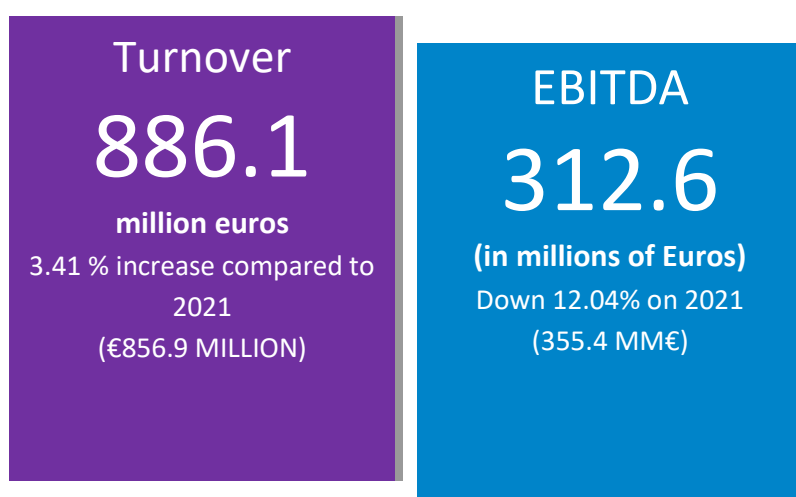
GRI 3-3

GRI 201-1

At Canal de Isabel II, as a 100% public company, we must guarantee its economic sustainability to support confidence in the economic recovery and foster economic growth and job creation. We must be an efficient company in all our actions and offer society a social and environmental return.

Context and turnover

In 2022 the **Turnover** and the volume of water billed have increased compared to 2021 and 2020 mainly due to the impact of the weather on consumption and the recovery of the industrial and commercial sector after the COVID-19 pandemic. All of this has led to growth in consumption and our revenues, despite the fact that rates have not been increased in 2022, remaining stable for the ninth consecutive year.



Precipitation in 2022 was 26.9% lower than in 2021 and below the average of recent years. As a result, the volume of water billed increased by 1.8 % and has done so to a greater extent in the blocks with a higher rates, increasing the average rate per cubic metre consumed.

Also, during 2020 and 2021, the different restrictions and health measures established by the different public administrations or adopted by the citizens themselves to mitigate the spread of the coronavirus, significantly affected commercial and industrial consumption in our region. However, during 2022 we observed a recovery in the consumption of this type of water use, which has increased by more than 8% from 2021 levels, although this consumption still remains below pre-pandemic levels.

Thirdly, although in 2022 we have allocated a total of 3.5 million euros to the application of social discounts to our rates, this figure is significantly lower than the 4.9 million euros we allocated in 2021. In the first half of that year we continued to apply some of the temporary discounts created in 2020 to mitigate the impact of the COVID-19 pandemic).

Main financial indicators for Canal 2020-2022

Business figures (millions of euros)	2020	2021	2022
Turnover	853.08	856.89	886.13
EBITDA	399.03	355.35	312.59
Depreciation	-117.47	-118.53	-120.71
Operating profit (loss)	209.26	189.91	139.19
Other financial indicators	2020	2021	2022
Net financial debt (millions of euros)	319.88	203.23	121.04
EBITDA/Turnover	46.78 %	41.47 %	35.28 %
Net financial debt/ EBITDA	0.8	0.57	0.39
Average collection period (days)	50.48	48.59	46.82
Average term of payment (days)	29.19	25.49	23.79

Operating expenses

Operating costs amounted to **573.55 million euros** in 2022, 72 million more than in 2021, well above EBITDA. The significant increase in expenses compared to 2021 (up 14.4%) is the result of the increase in market prices, particularly the **increase in the price of electricity, gas and reagents** used in our plants, the implementation of new activities and other improvements in the quality of the processes, within the framework of the Strategic Plan, the necessary adaptation to new and increasingly demanding regulations, and the increase in the costs of our own and subcontracted personnel due to the updating of the different collective agreements applicable in our company.

However, **we have not passed these cost increase on to customers in the form of rate rises**. Our rates have not changed in nine years (since 2013). We believe we have the capacity to absorb these cost increases, guaranteeing not only the coverage of these costs, but also the

generation of a margin that allows us to undertake our investment plans and maintain the forecast remuneration for our shareholders.

EBITDA and Operating Profit

As a consequence of the increase in operating expenses, our **EBITDA** decreases by 42.8 million euros compared to 2021, with operating profitability in percentage terms falling from 41.47 % in 2021 to 35.28 % in 2022. The drop in the **Operating Profit** is greater, 50.7 million euros, as it includes 2021 profits from the sale of investment property for a value of 12.4, profits that were significantly lower in 2022 (only 3.3 million euros).

Net financial assets

During the financial year 2022, financial indebtedness has continued to be reduced in accordance with its maturities. In addition to the bond issue for 500 million euros, the average debt in the year with financial institutions through the Mirror Debt with Canal de Isabel II was 204 million euros, 11% lower than in 2021 (228 million euros).

In 2022, no new debt has been taken on, but the total debt has been reduced by the amount to be repaid in the year, 14.8 million euros (29 million in 2021).

With regard to Treasury, the high cash generation capacity of the business, as well as some delays in the start of investment projects set out in our Strategic Plan, allowed us to meet all our commitments during the year and to distribute dividends to our shareholders amounting to 72.3 million euros, ending the year with a balance sheet, taking into account cash and financial investments in short-term deposits, of 575.9 million euros, with a Net Financial Debt of 121 million euros.

Financial risks

Our business is subject to the following financial risks:

Interest rate risk: following our company's issuance of simple unsubordinated bonds for a sum of 500 million euros in February 2015, we increased the percentage of fixed-rate debt to 100 % at year-end 2022, which reduces our exposure to interest rate risk to zero.

Liquidity risk: we have a stable activity and moderate indebtedness, which allows us to enjoy a solid financial position and reduce our financial indebtedness on an annual basis. In order to control liquidity risk, at Canal we carry out long-term financial planning and constantly monitor and control our cash flows. We have also signed credit lines for a sum of 104 million euros, maturing in December 2023, of which we did not need to draw down any

sum at year-end. At the end of 2022, our company had cash of 225.9 million euros and investments in short-term deposits of 350 million euros.

At the end of 2022, the Canal de Isabel II Group was rated by the **rating agencies Fitch** (BBB+, with a stable outlook) and **Moody's (Baa1)**, with a stable outlook).

Pressure on prices: another risk factor inherent to Canal's activity is the possible pressure on prices, as it provides a service of prime necessity such as the management of the complete water cycle. Exposure to this risk is evidenced by rates, which have not increased in the last nine years have not been increased for the last nine years and will continue to remain unchanged through 2023.

Credit risk: due to Canal's highly atomised customer population, credit risk is not a significant factor.

Tax Information

GRI 207-4

With respect to the corporate income tax paid by Canal, as well as withholdings, the corresponding information is shown below:

Corporate income tax payments (in thousands of euros)	2020	2021	2022
Total payments in instalments and withholdings Canal de Isabel II Group	1,667	7,370	5,827
Total payments associated with Canal de Isabel II S.A., M.P.	2,786	5,515	2,632
Final amount of tax declared Canal de Isabel II Group	0	1,399	N/A
Final quota Canal de Isabel II S.A., M.P.	2,048	2,662	N/A

Other financial information

Own shares: during the year ended 31 December 2022, the Company did not acquire any treasury shares.

Financial instruments: during the year, the Company did not use financial instruments that are relevant to the measurement of its assets, liabilities, financial position or results.

Subsequent events: subsequent events are shown in note 29 to the consolidated financial statements.

You can find more financial information about Canal and our audited financial statements at the following link: <https://www.canaldeisabelsegunda.es/es/informacion-economica>

OUR INVESTMENTS

GRI 201-1

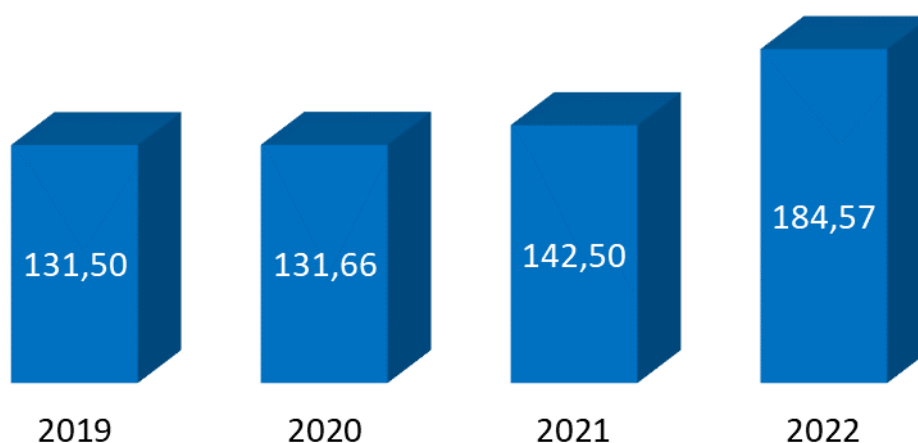
GRI 203-1

Maintaining an adequate pace of investment is vital to ensure the quality of service delivery. The investments we are currently making will ensure this quality for decades to come. The investments set out in our Strategic Plan 2018-2030 are worth around 2 billion euros over the next five years, providing value through the generation of employment and facilitating the territorial development and economic growth of the Community of Madrid region.

In 2022, cash flows generated from operating activities were largely used to cover the **investment volume executed during the year** which amounted to **184.6 million euros on works and projects** (compared to 142.5 million euros in 2021). An **increase in investment volume of almost 30 %** can be observed compared to 2021, which is expected to be even higher in the coming years in order to achieve the company's strategic objectives.

It should be noted that this figure includes investments considered to be replacement investments in accordance with the standard adapting the *Spanish National Accounts Plan for Public Infrastructure Concessionaires* and which, in application of this standard, have not been capitalised by the Company as an increase in the value of fixed assets. The company has made investments of this type amounting to 87.6 million euros (71.4 million euros in 2021).

Investments implemented 2019-2022 in millions of euros^{*}



(*) The figure does not include investments in the renovation and improvement of municipally owned distribution and sewerage networks, which are financed by supplementary fees.

Here at Canal, we also carry out **renovation and improvement works** in the distribution and sewerage networks **owned by the municipality**. The sum associated with these works is generally recovered through a supplementary charge on users' bills and is therefore classified as a financial asset for accounting purposes. In 2022 we carried out works of this type amounting to **27.89 million euros** (17.86 million euros in 2021).

The most important investments carried out by our company in 2022 were those focused on the objectives of guaranteeing a satisfactory level of operation, maintaining levels of production efficiency and competitiveness; the expansion of the automation and remote control of our facilities; the extension and improvement of our transport network (adduction) and distribution and storage capacity; to the adaptation and modernisation of our treatment systems; as well as to the expansion of our reuse infrastructures. The following table shows the volume of investment in each of these categories:

Investment by category (millions of euros)	2020	2021	2022
Guarantee of supply	55.56	50.23	87.47
Quality assurance	3.09	10.8	6.49
Commitment to the environment	37.19	53.75	54.51
Technological innovation	14.77	18.44	18.72
Adequacy of Canal's general services	6.51	5.23	7.3
Other investments	14.53	4.05	10.09
TOTAL	131.66	142.5	184.57
Works on distribution and sewerage networks owned by third parties (local councils)	11.92	17.86	27.89
TOTAL INVESTMENTS AND PROJECTS OWNED BY THIRD PARTIES	143.58	160.36	212.46

Considering the works owned by third parties , **our investment volume** has grown by **32.5%** compared to 2021 and is expected to continue to grow significantly. Over the next five years we estimate that we will undertake an investment of close to 2 billion euros.

The 2018-2030 Strategic Plan requires a major investment effort. To this end, we are tendering for large contracts with long lead times. The implementation of our company's ambitious investment plan was affected by the new legislation on public sector contracts that started to be applied in 2018 and entailed an increase in average contract award times, also due to the COVID-19 pandemic, which impacted both the execution of works and the awarding of tenders, not allowing us to reach the expected investment volume in 2020 and 2021. Since the end of 2021, Canal is reinforcing and revising its procurement processes, in

order to adapt to the new requirements and to be as efficient as possible, reducing average procurement times.

Among the actions of Canal's 2018-2030 Strategic Plan that involve a major investment effort are the following:

- The **Sanea Plan**, to modernise and improve sewerage networks.
- The **Red Plan**, to standardise distribution network materials and thus improve water quality.
- The **Smart-Region Plan**, with the objective of achieving 100% smart metering by 2030.
- The **Solar Plan** which focuses mainly on the creation of new photovoltaic plants in the company's infrastructures to promote the generation and self-consumption of clean energies.

Among the investments made in 2022 aimed at guaranteeing supply, the most important are the investments aimed at renewing the distribution network. In the case of those aimed at environmental commitment, the most significant investments are related to the "Plan for the adaptation of the purification system and the extension of the reusable water supply". Other investments include, primarily, matters of technical compliance.

Investments completed in 2022

Among the most significant additions to the **investment recorded** as of December 2022 are in the area of **supply**:

- The extension and renovation works included in the network renovation plan in the different municipalities of the Community of Madrid, to guarantee the quality and increase the efficiency of the distribution network, as well as the installation of measuring devices and connections in the new contracts.
- Work on the Pedrezuela dam spillway.
- Rehabilitation of the left branch of the Eastern Main Artery.
- The entrance and exit galleries to the El Goloso reservoir of the Atazar Canal;
- The new installations for calcium hydroxide at the Valmayor DWTP.
- The construction of a regulating reservoir with its pipelines in Talamanca de Jarama.
- The installation of a *bypass* at the Navahondilla lift.
- The installation of a reclaiming station at the Soto II reservoir and various elements at the El Cerrillo reservoir in El Boalo.

- The construction of a test bench for meters and flow meters at the Majadahonda site.

In the field of **sanitation**, the most significant investments have been:

- The construction of storm tanks at the Villanueva de la Cañada and Valdaracete WWTPs.
- Improvements in biological treatment at the WWTPs of San Agustín de Guadalix, La Poveda, Colmenarejo, Arroyo Quiñones, Arroyo Culebro Cuenca Baja and Arroyo Culebro Cuenca Media-Alta.
- The installation of centrifuges at the WWTPs of Guadarrama Medio, Villa del Prado, Robledo de Chavela and Talamanca de Jarama.
- Network analysers at the Valdemorillo WWTP.
- Other diverse actions in the WWTPs Sur Oriental, El Vellón, Cuenca Media-Alta del Arroyo Culebro, Villanueva de la Cañada, Valdaracete and Las Rozas.
- The construction of the connection collector from the Colmenar DWTP to the Colmenar Viejo WWTP for draining the plant's centrifuges.
- Improvements to the sewerage network at the Casa de Campo fairgrounds.
- The installation of a coarse grating at the San Martín de la Vega WWTP.
- The commissioning of the second cell at the Loeches waste disposal site.

In **regeneration and reuse** , the following stand out:

- Improvements made to tertiary treatment at the Arroyo de la Vega WWTP.
- Extension of the reused water distribution network in Parla.

And finally, in relation to **telecontrol and information technologies**:

- Implementation of the unified system for real-time monitoring of operational technology assets.
- Continued integration into the remote control system of distribution lifts, DWTPs, chlorination plants, wastewater treatment plants and mini-power stations.
- The installation of remote control instrumentation for sewerage networks, in distribution network installations and in small regulating reservoirs in the Community of Madrid.
- Actions to increase security in computer systems and installations.
- Investments in IT equipment for teleworking.

- The implementation of new functionalities in Canal's collaborative, process management, geographic information and departmental applications.
- The integration of energy efficiency measures into systems.
- Technical improvements in the emergency and warning system for the population within the flood zone in the event of a possible rupture or serious failure of our dams.

Ongoing investments

The most relevant actions that were underway at the end of 2022 are:

- Work to bring the El Endrinal WWTP into line with the National Water Quality Plan (PNCA).
- Improvement works at the Morata de Tajo WWTP and the Hoyo de Manzanares WWTP.
- The adaptation of spillways at the Guadalix WWTP.
- The renovation of the collector of the B-5 section of the Santillana system in Collado Villalba.
- Works to improve the supply to Pezuela de las Torres.
- The floating photovoltaic plant at the Torrelaguna reservoir.
- The renovation of the Eurovillas urbanisation network.

R&D&I Investments

Canal actively contributes to research and innovation studies in order to increase scientific and technical knowledge in the sector. We want to responsibly promote innovative activity in the sector and, to this end, we have taken the decision to gradually increase our innovation budget to the equivalent of 2% of turnover. The investment made in 2022 amounted to 26.9 million euros, or 3.01% of our turnover. Investment in R&D&I has increased significantly, mainly due to the implementation of remote reading and the automation of company infrastructure.

The information on the R&D&I activities carried out by the Company during the year is expanded in the section "SDG 9 (industry, innovation and infrastructure): towards water management 4.0".

NEXT GENERATION EU European Funds and Canal

GRI 201-4

The financing of our investments through European Union funds has traditionally been a tool used by Canal. Since 2000, Canal has obtained more than 200 million euros in European subsidies through the Cohesion Fund and, fundamentally, the ERDF.

In the aftermath of the COVID-19 pandemic, the European Union created the *Next Generation EU* funds as a time-limited, one-off emergency instrument, used as a **response and recovery measure by the European Union**, to help **repair the economic and social damage caused by the pandemic**. At Canal, since 2021, we are managing several aid programmes with these funds through **their two main financing instruments**: the **MRRF** and **REACT-EU**

THE RECOVERY AND RESILIENCE MECHANISM

The cornerstone of the *Next Generation* funds is the **Recovery and Resilience Mechanism (RRM)**, which accounts for **80% of the budget**. It aims to support investment and reforms for a sustainable and resilient recovery, while advancing climate and digital priorities.

Through the **Sectoral Conference on the Environment**, which is the cooperation body made up of the Ministry for Ecological Transition and the Demographic Challenge (MITECO) and the regional environment ministries of the Autonomous Communities. Canal de Isabel II is managing funds for two initiatives:

- **Improving supply and reducing losses in networks of small and medium-sized municipalities** (< 20,000 inhabitants). To this end, we have been granted a subsidy of **2.9 million euros until 2025**. The beneficiary municipalities are Miraflores de la Sierra, Villacanejos and Orusco de Tajuña. The Community of Madrid does not directly carry out the activities covered by this subsidy and has therefore designated **Ente Público Canal de Isabel II** (hereinafter Ente Canal) as an instrumental entity, thus transferring to it the processing of the activities related to this aid. Ente Canal, in turn, has transferred to our company (Canal de Isabel II, S.A., M.P.) the management of the aforementioned actions by virtue of the functions assumed within the **programme contract** signed between both entities in 2012, when our company was created.

The actions to be carried out in these three small municipalities will be executed within the plan to renew 1,200 kilometres of our supply network, which is part of our Strategic Plan 2018-230 and is already underway.

- **Digitisation of the water cycle in small municipalities** (< 20,000 inhabitants). To this end, the Community of Madrid has been granted a subsidy of **3 million euros until 2026**, to be distributed among **41 municipalities**. In this case also, Ente Canal, in turn, transfers the management to the public company Canal de Isabel II, S.A., M.P.

On the other hand, at the beginning of 2023 we will present several projects for European co-financing in the Strategic Project for Economic Recovery and Transformation (**PERTE**) **for the Digitalisation of the Water Cycle**, a new formula for public-private collaboration to develop projects of a strategic nature with great knock-on capacity for economic growth, employment and competitiveness of the Spanish economy. This line of action has a direct investment of 1.7 billion euros, which will involve an additional 1.12 billion euros in public-private partnerships.

REACT-EU

In the Community of Madrid, these additional resources are articulated through the incorporation of **two new priority axes** in the **Operational Programme (OP) ERDF 2014-2020** to assist and support crisis repair in the context of the COVID-19 pandemic and its social consequences, and to prepare for a green, digital and resilient recovery of the economy.

The Community of Madrid Operational Programme includes a subsidy of **33 million**, with a deadline of **31 December 2023**, for the **100%** financing of Phases 0, 1 and 2 of our **Solar Plan**.

FEDER 2021-2027

On the other hand, we received funds through the **ERDF Operational Programme 2021-2027**, provisionally granting us an investment of **345.7 million euros** to be executed before 31 December 2027, with **40% aid**, which means **138.3 million euros** of funding, or more than 28% of the total funds allocated to the region.

With this aid we are going to develop actions in our **RED Plan**, for the modernisation of the distribution network; the commissioning of our **Green Hydrogen plant** at the **Arroyo Culebro Cuenta Media Alta WWTP**, and a actions in the future **Phase 3 of our Solar Plan**.

WITH OUR SUPPLIERS

GRI 3-3

Like all companies, in order to fulfil our mission we need the support of suppliers and contractors, our "business partners" with whom, in compliance with all the provisions of public sector procurement legislation, we maintain relationships based on closeness and mutual respect.

GRI 2-6

GRI 204-1

GRI 407-1

GRI 408-1

GRI 409-1

GRI 412-3

At **Canal de Isabel II, as a public company**, we carry out our contracts under the **regulations applicable to public sector contracts** that came into force in 2018 (*Law 9/2017, of 8 November, on public sector contracts*). Similarly, in some procedures, due to their characteristics or sum, *Law 31/2007, of 30 October, on procurement procedures in the water, energy, transport and postal services sectors*, applies.

GRI 308-1

The objectives behind these laws are to achieve **greater transparency in public** procurement and better value for money. Specifically, *Law 9/2017* seeks greater **legal certainty** and aims to ensure that public procurement is used as an **instrument to implement** European and national **policies** on social, environmental, innovation and development, **promotion of SMEs** and **competition**. To this end, in recent years the specifications for our tenders have increasingly incorporated more advanced and demanding environmental and social requirements into the criteria for assessing the solvency and bids of bidders.

With regard to the objective of promoting small and medium-sized enterprises in the **2022 financial year, 57.60% of the awarded companies were SMEs**.

GRI 403-7

GRI 308-1

GRI 308-2

GRI 414-1

Canal's contractors, in addition to complying with the current environmental and occupational risk prevention regulations in force, must comply with the environmental policy and the occupational risk prevention policy implemented in our company. Furthermore, in order to promote diversity and the incorporation of persons with disabilities into the labour market, contractors who employ more than 50 workers during the term of the contract are required to ensure that at least 2% of staff is made up of persons with disabilities, in accordance with the provisions of *Royal Legislative Decree 1/2013, of 29 November, which approves the revised text of the General Law on the Rights of Persons with Disabilities and their Social Inclusion*.

The compliance on the part of the bidders with the requirements is reviewed before the award is made. In addition, once the contract is awarded, the unit responsible for the contract ensures compliance with the specifications.

Service and supply contracts of **less than 15,000 euros** and works contracts of less than 40,000 euros are carried out under the regulations governing **minor contracts**. For minor works of between 15,000 and 40,000 euros, the authorisation of the deputy councillor is required. Minor contracts, except for supply contracts managed by the Purchasing Area, are processed through the specific IT tool. In 2022, a total of **8,176 minor contracts** totalling **8.68 million euros** (1.59% of the amounts contracted by Canal) were made.

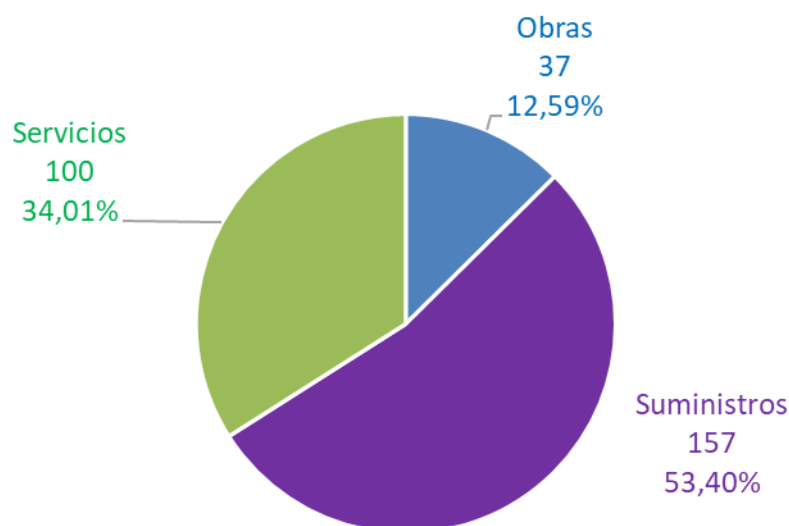
In general, **subcontracting is permitted** under the terms established in the legislation in force and in the specifications of each contract. The procurement system ensures that subcontractors comply both with the legally established obligations and with the requirements for contracting with the public sector.

Award of contracts in 2022

In 2022 we have awarded a total of **294 contracts** (34 more than in 2021), totalling **€535.59 million**. This figure is **49% lower** than the contracts awarded the previous year (more than 1,050) million due to the fact that **2021 was the year in which the largest sums were tendered in Canal's history**, mainly in network renewal contracts and urgent actions, both included in our Strategic Plan and which seek to make our network the most modern and efficient in Spain.

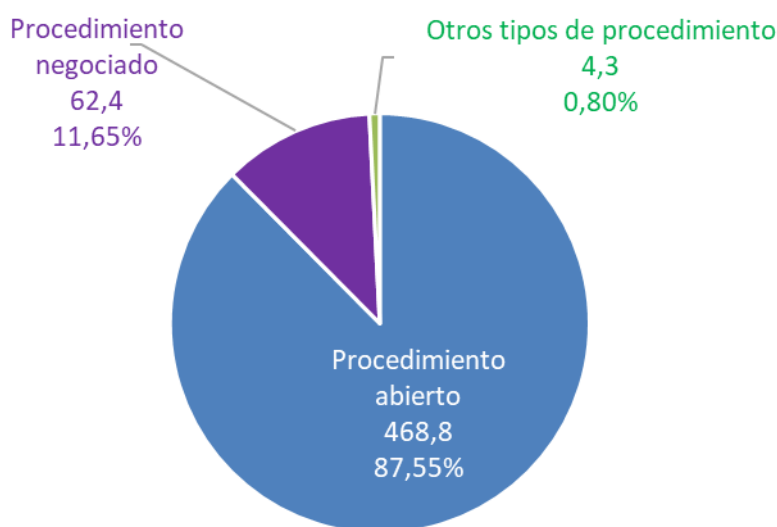
Breakdown by type of contracts awarded in 2022

(number of contracts and % of total)



The **open procedure** is the one we use the most. In this procedure, any interested entrepreneur may submit a proposal, excluding any negotiation of the terms of the contract with the bidders. This procedure was used for **249 contracts** processed in 2022, **85%** of the total number of contracts awarded. The sums awarded under this procedure totalled **468.8 million euros** in 2022 (87.55% of the total).

Sums awarded by type of procedure used in 2022 (millions and % of total)



33 contracts were also awarded **using the negotiated procedure**, 11% of the total number of procedures completed. The total sum of these procedures amounted to **62.4 million euro**. The negotiated procedure is used when one of the conditions laid down in the legislation is met.

In addition to the two aforementioned procedures, in 2022 a total of **12** contracts awarded by Canal, representing 4% of the tenders processed in 2022, were carried out using **procedures** other than those set out in the public sector procurement legislation. The sum awarded in these contracts was **4.3 million euros**.

In 2022, following the merger by absorption of our former subsidiaries Hispanagua, Canal de Comunicaciones Unidas and Hidráulica Santillana, we have ceased to contract using the **in-house resources** model.

Canal has several channels through which it offers its suppliers support services: in person, by email atproveedores@canal.madrid or through a specific portal for this purpose on our website (www.canaldeisabelsegunda.es/portal-de-proveedores), where suppliers are offered real-time information on the status of their invoices, thus improving the relationship we maintain with them and increasing productivity. The electronic exchange of data results in lower transaction costs and faster and simpler procedures. Among other functions, the tool allows the management of minor procurement for material supply suppliers.

In 2022, the **average payment period to suppliers** of Canal de Isabel II was **23.79 days**, with Canal having made a total of **436,713** payments throughout the year.

Processing of Canal procurement dossiers

Our internal recruitment procedure encompasses the following phases:

FASE I: INFORME DE NECESIDAD E IDONEIDAD	El área proponente aprueba un Informe de Necesidad e Idoneidad del contrato (INI) donde expone la necesidad que se pretende cubrir y el tipo de procedimiento a seguir.
FASE II: APROBACIÓN DE LOS PLIEGOS O CARTAS DE INVITACIÓN	El Director General aprueba, a propuesta de la Subdirección de Contratación, los pliegos o la carta de invitación en los procedimientos simplificados y negociados.
FASE III: PUBLICACIÓN DE LA LICITACIÓN	<p>Las licitaciones mediante procedimiento abierto de Canal de Isabel II Gestión, S.A. se publican en el Portal de Contratación de la Comunidad de Madrid (perfil de contratante de la sociedad) y en los medios oficiales que corresponda en función de la naturaleza y cuantía del contrato: Boletín Oficial de la Comunidad de Madrid, Boletín Oficial del Estado y Diario Oficial de la Unión Europea. Además se publica en la página web de Canal de Isabel II Gestión, S.A. (www.canalgestion.es).</p> <p>La adjudicación y la formalización del contrato, incluidos los procedimientos simplificados sin licitación previa y negociados, se publican en el Portal de Contratación de la Comunidad de Madrid (perfil de contratante de la sociedad) y además, la formalización de los contratos por importe superior a 100.000 euros, en el Boletín Oficial de la Comunidad de Madrid.</p> <p>La información sobre los contratos de Canal de Isabel II Gestión, S.A. se remite periódicamente al Registro de Contratos de la Comunidad de Madrid.</p>
FASE IV: RECEPCIÓN Y ANÁLISIS DE LAS OFERTAS	<p>En esta fase la Subdirección de Contratación revisa la documentación administrativa de las ofertas presentadas por los licitadores. Las ofertas que no cumplen dichos requisitos no se toman en consideración y se comunica dicha circunstancia a los licitadores en el acto de apertura de sobres (en la apertura del sobre técnico, si se adjudica mediante pluralidad de criterios; en la apertura del sobre económico, si se adjudica al precio más bajo).</p> <p>En los procedimientos de licitación que se adjudican mediante pluralidad de criterios, antes de la apertura de las proposiciones económicas, se procede a la apertura de los sobres técnicos a efectos de proceder a valorar los criterios no cuantificables mediante la mera aplicación de fórmulas antes de la apertura de proposiciones económicas.</p> <p>Finalmente, se procede en acto público a la apertura de las ofertas económicas de los licitadores. En los procedimientos de licitación que se adjudican mediante pluralidad de criterios se leen en acto público las puntuaciones técnicas obtenidas antes de la apertura de plicas.</p>
FASE V: VALORACIÓN DE LAS OFERTAS Y ADJUDICACIÓN DEL CONTRATO	El servicio proponente realiza el informe sobre las ofertas incursas en presunción inicial de valor anormal o desproporcionado y el informe de valoración final de las ofertas. La mesa de contratación analiza ambos informes y emite una propuesta de adjudicación que es elevada al órgano de contratación que adjudica el contrato.
FASE VI: FORMALIZACIÓN DEL CONTRATO	Se procede a la formalización del contrato en el plazo de 15 días a contar desde la notificación de la adjudicación del contrato y una vez que el adjudicatario ha aportado la correspondiente garantía.

You can find out more about our contracts on our company's e-Tendering Portal at the following link:

<https://licitaciones.canaldeisabelsegunda.es/?language=en>

Monitoring of indicators as part of Strategic Plan. Strategic Line 10

Ensuring Sustainability and Efficiency in Management



GRI 2-2

3. The Canal Group

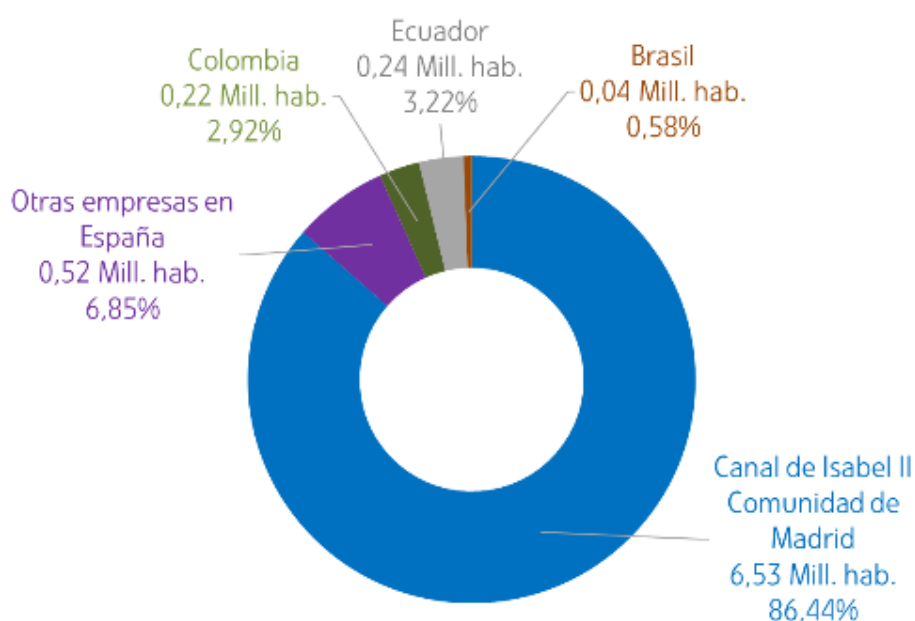
Our experience, accumulated over more than a century and a half of management, has given us added value in other regions of the world thanks to the integration of investee companies from other geographical areas. The Canal de Isabel II Business Group is present in six different countries: Spain, Colombia, Brazil, Ecuador and the Dominican Republic.

Since the 1960s, Canal de Isabel II has absorbed various participated companies that, together with our parent company, currently constitute the Canal de Isabel II Business Group (hereinafter, "Canal Group").

In 2022, the **Canal Group** will supply water to a total of 7.55 million people (**7.04** in Spain and **0.51** in Latin America) and we will employ **3,666 workers**, as well as generating close to **5,000 indirect** jobs. In 2022, we also supplied **593.6 million cubic metres of water** (548.3 in Spain and 45.2 in Latin America) and managed **40,346 kilometres** of supply, sewerage and reclaimed water networks.

At year-end, we had almost 1.8 million supply contracts (83% of which were domestic) in almost two hundred municipalities (196), with a degree of supply coverage of 99%.

Population supplied by country in 2022 (million inhabitants and % of total)



GRI 2-1

GRI 2-6

- **Integral water cycle management**, in Spain and also in Colombia, Ecuador and Brazil.
- **Support services for integrated water cycle management**, such as sectoral advice and consultancy; civil engineering; works and installation of connections and meters; commercial management of supply and sanitation; management of call centres or collection of fees and taxes. To carry out these activities, Grupo Canal has companies in Colombia, the Dominican Republic, Ecuador and Brazil.
- **Other activities that share synergies relating to integrated water cycle management**, such as electricity generation, telecommunications and information technology, engineering, construction and civil architecture, waste management and cleaning services in urban areas. These activities are carried out by Group companies located in Spain, Colombia , Ecuador and Brazil.

(a 31 de diciembre de 2022)



Canal de Isabel II, S.A., M.P.'s stake in the rest of the Group's companies at the end of 2022 was as follows:

Companies	Countries	% part.
Aguas de Alcalá UTE*	Spain	50 %
Canal Gestión Lanzarote S.A.U.	Spain	100 %
GSS Venture, S.L.	Spain	25 %
Canal Extensia S.A.U.	Spain	100 %
Canal Extensia América, S.A.	Colombia	82 %
Avanzadas Soluciones de Acueducto y Alcantarillado S.A. E.S.P.	Colombia	33 %
Amerika Tecnologías de la Información, S.A.S.	Colombia	82 %
GESTUS Gestión & Servicios S.A.S.	Colombia	77 %
Aguas de Samborondón Amagua C.E.M.	Ecuador	57 %
Emissão, S.A.	Brazil	68 %
Fontes da Serra Saneamiento de Guapimirim Ltda.	Brazil	67 %
AAA Dominicana S.A.	Dominican Republic.	53 %

*Aguas de Alcalá is a joint venture between Canal and Aqualia.

Some of the main key figures of the Group at the end of 2022 were as follows:

7.55 million inhabitants served in supply.

7.19 million inhabitants served by sanitation.

594hm³ captured for consumption.

493hm³ treated at WWTP and discharged into watercourses.

25hm³ of reclaimed water for reuse.

93 hm³ of reclaimed water discharged to waterways (Hm³).

21,912 km of supply networks.

18,435 km of sewerage and reuse networks.

947.7 million euros of revenue.

187 million euros of investments.

3,666 employees (**3,527** in Spain and **379** in America).

The Canal Group is present in 5 Spanish regions and in 4 Latin American countries

3.2. Canal Group: population served and capacities in the full water cycle

In 2022, for the provision of this type of services, our Group had six companies and a temporary joint venture (UTE) located in Spain (2 companies and 1 UTE), Ecuador (1), Brazil (1) and Colombia (2). These companies and joint ventures are:

- **Canal de Isabel II, S.A., M.P.** is the parent company of the Group and is responsible for the **integral water cycle management** in the Community of Madrid (179 municipalities), seven municipalities in Castilla-La Mancha, one in Castilla y León and through our branch in Cáceres (**Canal Cáceres**) of that city and the municipality of Monroy.
- **Aguas de Alcalá UTE** is a temporary joint venture involving Canal (50 % of the shares) and the company **Aqualia**. It is responsible for the **supply** and management of **sewerage** networks in the city of Alcalá de Henares (Madrid).
- **Canal Gestión Lanzarote, S.A.U.**, which started its activities on 1 June 2013, is responsible for the integral water cycle management on the islands of Lanzarote and La Graciosa, in the Autonomous Region of the Canary Islands (Spain). It serves the population of 7 municipalities.
- **Aguas de Samborondón Amagua C.E.M.** has the mission of providing **drinking water distribution** services, **sewerage** management, wastewater **treatment** and **reuse** of reclaimed wastewater in Samborondón and Daule, towns near Guayaquil (Ecuador).
- **Fontes da Serra, Saneamento de Guapimirim Ltda**, is a company belonging to our subsidiary Emissão,
- which joined the Group in 2013. Fontes de Serra **supplies water** to the inhabitants of the town of Guapimirim in the State of Rio de Janeiro (Brazil).
- **Avanzadas Soluciones de Acueducto y Alcantarillado S.A. E.S.P.**, known as **ASAA**, which joined the Group in 2013, provides **water supply** and sewerage services in the District of Riohacha, capital of the Department of La Guajira (Colombia).
- **Sociedad de Acueducto, Alcantarillado y Aseo de Barranquilla, S.A. E.S.P.**, referred to as **Triple A Barranquilla**, is the company responsible for the **integral water**

cycle management in the Colombian city of Barranquilla and in 14 other municipalities in the Department of Atlántico in Colombia.

On October 3, 2018, the Colombian Attorney General's Office adopted a resolution ordering the suspension of the management's powers, **the freezing and seizure of the shares of Canal Extensia Amércia** (formerly INASSA), a company indirectly controlled by Canal, in Triple A de Barranquilla, which represents **82 % of Triple A's capital stock**, and their handover to Sociedad de Activos Especiales de Colombia (SAE). This agreement has been appealed by the Canal Group before the corresponding judicial bodies, and to date there has been no ruling on the matter.

GRI 205-3

In addition, on 13 January 2023 Canal de Isabel II, through our subsidiary Canal Extensia, filed an **investment arbitration** against the Republic of Colombia before the **International Centre for Settlement of Investment Disputes (ICSID)**, a body of the **World Bank**. In our arbitration claim, we state that the Colombian administration, through various state actions, including the early sale of Triple A, **has not respected** the provisions of **the *Bilateral Investment Treaty (BIT)***, signed by the Republic of Colombia and the Kingdom of Spain in 2005.

Population and municipalities served in Spain

	Supply		Sewerage		Treatment	
	Municipalities	Population served	Municipalities	Population served	Municipalities	Population served
Region of Madrid	174	6,526,725	136	5,766,557	178	6,741,501
Castilla - La Mancha	7	14,560			1	4,752
Castilla y León	1	183				
Province of Cáceres	2	96,359	2	96,359	2	96,359
Alcalá de Henares (Madrid)	1	196,888	1	196,888		
Lanzarote and La Graciosa (Canary Islands)	7	209,000	7	147,445	7	147,445
TOTAL, SPAIN	192	7,043,715	146	6,207,249	188	6,990,057

Population and municipalities served in Latin America

	Supply		Sewerage		Treatment	
	Municipalities	Population served	Municipalities	Population served	Municipalities	Population served
Colombia: Riohacha	1	220,478	1	169,091		
Ecuador: Samborondón and Daule	2	242,976	2	196,576	2	196,576
Brazil: Guapimirim	1	43,460				
TOTAL, LATIN AMERICA	4	508,658	3	356,794	2	189,229
SUMA CANAL GROUP	196	7,550,629	149	6,572,916	190	7,186,633

Canal Group: technical information at the close of 2022

Supply	Spain	Latin America	Total Group
<i>Number of reservoirs or catchments in rivers</i>	17	2	19
<i>Number of operating wells</i>	79	-	79
<i>Number of seawater abstractions</i>	6	-	6
<i>Sum of funds under management</i>	102	2	104
<i>Number of DWTPs and desalination plants under management</i>	20	2	22
<i>Treatment capacity in million cubic metres per day</i>	4.76	0.06	4.82
<i>Kilometres of supply network managed</i>	20,453	1,459	21,912
<i>Number of municipalities supplied</i>	192	4	196
<i>Population supplied (millions of inhabitants)</i>	7.04	0.51	7.55
<i>Drinking water quality (% samples in compliance)</i>	98	92	95

Sanitation	Spain	Latin America	Total Group
<i>Kilometres of sewerage networks managed</i>	16,491	888	17,379
<i>Number of wastewater pumping stations (WWPSs) managed</i>	201	132	333
<i>Number of wastewater treatment plants (WWTPs) managed</i>	167	109	276
<i>Design flow of WWTP (hm³/day)</i>	2.26	0.05	2.32
<i>Number of municipalities served by sewerage management</i>	146	3	149
<i>Population served by served by sewerage management (millions of inhabitants)</i>	6.21	0.37	6.58
<i>Number of municipalities served for wastewater treatment</i>	188	2	190
<i>Population served by wastewater treatment (million inhabitants)</i>	6.99	0.20	7.19

CONSOLIDATED DIRECTORS' REPORT FOR FINANCIAL YEAR 2022

Usage	Spain	Latin America	Total Group
<i>Number of wastewater water regeneration plants</i>	38	21	59
<i>Kilometres of reclaimed water network managed</i>	1,056	-	1,056
<i>Number of municipalities served by reclaimed water supply service</i>	31	2	33
<i>Volume of reclaimed water produced (million cubic metres)</i>	113	5	118

3.3. Canal Group: companies with other activities

Group companies: water management support services

This category includes the Group companies that carry out activities related to the integral water cycle management, such as engineering and sectoral consultancy, construction and operation of water treatment plants and wastewater treatment plants, works and installation of connections and meters, purchase of supplies for supply, commercial management of supply and sanitation, management of *call centres* or the collection of taxes and duties.

To carry out these activities, the Group has companies in Spain, Colombia, Panama, the Dominican Republic and Brazil. These companies are:

- The **Canal Extensia América, S.A. (CEAM)** acquired in December 2001, under the name Sociedad Interamericana de Aguas y Servicios S.A. (INASSA), was established in 1996 as a company to provide services related to the integral water cycle in Colombia and other Latin American countries. CEAM offers consultancy in utility processes and comprehensive and innovative IT solutions to water and wastewater utilities in Latin America.
- The company **GESTUS Gestión & Servicios S.A.S.** provides services to the different companies of the Canal Group in Latin America. For companies in the water supply sector, it provides commercial consultancy and management, billing and collection management, updating and installation of databases and software, *contact human centre* services, document management and courier services.
- **AAA Dominicana S.A.** which began operating in the Dominican Republic with the contract for the commercial management and installation of meters in the western area of the city of Santo Domingo to serve a population of almost 1.5 million inhabitants. In recent years, AAA Dominicana S.A. has achieved significant growth by expanding its services in the commercial management of water services.
- **GSS Venture, S.L** is a company in which Canal de Isabel II has a minority shareholding (25%). Its corporate purpose is the provision of telemarketing and customer care services, developed through the telephone network or any other telematic means. GSS was the company that until November 2022 was responsible for Canal de Isabel II's customer service call centre.

- **Emissão, S.A.** headquartered in Rio de Janeiro, provided commercial management services for supply services, carried out consultancy and engineering work and currently operates the supply to the municipality of Guapimirim (Rio de Janeiro State) through the company Fontes de Serra.

Other Group companies: activities in synergy with the integrated water cycle

Apart from the activities directly related to the integral water cycle management or with support activities for the management of said cycle, the Canal de Isabel II Group carries out synergic activities with the management of the integral cycle with five of its companies. These activities are hydroelectric power generation; information technology; waste management and urban cleaning; and engineering and construction. These activities are carried out by Group companies located in Spain, Colombia and Brazil:

- **INFORMATION AND COMMUNICATION TECHNOLOGIES:** **Amerika Tecnologías de la Información, S.A.S.** is dedicated to the development and commercialisation of **Amerika Software**, a product that provides a definitive and integral solution to public utilities, designed from the water sector and which covers commercial management, technical management, administrative and financial management and management control with its different modules.

In Spain following the merger in 2021 of our former subsidiary **Canal de Comunicaciones Unidas**, **Canal de Isabel II, S.A., M.P.** is responsible for the operation of its own telecommunications network with which, in addition to supporting our operations, we provide digital trunking service (TETRA) as the Community of Madrid's in-house resource for the emergency services that operate in our region (fire brigade, local police, medical vehicles and forestry agents, among others).

- **SOLID WASTE MANAGEMENT AND URBAN CLEANING:** In addition to the integral water cycle management **Triple A Barranquilla** has been providing since 1993 all services related to urban solid waste management and urban cleaning (sanitation services ("de aseo" in Spanish) in the city of Barranquilla and in 3 other municipalities of the Department of Atlántico, since 1997.
- **CLEAN ENERGY GENERATION:** in 2022, following the merger by absorption of our former subsidiary **Hidráulica Santillana**, **Canal de Isabel II, S.A., M.P.** has taken over the operation of the hydroelectric power plants managed by that subsidiary. With

this incorporation, the installed capacity for the production of electricity in synergic processes with water management that the Group's parent company has in 2022 has grown to 109.31 Gigawatts, having generated 275.23 million kilowatt hours during the financial year, of which 120.21 were self-consumed in Canal's facilities and 155.02 were sold to the electricity grid.

Other assets

GRI 2-2

GRI 2-6

In addition to the above companies, the Canal Group has three other companies that are mainly shareholding companies.

- **Canal Extensia, S.A.U.** incorporated in 2001 and located in Spain, is the holding company of the shares of all Latin American companies of the Canal Group. Canal de Isabel II, S.A., M.P.'s shareholding in this company is 100 %.
- **Soluciones Andinas de Aguas, S.R.L.** located in Uruguay, was incorporated in 2013 to hold 75 % of the shares held by Canal Group in Emissão. Canal de Isabel II, S.A., M.P.'s shareholding in this company is 90.92 %.
- **AAA Ecuador Agacase, S.A.,** located in Ecuador, is the holder of 70 % of the shares of the company Amagua. Canal de Isabel II, S.A., M.P.'s shareholding in this company is 82.02 %.

CORPORATE RESTRUCTURING OF THE GROUP IN SPAIN

GRI 2-6

In 2022 we completed the restructuring process of the Group in Spain that we had started in 2021 the previous year with the holding of two extraordinary general shareholders' meetings on 17 February and 29 July, which approved, respectively, the mergers by absorption of Hispanagua S.A.U and Canal de Comunicaciones Unidas, S.A.U., wholly-owned subsidiaries of Canal de Isabel II. These were two processes by which these companies have been extinguished and all their assets, liabilities and other relations have been transferred to Canal de Isabel II, S.A. M.P., which has been subrogated to the rights and obligations of the absorbed companies.

In 2022 we have carried out the same process for the merger by absorption of our subsidiary Hidráulica Santillana, approved by the Extraordinary Shareholders' Meeting of Canal held on 27 January 2022.

Hidráulica Santillana was incorporated as a public limited company in January 1905, and in 2007 it became a sole proprietorship following the acquisition by Canal de Isabel II of the part of the share capital that remained in the hands of minority shareholders. On 1 July 2012, our company became the sole shareholder. Its corporate purpose was the production, transformation, transport and distribution of energy, through the operation of 9 hydroelectric power plants, which in 2022 began to be carried out by Canal. This process also involved the integration into Canal de Isabel II of all Hidráulica Santillana employees, as well as all its assets and real estate.

Finally, and also in 2022, Canal de Isabel II, S.A., M.P. has absorbed the subsidiaries Ocio y Deporte Canal S.A.U (dedicated to the operation of sports facilities) and Canal Energía, S.A.U, (with no activity), so that at the end of 2022 our business structure in Spain had been reduced to four companies and a Temporary Joint Venture.

These actions have provided Canal de Isabel II with greater management operability, by allowing the use of common resources and increasing efficiency in operating, administrative and structural costs, all while maintaining public employment in the merged companies.

3.4. Staff of the Canal Group companies

The data of Canal de Isabel II include its office in Cáceres

GRI 2-7

At the end of the financial year 2022, the aggregate workforce of all Group companies with own activities and own staff amounted to **3,666 people** in 6 countries. Of these, **3,356** worked in Spain and **310** in Latin America. The workforce of the Group's parent company (Canal de Isabel II, S.A., M.P.) accounts for 83 % of the total.

SPANISH COMPANIES	Employment
Canal de Isabel II (Autonomous Region of Madrid and Cáceres office)	3,052
Aguas de Alcalá UTE	78
Canal Gestión Lanzarote	224
Canal Extensia	2
SUMA SPAIN	3,356

AMERICAN COMPANIES	Employment
Canal Extensia America (Colombia)	13
ASAA (Colombia)	59
GESTUS (Colombia)	0
Amerika TI (Colombia)	34
Amagua (Ecuador)	91
AAA Dominicana (Rep. Dominicana)	86
Emissão and Fontes da Serra (Brazil)	27
SUMA AMERICA	310

Group staff by function (persons)

	Canal de Isabel II	Other investees Spain	Latin America	Group
Senior management	130	16	32	178
Management support staff	350	3	22	375
Graduates	320	7	46	373
Middle graduates	135	6	13	154
Middle management	185	10	18	213
Technical personnel	295	18	27	340
Administrative staff and support staff	581	46	84	711
Tradespersons	1,056	198	68	1,322
TOTAL	3,052	304	310	3,666

Canal Group workforce by contract, gender and age

GRI 2-8

GRI 405-1

	Canal de Isabel II	Other investees Spain	Latin America
Total number of employees	3,052	304	310
Trainees and interns	14	4	7
According to type of working day			
Full-time	2,956	296	304
Reduced schedule	96	8	6
According to type of contract			
Indefinite term	2,358	256	305
Temporary	765	44	8
According to gender			
Women	948	52	137
Men	2,104	252	172
Disability			
Workers with some degree of disability	74	3	2
External			
No. of external workers	4,395	166	388
Breakdown INDEFINITE STAFF			
Gender			
Men	1,811	218	187
Women	744	42	118
Age			
Less than 30 years old	121	2	75
Between 30 and 50 years old	1,446	137	206
Over 50 years old	988	129	25
Breakdown TEMPORARY STAFF			
Gender			
Men	293	34	6
Women	204	10	2
Age			
Less than 30 years old	177	9	1
Between 30 and 50 years old	276	28	5
Over 50 years old	44	7	2

Canal Group remuneration by country, gender, position and seniority (euros)

GRI 202-1

GRI 202-2

GRI 405-2

	Spain	Brazil	Colombia	Ecuador	Dominican Republic.
Starting annual salary without seniority of lower grade	19,328	3,086	3,862	4,839	4,336
Annual minimum wage in the country	14,000	2,672	2,675	4,839	4,336
Initial Annual Wage / Minimum Inter-professional Wage [%]	138	115	144	100	100
Average ANNUAL Remuneration by gender and professional category					
Women					
Management	82,981		25,935	37,752	57,332
Support to management	52,677		14,392	13,997	
Third level graduates	38,185		9,239	9,605	17,196
Second level certificate	33,519			7,629	4,393
Middle management	31,849		4,003		9,834
Technical personnel	30,411			15,246	
Administrative and auxiliary personnel	27,230	3,459	5,104	6,066	4,336
Tradespersons	26,614				
Men					
Management	87,490		19,931	42,642	55,019
Support to management	54,208		11,673	22,773	
Graduates	38,039		9,986	10,575	22,715
Middle graduates	33,991			6,035	4,393
Middle management	32,541		3,643		8,726
Technical personnel	32,088		4,299	12,610	
Administrative staff and support staff	28,286	3,381	3,335	6,084	4,879
Tradespersons	27,781	4,362	2,740	5,939	4,198
Average annual remuneration by age					
Less than 30 years old	20,989	3,293	6,098	6,511	5,070
Between 30 and 50 years old	30,182	4,309	14,223	10,953	8,201
Over 50 years old	34,145	3,086	14,255	9,804	32,565

GRI 2-21

The fixed remuneration of the highest paid person in the organisation (CEO) was in 2022 equivalent to **5.33 times** that of the lowest paid person in Spain and 33.41 times that of the lowest paid person in the Group (in Brazil).

Collective agreements and trade union representation

GRI 2-30

	Canal de Isabel II	Other investees Spain	Latin America	Group
Workforce covered by own company collective agreement	2,891	0	0	2,891
Workforce covered by sectoral collective agreement	98	301	27	426
Workforce not covered by collective agreement	27	1	159	187
Workers affiliated with Trade Union organisations	615	109	0	724

Turnover of Canal Group staff by age and gender

GRI 401-1

	Canal de Isabel II	Other investees Spain	Latin America	Group
Total additions	669	7	53	729
<i>Men</i>	455	5	31	491
<i>Women</i>	214	2	22	238
<i>Less than 30 years old</i>	304	5	26	335
<i>Between 30 and 50 years</i>	321	2	25	348
<i>Over 50 years old</i>	44		2	46
Total departures	829	12	63	904
<i>Men</i>	554	9	39	602
<i>Women</i>	275	3	24	302
<i>Less than 30 years old</i>	382	2	15	399
<i>Between 30 and 50 years</i>	344	9	45	398
<i>Over 50 years old</i>	103	1	4	108
Voluntary end of service	64	3	29	96
<i>Men</i>	50	2	15	67
<i>Women</i>	14	1	14	29
<i>Less than 30 years old</i>	37		13	50
<i>Between 30 and 50 years</i>	24	3	15	42
<i>Over 50 years old</i>	3	7	53	3

Average hours of training by functions and sex

GRI 3-3

GRI 404-1

	Canal de Isabel II	Other investees Spain	Latin America	Group
Management				
Men	32	8	14	28
Women	18	13	11	16
Total	27	10	12	23
Management support				
Men	33		3	32
Women	38	2	21	36
Total	35	2	12	33
Third level graduates				
Men	32	9	69	35
Women	55	21	36	53
Total	44	13	55	44
Second level graduates				
Men	35	3	8	33
Women	41	3	5	37
Total	37	3	7	35
Middle management				
Men	21	5	4	19
Women	34	22	1	15
Total	22	12	1	18
Technical personnel				
Men	32	9	15	28
Women	37	60	20	37
Total	34	11	16	31
Administrative staff and support staff				
Men	20	9	50	22
Women	19	28	17	19
Total	19	22	31	20
Tradespersons				
Men	18	5	4	16
Women	30	2	2	29
Total	19	5	4	16

Canal Group prevention information

GRI 403-9 GRI 403-10

	Canal de Isabel II		Participated companies Latin America		Other participated companies Spain	
	Men	Women	Men	Women	Men	Women
Occupational accidents and diseases						
Workers exposed to occupational hazards	2,095	945	249	53	172	110
Accidents at work in labore (excluding commuting accidents)	103	13	39	0	3	2
Accidents with leave (excluding commuting accidents)	49	4	21	0	1	0
Average duration [days]	6	18	18	0	3	0
Lost days	616	230	703	0	10	0
Lost Time Injury Frequency Rate	14	3	52	0	3	0
Total frequency of accidents index (excluding commuting accidents)	30	9	96	0	10	11
Severity Index	0.18	0.15	1.73	0	0.03	0.00
Incidence rate of accidents with medical leave	2,339.06	423.07	8,433.73	0	581.40	0.00
Fatalities	0	0	0	0	0	0
Number of cases of occupational diseases	0	0	0	0	2	3
Rate of occupational illnesses	0	0	0	0	0.0064	0.0170
Hours worked						
Hours Worked	3,399,903	1,525,174	405,250	82,123	312,241	176,867
Hours worked by employees with permanent contracts	2,797,929	1,169,937	369,903	71,417	266,713	169,649
Hours worked by employees on temporary contracts	601,974	355,237	35,347	10,706	45,528	7,218
Absenteeism						
Hours lost due to absenteeism of permanent employees	167,773	75,714	66,904	12,103	6,132	3,664
Hours lost due to absenteeism of temporary employees	33,177	23,560	4,052	2,581	320	184
Total absenteeism	6	7	18	18	2	2
Absenteeism of employees with permanent contracts	6.00	6.47	18.09	16.95	2.30	2.16
Absenteeism of employees with temporary contracts	6	7	11	24	1	3

3.5. Canal Group operational data

Canal de Isabel II includes its delegation in Cáceres

Supply

	Canal de Isabel II	Other participated companies Spain	Latin America	Group
Natural river inflows				
Natural inflows (hm ³ per year)	485	-	98	583
Surface catchments				
Number of reservoirs or surface catchments from the river or sea	15	6	2	23
Reservoir and/or surface catchment capacity (hm ³)	965.40	1.89	37.84	1,005.13
Number of weirs	6	1	-	7
Underground catchments				
Number of operational groundwater abstractions	79	-	-	79
Capacity of groundwater (hm ³)	93.00	-	-	93.00
Water derived for consumption				
Water derived for consumption (hm ³ per year)	503.34	45.09	44.24	593.66
Treatment				
Volume entering DWTP (hm ³)	501	66	26	593
Water volume-consumption treated (hm ³)	501	30	23	554
Number of drinking water treatment plants	15	5	2	22
Treatment capacity (hm ³ /day)	4.60	0.16	0.07	4.82
Number of rechloraminers	76	1	1	78
Distribution				
Number of large pipelines	23	-	-	23
Number of large regulating reservoirs	34	2	-	36
Storage capacity large reservoirs (hm ³)	3.29	0.03	-	3.32
Number of smaller deposits	304	67	5	376
Storage capacity Deposits (hm ³)	0.55	0.11	1.51	2.17
Number of large lifting plants	25	4	-	29
Number of minor lifting plants	111	26	3	140

GRI 303-4

Sewerage

	Canal de Isabel II	Other participated companies Spain	Latin America	Group
Number of WWPSs	195	80	132	407
Number of rolling mills and storm tanks managed	95	4	0	99
Capacity of managed storm tanks (hm ³)	1.424	0.007	0	1.430
Spillways in the entire sewerage network	25	49	0	74

Treatment

	Canal de Isabel II	Other participated companies Spain	Latin America	Group
Number of sewage treatment plants	159	8	109	276
Total volume treated at WWTP (hm ³)	475.26	3.17	13.45	491.87
Volume purified compared to volume derived for consumption (%)	94	11	67	89
Design flow rate (hm ³ /day)	2.24	0.02	0.05	2.32

Usage

	Canal de Isabel II	Other participated companies Spain	Latin America	Group
Number of reclaimed water plants in service	33	5	21	59
Number of reuse tanks in service	64	4	-	68
Water volume-consumption Usage (hm ³)	17	2.05	5.06	25
Total irrigated area [ha.]	2,665	347	-	3,012
Reclaimed water discharged to waterways (hm ³)	92	0.6	-	93

Efficiency in the supply network

	Canal de Isabel II	Other participated companies Spain	Latin America	Group
Water metered at end users (%)	87	56	51	82
Estimated actual network losses (%)	2	57	16	6
Hidden losses distribution network (%)	1	10	6	1
Percentage of self-consumption	1.23	0.43	0.72	1.13

Breaks in the supply network

	Canal de Isabel II	Other participated companies Spain	Latin America	Group
Breakage rate per 1000 km	105	4,099	624.1	542.7
Breakage rate per 1000 service connections	7.5	17.6	33.4	11.4

Electricity production and consumption

GRI 302-1

	Canal de Isabel II	Other participated companies Spain	Latin America	Group
TOTAL ELECTRICITY CONSUMPTION (kWh)	563,749,260	94,945,855	11,035,019	604,744,465
Supply	257,787,662	90,758,275	998,393	349,544,330
Sanitation	280,540,989	4,086,855	9,564,070	294,191,914
Other areas	25,420,608	100,725	472,556	25,993,889
<i>Electricity consumption per m³ derived water</i>	1.08	2.015	0.240	1.093
TOTAL ELECTRICITY PRODUCTION (kWh)	275,228,328			275,228,328
Self-consumption	120,210,407			120,210,407
Sale to the electricity grid	155,017,921			155,017,921

Fossil fuel consumption

GRI 302-1

	Canal de Isabel II	Other participated companies Spain	Latin America	Group
Fuel consumption for heating: buildings and facilities				
Natural gas in building boilers (m ³)	82,849			82,849
Gasoil in building boilers (litres)	119,879			119,879
Fuel consumption in Process				
Diesel fuel for generating sets (litres)	15,133	2,342		17,475
Natural gas in cogeneration (MWh PCS)	326,617			
Fuel consumption in automotive				
Gasoil consumption in vehicles and machinery (litres)	567,915	173,728	75,836	817,478
Gasoil consumption in vehicles (litres)	166,496	26,799	37,207	230,502
Liquefied Petroleum Gas Consumption in Vehicles (litres)	28,803	8,187		36,990
Liquefied Natural Gas consumption in vehicles (litres)				
Consumption of Compressed Natural Gas in vehicles (kg)	1,964			1,964

Reagent consumption (tonnes)

GRI 301-1

	Canal de Isabel II	Other participated companies Spain	Latin America	Group
Drinking water supply reagents	35,572	1,677	664	37,913
Waste water purification reagents	31,645	941	98	32,685
Total	67,218	2,618	762	70,598

Waste production (kilograms)

GRI 306-3

	Canal de Isabel II	Other participated companies Spain	Latin America	Group
Non-hazardous waste	32,012,235	2,108,385	370,566	33,878,760
Hazardous waste	430,439	2,987	7,975	440,288
Total	32,442,675	2,111,372	378,541	34,319,048

Paper consumption

GRI 301-1

GRI 301-2

	Canal de Isabel II	Other participated companies Spain	Latin America	Group
Internal paper consumption	13,192	2,373	17,259	32,823
Administrative and management activities	11,778	2,333	10,479	24,589
White paper (virgin fibre)	4,171	17	9,559	13,747
Recycled Paper	7,607	2,316	919	10,842
Commercial and other activities	1,414	40	6,780	8,234
Envelopes	36	40	53	129
White paper (virgin fibre)	761	0	6,727	7,488
Recycled Paper	617	0	0	617
External paper consumption	80,486	6,423	3,667	90,577
Envelopes	39,152	3,548	1	42,701
White paper	41,334	1,180	3,666	46,180

Spending and investment in CSR (euros)

	Canal de Isabel II	Other participated companies Spain	Latin America	Group
Customers	3,491,849	107,047	815,158	4,414,054
Employees	808,373	37,759	945,976	1,792,108
Culture/society	2,368,195		90,183	2,458,378
Environment	52,197,453		20,298	52. 217,751
R&D&I	609,982		20,730	630,712
Maintenance of social infrastructures	4,795,917			4,795,917
TOTAL CSR EXPENDITURE	64,271,769	144,806	1,892,345	66,308,920

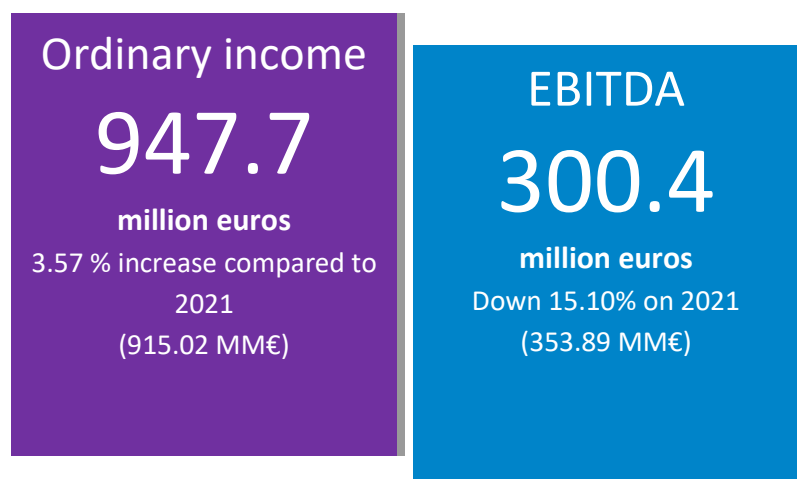
Bill claims

	Canal de Isabel II	Other participated companies Spain	Latin America	Group
Number of invoices issued	9,525,116	784,518	1,300,089	11,609,723
Percentage of complaints received on bills issued	0.30	0.25	0.11	0.28
Percentage of complaints in favour of customer	73	69	38	71

Complaints received and resolved

	Canal de Isabel II	Other participated companies Spain	Latin America	Group
Complaints received	10,073	108	12,845	23,026
Complaints resolved	9,529	88	6,030	15,647
<i>Accessibility and usability (online office)</i>	1,043	0	0	1,043
<i>Information</i>	320	8	0	328
<i>Customer/citizen service</i>	81	15	12	108
<i>Administrative procedures</i>	3,643	6	26	3,675
<i>Financial dispute</i>	346	14	0	360
<i>Service provided</i>	2,954	27	4,242	7,223
<i>Water Quality</i>	372	0	87	459
<i>Environmental, health and safety and other</i>	5	18	1,663	1,686
<i>Cancellations</i>	765	0	0	765

3.6. Consolidated financial results of the Group in 2022



KEY FINANCIAL FIGURES FOR THE GROUP IN 2022

GRI 3-3

GRI 201-1

In 2022 the euro has depreciated, in **average exchange rate**, against the foreign currencies in which Canal Group usually operates compared to 2021, except for the Colombian peso which has remained in line. This implies an increase in the value of the income and operating costs from activities in foreign currencies. However, due to the low weighting of these activities in the Group, the impact on the consolidated figures was not material.

Our Group's **consolidated ordinary revenues** have increased compared to 2021 and 2020, as sales at the parent company, Canal de Isabel II S.A., M.P. have increased.) Canal Gestión Lanzarote and Amagua. The increase compared to both years is mainly associated with the impact of the weather on consumption and the recovery of the industrial and commercial sector after the COVID-19 pandemic.

It is important to remember that the **rates of the Parent Company were not increased in 2022, for the ninth consecutive year**, and those of Canal Gestión Lanzarote have not been reviewed since the granting of the concession in 2013.

Revenues contributed by the Parent Company, which account for **93.5%** of the Group's consolidated revenues, grew with respect to 2021, as **the volume of water billed increased by 1.8 %** and did so to a greater extent in the consumption blocks with the highest rates, increasing the average rate per cubic metre consumed. **Natural river inflows** to Canal reservoirs, which have an inverse relationship with demand, **have decreased by 26.1%** compared to 2021, which is 12.12% below the historical average since 1914.

Also, during 2020 and 2021, the different **restrictions and health measures established** by the different public administrations or adopted by the citizens themselves to mitigate the spread of COVID-19 pandemic, **significantly affected commercial and industrial consumption in our region**. However, during the year 2022, we have observed a recovery in consumption of these types of customers, which has increased by more than 8% compared to 2021, although at the end of 2022 it remained below pre-pandemic consumption levels.

In addition, the parent company has earmarked a total of 3.5 million euros in 2022 for the application of **social discounts in the rates**, a figure that is, however, significantly lower than the 4.9 million euros applied in 2021, a year in which during its first half some of the extraordinary discounts created in 2020 to mitigate the economic impact of the pandemic on companies and certain groups of domestic users continued to be applied.

Canal Gestión Lanzarote's revenues, which account for 3.5% of the Group's consolidated revenues, **increased significantly** in 2022 compared to the previous year as a result of the **recovery of the tourism sector in the islands**, which has returned to pre-pandemic levels since the second half of the year. The cubic metres of drinking water billed have increased by 17.3% compared to 2021, with notable growth in consumption by industrial and tourist customers (44.8% more than in 2021). The increase in consumption and the recovery of the tourism sector has also had a positive impact on the average rate per cubic metre billed by the company.

Amagua's revenues in the Republic of Ecuador account for 2.7% of the Group's consolidated revenues and in 2022 also increased compared to 2021 due to three positive effects: the 12.3% appreciation of the US Dollar against the Euro; the increase in the rates received by the company for the provision of its services and, thirdly, the growth recorded in the water billed to customers, which was 5.3% compared to that billed in 2021.

Consolidated operating expenses, which are above EBITDA, have increased significantly compared to 2021, **growing by 14.7%**. Since the Group's main activity is integrated water cycle management, which requires the operation and maintenance of a large volume of infrastructure and facilities, its fixed cost structure has a higher weighting than that of other sectors and, accordingly, its operating costs are less sensitive to fluctuations in our volume of activity.

It should be noted that the rates applied by Canal (Autonomous Region of Madrid) and Canal Gestión Lanzarote were not increased in 2022, whereas both companies did incur increased costs of their own and subcontracted personnel, as well as of adapting to the new and increasingly stringent regulations. In 2022, the increase in the price of electricity, gas and reagents stood out, significantly affecting the parent company and Canal Gestión Lanzarote, as

well as the increase in the costs of own and subcontracted personnel due to the updating of the different collective bargaining agreements and other employment regulations applicable in our companies.

Finally, the company Emissão, located in Brazil and belonging to our Group, despite having practically no activity during 2021 and 2022, significant expenses associated with severance payments for restructuring of own personnel, tax liabilities, obligations with suppliers and impairment of accounts receivable have been recorded in the year.

As a result, **consolidated EBITDA** fell by 53.4 million euros on the 2021 figure, with operating profitability in percentage terms going from 38.68 % in 2019 to 31.7 % in 2022. The fall in the consolidated **Operating Profit** is greater, 61.6 million euros, as it includes 2021 profits from the sale of investment property for a sum of 12.4 million compared to just 3.3 million euros in 2022.

In 2021 the net impact of exchange rate differences was insignificant, as the parity between more stable currencies (Dollar and Euro) was maintained, while in 2022 there were positive net exchange rate differences of 11.3 million euros as the closing rate of the Dollar (6.2%) was revalued against the Euro and the Brazilian Real (6.9%) and the Uruguayan Peso (11.5%) against the Dollar. The positive impact of exchange rate differences offsets the higher financial restatements recorded in the parent company to maintain assets at current value as a result of the increase in interest rates during 2022.

At the end of 2022, the Group recorded income tax income of EUR 2.4 million (EUR 5.8 million in 2021), mainly due to: the higher activation of tax losses in Emissão; the higher deductions obtained in the Canary Islands for investment in fixed assets and, thirdly, the decrease in profits associated with activities without corporate income tax credit in the parent company, among which the profits associated with the sale of investment property stand out, which means that the effective corporate income tax rate also decreases.

Consolidated financial figures of Canal Group (millions of euros)

Business figures (millions of euros)	2020	2021	2022
Ordinary income	916.73	915.02	947.73
EBITDA	399.43	353.89	300.44
Depreciation	-130.71	-129.60	-131.86
Operating profit (loss)	196.52	177.53	115.98
Other financial indicators	2020	2021	2022
EBITDA/Turnover	43.57 %	36.68 %	31.70 %
Average payment period Canal de Isabel II (days)	50.48	48.59	46.82
Average payment period Canal de Isabel II (days)	29.19	25.49	23.79

Segmented economic information of the Group (millions of euros)

	2021			2022		
	Canal de Isabel II	Spanish investees	Canal Extensia Group (Participated companies Latin America)	Canal de Isabel II	Spanish participated companies	Canal Extensia Group (Participated companies Latin America)
Ordinary income	856.89	33.72	24.42	886.37	33.24	28.11
EBITDA	361.20	-6.22	-1.09	318.27	-7.49	-10.33
Consolidated profit(loss)	177.92	-14.27	-9.01	127.39	-12.73	-2.30

Canal's contribution represents 93.5% of total consolidated revenue, 105.9% of EBITDA and 113.6% of profit, volumes similar to the year 2021.

The absorption on the part of Canal de Isabel II, S.A. M.P. of the **Group's companies operating in the Community of Madrid** during 2021 and 2022, **has practically reduced the activity of the Spanish investees to the activity of Canal Gestión Lanzarote**. Its contribution to the consolidated result is negative for a significant amount in both years, as a result of the impact of the high electricity prices on Canal Gestión Lanzarote's business. Although the 2021 figures included the activity of Hidráulica Santillana and Ocio y Deporte in this segment, both with positive margins, the improvement of the tourism sector in Lanzarote has allowed its contribution to the consolidated result to have a lower negative impact than the previous year.

Lastly, the **Canal Extensia Group** (Latin American investees) contributed losses to the result, affected by the decline in its activity in recent years. The contribution is less negative than in the previous year as the net positive exchange rate differences offset the impact of the Emissão group company mentioned above.

Group Net Financial Debt

	2020	2021	2022
Net financial debt (millions of euros)	309.57	188.00	115.77
Net financial debt/ EBITDA	0.78	0.53	0.39

At 2022 year-end, Note that 99.8 % of financial debt corresponds to the Parent Company (the same percentage as in 2021). In addition to the bond issue for 500 million euros, the average debt Canal de Isabel II, S.A., M.P. with financial institutions through the Mirror Debt with Ente Público Canal de Isabel II was 204 million euros, 11% lower than in 2021 (228 million euros).

In 2022, net financial debt continued to decrease in accordance with its programme of maturities, from 714 million euros in 2019 to 697 million euros at the end of 2022.

With regard to Treasury, the high cash generation capacity of the business, along with the replanning of some investment projects set out in the Strategic Plan, has allowed us to tackle all the commitments and **distribute dividends for the sum of 72.5 million euros**, ending the year with a balance sheet, taking into account cash and financial investments in short-term deposits, of **582.2 million euros**, with a **Net Financial Debt** of 115.8 million euros.

Financial risks

Our business is subject to the following financial risks:

Interest rates: After issuing 500 million euros in ordinary unsubordinated bonds in February 2015, Canal increased the percentage of fixed-rate debt, standing at 100% at the end of 2022, which reduces the Company's exposure to the risk through interest rate variation to zero.

Liquidity risk: The Group a stable activity and moderate indebtedness, which allows us to enjoy a solid financial position and reduce our financial indebtedness on an annual basis. With the aim of controlling the liquidity risk, we engage in long-term financial planning and constantly monitor and control cashflows. Canal de Isabel II. also has credit facilities for the sum of 104 million euros maturing in December 2023, from which it has not had to draw down any sums as of the end of the year. At the end of 2022, our company had cash of 232.2 million euros and investments in short-term deposits of 350 million euros.

At the end of 2022, the Canal de Isabel II Group was rated by the **rating agencies Fitch** (BBB+, with a stable outlook) and **Moody's (Baa1**, with a stable outlook).

Furthermore, in the last few years, the Group's Latin American companies have had trouble renewing their borrowings from financial institutions and have experienced some payment collection difficulties, generating a degree of liquidity stress in some of the Group's companies. As a result, subsidiaries' debts with financial institutions have fallen and intergroup financing has been extended using cash flow surpluses of Canal Extensia, in an initial phase, and providing financing by Canal, through Canal Extensia, once exhausted.

Pressure on prices: Another risk factor inherent to Canal's activity is the possible pressure on prices, as it provides a service of prime necessity such as the management

of the complete water cycle. Exposure to this risk is evidenced by the fact that the rates associated with the services provided by Canal in the Community of Madrid have remained unchanged over the last nine years and will continue to do so through 2023.

The rest of the group's companies that provide these services, mitigate the price risk by indexing their rates to variations in the CPI or the price of water. However, despite being included in the rate review formula in the concession contract, **Canal Gestión Lanzarote** has been **forced to claim** the application of this formula or the receipt of compensation for the same amount (see further information in Note 10 of the notes to the annual accounts).

Credit risk: Credit risk is not a significant factor on a global level, as most of our Group companies have a very fragmented customer population. However, given the economic situation of some of the regions in which the Group's companies operate and the fact that the main activity of these companies is the integral water cycle management, a basic service that must continue to be provided. In order to reduce the risk of non-payment by customers, the Group has opted for efficiency in the provision of its services and a dynamic approach to activities relating to the collection of payments.

In addition, those Group companies that had a high concentration of customers and therefore a higher exposure to credit risk, such as AAA Dominicana, Emissão and the Panama branch of Canal Extensia América, have significantly reduced or even ceased their activity, reducing the Group's exposure to this type of risk

Exchange rate risk: The Group has no significant exposure to the exchange rate risk since there is a natural cover, as most of the Group companies' debts, intra-group financing notwithstanding, are in the same currency as revenues and the majority of their purchases.

However, the aforementioned change in the indebtedness policy of Group companies, increasing intra-group financing, led to an increase in exposure to foreign exchange risk. From the individual standpoint, the subsidiaries incur debt in a currency other than their operating currency, and from the Group standpoint its investment in foreign currency increased. Nevertheless, the sum of the Group's assets in foreign currency is not material.

Group Tax Information

With regard to corporate income tax paid as well as withholdings, the information is shown below at both individual and Group level.

Individual tax information

Corporate Income Tax (in thousands of euros)	2020	2021	2022
Total payments in instalments and withholdings Canal de Isabel II Group	1,667	7,370	5,827
Total payments associated with Canal de Isabel II S.A., M.P.	1,679	7,341	4,707
Final amount of tax declared Canal de Isabel II Group	0	1,399	N/A
Final quota Canal de Isabel II S.A., M.P.	-66	306	N/A

Group tax information by country

GRI 201-4

GRI 207-4

CORPORATE INCOME TAX

Payments associated with the Canal de Isabel II Group (thousands of euros per year)

Countries	2021	2022
Colombia	-75	84
Brazil	0	0
Dominican Republic.	23	22
Ecuador	416	490

TAX Information (thousands of euros per year)

		2021	2022
Spain	Profit obtained	163,920.24	104,365.05
	Public subsidies received	4,079.02	1,743.56
Colombia	Profit obtained	-5,802.75	-8,847.99
	Public subsidies received	0	0
Brazil	Profit obtained	-6,703.53	-8,671.22
	Public subsidies received	0	0
Dominican Republic.	Profit obtained	-2,379.74	-1,808.86
	Public subsidies received	0.00	0
Ecuador	Profit obtained	2,066.14	3,078.93
	Public subsidies received	0	0

Other financial information

Own shares: During the year ended 31 December 2022 there were no acquisitions of own shares on the part of Group companies.

Financial instruments: during the financial year 2022, the Company did not use financial instruments that are relevant to the valuation of its assets, liabilities, financial position or results.

Subsequent events: subsequent events are shown in note 32 to the consolidated financial statements of Annual Accounts.

INVESTMENTS OF THE CANAL GROUP IN | | | |-----------|-----------| | GRI 201-1 | GRI 203-1 | |-----------|-----------| 2022

The cash flows generated in operating activities were mainly used to address the volume of investment carried out in 2022, which amounts to **187.0 million euros** in construction works and projects, **26.52 % higher than in 2021** when the figure was 147.8 million euros).

This figure includes investments considered replacement investments, in accordance with international financial reporting standards (IFRS), and pursuant to these standards they have not been capitalised by the Parent Company as a greater value of Fixed Assets. Canal executed investments of this kind amounting to 87.6 million euros (71.4 million euros in 2021). Conversely, said investment figure does not include accounting additions recognised in the Group's fixed assets associated with the application of IFRS 16, since they are linked to leases undertaken by the Group, and neither does it include the acquisition of CO₂ emission allowances.

Investments in Canal de Isabel II, S.A., M.P.

The Parent Company made investments amounting to **184.6 million euros**, i.e., **98.7 %** of total investment at the Group (compared with 142.5 million in 2021). It is possible to observe an acceleration in the volume of investment, which is expected to be higher in the coming years in order to achieve the strategic objectives we have set for the year 2030.

It should be pointed out that this figure includes investments considered replacement investments, pursuant to the standard for adaptation to the Spanish General Accounting Plan for public infrastructure concessionaire companies and that pursuant to this standard, they have not been capitalised by the Company as a greater value of

Fixed Assets. Canal executed investments of this kind for the sum of 87.6 million euros (71.4 million euros in 2021).

Furthermore, Canal is undertaking refurbishment and improvement works in the municipality-owned distribution and sewerage networks. The sum for these projects is generally recovered by means of a supplementary charge in users' bills and they are therefore classified from an accounting standpoint as financial assets. In 2022, projects of this kind amounted to 27.89 million euros (17.86 million euros in 2021).

The most significant investments made by the Company are those focused on the aforementioned targets of guaranteeing a satisfactory level of operation, maintaining the levels of productive efficiency and competitiveness, the expansion of automation and remote control of facilities, the extension and improvement of the transport and distribution network and the storage capacity, the upgrading and modernisation of the sewerage treatment system and the expansion of recycling infrastructures. The following table illustrates the volume of investment for each of the different categories:

Investment by category (millions of euros)	2020	2021	2022
Guarantee of supply	55.56	50.23	87.47
Quality assurance	3.09	10.80	6.49
Commitment to the environment	37.19	53.75	54.51
Technological innovation	14.77	18.44	18.72
General services of Canal de Isabel II	6.51	5.23	7.30
Other investments	14.53	4.05	10.09
TOTAL	131.66	142.50	184.57
Works in distribution and sewerage networks owned by third parties	11.92	17.86	27.89
TOTAL INVESTMENTS AND PROJECTS OWNED BY THIRD PARTIES	143.58	160.36	212.46

The company's investment volume has increased by **32.5%** compared to 2022 and is expected to continue to grow significantly, with an estimated investment of close to 2,000 million euros over the next 5 years.

The Strategic Plan requires a substantial investment in the first few years, which is why large contracts with long award periods are being tendered. The implementation of our company's ambitious investment plan was affected by the new legislation on public sector contracts applied from 2018 and entailed an increase in average contract award. Meanwhile the Covid-19, impacted both the execution of works and the awarding of tenders, preventing us from reaching the expected volume of investment in 2020 and 2021. Since the end of 2021, Canal is reinforcing and revising its

procurement processes, in order to adapt to the new requirements and to be as efficient as possible, reducing average procurement times.

Some of the 2028 -2030 highlights of the strategic plan are: The "Plan Sanea" for the modernisation and upgrade of the sewerage networks; the "Plan Red", aiming to standardise the materials of the distribution networks and obtain greater water quality and the "Plan Smart-Region", with the aim of reaching 100% for the installation of smart meters by 2030, and the "Plan Solar", which focuses primarily on creating new photovoltaic plants at the company's infrastructure to foster the generation and auto-consumption of clean energy.

Among the investments made in 2022 aimed at guaranteeing supply, the most important are the investments aimed at renewing the distribution network. In the case of those aimed at environmental commitment, the most significant investments are related to the "Plan for the adaptation of the purification system and the extension of the reusable water supply". Other investments include, primarily, matters of technical compliance.

Completed investments

Some of the most significant additions to the investment recorded as of December 2022 are:

- Network extension and renovation works of networks on pipelines of the various municipalities of the Autonomous Region of Madrid to ensure the quality and increase the efficiency of the supply network, pursuant to the network renovation plan, together with the installation of metering devices and connections in new contracts.
- Actions on the Pedrezuela dam bottom spillway; the renovation of the left branch of the main east artery; the inlet and outlet galleries to the El Goloso reservoir of the Atazar Canal; and the construction of new installations for calcium hydroxide at the Valmayor DWTP.
- The construction of a regulating reservoir with its piping in Talamanca; the installation of a bypass in the Navahondilla lift; installation of a rechlorination station in the Soto II reservoir; and various elements in the El Cerrillo reservoir in El Boalo; construction of a test bed for meters and flow meters in the Majadahonda premises.

- The construction of storm tanks at the Villanueva de la Cañada and Valdaracete WWTPs; improvements to the biological treatment plant at the San Agustín de Guadalix, La Poveda, Colmenarejo, Arroyo Quiñones, Cuenca Baja and Cuenca Media-Alta del Arroyo Culebro WWTPs; the installation of centrifuges at the Guadarrama Medio, Villa del Prado, Robledo de Chavela and Talamanca WWTPs; network analysers at the Valdemorillo WWTP; as well as various actions at the Sur Oriental, El Vellón, Cuenca Media-Alta del Arroyo Culebro, Villanueva de la Cañada, Valdaracete and Las Rozas WWTPs.
- In the network of collectors and outfalls of the Region of Madrid, of note is the construction of the connection collector from the Colmenar DWTP to the Colmenar Viejo WWTP for draining the plant's centrifuges; improvements to the sewerage network at the Casa de Campo fairgrounds; the installation of a coarse grating at the San Martín de la Vega WWTP; and the commissioning of the second cell for the waste deposit at the Loeches landfill site.
- In regeneration, the improvements made to the tertiary treatment at the Arroyo de la Vega WWTP and the extension of the reused water supply network in Parla should be highlighted.
- As part of the automation plan, the implementation of the unified system for real-time monitoring of operational technology assets should be highlighted; and the integration continues with the remote control system for distribution lifts, DWTPs, chlorination stations, treatment plants and mini-power stations; with the installation of remote control instrumentation in sewerage networks, sewage systems, in hydraulic facilities associated with the distribution network, and small regulating tanks distributed throughout the Region of Madrid.
- Actions to increase security in IT systems and facilities; IT equipment for remote working; the implementation of new functionalities in collaborative applications, process management, geographical and departmental information; the integration of energy measures in energy efficiency systems; and technical improvements in the emergency and warning system for the inhabitants within the flood zone in the event of rupture or serious failure of the dams under Canal's competence.

Current investments:

The most relevant actions that were underway at the end of 2022 were: the works to adapt the El Endrinal WWTP to the PNCA, the improvements to the Morata de Tajuña

WWTP and the Hoyo de Manzanares WWTP, the adaptation of spillways at the Guadalix WWTP, the renovation of the collector of the B-5 section of the Santillana system in Collado Villalba, the works to improve the supply to Pezuela de las Torres, the photovoltaic plant at the Torrelaguna reservoir and the network renovation works at the Eurovillas residential development in Las Rozas.

Investments in other Group companies

Investment volume in the rest of companies, given their size and business model, is not material.

However, it is important to highlight that during 2022 Amagua has carried out investments of 1.4 million euros (3.3 million euros in 2021) associated with small works in drinking water treatment plants, supply and installation of distribution pipes and pumping stations in Samborondón and Daule.

Canal Gestión Lanzarote also made investments for the sum of 0.7 million euros (1.7 million euros in 2021), 0.4% of the total group investments.

R&D&I investments in the Canal de Isabel II Group

Grupo Canal also contributes actively, through the Parent Company, to research and innovation studies to increase scientific and technical knowledge in the sector. Canal wants to responsibly promote innovation in the sector and, for this reason, it has decided to progressively increase its Innovation budget to reach the equivalent of 2% of turnover.

In 2020, the parent company made investments for the sum of 26.9 million euros, i.e., 3% of the Company's turnover. Investment in R&D&I has increased significantly, mainly due to the implementation of remote reading and the automation of company infrastructure.

The information on the R&D&I activities carried out by the Company during the year is expanded in the section "SDG 9 (industry, innovation and infrastructure: towards water management 4.0)

3.7. Taxonomy of the European Union (Regulation 2021/2178)

The adoption of the **Taxonomy Regulation** stands as a crucial milestone, with enormous potential to inform and guide the environmental performance of companies and of society as a whole. The taxonomy meets two important needs: it provides a common language to talk about sustainability; and it uses objective and quantifiable criteria to evaluate companies and investment products.

The taxonomy is a classification system of economic activities created to help society and especially investors identify which investments can be considered environmentally sustainable in terms of their contribution to the six objectives of European environmental policy.

The 6 environmental objectives of the EU taxonomy.



To be **aligned with the taxonomy**, an activity must **contribute to at least one of the six objectives**, **do no significant harm to any of the others** - the well-known **DNSH** (*do not significant harm*) principle - and **comply with the minimum social safeguards**.

Over the coming years, large companies will have to report on the percentage of their overall turnover, capital expenditure and operating expenditure in the tax year that is aligned with the taxonomy.

The European Commission Regulation specifies the content and presentation of information to be disclosed by companies regarding environmentally sustainable economic activities.

Indeed, for each of the economic activities carried out by the company to be considered environmentally sustainable, several conditions must be met:

- A. The activity has a potential to **contribute substantially** to one or more of the environmental objectives recognised in the delegated acts developing the taxonomy.
- B. The **technical selection criteria** that determine that the activity, as carried out by the company, is environmentally sustainable, are met:
 - **It contributes** substantially to the **achievement of at least one** of the six **environmental objectives**.
 - **It does no significant harm** to any of the other environmental objectives.
 - It meets **minimum social guarantees**

In addition to sustainable activities, criteria are also established to determine under which conditions other activities can qualify as sustainable:

- **Enabling:** directly enable and facilitate sustainable activities and their contribution, such as the manufacture of renewable energy technologies or electricity storage and transmission activities.
- **Transitional:** lack economically viable low-emission technological alternatives but support the transition to climate neutrality - such as cement to aluminium production industries, rail transport, fossil gas-fired power generation, and some activities related to nuclear power generation.

Once the analysis has been completed, the results should be disseminated. To address the process of characterising Canal's alignment, in 2021 and 2022 we have carried out a sequential procedure that starts with the identification of our company's activities and proceeds in successive stages to determine their eligibility, degree of alignment and organisation of information for disclosure.

This analysis comprised the following steps:

1. **Breakdown of the company's activities:** in 2021, we defined the activities of **integrated water cycle management** and **electricity generation**.
2. **Assessment of the eligibility of each economic activity.**

- a) Allocation of industrial classification systems to the NACE¹⁷ classification system used in the EU Green Taxonomy.
- b) Linking our economic activities to one or more of the NACE-eligible sectors in the EU taxonomy.

Also in 2021, the CNAE¹⁸ codes corresponding to the activities included under **integrated water cycle management** and the **electricity generation** were assigned.

Activity	CNAE Code (3 digits)
Integrated water cycle management	
Catchment, treatment and distribution of water	360
Wastewater collection and treatment	370
Energy generation	
Electricity production, transmission and distribution	351

3. Alignment analysis of eligible economic activities.

- a) Verification of substantial contribution to a green taxonomy objective.
- b) Assessment of do no significant harm (DNSH) principle.
- c) Compliance with minimum social safeguards.

This last phase, we have carried out in 2022, contemplating the obligation to report the information according to **2 milestones: ELIGIBILITY and ALIGNMENT**.

The Taxonomy Regulation provides for a binary **taxonomy-aligned** or **non-taxonomy-aligned** system that applies to those activities that can substantially contribute to the environmental objectives. The remaining activities, either because their potential contribution has not been deemed substantial or because it is considered that negative impacts on one or more of the environmental objectives cannot be avoided, fall outside the scope of the taxonomy for the time being.

The economic activities associated with the integrated water cycle selected by Canal belong to section **5. Water supply, sanitation, waste treatment and decontamination** of the Delegated Climate Act.

¹⁷ NACE is the Spanish acronym for the Statistical Classification for Economic Activities in the European Community, a classification system of these activities which is used in the organisation and recording of data within the framework of the Eurostatthe EU's statistical database, as well as for the official statistics of each Member State.

¹⁸ CNAE: this is the Spanish National Classification of Economic Activities that allows the classification and grouping of production units according to the activity they carry out for the purpose of compiling statistics. It entered into force on 1 January 2009, in accordance with Royal Decree 475/2007

From the Delegated Climate Act (objectives 1 and 2):

- **Economic activities associated** with collection, treatment, distribution, sanitation and regeneration (activities 5.1, 5.2, 5.3 and 5.4).
- **Economic activities that can take place at facilities** where the activities of the previous group are carried out, such as pumping of sludge (activity 5.5, anaerobic digestion and biomethanisation with sludge (activities 5.6 and 5.7) and bio-waste composting (activity 5.8), which can be carried out together with sewage sludge.

This group also includes the activity of **cogeneration** (activity 4.19), which is increasingly present in waste water treatment plants, as well as the activity of **electricity generation from hydroelectric power** (activity 4.5).

Due to their substantial contribution to **climate change mitigation**, the following is the final list of economic activities of the full water cycle that are aligned, including the objectives for which they are eligible:

CNAE	SECTOR	No.	ACTIVITY	SUBSTANTIAL CONTRIBUTION TO CLIMATE CHANGE MITIGATION	CANAL DE ISABEL II
E36.00, F42.99	Water supply, sewerage, waste management and decontamination.	5.1	Construction, extension and operation of water collection, treatment and distribution systems.	The technical criteria for substantial contribution to target 1, mitigation, are related to system efficiency, by keeping under a certain threshold of energy consumption (0.5 kWh per cubic metre of water supplied) in activity 5.1, or by improving previous levels of energy efficiency by 20% in the case of activity 5.2, or by reducing the level of water losses in the network for both activities.	Canal's specific consumption per cubic metre of water managed will be 0.495 kWh in 2021.
E36.00, F42.99	Water supply, sewerage, waste management and decontamination.	5.2	Renovation of water catchment, purification and distribution systems		
E37.00, F42.99	Water supply, sewerage, waste management and decontamination.	5.3	Construction, extension and operation of waste water collection and treatment systems.	The technical criteria for a substantial contribution to Objective 1 are based on the one hand, on the energy efficiency of the system and, in certain cases, on an assessment of direct GHG emissions. The GHG emissions avoided will depend, among other factors, on the degree of savings in energy consumption, i.e. both criteria are related. In the case of construction, extension and operation of systems, energy consumption shall be below a certain ratio depending on the treatment capacity of the plant. While in the case of the renovation of these installations, energy consumption must be reduced by at least 20%.	A reduction in net energy consumption or the reduction of leakage by 20% presents a margin for improvement that is difficult to achieve for the most efficient utilities such as Canal. However, based on solid technical criteria, including long-standing energy efficiency and operational measures, we can ensure that Canal contributes to climate change mitigation.
E37.00	Water supply, sewerage, waste management and decontamination.	5.4	Wastewater collection and treatment renovation		
E38.11	Water supply, sewerage, waste management and decontamination.	5.5	Collection and transport of non-hazardous waste in source-segregated fractions.	The only substantial contribution criterion laid down concerns the separate collection and transport of non-hazardous waste in individual or mixed fractions with a view to preparing it for re-use or recycling.	The non-hazardous waste generated by Canal's activity is duly treated and prepared for reuse. (See chapter SDG#12)
E37.00, F42.99	Water supply, sewerage, waste management and decontamination.	5.6	Anaerobic digestion of sewage sludge	The technical criteria for substantial contribution to objective 1 are based on controlling methane leakage from the installation and ensuring that the biogas produced is used to generate electricity or heat, injected into the grid or used as a fuel or raw material in industry.	In accordance with the standard, Canal has a contingency plan to minimise methane leakage at the facility. In addition, the biogas produced is used directly for electricity or heat generation or converted into biomethane for injection into the natural gas grid or used as a vehicle fuel or feedstock in the chemical industry.

CNAE	SECTOR	No.	ACTIVITY	SUBSTANTIAL CONTRIBUTION TO CLIMATE CHANGE MITIGATION	CANAL DE ISABEL II
E38.21, F42.99	Water supply, sewerage, waste management and decontamination.	5.7	Anaerobic digestion of bio-waste	The technical criteria for substantial contribution to Objective 1 for this activity relate to controlling methane leakage from the installation and ensuring that the biogas produced is used to generate electricity or heat, injected into the grid or used as fuel or feedstock in industry, similar to those set for economic activity 5.6 (anaerobic digestion of sludge). In addition, criteria are also established for the separation at source of bio-waste to be digested, as well as for the subsequent use of the digestate produced, either directly as fertiliser or soil amendment or after composting.	Canal complies with the criteria for controlling methane leakage from the plant and the biogas produced is used to generate electricity and heat, some is fed into the grid and some is also used as fuel. Separation at source of bio-waste for digestion is also carried out, as well as the subsequent use of the digestate produced, either directly as fertiliser or soil amendment or after composting.
E38.21, F42.99	Water supply, sewerage, waste management and decontamination.	5.8	Bio-waste composting	The technical criteria for substantial contribution to mitigation target 1 relate to source separation and separate collection of bio-waste and the criteria that the compost obtained must meet to be used as fertiliser or soil amendment under EU fertiliser product legislation.	Canal contributes to the separation at source and separate collection of bio-waste and to the criteria that the compost obtained must meet to be used as a fertiliser or soil amendment in accordance with EU fertiliser product regulations.

With regard to **energy activities** linked to the integral water cycle activity, the following are listed:

CNAE	SECTOR	No.	ACTIVITY	SUBSTANTIAL CONTRIBUTION CRITERION	CANAL DE ISABEL II
D35.11, F42.22	Energy	4.1	Electricity generation from solar photovoltaic technology.	Electricity generation using solar photovoltaic technology.	SOLAR PLAN (see in chapter on SDG #7)
D35.11, F42.22	Energy	4.5	Electricity generation from hydroelectric power.	<p>The technical criteria are presented as alternatives; meeting one of the three is sufficient:</p> <ul style="list-style-type: none"> - The first refers to the type of power plant: if it is a run-of-river type and there is no artificial reservoir, the contribution is considered to be substantial as this is a renewable energy with no impacts in the water environment. - In the case of damhead power stations involving the construction of an artificial reservoir (including pumped or reversible plants), the power density must be calculated. The power density of a hydroelectric power plant is its rated capacity divided by the surface of its reservoir. - If the power density is higher than 5 W/m² the contribution is considered to be substantial. <p>This threshold has been found to ensure a low level of GHG emission intensity.</p> <p>Finally, if the density is below the threshold of 5 W/m² an independent verifier shall verify that life cycle GHG emissions are less than 100 g CO₂ e/kWh. For this purpose, the use of the G-Res tool or other means of accreditation accepted in the delegated act is suggested.</p>	The reservoirs managed by Canal are regulatable, so none of the criteria would apply.
D35.11, D35.30	Energy	4.19	Cogeneration of heat/cold and electricity from gaseous and liquid fuels from renewable non-fossil fuel sources	In general, the technical criteria for substantial contribution to Objective 1 are based on ensuring a maximum value of GHG emissions during the life cycle of the activity, on the control of methane leakage at the installation and on requirements to	Canal acquires emission rights annually to neutralise and/or offset the emissions produced by the cogeneration facilities. We also have a methane leakage plan for these facilities.

				<p>be met by the agricultural biomass used for biogas production (for this last criterion it has not been considered necessary to give guidance on compliance, as it is directly applicable and, in the case of full water cycle activities, the origin of the biomass is likely to be non-agricultural). In the case of CS2, relating to installations incorporating forms of emission reductions (activities 5.11 and 5.12 of the Delegated Climate Act), these can be considered as directly applicable criteria. Furthermore, in this case it would affect cogeneration installations in sewage treatment plants that incorporate these forms of emission reductions. Guidance is provided based on useful reports that can serve as a guide for installations that meet all the conditions for the application of these criteria, including the JRC's 2022 report on carbon capture and storage in the European Union. It also touches on the most important regulations concerning capture and storage of emissions, and the incorporation of a CO2 leakage detection plan.</p>	
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Adaptation to climate change

Substantial contribution

The technical criteria for the selection of substantial contribution for Objective 2 climate change adaptation are the same for all economic activities.

According to the European Commission, this criterion is proposed following the approach that climate change will affect the whole economy. It is therefore a requirement for all economic activities to achieve alignment with the taxonomy.

Both the criteria for substantial contribution to climate change adaptation and the DNSH requirements for adaptation are based on the development of an assessment of climate risk and vulnerability, as well as demonstrating (in the case of substantial contribution) or at least planning (in the case of the DNSH principle) the **adaptation solutions needed** to avoid or

reduce these risks. Although, a priori, it might seem that the criteria of substantial contribution to adaptation and doing no significant harm are similar, the ambition is greater in the case of the substantial contribution, as the European Commission itself makes clear.

The criteria for substantial contribution to adaptation require that the economic activity has already implemented physical and non-physical adaptation solutions that reduce the most important physical climate risks that are material to that activity.

However, the DNSH criteria for adaptation only require a climate risk assessment and a plan to implement adaptation solutions (with a requirement for implementation within 5 years for activities that improve or modify existing assets or processes).

In the case of Canal, water cycle activities and those associated with electricity generation incorporate adaptation solutions that have been implemented for some time to secure supply and achieve the most efficient operation possible in a context of increasingly frequent extreme weather events.

DNSH Criteria

An economic activity shall be considered to cause significant harm to climate change adaptation where the activity causes an increase in the adverse effects of current and projected future climate conditions on itself or on people, nature or assets.

As discussed above, although the DNSH criteria for adaptation bear some similarity to the substantial contribution criteria for this objective, the DNSH criteria for adaptation are less ambitious than the substantial contribution criterion.

The DNSH criteria require a climate risk assessment and a plan to implement adaptation solutions (with a requirement for implementation within 5 years for activities that improve or modify existing assets or processes), in contrast to the substantial contribution criteria, which require that adaptation solutions that reduce these risks have already been implemented.

As the DNSH criteria are related to the substantial contribution to climate change adaptation criteria, based on carrying out climate risk assessments, as well as on proposing adaptation solutions, the proposed compliance guidance for the substantial contribution to climate change adaptation criterion is considered applicable.

Results for financial year 2022

GRI 201-1

GRI 203-2

European Commission Regulation 2021/2178 specifies the content and presentation of information to be disclosed by companies regarding environmentally sustainable economic activities. In accordance with this Regulation, we include below the share of eligible economic activities according to the taxonomy in their total turnover, their investments in fixed assets and their operating expenses:

Information in thousands of euros

Activity	Turnover (1)		
	Associated with economic activities within taxonomy	Total	%
Integrated water cycle management	905,424	990,913	95.5 %
Electricity generation	40,099		3.0 %
Total within the taxonomy	945,524		98.5 %
Activity	OPEX (2)		
	Associated with economic activities within taxonomy	Total	%
Integrated water cycle management	179,702	195,793	91.8 %
Electricity generation	5,370		2.7 %
Total within the taxonomy	185,071		94.5 %
Activity	CAPEX (3)		
	Associated with economic activities within taxonomy	Total	%
Integrated water cycle management	172,107	189,187	91.0 %
Electricity generation	2,824		1.5 %
Investments to prevent and control pollution	18		0.0 %
Total within the taxonomy	174,949		92.5 %

- (1) This is the total turnover of the company, which is made up of both its ordinary income and other operating income, net of income associated with the allocation of asset-linked subsidies and other accounting income.
- (2) Includes R&D expenses, short-term leases, maintenance and repairs as well as other expenses to maintain the Group's assets whether owned or outsourced.
- (3) This corresponds to acquisitions of property, plant and equipment, intangible assets and investment property of the Group (see Notes 7, 8 and 10 to the financial statements). Including investments considered as replacement investments (note 23 of the report of the financial statements) and additions associated with long-term leases in accordance with International Financial Reporting Standards (IFRS).

The main activity of the Canal de Isabel II Group, which accounts for 94.3% of its consolidated turnover, is the **management of the integrated water cycle**. It consists of two main phases, supply and sanitation, which correspond to the actions necessary to bring drinking water to consumers, and to the collection and treatment of wastewater. We can also add a third phase, namely the reuse of wastewater following adequate treatment so as to guarantee its sanitary characteristics, for use in the irrigation of gardens, street cleaning, irrigation in sport facilities and even in industry.

This activity is directly aligned with the environmental objective of sustainable use and protection of water resources. The Group has been committed to the sustainable use of water resources for many years. To mitigate this risk, Canal works continuously on: improving its infrastructure to reduce losses, optimising management of reservoirs, exploitation of underground waters, the extension of recycled water and the development of campaigns to raise awareness and motivate people to save water. In addition, to ensure the good condition of watercourses and marine waters, the Group continuously invests in its infrastructure to comply with the Water Framework Directive 2000/60/EEC.

On the other hand, the Canal Group produces electricity through mini-hydroelectric power plants, micro-hydro turbines, motors and turbines powered by biogas from the WWTPs, solar photovoltaic plants and high-efficiency cogeneration plants for the thermal drying of the parent company's sludge. It is important to note that in addition to selling electricity to the market (56.3% of the electricity produced), the Group has generated electricity for self-consumption for the activities of the company's various facilities (43.7% of the electricity generated).

Renewable energy generation contributes directly to the environmental goal of mitigating climate change. In the case of sludge drying, despite consuming gas in its activity, the objective to which it contributes is twofold, since in addition to generating electricity, it promotes the circular economy by reusing the waste from its main productive activity (the sludge generated in the purification activity) to generate fertiliser.

It is important to highlight the parent company's CAPEX plan to increase its renewable energy generation, the Solar Plan, which involves the installation of new photovoltaic solar plants in the company's infrastructures, in order to reduce its costs and promote the generation and self-consumption of clean energy, information that is shown in more detail in the section of this report dedicated to SDG 7 (affordable and non-polluting energy).

In addition to the above-mentioned economic activities, which are directly linked to environmental objectives, the parent company has made significant CAPEX investments to

reduce the carbon footprint of its transport fleet, taking long-term leases of electric vehicles and reducing the weight of combustion vehicles.

The contributions of the companies Canal de Isabel II, Canal Gestión Lanzarote and Amagua account for 99.5% of the consolidated turnover, 99.6% of the consolidated OPEX and 99.7% of the consolidated CAPEX. The remaining Group companies are engaged in activities that are not directly related to environmental objectives, such as collection management services or *holding* activities. Given their low weight in the consolidated figures, they have not been included in the analysis of eligible and non-eligible activities under the European taxonomy.

All of the Group companies are committed to respecting human rights and strictly comply with labour regulations in all the countries in which they operate. Group companies have also established, as a mandatory requirement, to enter into contracts only and exclusively with companies that support and protect human rights.

In order to obtain the sums associated with the eligible activities according to the taxonomy of the indicators included in the table above, the information loaded into the Group's corporate consolidation application was used to determine the contribution to the consolidated total turnover, OPEX and CAPEX of each company.

- **Turnover and OPEX:** The Group's main companies have implemented cost control tools in their ERP (enterprise resource planning) *software*, which allow them to divide revenues and expenses by cost centre and thus allocate them to their various activities. Once the amount attributable to each indicator under individual accounting has been determined, consolidation adjustments are taken into account so that the total amount matches the consolidated contribution of each subsidiary.
- **CAPEX:** The parent company, which has made 96.5 % of the Group's investments, catalogues all its investment projects in its ERP system under different categories, one of which is the destination of the investment. This categorisation has been used to determine the volume of investments directly related to an eligible activity. In the other Group companies, as they have a much smaller investment volume, the investment projects carried out in 2022 have been analysed individually in order to allocate them to the different activities. Investments that indirectly impact on an eligible activity, such as improvements in IT systems or general buildings, have not been considered.

By using the above procedure, any duplication in the sums included as eligible activities in the above-mentioned indicators has been avoided.

About this report

GRI 2-3

This document aims to reflect the actions and commitments of Canal de Isabel II, S.A., M.P. throughout the financial year 2022. For this purpose, the information mainly from the parent company and part of the information provided by the companies of the Canal de Isabel II Business Group has been merged.

This integration has been carried out in line with current international trends in the business world in terms of the need for the information provided by companies to the different stakeholders with which they relate to include the most relevant issues, so that readers can have a real and integrated view of the current performance and future potential of the organisations.

The document has been prepared in accordance with the Global Reporting Initiative (GRI) Sustainability Reporting Standards. We include detailed information on most of the content required under GRI and, where this is not possible, we provide the reason for such omission or which requirements are not applicable to our organisation. It is Canal's intention to continue to prepare annual reports based on these standards in the coming years, always using the latest updates proposed by GRI. In the document, we include those contents set out in the GRI Standards that illustrate the material issues that our company has identified for 2021 in its updated matrix.

GRI 2-5

Similarly, the contents of this report have been independently verified by the current auditor of Canal de Isabel II, S.A., M.P. for the 2022 financial year (the auditing firm AUREN), attaching the verification report that includes its scope and the results obtained. The criterion for the selection of the auditing firm, both in the current and previous years, has been its role as auditor of the financial statements of our parent company, which was selected in an open tender process and appointed by our General Meeting of Shareholders.

GRI 2-2

The document has focused mainly on the activities of the public company Canal de Isabel II, S.A., M.P. in the Community of Madrid, which account for 93.5% of the Canal

Group's consolidated revenues, but also includes the most relevant information on the rest of the Canal Group companies.

The scope of the information in the report mainly includes Canal and those companies of the Canal Group in which the parent company holds a majority shareholding, had staff and were active in 2022. Also included in the scope of the report are the programmes and main activities carried out by our foundation in Spain (Fundación Canal).

GRI 2-4

This report generally presents information for the year 2022 and in some cases for one or two previous comparison years (2020 and/or 2021). With regard to the quantitative information from 2020 to 2022, there have been no changes in the criteria for interpreting the data, which means that there are no major changes with respect to the data published in previous years by our company.

In general, all the Group's indicators have been calculated by aggregating the companies' data without taking into account the Group's shareholding percentage (aggregated data), with the sole exception of the consolidated financial data. This has been done in order to maintain consistency between the data published in the Group's consolidated financial statements. Euro values have been calculated using the average exchange rates applied in the profit and loss account of the Group's consolidated financial statements.

GRI 2-3

The data set out in the report relate to activity between 1 January and 31 December for each of the reporting years. The data have been collected from the information systems of the Canal Group companies during the month of January 2023. All this information may be modified in the future due to subsequent events, changes or improvements in the accounting systems of the parameters with which the GRI content is constructed.

Tin drafting the Management Report the provisions of *Law 11/2018, amending the Code of Commerce, the Capital Companies Act and the Accounts Auditing Act, in relation to non-financial information and diversity* have been taken into account, with the inclusion of environmental, social and good governance indicators in accordance with the standards of the Global Reporting Initiative (GRI). Therefore, the Report on the

Consolidated Management Report for Canal de Isabel II, S.A. includes this Statement of Non-Financial Information (SNFI) Similarly, the recommendations of the Guide for the Preparation of the Management Report listed entities, of the Spanish National Securities Market Commission and the guidelines on the presentation of non-financial reports issued by the European Commission have been taken into account for the drafting of the document.

This Management Report includes, as an integral part hereof, the Annual Corporate Governance Report for 2022, as required by Article 538 of the Spanish Companies Act.

If you have any questions or doubts, please contact the following e-mail address: subd.estudiosyprogramas@canal.madrid

Materiality process and results: *material issues and coverage*

GRI 2-12	GRI 3-3
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The process we have followed to determine the context of sustainability, the content of this document and the coverage of every aspect, has taken place in parallel with the process of drafting the Canal de Isabel II Strategic Plan 2018-2030 in 2016-2016, a process which culminated, in the third quarter of 2018, with its implementation and updated during 2020 as a result of the situation arising from the COVID-19 pandemic.

For that process, in mid-2016, representatives of the different areas of the company were selected and an internal working committee was established, the **Advancement Committee**, which, together with the **Management Committee**, worked through 2017 on the definition of large areas of strategic action, the values, the mission and the actions of the company.

The strategic plans of companies in other countries, in particular the United Kingdom and France, were also analysed, together with the results of comparative studies (benchmarking) in which Canal participates, such as the European Benchmarking Co-operation (EBC), and Aquarating and the standard developed by the International Water Association (IWA).

GR1 2-12

GRI 2-29

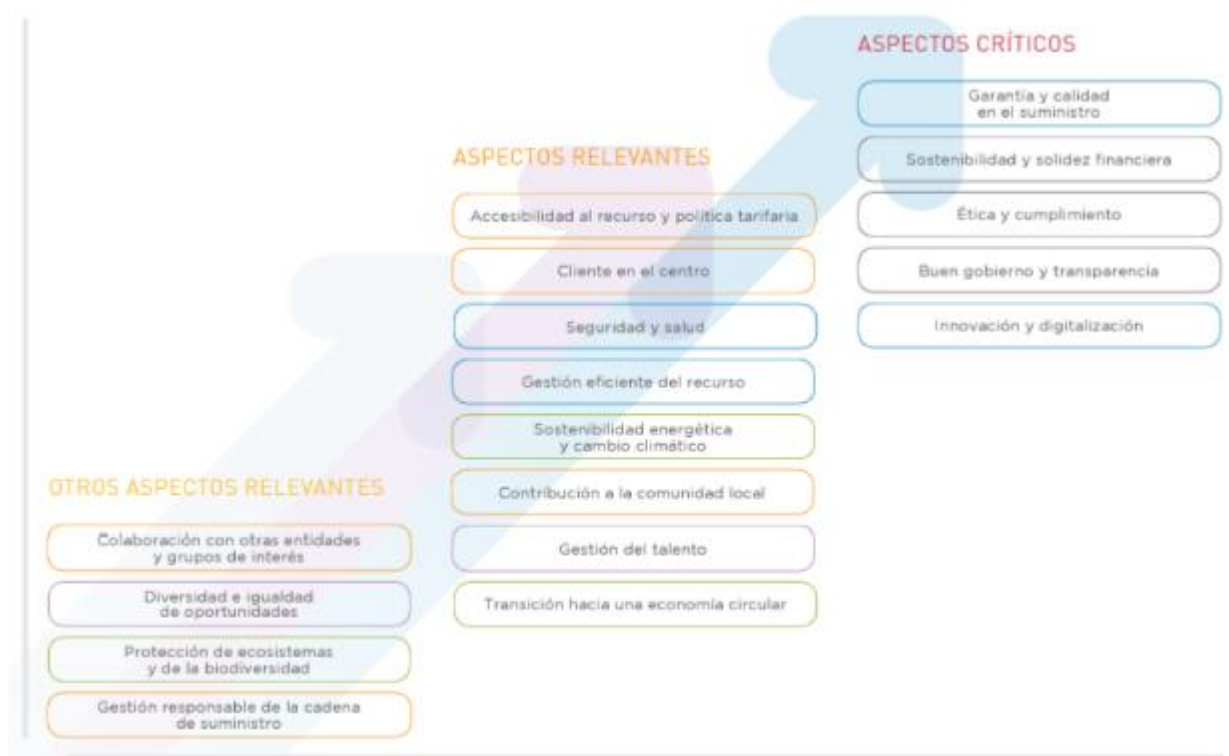
Also during the strategic reflection stage, a participatory process was carried out to ascertain the opinions of the different stakeholders (customers, employees, social agents, suppliers or regulators) and thus validate all the themes of the Plan as they were being developed. So we invited all stakeholders to participate in the reflection process, creating up to 11 focus groups so that stakeholders could express their ideas and their expectations of Canal and the Group, also interviewing leading figures from universities, business, local authorities and citizens' groups.

GRI 3-1

GRI 3-2

From the contributions received through the participation process for the drafting of the document, the main themes for the company have been defined, giving the result the set of strategic lines that form the basis for the development of Canal over the period.

Additionally, in 2020, due to the situation caused by the coronavirus, Canal de Isabel II decided to update its matrix based on the latest events, obtaining the following relevant issues by grouping:



This latest update is based on the list of sustainability aspects proposed by GRI. Subsequently, other relevant issues for both the company and its stakeholders have been included, which have been identified in the different sources considered in the analysis (*benchmarking* against other companies in the sector, internal interviews with company managers, press analysis, analysis of other internal documentation of Canal de Isabel II, etc.).

ANÁLISIS DE MATERIALIDAD 2020 (RESUMEN GRÁFICO)



GRI 3-1

GRI 3-2






GRI 3-3

In 2021 we carried out a new exercise with the Strategic Plan coordinators to review the materiality matrix in order to analyse whether, one year after the outbreak of COVID-19, there had been any significant changes. The result proved very similar to the 2020 result that COVID-19 already took into account in the Canal Group's operations:

Canal de Isabel II Materiality Matrix (Rev. 2021)












GRI 3-2

Aspectos materiales de la gestión en cada área de actuación							
	Garantizando el acceso al agua	Fuentes de suministro alternativas	Plan reutilización: alternativa definitiva	Lucha contra el fraude	La eficiencia de nuestra red	Garantizando la calidad del agua	Control del agua en origen
	Vigilancia del agua distribuida	Vigilancia aguas residuales y regeneradas	Cumplimiento normativa aguas de consumo	Garantizando la seguridad de instalaciones y personas	Seguridad operativa	Autoprotección edificios e instalaciones	Protección de datos con clientes y proveedores
	Seguridad de sistemas de información						
	Nuestras emisiones GEI	Emisiones atmosféricas	¿Cómo lo estamos mitigando?	Sistemas de la gestión	Prevención en origen de los impactos potenciales adversos	Prevención y comunicación sobre aspectos ambientales de nuestras operaciones	
	Consumo de energía	Generación de energía limpia					
	Consumo de reactivos	Consumo de papel	Consumo de agua	Tratamiento de aguas residuales	Gestión de residuos	Gestión de ruidos y olores	Cumplimiento legislación medioambiente
	Presencia en espacios protegidos	Especies protegidas presentes	Mantenimiento patrimonio vegetal	Caudales ecológicos	Gastos e inversiones en gestión y actividades medioambientales		
	Lanzarote						
	Nuestras relaciones con los Municipios de la Comunidad de Madrid	Garantizando la gestión del alcantarillado y el drenaje urbano	Comprometidos con nuestros clientes	Tarifas y facturación a los clientes	Actuaciones para garantizar una correcta facturación al cliente	La atención a clientes y usuarios	Vías de comunicación con los clientes
		Cobertura interna	Cobertura mixta			Cobertura externa	

GRI 3-2

Aspectos materiales de la gestión en cada área de actuación

	Gestión de sugerencias y reclamaciones	Defensor del cliente	Satisfacción del cliente y usuario	Plan Smart Region	
	Relaciones con las Administraciones Públicas y transparencia de la gestión	Otras fiscalizaciones de nuestra gestión	Código de conducta interno y Comité de Ética y Cumplimiento	Políticas de Cumplimiento y Prevención de Delitos	Política de remuneraciones e incentivos
	Estructura plantilla	Nuestro desempeño económico	Cifra de negocio	Resultado de explotación	Patrimonio Neto
	Garantizado la salud y seguridad de todos				Deuda financiera
 	Igualdad de oportunidades para todos	Representación sindical	Comunicación interna	Beneficios sociales	Formación y desarrollo de nuestros empleados
	Contribuimos al desarrollo de la I+D+I en nuestro sector	Posicionamiento como empresa innovadora	Tecnología al servicio del cliente interno y externo	Telecontrol y comunicaciones: clave de una gestión hidráulica moderna	Concienciando a las generaciones futuras: Canal Educa
	Buscando la colaboración de todos en el uso eficiente y responsable del agua	Recursos económicos destinados a la sociedad	Creación de valor para nuestros grupos de interés: nuestro "dividendo social"	Compromiso social	Cooperación en agua y saneamiento y otras iniciativas sociales
 	Bonificaciones sobre la tarifa				
	Cobertura interna			Cobertura mixta	Cobertura externa

Below is Canal's analysis, based on the battery of action areas, of the importance of each of the SDGs for the main elements of its **value chain** (both inside and outside the organisation).

GRI 3-1		GRI 3-3											
		Sociedad	Ecología	Proveedores	Captación	Tratamiento	Distribución	Alcantarillado	Depuración	Reutilización	Otros	Empleados	Clientes
6	Agua limpia y saneamiento	●	●		●	●	●	●	●	●			
13	Acción climática	●	●		●								●
7	Energía asequible y no contaminante		●						●	●			
12	Consumo responsable												
15	Vida terrestre												
14	Vida acuática	●	●		●	●	●	●	●	●			
		Sociedad	Ecología	Proveedores	Captación	Tratamiento	Distribución	Alcantarillado	Depuración	Reutilización	Otros	Empleados	Clientes
11	Asentamientos humanos sostenibles	●		●				●	●		●		●
16	Países desarrollados	●	●	●								●	●
8	Trabajo decente y crecimiento económico	●										●	
3	Salud y bienestar											●	
5	Equidad de género	●		●								●	
9	Industria, innovación e infraestructura	●			●	●	●	●	●	●		●	●
17	Alianzas para los objetivos de desarrollo sostenible	●	●	●								●	●
12	Consumo responsable	●											●

The following table shows the 10 strategic lines established by Canal de Isabel II, indicating the sections of the report that deal with the material issues related to each of these lines.

CONSOLIDATED DIRECTORS' REPORT FOR FINANCIAL YEAR 2022

	LE 1	LE 2	LE 3	LE 4	LE 5	LE 6	LE 7	LE 8	LE 9	LE 10
Nuestra Empresa										
Principales magnitudes	●	●		●						
Nuestra actividad	●	●		●						
Organización de nuestra empresa					●		●			
Seguimiento del Plan Estratégico 2018-2030	●	●	●	●	●	●	●	●	●	●
Nuestros grupos de interés	●	●	●	●	●	●	●	●	●	●
Nuestro desempeño en 2022 y los retos en la década de la acción										
8 Ciudadanía	●	●	●							
13 Vida submarina				●						
7 Energía limpia				●						
12 Consumo responsable				●						
15 Vida de ecosistemas terrestres				●			●			
14 Vida de ecosistemas acuáticos				●						
11 Industria, innovación e infraestructura					●	●				
16 Paz, justicia y fortaleza							●			
9 Industria, innovación e infraestructura								●		●
3 Salud y bienestar								●		
5 Igualdad de género								●		
10 Igualdad de género								●		
9 Industria, innovación e infraestructura									●	
17 Acción por el clima							●		●	
12 Consumo responsable							●			
El Grupo Canal										
Actividades y geografía	●	●				●				
Población servida	●	●								
Otras actividades				●					●	
Plantilla Grupo Canal								●		
Resultados económicos										●

More information on Canal's Strategic Plan 2018-2030 and the strategic lines can be found here:

https://www.canaldeisabese Segunda.es/documents/20143/695160/INFORME_PLAN+ESTRATEGICO.pdf/8a54d260-afa7-47bb-dead-b1ff981785ed?t=1569570938157

Legal information of Canal de Isabel II, S.A., M.P. and consolidated information of Canal and its subsidiaries

GRI 2-2

The entities included in the organisation's consolidated financial statements can be consulted in the documents referenced below (all available on Canal's website - see the following documents) www.canaldeisabese Segunda.es)

- ***Independent auditor's report on the accounts of Canal de Isabel II, S.A., M.P.***
- ***Consolidated Financial Statements, Annual Report and Directors' Report for the financial year 2022 of Canal de Isabel II, S.A., M.P.***
- ***Independent auditor's report on the accounts of Canal de Isabel II, S.A., M.P. and subsidiary companies***
- ***Consolidated Financial Statements, Annual Report and Management Report for the financial year 2022 of Canal de Isabel II, S.A., M.P. and subsidiary companies.***

Information available at this link:

<https://www.canaldeisabese Segunda.es/web/site/accionistas>

ANNUAL CORPORATE GOVERNANCE REPORT

FINANCIAL YEAR ENDED 31 DECEMBER 2022

Pursuant to the seventh additional provision of Royal Legislative Decree 4/2015, of 23 October 2015, which passed the revised Securities Market Act, as amended by Act 5/2021, of 12 April 2021, amending the revised Spanish Companies Act, passed by Royal Legislative Decree 1/2010, of 2 July 2010, and other financial regulations, regarding the promotion of the long-term involvement of shareholders in listed companies, Canal de Isabel II, M.P. is not required to prepare an Annual Corporate Governance Report, as it is an unlisted public company. However, in order to maintain the same transparency and disclose the same information on corporate governance as in previous years, this information is disclosed in a specific section of the Consolidated Directors' Report, in accordance with the Annual Corporate Governance Report template used in previous years.

A NATURE AND LEGAL REGIME**A.1 Explain the nature and legal regime of the entity, applicable regulatory framework and ownership and/or control structure.**

Canal de Isabel II, Sociedad Anónima, M.P. (hereinafter, also, the Company) is a public company in the form of a commercial company, in which a majority stake is held through the Canal de Isabel II Public Entity, of the Regional Government of Madrid. Therefore, it belongs to the institutional public sector of the Regional Government of Madrid.

Canal de Isabel II, S.A. is governed by commercial, civil and employment law, with the particular effects arising from the application of Law 1/1984, of 19 January, regulating the institutional administration of the Regional Government of Madrid.

Law 1/1984, of 19 January, regulating the Institutional Administration of the Regional Government of Madrid; Article 16 of Law 3/2008, of 29 December, on Tax and Administrative Measures of the Regional Government of Madrid, in its version in force; Law 9/1990, of 8 November, regulating the Public Finance of the Regional Government of Madrid; and Royal Legislative Decree 1/2010, of 2 July, approving the revised text of the Spanish Companies Act and the remaining commercial regulations that, if applicable, apply to commercial companies.

The ownership structure of the Company at 31 December 2022 was as follows:

Name or company name of shareholder	% of the share capital
Canal de Isabel II Public Entity	82.40 %
Municipality of Madrid	10.00 %
Another 110 municipalities in the Region of Madrid	7.60 %

Subsequent to year-end, a new municipality in the Region of Madrid joined the Company's shareholding structure through the transfer by the public entity Canal de Isabel II of shares representing 0.03606% of the share capital. As a result of the foregoing, the ownership structure of the Company is currently as follows:

Name or company name of shareholder	% of the share capital
Canal de Isabel II Public Entity	82.36 %
Municipality of Madrid	10.00 %
Another 111 municipalities in the Region of Madrid	7.64 %

A.2 Purposes and functions of the entity.

In accordance with its Articles of Associations, Canal de Isabel II, S.A. has the following purpose:

1. The comprehensive management of the water cycle primarily in the Region of Madrid, encompassing all processes geared towards the correct administration of the water resources necessary for the development and maintenance of the quality of life of the citizens that use the services provided by the Company: residential drinking water supply, sewers, monitoring

and control of discharge to sewerage networks and the public domain water and wastewater treatment. To such ends, the Company must develop its activity in accordance with the applicable regulations which include:

- a. Managing the supply and recycling of drinking water. This activity includes the execution of the following works by way of example: the abstraction and extraction of sub-soil water and the recharge of aquifers, as well as the abstraction of surface water, subject to the appropriate licences or concessions; the drinking water treatment and purification of water, whatever its origin, the control of water quality and its distribution to third parties, both for human consumption and for irrigation or other uses; maintenance, replacement, improvement and extension of networks, reservoirs and other existing infrastructures, as well as the civil works associated with such actions; management of water consumption, reuse and distribution; supply, installation and maintenance of meters; determination of consumption and billing and collection of fees for service provision and, in general, such activities as may be necessary for the management and provision of the service.
- b. The management of the sewerage service which will encompass works announced subsequently; the collection of waste water and storm water generated within the municipal area and transport to purification points and/or discharge to the natural environment; the maintenance, replacement, improvement and extension of the existing networks, scuppers, register wells, pumps and other infrastructure, along with the civil works related to such activities, the billing and collection of rates for the provision of the service, in general, and any activities required for the management and provision of the service.
- c. Control of materials discharged through the sewerage system and the Public Domain Water. Such activities encompass the controls necessary to ascertain the quality of waste water circulating through the municipal sewer system, the identification, where necessary, of the origins of contaminating discharges and the adoption of corrective measures to combat the discharge of contaminating waste water, civil works related to such activities, the billing and collection of rates for the provision of the service, in general, and any activities required for the management and provision of the service.
- d. Management of the wastewater treatment and reclamation service. The activity encompasses: the maintenance, replacement, improvement and extension of general collector networks and wastewater treatment plants and other treatment service infrastructure along with the civil works related to such activities; the billing and collection of rates for the provision of the service, in general, and any activities required for the management and provision of the service.
- e. The management and recovery of waste resulting from the processes listed in the previous sections and the marketing of any by-products derived from them.
- f. The completion of the technical, economic, legal and administrative studies necessary for the provision of the services and the completion of the activities indicated in the previous sections of this article and in particular the completion of Technical Studies and Projects for works and the completion of cost and rate studies.
- g. The execution and/or management of works, including related civil works, required for the maintenance, replacement, upgrading, installation or extension of a) distribution networks, depositions, catchment, treatment plants and other infrastructure of the drinking water supply network; b) collection and evacuation of waste water and storm water, scuppers, wells, pumps and other infrastructure of the sewerage network and; c) the general collector networks, impulsions, waste water and drinking water treatment plants and other infrastructure of the waste water treatment and recycling service.

2. The development of research, consulting and assistance activities for all sectors related to corporate purpose and, in particular, including but not limited to the provision of technical assistance services to companies on matters relating to the comprehensive water cycle management and processes geared toward the correct administration of water resources.
3. The exercise and development of the sale of energy, and the development of any related, instrumental, auxiliary or complementary activities, including but not limited to the:
 - a. Design, execution, management, development and maintenance of power generation facilities;
 - b. research and development in the area of the use of renewable energies, the rational use of energy and energy services;
 - c. construction of equipment and supply of services related to the distribution and use of energy;
 - d. trade of products and services related to the sale of energy, operating directly through several points of sale and/or third parties.
 - e. Buying, selling and obtaining greenhouse gas emission allowances.
4. The development, construction, sale, rental and other activities of a real estate nature, as well as the management and urban development of land, in relation to real estate, land or activities related to the main activity carried out by the Company.
5. The development or provision of other public services or activities involving the use of networks, infrastructures or property in the management of which it participates or owned by it; as well as in the exercise of technical, commercial or research activities that contribute to strengthening the services provided by the Company and that represent added value for users.
6. The development of activities and the provision of services in the area of telecommunications, information and communication, in particular the activities related to the Internet and other networks including, among others, activities involving access service provision, activities related to emergency, safety and rescue services, production, distribution and/or exhibition of own or external contents, website and eCommerce activities, the provision of customer service facilities, the design, implementation and management of call centres: the operation of social media websites and others that may arise in this area in the future.
7. The acquisition, subscription, retention, management, exchange, sale or conveyance of all kinds of equity holdings, shares and securities issued by any Spanish or foreign company or entity, irrespective of the legal status of the issuer, directly and without acting as an intermediary. All activities restricted by law to collective investment institutions or reserved by the Stock Market Law to member brokers and brokerage firms are excluded.

When commissioned to do so by the corresponding public administration, the Company may also be involved in the process of collecting government revenue, without this entailing the exercise of public authority, whether this is tax or non-tax revenue, during the voluntary or enforcement period.

These purposes shall not include those activities the performance of which may require special qualifications this Company does not meet by virtue of any Law.

In addition, the Company may carry out its corporate purpose, as described above, in any part of Spain or in any other country. The Company may also carry out all or part of these activities indirectly or through shareholdings and/or equity holdings in other companies with the same or similar statutory activities.

The Company may provide internal or intra-group services to its investees or the Public Entity Canal de Isabel II in relation to the matters listed above, and also in relation to the following matters:

- 1) IT services.
- 2) Network connectivity and telephone services.
- 3) Technical assistance and advice in telecontrol projects.
- 4) Advice concerning quality management systems.
- 5) Internal audit, risk management and internal control services.
- 6) Legal advice, compliance and assistance.
- 7) Data protection officer services.
- 8) Advice and assistance in human resources management and occupational health and safety.
- 9) Document record and filing services.
- 10) Technical advice and assistance in relation to consolidation, tax matters and accounting.
- 11) Cleaning, gardening and maintenance of offices and facilities, removing waste where necessary.
- 12) Security services.
- 13) Courier services between group companies and entities.
- 14) Medical consultation, nursing and physiotherapy services, where applicable.
- o) Coordination and control of contractors in the execution phase and compliance with the contracts adjudicated jointly by the Company and its investees and/or the public entity Canal de Isabel II.

B**GOVERNING BODIES OF THE ENTITY****B.1 Governing bodies of the entity, composition, procedures and organisational rules and function, along with the regime for the adoption of agreements.****ANNUAL GENERAL MEETING OF SHAREHOLDERS**

Per the provisions of the Company's Articles of Association, unless other quorums for the convening of meetings are established by law, the Shareholders' Meeting shall be validly convened, on first call, where the shareholders present in person or by proxy hold at least twenty-five (25) percent of the voting share capital. On second call, the Shareholders' Meeting shall be validly convened regardless of the share capital present.

Nevertheless, in order that the Shareholders' Meeting may validly resolve on the items referred to in article 194 of the Law, shareholders holding at least fifty (50) percent of the voting share capital must be present in person or by proxy on first call. On second call, only 25% of share capital is required to be present.

With regard to the regime for the adoption of agreements of the Company, the statutory regime of the Company replicates the statutory regime in force.

As per the provisions of the Company's Articles of Association, unless other majorities are established by law, Shareholders' Meeting resolutions shall be adopted by a simple majority of the votes of the shareholders present in person or by proxy, considering an agreement to have been adopted following the affirmative vote of half plus one of the share capital presents in person or by proxy. The affirmative vote of more than fifty (50) percent of the share capital present in person or by proxy shall be sufficient to adopt the resolutions referred to in article 194 of the Law. However, the affirmative vote of two thirds of the share capital present in person or by proxy at the Shareholders' Meeting shall be necessary where, on second call, the shareholders present represent twenty-five (25) percent of the subscribed voting share capital without reaching fifty (50) percent.

BOARD OF DIRECTORS

In accordance with the Articles of Association, the Company shall be administered, governed and represented with the broadest powers provided for by Law, except those that are the competency of the Annual General Meeting in accordance with legislation and the Articles of Association, by the Board of Directors, which shall be responsible for monitoring and controlling the ordinary management of the Company, and comprised of a minimum of five (5) and a maximum of fifteen (15) members. The Annual General Meeting must determine the number of members of the Board of Directors. At present, the number of members of the Board of Directors is set at fifteen.

The Directors appointed shall carry out their duty for a term of four (4) years, a term which applies equally to all of them, without prejudice to their re-election, and the powers of the General Meeting to proceed at any time with the removal of same in accordance with that established by Law and these Articles of Association. Notwithstanding the foregoing, until the amendment of the Articles of Association approved at the Extraordinary General Meeting of the Company held on 21 December 2022, the term of office of a director was six years. The four-year term established in the new wording of the Articles of Association for the term of office of directors shall not apply to the term of office of directors appointed before the entry into force of the new wording; however, if they are re-elected to the position, they may only be re-elected for periods of four years.

In accordance with the Articles of Association, the Board of Directors shall itself appoint the Chairperson and may appoint, if it so agrees, a Vice-Chairperson who shall replace the Chairperson in the event of departure, absence or illness. The person who performs the role of Secretary shall also be designated and a Vice-Secretary may also be appointed who shall replace the Secretary in the event of departure, absence or illness. To be appointed Chairperson or Vice-Chairperson, the designated person must be a member of the Board of Directors. This requirement is not necessary for the persons designated to fulfil the role of Secretary and Vice-Secretary; in which case they shall have speaking rights but no voting rights.

Meetings of the Board of Directors shall be called by the Chairman or the person replacing them. The Directors, constituting at least one third of the members of the Board, may also call Meetings, indicating the order of the day, to be held at the registered address of the company if, subject to the request of the Chairperson, where there are no justified grounds for the failure to call the meeting within the term of one month.

The notice of a meeting shall be sent by letter, e-mail or any other means of remote communication, which shall be addressed personally to each of the members of the Board of Directors, to the postal address, e-mail address or other contact details that, for notification purposes, they have communicated to the Company. Notice shall be given at least five (5) days in advance, except when there are reasons of urgency in the opinion of the Chairperson, in which case 24 hours' notice shall be sufficient. The meeting of the Board of Directors shall be valid without prior call, where all its members are present, and they decide unanimously to hold the session.

The Board shall remain validly constituted where an absolute majority of its members are present or represented at the meeting. In the event of an uneven number of directors, the absolute majority shall be determined by default (for example, 3 Directors must be present for a Board of Directors comprised of 5 members; 4 in one of 7; etc.).

The agreements of meetings of the Board of Directors held by videoconference or by conference call shall be valid provided that the directors have the necessary means to do so, and they mutually recognise each other, which shall be expressed in the minutes of the meetings and the certification of the agreements it issues. In this case, it shall be considered a single session of the Board held at the registered address.

Board members can only be represented at meetings of the Board of Directors by other members. Representation shall be conferred via a letter to the Chairperson.

The Chairperson shall open the session and chair the discussion of the items of the agenda, granting the floor and providing news and reports on the progress of company matters to the Board.

Except where the legislation requires a superior majority, agreements shall be adopted by absolute majority of the Members in session. In the event of an uneven number of directors present, the absolute majority shall be determined by default (for example, 3 directors must vote in favour of a resolution where 4 are present; 4 in the case of 7, etc.). In the event of a draw, the vote of the Chairperson shall be decisive.

Voting for agreements in writing and without session shall be valid where no Member opposes this procedure. Both the request to cast the vote by which the resolutions proposed to be adopted are conveyed, and the notice sent by the directors expressing their vote and, where appropriate, considerations, may be sent by any means that guarantees their authenticity and, in particular, by postal or electronic mail. The vote must be submitted within three (3) days from the date of receipt of the request to cast the vote, except when, in the

opinion of the Chairman, there are reasons of urgency, in which case the vote must be submitted within 24 hours.

The discussions and agreements of the Board of Directors shall be recorded in the minutes book.

The Board of Directors may itself designate an Executive Committee of one or more Managing Directors, without prejudice to the powers that may be conferred to any person.

The permanent delegation of some competency of the Board of Directors to the Executive Committee or one or several Managing Directors and the designation of Directors who must occupy such positions shall require, for validity, the favourable vote of two third parties of the members of the Board and shall have no effect on the registration with the Commercial Registry.

Under no circumstances shall the accountability for corporate management and the presentation of the balances to the Annual General Meeting be subject to delegation, nor the faculties that are granted to the Board, except where expressly authorised in accordance with the provisions of the legislation.

At 27 May 2021, the Board of Directors approved the Regulations of the Board of Directors of Canal de Isabel II, S.A., implementing the basic rules for the organisation and operation of the Board and its specialised committees contained in the Articles of Association.

The Board Regulations provide that the following powers of the Board of Directors may not be delegated:

- i. To supervise the effective operation of the Board of Directors and its specialised committees.
- ii. To coordinate the development of the Company's business in accordance with the interests of the Company and the Group companies.
- iii. To establish the Company's general policies and strategies and, in particular:
 - a) To approve the strategic or business plan, annual management and budget aims, investment and financing policies, corporate liability policies and dividend policies
 - b) To establish risk control and management policies, including tax risks, and to supervise internal information and control systems.
 - c) To determine the corporate governance policies of the company and of the group of which it is the parent company; its organisation and operation and, in particular, to approve and amending its own regulations.
 - (d) Policies on own shares.
- iv. To approve investments or transactions of any kind which, due to their large amount or special characteristics, are of a strategic nature or involve a special fiscal risk, unless they must be approved at a General Meeting.
- v. To establish the structure of Grupo Canal de Isabel II employees.
- vi. To make decisions regarding directors and Board of Directors compensation, within the legal and statutory framework and the compensation policies approved at a General Meeting, subject to a prior report from the Appointments and Remuneration Committee.

vii. To delegate and revoke executive powers in favour of directors of the Company, as well to establish the conditions of their contracts, subject to a prior report from the Appointments and Remuneration Committee.

viii. To appoint and remove the Management Team, as well as to establish the conditions of their contracts, including their remuneration, subject to a prior report from the Appointments and Remuneration Committee, where appropriate.

ix. To approve the creation or acquisition of shares with special purposes or entities established in countries or territories considered tax havens; as well as any other transactions or operations of a similar nature that, due to their complexity, could affect the transparency of the Company and the Canal de Isabel II Group, without prejudice to the obligations and/or restrictions to which the company is subject as it is part of the Institutional Administration of the Regional Government of Madrid, and has a fully publicly owned company.

x. To prepare the financial statements and presenting them at a General Meeting.

xi. To prepare any kind of report required by law from the governing body, provided that the transaction to which the report refers cannot be delegated.

xii. To call the General Meeting of Shareholders, to define the agenda and to propose resolutions.

xiii. In the event of vacancies on the Board of Directors, to appoint proprietary directors by co-optation, in accordance with the legislation, and subject to a prior report from the Appointments and Remuneration Committee.

xiv. To appoint and remove the Chairperson and Vice-Chairperson, if any, of the Board of Directors, subject to a prior report from the Appointments and Remuneration Committee, as well as the Secretary and Vice-Secretary of the Board of Directors.

xv. To appoint and remove the directors who are to form part of the various committees of the Board of Directors provided for in these Regulations and which may be set up in the future.

xvi. To supervise the effective operation of the committees that the Board of Directors may have set up and the performance of the bodies reporting to the Board of Directors and of the senior managers that it may have appointed.

xvii. To approve, subject to a prior report from the Audit Committee, the transactions that the Company or Group companies carry out with directors, with shareholders of the Company, with other Group companies or with related persons or parties.

xviii. To authorise or waive the obligations inherent to the duty of loyalty of the Company's directors in accordance with the provisions of the Spanish Companies Act, other applicable legislation and the Regulations.

xix. To approve the financial information which, as an issuer of securities, the Company must disclose from time to time.

xx. To approve the issue and admission to trading of debentures, as well as to approve the granting of guarantees for the issue of debentures, provided that they are not convertible debentures or debentures giving their holders right to a share in the company's profits.

xxi. Any other powers delegated to the Board of Directors at a General Meeting, unless the sub-delegation of such powers has been expressly authorised.

However, in the cases permitted by law, in duly justified emergency circumstances, the above decisions may be adopted by the bodies or persons reporting to the Board of Directors, subject to subsequent ratification by the Board of Directors at the first meeting held after the decision is adopted.

Furthermore, persons disqualified under the measures and conditions established by Madrid Regional Law 14/1995, of 21 April and Article 213 of Royal Legislative Decree 1/2020, of 2 July, approving the revised text of the Spanish Companies Act and other applicable legislation, are prohibited from holding positions in the Company.

The Secretary of the Board of Directors does not have the status of Director.

AUDIT COMMITTEE

In accordance with the Articles of Association, the Company shall have an Audit Committee, which shall be of an internal, consultative and informative nature and shall be composed of at least three directors, appointed by the Board of Directors. The Committee shall comprise exclusively non-executive directors, the majority of which, at least, must be independent directors and one, at least, must be appointed considering his or her knowledge and experience of accountancy and/or auditing.

Its composition at 31 December 2022 was as follows:

Name	Position	Category
Mr Jaime García-Legaz Ponce	Chairperson	Independent
Mr Antonio Javier Cordero Ferrero	Board Member	Independent
Mr Jaime Sánchez Gallego	Board Member	Other external directors
Mr Salvador Marín Hernández	Board Member	Independent

% of proprietary directors	-
% of independent directors	75 %
% of other external members	25 %
Number of meetings	11

The directors appointed on the basis of their knowledge and experience in accounting and/or auditing are Mr Jaime García-Legaz Ponce, who is Chairperson of the Committee, Mr Antonio Javier Cordero Ferrero and Mr Salvador Marín Hernández.

After the end of the financial year 2022, on 26 January 2023, Ms Cristina Aparicio Maeztu and Mr José Ignacio Tejerina Alfaro have joined the Audit Committee as proprietary directors. On the same date, Mr Jaime Sánchez Gallego has been removed from the Audit Committee.

The Audit Committee, without prejudice to other powers assigned by law, the Articles of Association, the Regulations of the Board or the duties entrusted to it by the Board of Directors, including the provisions of the regulations governing the auditing of accounts, has the following functions:

- i. To report, through the Chairperson of the Audit Committee, to the Board of Directors and at a General Meeting of Shareholders on any questions raised in connection with its duties and, in particular, regarding the result of the audit, explaining how this has contributed to the integrity of the financial reporting and the Committee's function in such process.
- ii. To supervise the effectiveness of internal control at the Company, internal auditing and the risk management systems, as well as discussing any significant weaknesses in the internal control system detected during the course of the audit with the auditors or audit firms, without threatening their independence. Accordingly, and, if applicable, recommendations and proposals may be submitted to the governing body and within the relevant deadline for monitoring thereof.
- iii. To supervise the process for preparation and presentation of the financial reporting required and to present recommendations or proposals to the Board of Directors aiming to safeguard its integrity.
- iv. To propose to the Board of Directors the selection, appointment, re-election and substitution of auditors or audit firms, being in charge of the selection process and the terms of the appointment and obtain information on a regular basis regarding the audit plan and the execution thereof and maintain independence while exercising its functions.
- v. To establish the appropriate relationships with auditors or audit firms in order to receive information regarding any such issues as may compromise their independence, for examination by the Committee, and those of anyone else involved in the process of auditing accounts, and, where applicable, the authorisation of services other than those prohibited, as well as such other communications as may be contemplated in the legislation governing auditing and audit standards. In any case, the Board will annually receive from the external auditors a statement on their independence with regard to the entity or entities directly or indirectly linked to them, together with the information on any type of additional services provided and the corresponding fees received from such entities by the external auditor or by the persons or entities related to this in accordance with that established in the legislation on account auditing.
- vi. To issue an annual report expressing an opinion on the independence of the auditors or audit firms, prior to releasing the audit report. This report will include an assessment or opinion on the provision of additional services referred to in the previous point, considered individually and as a whole, other than the legal audit and regarding the rule for independence or the account auditing regulatory policy.
- vii. To report on related-party transactions to be approved at the General Meeting or by the Board of Directors; and to supervise the internal procedure established by the company for those transactions, the approval of which has been delegated.
- viii. To previously inform the Board of Directors on all the issues envisaged by the Law, the Articles of Association and these Regulations, and in particular regarding:
 - (a) the financial information and the management report, including, where appropriate, the non-financial information required to be disclosed by the Company from time to time,
 - (b) The creation or acquisition of shares in entities with a special purpose or domiciled in countries or territories considered to be tax havens.

(c) The financial conditions and accounting impact of the structural and corporate modification operations that the Company plans to carry out.

ix. To supervise the proper development and operation of the Company's Compliance Function.

The Audit Committee shall meet with the frequency determined and whenever the Chairperson or two of its members call(s) a meeting. Any member of the management team or Company personnel shall attend meetings of the Audit Committee and provide cooperation and access to the information available to them whenever required. The Committee shall have the necessary means to discharge its duties and operate independently.

Except where the legislation requires a superior majority, agreements shall be adopted by absolute majority of the Members in session. In the event of an uneven number of directors present, the absolute majority shall be determined by default (for example, 2 directors must vote in favour of a resolution where 3 are present; etc.). In the event of a draw, the vote of the Chairperson shall be decisive.

In 2022 the Audit Committee rigorously discharged the duties entrusted to it by Law, the Articles of Association, and the Regulations of the Board of Directors. In this respect, the analysis prior to the preparation by the Board of Directors of the annual accounts of the Company and its group, including the Statement of Non-Financial Information, is noteworthy. The Committee has carried out the analysis prior to the approval by the Board of Directors of the Company's budget for the year 2023. The Audit Committee has also supervised the corporate restructuring operations relating to the dissolution and liquidation of the companies Ocio y Deporte Canal, S.L.U. and Canal Energía, S.L.U., having analysed the economic conditions and the tax and accounting impact of the aforementioned operations. The Committee was also involved in the process of reviewing the Company's Articles of Association during 2022. It has also reported favourably on the processing of the procedure for the declaration of the Company as an entity with in-house human resources by the Government of the Region of Madrid, in relation to the mobile radiotelephony service in a closed user group with digital technology. The Committee has approved the Internal Audit Plan for the period 2022-2024. The Annual Report on the Functioning of the Audit Committee for the year ended 31 December 2021 was also approved.

APPOINTMENTS AND REMUNERATION COMMITTEE

In accordance with the Articles of Association, the Company shall have an Appointments and Remuneration Committee, which shall be of an internal, consultative and informative nature and shall be composed of at least three directors, appointed by the Board of Directors. The Committee shall be comprised exclusively by non-executive directors, at least a majority of whom must be independent directors. The Chairperson of the Committee shall be appointed from among the independent directors who are members of the Committee.

Its composition at 31 December 2022 was as follows:

Name	Position	Category
Ms Isabel Aguilera Navarro	Chairperson	Independent
Mr Antonio Javier Cordero Ferrero	Board Member	Independent
Ms Alicia Muñoz Lombardía	Board Member	Independent
Ms Lourdes Vega Fernández	Board Member	Independent

% of proprietary directors	-
% of independent directors	100 %
% of other external members	-
Number of meetings	9

Subsequent to the end of the financial year 2022, on 26 January 2023, Mr Salvador Marín Hernández, who is an independent director, Mr Jaime Sánchez Gallego, who has the status of other external director, and Mr Mariano González Sáez, who at that date was a proprietary director, joined the Appointments and Remuneration Committee. On the same date, Ms Isabel Aguilera Navarro and Mr Antonio Javier Cordero Ferrero have been removed from the appointments and remuneration committee. Subsequently, on 16 February 2023, Ms Alicia Muñoz Lombardía was appointed as Chairperson of the Committee. Lastly, on 23 February 2023, Mr Mariano González Sáez ceased to be a member of the Appointments and Remuneration Committee, as a result of his appointment as Chief Executive Officer of the Company, as both article 529 quince of the Corporate Enterprises Act and article 20 of the Articles of Association set forth that the Committee shall be composed exclusively of non-executive directors.

The Appointments and Remuneration Committee, without prejudice to the other powers assigned by law, the Articles of Association or the Regulations, or the duties entrusted to it by the Board of Directors, shall have at least the following functions, as listed in the Regulations of the Board of Directors of the Company and the Articles of Association:

- i. To assess the competencies, knowledge and experience necessary in the Board of Directors. Defining, to this end, the roles and capabilities required of the candidates to fill each vacancy, and deciding the time and dedication necessary for them to properly perform their duties. The Commission may approve a matrix of competencies of the Administrative Board.
- ii. To make proposals to the Board of Directors of Independent Directors to be appointed by co-option or, if applicable, for submission to decision by the Annual General Meeting of Shareholders, and proposals for re-election or removal of those directors by the Annual General Meeting of Shareholders.
- iii. To report on the appointment proposals of the remaining members for designation by co-opting or for submission to the decision of the Annual General Meeting of Shareholders, and proposals for the re-election or separation at the Annual General Meeting.
- iv. To report on proposals for senior officer appointments and removals and the standard terms of their contracts. The Appointments and Remuneration Committee shall be informed of the appointment of the remaining members of the Management Team.
- v. To examine and organise the succession of the Chairperson of the Board of Directors and of the Company's CEO and, where applicable, making recommendations to the Board of Directors to ensure a well-planned and orderly succession.
- vi. To make recommendations to the Board of Directors on remuneration policy for directors or other members of senior management reporting directly to the Board of Directors, for specialised committees or executive directors, and for individual remuneration and other contractual conditions of executive directors and ensuring compliance with this policy.
- vii. To report on proposals for the assessment of compliance with objectives and the setting of objectives for senior management and the other members of the Management Team.
- viii. Establishing a target representation rate for the less-represented gender on the board of directors, proposing ideas on how to achieve this target rate.

- ix. To report, where appropriate, in the annual report on directors' compensation.

The Appointments and Remuneration Committee shall meet with the frequency determined and whenever the Chairperson or two of its members call a meeting.

Any member of the management team or Company personnel shall attend meetings of the Appointments and Remuneration Committee and provide cooperation and access to the information available to them whenever so required. The Committee shall have the necessary means to discharge its duties and operate independently.

Except where the legislation requires a superior majority, agreements shall be adopted by absolute majority of the Members in session. In the event of an uneven number of directors present, the absolute majority shall be determined by default (for example, 2 directors must vote in favour of a resolution where 3 are present; etc.). In the event of a draw, the vote of the Chairperson shall be decisive.

In 2022 the Appointments and Remuneration Committee rigorously performed the main duties entrusted to it by law, the Articles of Association and the Regulations of the Board of Directors. In this regard, the Committee was actively involved in the process of reviewing the Company's Articles of Association during 2022. In 2022, the Commission has approved a matrix of competencies of the Board of Directors. It also participated in the evaluation of the Board of Directors, approved a training and refresher plan for the Company's directors for the year 2022 and promoted an action plan to improve the performance of the Board of Directors and the Company's Committees. The Committee also reported on proposals for the appointment and re-election of proprietary directors, prior to their submission to the decision of the General Meeting of Shareholders. The Annual Report on the Functioning of the Appointments and Remuneration Committee for the year ended 31 December 2021 was also approved.

SUSTAINABILITY COMMITTEE

In accordance with the Articles of Association in force, subject to the amendment by resolution of the Extraordinary General Meeting held on 21 December 2022, the Company shall have a Sustainability Committee, which shall be of an internal, consultative and informative nature and shall be composed of at least three directors appointed by the Board of Directors. The Committee shall be comprised exclusively by non-executive directors, at least a majority of whom must be independent directors. The Chairperson of the Committee shall be appointed from among the independent directors who are members of the Committee.

The Sustainability Committee shall have, as a minimum, the following functions:

- i. To report on the Company's strategies, objectives and action plans in environmental and social matters and any other matters relating to sustainability.
- ii. To monitor the Company's actions in relation to sustainable development and, in particular, that its environmental and social practices are in line with the strategy and policies approved by the Board of Directors.
- iii. Report to the Board of Directors on the content of the statement of non-financial information, without prejudice to the powers that, in relation to the process of its preparation and presentation, may be attributed to the Audit Committee.

- iv. Supervise and enforce the Company's corporate governance system, taking into account the degree of compliance with the rules and recommendations of good governance that are or may be applicable, adapted to the characteristics of the Company.

The Sustainability Committee shall meet with the frequency determined and whenever the Chairperson or two of its members call(s) a meeting. Any member of the management team or Company personnel shall attend meetings of the Sustainability Committee and provide cooperation and access to the information available to them whenever required. The Committee shall have the necessary means to discharge its duties and operate independently. Except where the legislation requires a superior majority, agreements shall be adopted by absolute majority of the Members in session. In the event of an uneven number of directors present, the absolute majority shall be determined by default (for example, 2 directors must vote in favour of a resolution where 3 are present; etc.). In the event of a draw, the vote of the Chairperson shall be decisive.

The Sustainability Committee was established by resolution of the Board of Directors on 26 January 2023, with the following composition:

Name	Position	Category
Ms Lourdes Vega Fernández	Chairperson	Independent
Ms Isabel Aguilera Navarro	Board Member	Independent
Mr Antonio Javier Cordero Ferrero	Board Member	Independent
Ms Cristina Aparicio Maeztu	Board Member	Proprietary
Mr Fernando Arlandis Pérez	Board Member	Proprietary

B.2 Members of the board of directors or management body

DIRECTORS/MEMBERS OF THE MANAGEMENT BODY

Name or company name of director/member of the management body	Last date of appointment
Ms Paloma Martín Martín	18 December 2019
Mr Pascual Fernández Martínez	18 December 2019
Mr Mariano González Sáez	18 December 2019
Mr Jaime Sánchez Gallego	29 June 2020
Ms Isabel Aguilera Navarro	27 May 2021
Mr Antonio Javier Cordero Ferrero	13 November 2017
Mr Francisco Muñoz García	18 December 2019
Mr. Guillermo Hita Téllez	26 May 2022
Ms Alicia Muñoz Lombardía	25 November 2020
Ms Lourdes Vega Fernández	25 November 2020
Mr Jaime García-Legaz Ponce	25 November 2020
Mr Salvador Marín Hernández	27 January 2022
Ms Cristina Aparicio Maeztu	21 December 2022
Mr José Ignacio Tejerina Alfaro	21 December 2022
Mr Fernando Arlandis Pérez	21 December 2022

The Annual General Meeting of the Company resolved the number of members of the Board of Directors to be fifteen.

Subsequent to the end of the financial year, on 23 February 2023, Mr Pascual Fernández Martínez voluntarily resigned from his positions as Chief Executive Officer of the Company, Vice-Chairperson of the Board of Directors and member of the Board. As a result, there has been a vacancy on the Board of Directors since that date. Furthermore, on 23 February 2023, Mr Mariano González Sáez was appointed Vice-Chairperson of the Board and Chief Executive Officer of the Company.

B.3 System of remuneration of members of the governing bodies of the entity and indicate the remuneration paid during the financial year.

In accordance with the Articles of Association in force at 31 December 2022, the members of the Board of Directors shall receive attendance fees for their presence at meetings of the Board of Directors and committee meetings, provided that there are no grounds for prohibiting or rendering incompatible the receipt of such attendance fees. The maximum amount of the annual compensation of all directors in their capacity as such shall be determined by the General Meeting and shall remain in force unless a modification thereof is approved. For these purposes, the Board of Directors shall be responsible for the distribution of compensation among the members of the Board of Directors according to the positions held and their affiliation and attendance at meetings of the collective bodies.

Without prejudice to the foregoing, a member of the Board of Directors who is appointed chief executive officer or is assigned executive duties by virtue of another title shall receive compensation for the performance of his executive duties, which shall be established in the relevant contract to be entered into with the Company and which shall be previously approved by the Board of Directors, in accordance with the provisions of the Corporate Enterprises Act or the rule replacing it and the Articles of Association. The contract shall set out all the items for which compensation may be obtained in the performance of executive duties, including, in addition to a fixed pay, variable compensation and any severance payment for early termination of such duties, as the case may be, and shall comply with the legal provisions on incompatibilities and other limitations on compensation in relation to senior officers and managers in the public sector.

The remuneration of the members of the board of directors, accrued during the exercise of same:

Remuneration item	In thousands of euros	
	Individual	Group
Fixed remuneration	103.1	-
Variable remuneration	14.5	-
Expenses	97.8	-
Other remunerations	-	-
TOTAL	215.4	-

Directors with executive functions

The fixed and variable remuneration is equal to that of Mr Pascual Fernández Martínez, Chief Executive Officer of the Company during the year 2022.

B.4 Information on number of female directors on the Board of Directors or management body and other governing bodies of the company:

	Number of women							
	Financial year 2022		Financial year 2021		Financial year 2020		Financial year 2019	
	Number	%	Number	%	Number	%	Number	%
Board of Directors	5	33.33%	4	36.36%	3	27.27%	2	22.22%
Audit Committee	-	0.00%	-	0.00%	-	0.00%	1	33.33%
Appointments and Remuneration Committee	3	75.00%	3	75.00%	2	40.00%	1	33.33%

B.5 Diversity policies in relation to the Board of Directors and to the management and supervisory bodies of the entity in relation to, for example, age, gender, disability or professional training and experience.

Canal de Isabel II, S.A. has not formally implemented specific diversity policies for the Board of Directors and its Committees. Without prejudice to the foregoing, the Regulations of the Board of Directors provide that both the Appointments and Remuneration Committee and the Board itself shall ensure that the procedures for the selection of its members foster diversity of knowledge, experience, age and gender, and shall endeavour to ensure that the number of directors of the least represented gender complies with best corporate practices.

B.6 URL and means of accessing the Company's website regarding information on corporate governance.

Although, since it is an unlisted company, it is not required to do so, the Company has a corporate website, the website <http://www.canaldeisabelsegunda.es/en/home> was approved as corporate website for commercial purposes at the Extraordinary General Meeting of Shareholders on 23 November 2018. This website contains information on corporate governance in the section "About Us," under "Shareholders," in the sub-section "Corporate Governance." Furthermore, on the aforementioned website, in the section "Shareholders" and sub-section "Disclosures to the CNMV" there is a link to the website of the Spanish National Securities Market Commission, URL: <https://www.cnmv.es/porta/Otra-Informacion-Relevante/Consulta-OIR.aspx>, which contains disclosures regarding "Other Relevant Information" by Canal de Isabel II, S.A.

C RELATED AND INTRA-GROUP OPERATIONS

The Company forms part of the Canal de Isabel II Group, the direct parent company of which is the Public Entity Canal de Isabel II (the Public Entity), which holds a stake in the Company's share capital of 82.40%. There are no other shareholders that may exercise, directly or indirectly or under agreements between shareholders, control of the Company (in the scenarios envisaged in Article 4 of Royal Legislative Decree 4/2015, of 23 October, which approves the recast text of the Stock Market Law) or any significant influence over the taking of financial and operational decisions at the Company.

C.1 Transactions between the entity or group entities and the directors, management or members of the management body of the entity.

N/A

C.2 Intra-group operations, including those carried out with entities that have control or significant influence over the entity.

In accordance with the definition of "related party" provided for in the Ministry of Economy and Finance Order EHA/3050/2004, of 15 September 2004, Canal de Isabel II (Public Entity) and Madrid City Council have been deemed related parties with stakes of 82.40% and 10.00%, respectively.

The relationship between the Company and the Public Entity is established under the Contract-Programme, which describes in detail the reciprocal undertakings and consideration during the term thereof, quantifying and specifying the services to be rendered by the Company and guaranteeing the sufficiency and balance of the financial resources assigned to comprehensive water cycle management.

Details of transactions with the Public Entity in 2022 are as follows:

Nature of the relationship	Type of operation	Sums excluding VAT (Thousands of euros)(1)
Contract-Programme	Provision of Technical assistance services	2,825
Contract-Programme	Fees for regulation, discharge and other payments to the Entity	6,828
Contract-Programme	Distributed dividends	59,601
Contract-Programme	Amortisation of debts – mirror debt-	14,762
Contract-Programme	Financial debt costs -mirror debt- and others	4,009
Contract-Programme	Tax obligations - VAT Self-supply theatre assignment -	464
Contract-Programme	Tax consolidation-Corporate Income Tax	3,229
Contract-Programme	Other provisions of Services	239

(1) Sums accrued in 2022

Relations between the Company and the Madrid City Council are established under the Management Agreements, the provision of services as an institutional client and the tax obligations for which the Company is liable in line with the legislation in force.

Details of transactions with the Madrid City Council in 2022 are as follows:

Nature	Type of operation	Sums excluding VAT (Thousands of euros)(1)
Contract	Service provision -comprehensive water cycle-	21,887
Tax	Municipal taxes	10,821
Collective Bargaining greement	Discharge fees	4,414
Company dividends	Distribution dividends	9,773

(1) Sums accrued in 2022

Each year the Company draws up a Transfer Pricing Report in the Canal de Isabel II Group with the aim of complying with obligations in terms of reporting and documentation regarding entities and related transactions established by the Corporate Income Tax Law and the relevant Regulations on Corporate Income Tax.

The amounts of the Company's transactions with Group companies, associated companies and joint ventures in 2022 are as follows, as detailed in note 24 of the Company's individual annual accounts:

	In thousands of euros				
	Canal de Isabel II Public Entity	Canal Gestión Lanzarote S.A.U	GSS Venture, S.L.	Canal Extensia S.A.U.	Joint Ventures
INCOME					
Dividends	-	-	-	-	-
Materials sales	2	-	-	-	-
Service provision	-	-	-	-	-
Compensation for faults	-	-	-	-	-
Concession royalty	-	-	-	-	-
Financial income	-	2,694	-	1,384	404
Other operating income	239	755	-	21	573
EXPENSES					
Purchase of water	-	-	-	-	(1)
Supplies	-	-	-	-	-
Energy	-	-	-	-	-
Telephone helpline	-	-	(2,379)	-	-
WWTP operations	-	-	-	-	-
Sales offices	-	-	-	-	-
Other operating works	-	-	-	-	-
Repairs of technical installations	-	-	-	-	-
Technical assistance	(2,825)	-	-	-	-
Advertising	-	-	-	-	-
Other current operating expenses	(464)	-	-	-	-
Financial costs	(4,009)	-	-	-	-
INVESTMENT	-	-	-	-	-

In 2022, transactions between Group companies in which Canal de Isabel II, S.A. did not hold a stake were as follows:

			In thousands of euros
Company	Financial	Financia I	Item
Canal Extensia. S.A.U.	821		
Canal Extensia America		757	Technical assistance
Amerika Tecnologías y Servicios, S.A.S.		64	Technical assistance
Canal Extensia America	1,287		
Amagua, CEM		1,264	Technical assistance
Amerika Tecnologías y Servicios, S.A.S.		23	Back office lease
Amerika Tecnologías y Servicios, S.A.S	501		
Canal Extensia America		35	Software services
AAA Dominicana, S.A.		178	Software services
Amagua, CEM		275	Software services
Gestus Gestión & Servicios,S.A.S.		13	Software services
Canal Extensia, S.A.U.	4,326		
Canal Extensia America		2,894	Interest on loans
Soluciones Andinas de Aguas, S.R.L.		1,432	Interest on loans
Canal Extensia America	1,685		
AAA Dominicana,S.A.		497	Interest on loans
Soluciones Andinas del Agua,S.R.L.		781	Interest on loans
Fonte da Serra		85	Interest on loans
Emissao,S.A.		271	Interest on loans
Gestus Gestión & Servicios,S.A.S.		51	Interest on loans
Amerika Tecnologías y Servicios, S.A.S.	6		
Canal Extensia America		6	Interest on loans
Soluciones Andinas del Agua,S.R.L.	646		
Emissao, S.A.		646	Interest on loans

Operations linked to financing agreements were as follows:

"INTERCOMPANY" LOANS CANAL EXTENSIA, S.A.U.	
CANAL EXTENSIA AMERICA, S.A.	In thousands of dollars
Loan 6 February 2019	2,300
Loan 03 May 2019	42,702
1 st Addendum 25 November 2019	49,309
2 nd Addendum 13 October 2021	51,809
3 rd Addendum 22 March 2022	54,500
At 31 December 2022, 617 thousand dollars have not been drawn down	
SOLUCIONES ANDINAS DE AGUAS, S.R.L. (Emissao)	in thousands of Euros
Credit 30 January 2019	2,900
1 st Addendum 3 May 2019	5,800
2 nd Addendum 25 November 2019	13,134
At 31 December 2022 it has drawn down the full amount of the credit	
SOLUCIONES ANDINAS DE AGUAS, S.R.L. (Purchase of Emissao)	In thousands of dollars
Credit 20 November 2013	14,500
Fully impaired	(14,500)
INTERCOMPANY LOANS CANAL DE ISABEL II, S.A., M.P.	
CANAL EXTENSIA (CANAL EXTENSIA AMÉRICA, S.A.)	in thousands of Euros
Credit 6 February 2019	2,000
1 st Addendum 3 May 2019	4,700
2 nd Addendum 25 November 2019	8,373
3 rd Addendum 7 October 2021	10,573
4 th Addendum 31 March 2020	12,934
At 31 December 2022, 374 thousand euro have not been allocated.	
CANAL EXTENSIA S.A.U.(Emissao)	in thousands of Euros
Credit 29 January 2019	2,900
1 st Addendum 3 May 2019	5,800
2 nd Addendum 25 November 2019	13,134
At 31 December 2022 it has drawn down the full amount of the credit	
CANAL EXTENSIA, S.A.U.	in thousands of Euros
Loan 26 March 2019	4,000
1 st Addendum 31 March 2020	4,000
At 31 December 2022, 717 thousand euros have not been allocated.	

C.3 Mechanisms established to detect, determine and resolve any possible conflicts of interest between the company or its group and controlling entities or entities with significant influence of the group, and the directors or members of the managing body or executives of the company.

Pursuant to the provisions of Article 229 of the revised Spanish Companies Act, the members of the Board of Directors and the Company's executives must notify the Board of Directors of the existence of any situation of conflict, whether direct or indirect, they may have with the Company's interests. The board members and Company executives have informed the board of directors that neither they nor the related parties referred to in article 231 have any conflict of interest or hold any direct or indirect stake in the capital of any company pursuing the same or an analogous or supplementary type of activity as that comprising the Company's objects.

D CONTROL SYSTEMS AND RISK MANAGEMENT

Canal de Isabel II has an Internal Audit, Risk Management and Control Sub-department, under the organic management of the Chief Executive Officer and the functional supervision of the Audit Committee. Its duties include Internal Audit, Risk Management and Internal Control, from the perspective of the COSO framework.

The Internal Audit, Risk Management and Control Sub-Directorate conducts its activities in line with the International Standards for the Professional Practice of Internal Auditing and has on its in-house audit staff a Certified Internal Auditor (CIA) and Certified in Control Self-Assessment (CCSA), along with Certification in Risk Management Assurance CRMA and COSO ERM and in Internal Control, COSO Internal Control Certificate Program, granted by the Global Institute of Internal Auditors and COSO

The International Standards, International Framework for the practice of Internal Audit, requires that the internal audit function has a Quality Assurance programme and that it is evaluated by an independent third party every five years. In November 2018, the Internal Audit Area achieved the renewal of the QA (Quality Assessment) with the maximum certification classification "GENERALLY COMPLIANT" granted by the Spanish Institute of Internal Auditors, a leader at national and international level, noting the adherence to International Standards for professional exercise of the Internal Audit function.

D.1 Entity's systems of control and risk management.

Risk Management is a monitoring activity that seeks to keep permanently abreast of any risks that may have a bearing on the strategic targets to be met by the organisation.

The Risk Management Policy of Canal de Isabel II, S.A. was revised and approved by the Board of Directors on 30 January 2020 and all the Company's personnel are responsible for its correct application. Canal conducts its risk management based on the internationally recognised methodologies COSO (Committee of Sponsoring Organization of the Treadway Commission), COSO Internal Control and COSO ERM (Enterprise Risk Management) , adapted to suit the organisation's characteristics.

It is based on the following principles:

- I. Understanding risk to mean any threat that an event, action or omission might prevent Canal de Isabel II, S.A. from achieving its objectives, successfully implementing its strategies or correctly conducting its operations, or lead to lost opportunities. Considering the different types of risks, financial and non-financial (including operating, technological, legal, social, environmental, political and reputational) facing the Company.
- II. Setting in place the mechanisms for proper risk management, having regard to the identification, evaluation, response to, analysis of mitigation measures, monitoring and reporting of such risks.
- III. Promoting and implementing the strategy, culture, resources and processes comprising integrated risk management, to be reviewed periodically in order to adapt it to the situation of the organisation and its environment.
- IV. Assigning responsibility for identifying, analysing, evaluating and supervising the Risk Management System to the various levels of the organisation.

- V. Encouraging the creation and implementation of guidelines, limits and mechanisms that help to ensure that risk management is performed in line with the risk level accepted by the organisation.
- VI. Fostering, encouraging and disseminating, by means of training and communication, the Risk Management System, guaranteeing awareness of this Policy, along with the documentation in which it is developed, and the information and internal control systems to be used to control and manage the aforementioned risks.

All of the Risk Management activity is managed via the SAP GRC application, which adds value by offering management characteristics such as:

- Global overview
- Traceability
- Historical records
- Possibility of joint risk management by various areas
- Monitoring automatic controls and conducting tests
- Common repository
- Integrated workflow (notification and monitoring of events)
- Scorecards
- Information security

The application enables to gather information from other management applications used at the Company and applies them in line with risk and control measuring needs. Capitalising on the advantages yielded by the tool, Canal de Isabel II is currently making considerable progress in automating indicators and controls.

In 2022, the application was changed to version 12.

A Risk Map is available, with the three levels of consolidation (Sub-department, Department and Company), where risks are assessed mainly by the Directors and Assistant Directors.

Canal de Isabel II is affected by a range of different risks depending on the areas in which it operates and the activities it pursues, which may prevent it from successfully meeting its goals if not duly controlled. With this in mind it has set in place a dynamic Risk Management System, enabling to include any new risks, emerging risks, which might affect the Company, and which are identified over the course of the year. It also ensures that the most significant risks are reviewed and fully assessed twice a year.

Bodies tasked with preparing and implementing the Risk Management System.

The following bodies are in charge of the creation and implementation of the Risk Management System:

- Board of Directors: establishes the existence of a corporate risk management system.
- Audit Committee. This is a specialised body of the Board of Directors. It is the body ultimately responsible for Risk Management, as explained by the CNMV: *"The Audit Committee's supervisory responsibility in the domain of risks targets the effectiveness of internal control and risk management systems as a whole, embracing both financial and non-financial risks."*
- Chief Executive Officer. The Executive Vice-Chairperson is responsible for the Risk Management Model and is in charge of promoting and implementing it.

- Global Risk Manager: The Internal Audit, Risk Management and Control Sub-management department, which coordinates, facilitates the implementation and supervises Risk Management.
- Risk Manager. The Risk Manager is the person responsible for managing risk at each Department and liaises between Global Risk Managers and users. There are a total of 9 users.
- Risk Valuators. The Risk Assessors are all the Managers and Sub-managers, in charge of updating the Risk Map. Totalling 39.
- Persons in charge of Risk by Organisational Unit. They are responsible for defining the indicators and controls and for monitoring risks. Totalling 47.

In 2022, taking into account the above list of members from the Audit Committee to the Risk Managers, the company had a total of 85 participants in the company's Risk Management.

Risk Categories

The risks that may affect the achievement of the Company's objectives are classified on the basis of the categories used in COSO (Committee of Sponsoring Organization of the Treadway Commission), adapted to the reality of the company, with the following Risk Taxonomy, in line with best practices:

- Information Risks. Those regarding data and information of a financial, non-financial, internal and external nature at the Company.
- Compliance risks. Those pertaining to regulatory compliance. These risks relate to the aim of ensuring that the regulator and society as a whole have the utmost trust in the Company's activity.
- Operational risks. Those pertaining to operational processes at the organisation. They relate to processes, persons and services rendered.
- Strategy risks. Those pertaining to the set of decisions taken by the Company in order to fulfil its remit.
- Financial risks. Those pertaining to economic and financial processes at the organisation.

Category No. Risks % of total:

- Information 9%
- Compliance 13%
- Strategy 21%
- Operations 47%
- Financial 10%

Process

Canal de Isabel II conducts its risk management based on the methodology COSO Internal Control and COSO ERM, adapted to suit the organisation's characteristics. This methodology enables the Company to identify, create, capture and sustain the value of risk management.

The risk assessment process starts with identification and continues as follows:

- Risks are assessed at the level of impact and likelihood based on scales that factor in various risk aspects.
- A list is drawn up of the potential risks at Canal de Isabel II based on the Risk Taxonomy.
- The entity's risk map is updated periodically (the Risk Map was updated twice in 2022).

- It is consolidated automatically using the information stored on SAP-GRC and the risk map is drawn up by department and for Canal de Isabel II as a whole. Each area in question, depending on the nature of its activity, has its own risk map and assesses the risks that directly or indirectly affect the fulfilment of its goals. Those in charge of assessment at each organisational unit are tasked with updating the risks for which they are responsible.
- Once the most relevant risks have been identified, risk management gets underway on a joint basis between the Organisational Unit, the person responsible for management and the Global Risk Manager, who makes the process easier. Both of them appoint the person responsible for the risk and, as from that moment and using the application, the risk in question will be controlled and monitored.

For each of the risks, as defined by the international COSO framework, the possible responses are: accept, avoid, reduce or share.

Among all the risks managed which are decided to be mitigated, 100% have indicators, 82% have controls that periodically evaluate their design and effectiveness, and 7% have measures (occasional controls that do not need to be maintained over time).

Internal Control

According to the international COSO framework, internal control is a process conducted by a company's management and the rest of its staff, designed in order to provide a reasonable degree of certainty in connection with the achievement of goals.

In this regard, and connected with Risk Management, Canal de Isabel II uses controls and/or measures to mitigate or maintain said risks, the design and effectiveness of which are assessed with the frequency established by the party responsible.

In 2022, 989 design tests and 204 effectiveness tests were performed.

In the area of Internal Control and adaptation to the COSO Framework, with the aim of verifying that the principles and components are present, in operation and coordinated with each other, in 2022 the assessment of the applicable transversal controls that affect the entire company has continued, using the SAP-GRC tool, increasing the number of controls and the participants in this assessment.

Likewise, areas with specific (non-transversal) controls in the COSO model have been encouraged to perform analyses within the specific goals. There are specific ICSFR and compliance controls, the MPD, identifying 17 and 9 controls, respectively.

E INTERNAL CONTROL AND RISK MANAGEMENT SYSTEMS RELATED TO FINANCIAL REPORTING (ICOFR) AND TO SUSTAINABILITY REPORTING (ICOSR)

E.1 Mechanisms which comprise the internal control over financial reporting (ICOFR) and sustainability reporting (ICOSR) risk control and management systems at the entity.

E.1.1. Bodies and/or functions responsible for: (i) the existence and maintenance of adequate and effective ICOFR and ICOSR systems; (ii) their implementation; and (iii) their monitoring.

In its "Internal Control over Financial Reporting Policy", approved by the Board of Directors in its meeting held on 27 May 2015, and subsequently modified on 19 September 2018, Canal de Isabel II, S.A. defines the related roles and responsibilities, establishing that the Board of Directors is ultimately responsible for the existence and maintenance of an adequate and effective system of internal control over financial reporting (ICOFR).

Furthermore, Canal uses the "General Organisation Manual on ICOFR" which was last updated and approved by the Finance and Business Development Department on 26 October 2017. This manual provides more details of the organisational structure of the finance area and other areas directly linked to ICOFR.

The Finance and Business Development Department, as part of the Management Committee, is assigned the responsibility of designing, implementing and maintaining ICOFR. By virtue of this statement, in February 2018, this Division prepared the "ICOFR Management and Evaluation Manual" for the first time, which documents the ICOFR management and evaluation methodology and is periodically updated based on the incorporated improvements. In 2022, the latter document has been extended to the management and assessment of the ICSSR, and is hereinafter referred to as the "ICSFR and ICSSR Assessment Management Manual".

Lastly, the Audit Committee, in support of the Board of Directors in their supervisory role, has amongst its duties, in accordance with the Company's Articles of Association (article 19.b and c), the following: to supervise the effectiveness of the Company's internal controls, internal audits and risk management systems and to oversee the preparation and presentation of regulated financial information.

E.1.2. Elements of the process of preparing financial information and sustainability information

Departments and/or mechanisms responsible for: (i) designing and reviewing the organisational structure; (ii) clearly defining the lines of responsibility and authority with an adequate distribution of tasks and functions; and (iii) ensuring that there are sufficient procedures in place to correctly disseminate them throughout the entity.

The Board of Directors of Canal appoints the Managing Director and the rest of Directors and determines the organisational structure of the Company, on the basis of a report by the Appointments and Remuneration Committee, where applicable.

As described in E.1.1., the "General Organisation Manual on ICOFR" provides more details of the organisational structure of the Finance and Business Development Department and other areas directly linked to ICOFR. This Organisation Manual is aligned with the Duties and

Responsibilities Manual of Canal. The periodic update of this manual is coordinated by the Resources Department, reviewed by the different area directors and approved by general management.

In the definition and assignment of responsibilities and tasks to the different sub-departments and the areas that report to them, the duties are identified and segregated with a view to ensuring that the preparation of financial information is managed appropriately.

ICOFR and ICOSR documentation includes a risk and control matrix which clearly defines the organisational structures and/or job functions that own each control mechanism in relation to the preparation of financial and sustainability information, respectively. These responsibilities have been validated by the sub-departments of these structures through a formal approval process.

Code of conduct, approval body, level of distribution and instruction, principles and values included (indicating any specific mention of the recognition of transactions and the preparation of financial information), and the body responsible for analysing breaches and proposing corrective measures or penalties.

To provide guidance and foster ethical professional practices, having assumed the new legislation on integrity and transparency, senior management has prepared a mandatory Code of Conduct, applicable to all personnel of Canal de Isabel II, which states the Company's values and principles.

This Code of Conduct was approved by the Board of Directors at its meeting held on 8 January 2015 and, since February 2017, it has been published on the Canal website and intranet.

The Code of Conduct includes the principles and values applicable to the entire organisation, which include, most notably, the following:

- Mandatory for all Company personnel.
- Commitment to an ethical and compliance culture. Conduct guidelines.
- Acceptance of and compliance with the Code of Conduct.
- Integrity and professional responsibility are the general criteria that govern the conduct of Canal de Isabel II.
- Several principles, which to a greater or lesser extent are related to the reliability of the financial information and compliance with applicable legislation, are established, in particular:
 - The obligation to know and comply with the standards, as well as internal procedures and processes.
 - Decisions must be traceable.
 - Monitoring that all the information, including financial information, is prepared rigorously and is reliable.

The declaration of knowledge and acceptance of the Code of Conduct is a requirement to be fulfilled prior to subscribing employment contracts for new personnel. It is also a prerequisite for the homologation of suppliers and is included in the appendices of the Specific Administrative Clauses of the several public tenders. It is also one of the requirements for tenderers through the small procurement carried out through the CYCLO application.

In addition, Canal has Internal Conduct Regulations on matters relating to the Securities Markets, which was also approved by the Board of Directors at its meeting held on 8 January 2015 and which has been amended by resolution of the Board of Directors on 29 March 2021, in order to adapt it to the new European regulations on market abuse, and to reflect the

organisational changes in the company. This regulation includes, among others, the following aspects related to financial reporting:

- Codes of conduct relating to personal transactions of liable persons
- Codes of conduct in relation to privileged information
- Codes of conduct in relation to relevant information
- Codes of conduct in relation to handling trading.

This regulation is applicable, among others, to persons that may have regular and recurring access to privileged information, with the Registry of Liable Persons created in 2015. In 2022 the specific updates to the said Registry were made when any of the persons included in the scope of said Regulation are incorporated or replaced.

- Whistle-blowing channel, which allows the Audit Committee to be informed of any financial and accounting irregularities, in addition to any breaches of the Code of Conduct and irregular activities within the organisation, stating whether this channel is confidential in nature.

As indicated in the Code of Conduct, Canal has a notification and consultation procedure in place (ethical line) which enables people within the Company, together with providers and contractors, to submit any queries or notify any irregularities or breaches by email linea.etica@canal.madrid linea.etica@canal.madrid

As a necessary safeguard of the Code of Conduct, the Ethics and Compliance Committee has its own operating Regulation, approved on 8 May 2019 by the Board of Directors of Canal de Isabel II, S.A., and modified by the Board of Directors itself in the meetings held on 27 January and 24 November 2022. The Ethics and Compliance Committee is also set up as the supervisory and control body referred to in article 31 bis of the Criminal Code, which establishes the criminal liability of legal entities.

The Committee's duties include the following:

- Supervision of the notification and consultation model.
- Proposals for improvement of the ethics and compliance model.
- Fostering the ethical commitment within the organisation.
- Ensuring the effectiveness of the crime prevention model, fostering and disseminating training programmes and raising awareness in connection with ethics and integrity.

In 2022, the Ethics and Compliance Committee met on four occasions.

The Ethics and Compliance Committee is responsible for processing notifications and queries received via the ethical line, pursuant to the Response Protocol, and may use the help of the persons and units within the Company as required in order to resolve each communication. This Response Protocol establishes codes of conduct that must be followed in relation to responding to complaints, or concerns relating to irregular activities in view of the Code of Conduct.

In 2022, none of the notifications received via the ethical line were related to irregularities that could affect the financial reporting.

- Training programmes and regular refresher courses for personnel involved in the preparation and review of financial and sustainability information and the assessment of ICOFR and ICOSR, covering at least accounting standards, audit, internal control and risk management.

Training programmes and regular refresher courses for personnel involved in the preparation and review of financial and sustainability information and the assessment of ICOFR and ICOSR, respectively, covering at least accounting standards, audit, internal control and risk management.

The 2022 Training Programme included a block course of training aimed at personnel from the financial department with the aim of extending and updating their knowledge in fiscal and accounting matters and code of conduct. Similarly, training has been provided for staff involved in the preparation of sustainability information.

In 2022, personnel from Financial Management and Business Development that take part in preparing and reviewing the financial information, received a total of 346.57 hours of training.

8 courses were held, which were taught by consulting agencies or external entities, and attended by 16 employees. Most of the courses were on accounting, consolidation and taxation and code of conduct.

Moreover, throughout 2022, 11 participants from subsidiaries (Amagua, ASAA and Canal Extensia América) were trained in two sessions organised by the Finance and Business Development Department on ICOFR management and the use of SAP-GRC.

Also, at the Parent Company Canal de Isabel II, S.A., the Finance and Business Development Department organised six training sessions attended by 16 persons in 2022.

E.2. Risk assessment of financial and sustainability reporting

E.2.1. Features of the risk identification process, including the process of identifying the risks of error or fraud, with respect to:

Whether the process exists and is documented

Apart from the integrated risk management system in Canal and described in the previous sections, the Internal Control System of Financial Reporting and the Internal Control System of Sustainability Reporting also include a specific process for identifying risks regarding financial and sustainability information in the parent company.

Whether the process covers all financial and sustainability reporting objectives (existence and occurrence; completeness; valuation; presentation, disclosures and comparability; rights and obligations), whether it is updated and, if so, how frequently.

With regard to specific ICOFR risks, the purpose of the financial reporting scope matrix, developed by the Finance and Business Development Department, is to identify the accounts and disclosures that carry significant associated risk and have a potential impact on the financial information, thus requiring special attention.

The specific risks of the ICSSR, associated with the different controls, are based on the identification of the most relevant aspects of corporate responsibility, arising from the materiality analysis carried out by the Studies and Programmes Sub-department.

Financial and sustainability risk management consists of identifying risks in respect of the reliability of the financial and sustainability information and establishing controls to mitigate these risks.

This financial and sustainability risk management is a separate section in the SAP GRC IT application, which in turn contains the documentation of the processes that affect internal control over financial and sustainability reporting as well as the risks and controls that have been established for each process.

The starting point for the management of financial reporting risks, independent of the Company's Global Risk Management, is the analysis of the information contained in the Company's financial statements, selecting the most significant accounting items based on quantitative criteria (materiality) and qualitative criteria (transaction complexity, volume of transactions, difficulty of calculations, use of judgements, estimates or projections, if subject to fraud, etc.). The selected items are associated with processes and/or sub-processes where the information is generated. As a result of this analysis the financial reporting risks are identified.

At the same time, other risks from any of the established categories are identified that, although they may not exceed the established quantitative and qualitative thresholds, might still compromise the reliability of the financial information. Fraud-related risks and the risk of errors in financial reporting are of particular relevance and are specifically identified.

Risk assessment is performed annually and fulfils the objectives that ensure the reliability of the financial and sustainability information published: existence and occurrence, completeness, valuation, presentation, disclosures and comparability, rights and obligations.

At the beginning of 2022, testing of the accounting closing and reporting process controls in the subsidiaries Amagua, Amerika and ASAA was launched via SAP-GRC. In the second half of 2022, an additional control has been incorporated into the Sustainability Report process, .

In accordance with all of the foregoing, the commitment was fulfilled to extend this control system to the rest of group companies and to introduce new processes in accordance with the methodology described in the "ICOFR and ICOSR Management and Evaluation Manual."

Lastly, note that, throughout 2022, the Finance and Business Development Department completed the monthly monitoring reports concerning frequent assessment of the functioning of internal control over financial and sustainability reporting.

Whether a specific process is in place to define the consolidated group, taking into account among other aspects, the possible existence of complex corporate structures, special purpose entities, etc.

The Finance and Business Development Department of Canal has approved the consolidation process of the financial statements, which regulates the calculations and the updating of the consolidated group. The consolidated group remains unchanged while there are no changes to the investments in consolidated companies. However, should any change occur in the percentages of direct, indirect or crossed ownership in the investees, the consolidated group is recalculated. The ownership percentages are reviewed at each monthly close.

The map of Group companies is updated on a regular basis and whenever there is a change in the interest held in a company. All changes occurring in a given period are specifically identified.

Whether the process considers the impact of other risk types (operational, technological, financial, legal, reputational, environmental, etc.) that may affect the financial statements and sustainability reporting.

The risks identified in the Internal Control System of Financial Information are a part, as financial risks, of the company's overall corporate risk management system, and are summarised as a single risk that forms a part of the organisation's corporate risk management, managed by means of the risk management application (SAP-GRC).

Likewise, the risks identified in the Internal Control System of Sustainability Reporting are a part, as risks, of the overall corporate risk management system, and are summarised as a single risk that forms a part of the organisation's corporate risk management, managed by means of the risk management application (SAP-GRC).

Which governing body within the entity supervises the process.

The Canal de Isabel II Audit Committee is responsible for ensuring the control and supervision of the effectiveness of the ICOFR.

The ICOFR and ICOSR is integrated in the SAP-GRC.

This application identifies the critical processes, associated risks, control activities to mitigate these recognised in the relevant risk matrix and controls and the process structure is identified and integrated in this application, together with the units responsible for executing the control activity.

E.3. Control activities

E.3.1. Procedures to review and authorise financial information and the ICOFR system description to be published on the stock markets, indicating those responsible for execution, as well as documentation describing the flow of activities and controls (including those relating to fraud risk) for the different kinds of transactions that may have a material impact on the financial statements, including the procedure for the accounting close and the specific review of relevant judgements, estimates, valuations and projections.

The review process and authorisation of the Company's financial and sustainability information, as well as the description of the ICOFR and ICOSR, are formally carried out every year. Also, monthly reviews are performed, with the main objective of guaranteeing both the quality of the financial information reflected in the financial statements and the quality of the sustainability information reflected in the sustainability report.

In the ICOFR, in the aforesaid review process, those in charge of the Sub-department of Financial Administration, the Sub-department of Management Control, the Sub-department of Finance and the Sub-department of IT systems, as well as the corresponding areas within each sub-department, review and validate the reliability of the financial information prepared on their areas of responsibility.

In the ICSSR, also in this review process, the heads of the Studies and Programmes Sub-department, as well as other Sub-departments and Areas involved, review and validate the reliability of the sustainability reports prepared under their responsibility.

In line with the ICOFR scope matrix, the Finance and Business Development Department launched the internal control documentation commencing with the processes/sub-processes that cover different types of transactions that could have a material impact on the financial statements, which have been identified as key processes in Spain and cover more than 70% of the line items in the consolidated financial statements. In addition, it was determined necessary to document a process based on qualitative risk factors.

Below is a table showing the number of control tests launched in 2022 in each of the Canal Group companies with ICOFR implemented:

COMPANY	No. of design tests	No. of effectiveness tests	Total Test
CANAL "business"	127	391	518
CANAL "IT"	75	100	178
CANAL GESTIÓN LANZAROTE	118	336	454
OCIO Y DEPORTE	10	24	34
HIDRÁULICA SANTILLANA	13	0	13
CANAL EXTENSIÓN AMERIKA, S.A.	37	110	147
EMISSAO	34	78	112
AAA DOMINICANA	14	56	70
AMERIKA	15	53	68
AMAGUA	15	55	70
ASAA	17	61	78
COSO - ICOFR	17	17	34
TOTAL	492	1,284	1,776

The total number of tests conducted in 2022, under the ICOFR, in the aforementioned companies amounted to 1,776.

This information includes high-level descriptions of key processes/sub-processes for financial reporting:

- Accounting close, which includes the key controls related to relevant judgements, estimates and projections.
- Consolidation and reporting
- Budgets
- Asset management
- Cash
- Tax management
- Invoicing and collection
- Contracting, supplies and payments
- Salaries and social securities
- Preparation of Financial Statements

With regard to the ICSSR, the table below shows the total number of tests conducted in 2022, under the documented process (Sustainability reporting):

	No. of design tests	No. of effectiveness tests	Total Test
Preparation of sustainability report	22	55	77

Canal de Isabel II, S.A. has implemented the internal control management tool (SAP GRC) which serves to report and store the documentation, with a view to improving process effectiveness. This tool makes it easier to obtain, evaluate and review the information, as well as improving the organisation's control environment. SAP GRC shall contribute to a more robust control environment, easing the review and updating of documentation of procedures, the self-assessment of control effectiveness and the follow up of the stage of completion of action plans, through a more efficient assignment of responsibilities for performing controls.

Furthermore, since 2019, Canal, along with other leading companies, is taking part in the collaborative space for the internal control over financial reporting (ICOFR) system to pool experiences, know-how and best practices in connection with ICOFR.

With regard to the implementation of the compliance department at Canal de Isabel II, S.A. and as part of the Policies developed by said department, at its meeting held on 24 November 2022 the Board of Directors approved the modification of both the Compliance Policy and the Crime Prevention Policy.

E.3.2. Internal control over financial reporting system policies and procedures (including access security, monitoring changes, how changes are made, operating continuity and segregation of duties) which support the entity's relevant processes for the preparation and publication of financial information.

The control activities operating in the IT systems for the critical processes associated with the preparation and publication of the financial information of Canal, as defined in the Company's ICOFR, have been identified. Specifically, a series of policies and actions that focus on the following aspects have been designed and implemented:

- Information Security - policy and function
- Management of weaknesses and security incidents
- Security of access to information systems
- Security in contracting and use of cloud services
- Separation of functions
- Management of software and infrastructure modifications
- Project management
- Secure software development
- Operations management
- Business Continuity

A set of controls aimed at providing reasonable assurance as to the reliability of the financial information has been defined as part of these activities. Design and effectiveness tests have been carried out throughout the year.

Information Security - Policy and function

Canal has an Information Security and Business Continuity Policy, signed by the Company's Chief Executive Officer and distributed throughout the organisation, which is published on the corporate Intranet. It also has an "Organisational Manual of the Information Security Management System," which states the duties and responsibilities in this area. These are mostly performed by the Information Security Coordinating Committee, the Company's top-level information security body, which is chaired by the CISO and has representatives from all of the areas of Canal involved in information security.

Furthermore, for raising awareness among employees and for these to put this into practice regarding cyber-security, security recommendations have been issued, together with information alerts during well-known campaign periods for distributing harmful programmes. Likewise, a security portal, featuring the various security awareness campaigns and giving access to all documents relating to security is available to all employees. Special attention has been paid to the prevention of phishing through the implementation of three campaigns aimed at all users, and the subsequent development of informative content to all users who were involved in the various campaigns

Following the Operating Technology Security Master Plan (OTSMP), developed throughout 2020, identifying the information security risks for the various types of facilities for comprehensive water cycle operations. Based on this diagnosis, the policies, organisation and securing programmes of Operating Technology (OT) were established. In relation to the PDSOT, in 2021 the Action Plans identified in the project SISTRATO of the Innovation and Engineering Department were mapped, through which these action plans will be implemented in 2022-2023, being planned as tasks in Action 3.3.4 of Plan 3.3 of Strategic Line 3.

During 2021, a study of Canal's compliance with the requirements of the National Security Scheme (ENS) was conducted, resulting in the advice to take a series of actions at an organisational level, personnel regulations, IT equipment regulations, computer application development regulations, electronic signature regulations and document cleaning (metadata).

In 2021, the Centralised Electronic Signature project was launched to comply with the Electronic Signature Regulations identified within the requirements of the ENS. Throughout 2022, the Centralised Electronic Signature project was implemented, with Canal de Isabel II, S.A. being constituted as a delegated Registration Authority (RA), with the appointment of the relevant registration officers, defining an Electronic Signature and Certificate Policy in accordance with the ENS, replacing with a final nature the previous local certificates with the new high level qualified centralised certificates for Civil Servants, Representative and Seal, which are much more secure as they use a second authentication factor for the signature, allow the authorised delegation of the signature, have audit capabilities for the use of certificates (which certificate and where), etc. The Portafirmas (with all the previously existing signature circuits) and Self-Service of Portafirmas functionalities have also been fully configured and are ready to be implemented.

In 2021, all information assets were updated, their assessment in the dimensions of Accessibility, Confidentiality, Integrity, Availability and Auditability (ACIAA) by the respective owners/controllers of the information and their classification, as set out in the General Procedure for the Classification and Secure Treatment of Information (PGS-0001). In 2022, work began on the implementation of the project SISTRATO to increase cybersecurity in the operational processes and OT technology in the various plants, facilities and workplaces. In connection with this point, a specific risk analysis of all information assets and infrastructures of the current Security Systems Area has also been carried out, using an industrial security solution with the capacity to identify assets, their possible vulnerabilities, identify risks and prioritise remediation actions.

Also during 2022, three *phishing* campaigns have been carried out aimed at all employees of Canal de Isabel II, S.A., resulting in a detailed action plan that, among other aspects, includes the creation of a specific security indicator of the level of awareness of users, a targeted and comprehensive training plan in cybersecurity for all Canal users, evolution of future phishing campaigns depending on the maturity of users, etc.

Upon approval of Royal Decree 311/2022, of 3 May, which regulates the National Security Scheme (hereinafter, ENS), the Security Department has drawn up a proposal for an Information Security Policy to comply with the provisions of article 12 of said RD, as well as

the wording of the Governance Framework and the structure of all related security documentation.

Management of weaknesses and security incidents

The IT systems are updated periodically whenever the various software manufacturers issue notifications that periodic software patches and security updates are available. Likewise, weaknesses reported by these manufacturers or official and non-official lists of distribution of threat intelligence are taken into account.

In 2019, Canal de Isabel II S.A. was designated an essential operator in accordance with Royal Decree-Law 12/2018, of 7 September, concerning the security of information networks and systems, and reports security incidents to the Information Security Incident Response unit of the National Cryptological Centre (CCN-CERT), as indicated in the National Guide for the Notification and Management of Cyber-incidents. In 2019, SAT-INET probe was installed to enable the CCN to monitor the systems exposed to Internet. The monitoring stipulated in the collaboration agreement signed in 2014 with INCIBE and CNPIC to manage cyber-incidents remains in operation.

In 2019, two cyber-incidents were reported to CCN-CERT which did not have an impact on the information systems of Canal de Isabel II S.A., and which were resolved using the Company's own resources. No cyber incidents were reported to CCN-CERT in 2021.

Furthermore, Canal de Isabel II S.A. has outsourced an information Security Operating Centre (SOC) which analyses all events from the integrated sources in order to detect and identify potential threats and launch necessary processes for containment and remediation. This SOC also warns Canal's cybersecurity teams in connection with vulnerabilities or malware or phishing campaigns in order to take the necessary preventive and remedial measures.

In 2020 the General Security Procedure PGS-0005, was established and approved, defining the complete cycle of integrated management of security-related cyber-incidents.

The renewal of the Technical Security Office (TOS) and Security Operations Centre (SOC) service started at the end of 2021.

In 2022, the renewal of the Security Operations Centre (SOC) and the Technical Security Office (TSO) service was signed through the Cyber Defence Centre. This new contract will allow not only to continue with the services already provided, but also to increase their volume, as well as to have additional resources to be able to face major challenges such as the necessary tasks of adaptation to the security requirements set out in Royal Decree 311/2022, of 3 May, which regulates the National Security Scheme (hereinafter, ENS), to ensure compliance by Canal de Isabel II, S.A. before 3 May 2024, the design of dashboards for senior management, the implementation of new security services (e.g. early detection of possible intrusions), continuing with the integration of security event sources in the SIEM, having a dedicated team for the *Threat Hunting* function, etc.

As part of the Risk Management System (RMS) Cyber-attack Corporate Risk is defined and managed.

Security of access to information systems

Several measures at different levels have been defined to prevent unauthorised access to data and software.

Canal has its main DPC in Madrid and a back-up centre in Majadahonda to ensure that IT systems would be available in the event of any contingency. The Company's Operating Security

Area, reporting to the Security Department, has installed access control systems at these facilities that only allow access by authorised personnel and record all entries.

On a logical level, the Company has authorisation procedures for access to software and systems which are managed by business managers, for both internal and external personnel, implemented via the Access requests and permissions management tool. Authentication is carried out by applying a policy of complex passwords. Remote access control implements a multi-factor authentication (MFA) system.

In 2019, the Company commenced implementation of a multi-factor authentication system in the access to corporate e-mail and corporate storage on the Microsoft Office 365 platform, which became fully implemented in 2020. In 2021, this authentication mechanism was incorporated into the corporate remote access system.

In 2020, a Technical Instruction (IT-0578) was developed and approved which defines the risks associated with contracting and using cloud services and the necessary security controls for their management. This technical instruction is used as minimum security requirements for possible cloud service providers.

In 2020, a standard for access to the information system was established, defining the functions and responsibilities of the various parties intervening in the process and which includes the periodic review process by the persons responsible for the business of the applications of users having access to them.

An additional web application firewall (WAF) security layer was implemented in 2021 for 5 applications with external access. A fraud protection service was also activated in the remote access system.

In 2022, in collaboration with the Coordination of Network and Access Services, work continued to increase the security of the web pages published on the Internet by incorporating them into the Advanced Web Application Firewall (AWAF) system, increase from 5 to 6 protected applications (blocking mode) and 3 currently being monitored (transparent mode), to be put into production during the first months of 2023.

In 2022, the IT Infrastructure Area also began the process of installing the corporate EDR solution on Windows servers as a complement to the anti-malware solution already available, thereby increasing the protection of these environments.

Also in 2022, together with the Coordination of Network and Access Services, a new Technical Instruction (IT-0594) has been created and approved for the implementation of compliance policies in the corporate solution for access control to the corporate data network, through a compliance matrix and communication flows in cases of detection of unidentified equipment or equipment that does not comply with the established security policies (*non-compliance*), for its rapid resolution.

Likewise, in 2022, the multi-factor authentication (MFA) system provided by Office 365 has been integrated into all remote accesses to Canal de Isabel II, S.A.'s systems, including those of external personnel, thus increasing their security. In addition, Office 365 security events have been integrated into the SIEM service managed within the SOC, thereby increasing the capacity to monitor security events and, therefore, visibility in the event of possible cyber incidents. Work has also begun to limit remote access only to corporate laptops, identified by certificate, which will implement an additional security layer for remote employee access.

In 2022, a system has been developed for the management of access to applications under the project IDENTITY on the IT request and incident management platform, which will enable the

review and certification of users in the applications by the business managers of the applications

Separation of functions

Prior authorisations and periodic reviews are used to monitor super users by means of ICFR TI.02.02.03. The implementation of the identity management project will also make these aspects more robust.

Segregation of duties in SAP financial reporting systems has been implemented in 2022

Management of software and infrastructure modifications

Canal, as part of the project to introduce a Service Desk system, defined a procedure for the Management of Modifications, implemented in the tool, to minimise risks that could have a negative impact on the stability or integrity of the production environment.

Project management

With the objective of ensuring the value and quality of project deliverables and correctly assigning Project priorities and coordination of all the projects, Canal has developed and introduced a Project management methodology and a project portfolio management methodology. Likewise, it was provided with a programme and project management office.

In light of the lack of capacity of the IT team to field all the requests to the information systems, a filter has been established to orient IT resources to projects of the systems necessary for compliance with Canal's Strategic Plan, those deriving from regulatory obligations and those requested by the Management Committee.

Secure software development

Within the framework of the Information Security Management System, a General Security Procedure for the Secure Development of Applications (PGS-0002) was compiled, containing a full set of best practices in regard to secure coding and development, as well as a list of Technical Guides associated with said General Security Procedure as reference documentation, with the aim of it all being integrated into the development life cycle of software as a coding requirement and whose implementation will help mitigate the most common vulnerabilities of software in all the software development and implementation projects carried out by Canal. Said procedure contemplates performing security assessments in all phases of development and implementation, as well as the mandatory security audits and assessments in each of the phases. Likewise, a Continuous Integration system is in place based on standards to control the quality of software that is to be delivered to production.

For the systems, particularly those accessible from the Internet, security software audits are implemented as a preliminary step prior to their entry into service.

In 2020, implementation was consolidated of a continuous security audit system for the permanent assessment of the security of the corporate websites and applications posted online.

In 2021, PGS-0002 was updated and five secure development technical guides on particular technologies were generated: Cordova, Web, Cloud, iOS and .NET.

In 2022, the service was renewed, which will allow to continue to increase the number of assets published on the Internet to be audited on an ongoing basis, increasing from the current 10 to an estimated total of 20 during the period 2022-2025.

Through the status of compliance with the National Security Scheme by the Cybersecurity team in 2021, the need for Canal to define and approve a Secure Development Methodology through the Computer Applications Area has been identified.

In 2022, a practical analysis of all the aspects to be considered when carrying out software projects with security in mind has been carried out from the design phase of the new information system.

The security model of the application for incident, request and change management in information systems was also analysed

Operations management

Various initiatives have been carried out to ensure that information systems are operated correctly:

- A Planner and Operations Manual provide support to the planned execution of processes.
- Systems are monitored at various levels: services and network availability, performance, user experience, process execution.
- Back-up systems and procedures are in place to guarantee the availability of information. Additionally, the safekeeping of the information is ensured through the storage of back-up tapes in an external bunker.
- Technical training on Capacity Management has been developed as a guide to the correct execution of the Capacity Management process with regard to present and future requirements.
- System users can contact a 24x7 User Service Centre if they detect any incidents.
- In 2022, a new digital user experience system has been implemented that allows proactive action to be taken when user equipment is performing poorly or to determine the use of software licences for optimisation

Business Continuity

The Business Continuity Plan (BCP) aims to cover the different scenarios that may affect business continuity (employees, workplaces and facilities, information and telecommunications systems and suppliers). At the end of 2021, the Continuity Office was created with the main objective of Business Continuity Management. This Office was previously part of the Quality Systems Sub-department, but due to organisational changes in November 2022, it is now part of the Resources Department

Some of the duties of this Office include:

- To develop Business Continuity Policies, Framework and Methodology.
- To update the Business Continuity Model in accordance with experiences and changes and to submit these changes to the CCN for approval.
- To integrate, update and provide with cohesion the master lines that guide the development of the business continuity plan (Centre of Excellence).
- To adapt, incorporate and contrast best practices in the development of the Canal's business continuity plan.
- To draw up the schedule for the implementation of Business Continuity in Canal and follow up on it.
- To promote and manage the proper implementation of the business continuity plan.
- To perform quality control and monitoring of the business continuity plan.
- To analyse and validate the changes proposed to BCPs by the different Areas/Units of Canal.
- To advise on the definition of the testing field and scope of the business continuity plan

- To analyse the results of the BCP tests (partial and total).
- Develop internal, corporate communication and awareness-raising plans.
- To conduct training and coaching in the field of the business continuity plan (BCP).
- To maintain an adequate level of information and knowledge on Business Continuity developments and trends, through sources of information, both external and internal to the Organisation.
- To keep track of possible updates in current legislation.

In 2022, the Business Impact Analysis (BIA, as it is commonly known) of all the organisation's processes has been updated. This analysis looks at the criticality of the processes, as well as the resources needed (People, ICT, Locations and Suppliers) so that they can continue to operate, should a contingency occur.

As a consequence of the update above, the Recovery Strategies, which identify the different alternatives to be used depending on the scenario, and the Recovery Procedures, which indicate the procedures to be used in each scenario affecting the critical processes previously identified in the BIA, have also been updated.

Also due to the update above, the documents that make up the Business Continuity Management System (BCMS) have been updated:

- Test Plan.
- Training Plan.
- Crisis Management Plan and Manual.
- Business Continuity Governance Framework.
- Update Plan.

Within the 2022 test plan, a total of 12 tests have been carried out, where the following scenarios have been worked out:

- Buildings (Building 4, Laboratory Building, Plaza Castilla Building, José Abascal 10 Building, Majadahonda Complex)
- Facilities (DWTP Colmenar).
- ICT (Information and Communication Technology) (Majadahonda Complex, Majadahonda DPC Crisis, NOVATA).
- Suppliers (DWTP Reagent, DWTP Electricity Supply, Commercial Service Provider).
- People (Treatment Personal Communication, Laboratory Personal Communication).

A first version of the Operational Continuity Plans (OCP) has also been drafted jointly with all the heads of all the areas with critical processes, aiming for each area to define its own recovery procedures for critical situations.

E.3.3. Internal control policies and procedures to supervise management of activities outsourced to third parties, as well as issues related to evaluation, calculation or valuation which are entrusted to independent experts, and which may have a material impact on the financial statements.

Canal is a public mercantile company whose contracts, in accordance with their amount and purpose, are subject to Law 9/2017, of 8 November, on Public Sector Contracts or the relevant part of Royal Decree-Law 3/2020, of 4 February, on urgent measures, incorporating into the Spanish legal framework various European Union Directives in the sphere of public contracting in certain sectors, namely private insurance, pension schemes and funds, taxation and tax

litigation; and repealing Law 31/2007, of 30 October, on contracting procedures in the water, energy, transport and postal services sectors.

Activities entrusted to third parties that could have a material impact on the financial statements are considered relevant to the generation of financial information, which lead to, if applicable, the identification of risks of errors, which involves designing the associated internal controls. These controls cover the analysis and internal approval of the basic assumptions to be used, as well as the review of the assessments, calculations or valuations of the activities performed by external personnel, by comparing these with calculations performed internally.

In 2022, one of the significant activities outsourced to third parties in Spain with an impact on the financial statements, was the operation of wastewater treatment plants, an activity carried out in annual periods by the Canal de Isabel II, S.A. Operations Department.

Canal ensures the technical capacity and competence of the subcontractor and the Company has introduced controls to validate the reasonableness of readings:

E.4 Information and communication

E.4.1. A specific area responsible for defining and updating accounting policies (accounting policies area or department) and resolving queries or disputes arising from their interpretation, maintaining fluid communications with those responsible for operations in the organisation, and an up-to-date accounting policies manual that is distributed to the units through which the entity operates.

The Sub-department of Financial Administration, which reports directly to the Finance and Business Development Director, is responsible for defining and updating accounting policies, as well as resolving queries or disputes arising from their interpretation. The Sub-department maintains fluid communications with the organisation's operations managers and, particularly, with those in charge of accounting duties.

The Sub-department of Financial Administration is also responsible for editing and distributing appropriately the Group's Accounting Practices Manual. The purpose of this manual is to establish the principles, bases, conventions, rules and specific practices in relation to the recognition of certain specific financial transactions carried out as part of the Group's activity. The accounting practices manual is updated every year.

Any standards identified as having an impact on the Group's accounting policies are included in the Manual at the end of the year. The latest version, dated December 2021, was distributed to all the Group's control departments in January 2023.

E.4.2. Mechanisms to capture and prepare financial information in standard formats, applied and used in all units within the entity or group, which support the main financial statements and accompanying notes as well as disclosures concerning ICOFR.

The mechanism to capture and prepare the information that supports the Canal de Isabel II Group's principal financial statements is mainly based on the use of the SAP Business Planning and Consolidation (BPC) tool, which can be accessed from anywhere in the world and has been rolled out to the entire Group.

A large part of the information that supports the disclosures in and notes to the financial statements is included in the consolidation tool. The remainder is captured from standard format worksheets that are prepared for the yearly closes.

E.5 Supervision of system operation

E.5.1. The ICOFR monitoring activities carried out by the Audit Committee. Internal audit function, the responsibilities of which include supporting the committee in its monitoring of the internal control system, including ICOFR. Scope of the assessment of ICOFR in the year and the process by which the person responsible for conducting the evaluation reports the results, action plan detailing any corrective measures, and its impact on financial reporting.

As established in Article 19 of the Articles of Association, *"The Company shall have an Audit Committee, which shall be of an internal, consultative and informative nature and shall be composed of at least three directors, appointed by the Board of Directors. The Committee shall comprise exclusively non-executive directors, the majority of which, at least, must be independent directors and one, at least, must be appointed considering his or her knowledge and experience of accountancy and/or auditing."*

The Audit Committee meets with the frequency determined and whenever the Chairperson or two of its members call(s) a meeting. During 2022, 11 meetings were held by the Audit Committee.

Any member of the management team or Company personnel shall attend meetings of the Committee and provide cooperation and access to the information available to them whenever required.

The Audit Committee is currently comprised of three independent directors and two proprietary directors.

The Committee provides support to the board of directors with regard to their oversight duties, by periodically reviewing the process for preparing financial/economic information, the Company's internal control procedures and the independence of the external auditor.

The duties of the Audit Committee are listed in section B.1 of this report.

In 2022, the first meeting of the Audit Committee was held on 20 January 2022, and the last on 15 December 2022.

To perform its duties, the Audit Committee relies on the information and documentation provided by the Finance and Business Development Department, the Internal Audit, Risk and Control Sub-department, the Compliance Unit and the Technical General Secretariat, among others.

Based on the constitution of the Audit Committee and the meetings thereof, a matter is included on the agenda of the Board of Directors, informing of the various points and agreements addressed in each of its meetings.

E.5.2. Discussion process is in place whereby the auditor (in accordance with the provisions of the Technical Standards on Auditing), the Internal Audit Department and other experts may inform senior management and the Audit Committee or directors of the entity of significant internal control weaknesses identified during the review of the annual accounts or any other processes assigned to them. Action plan to correct or mitigate the weaknesses found.

In accordance with the provisions of Technical Guide 3/2017 on Audit Committees at Public- Interest Entities, the Audit Committee must establish a channel for effective and frequent communication with its usual points of contact, including:

- the management of the entity, especially directorate general and financial management;
- the officer or unit responsible for internal audit;
- the main auditor responsible for statutory audit as defined by Law on the Auditing of Accounts.

The Finance and Business Development Department reports financial information to the Audit Committee, ensuring the transparency and accuracy of the information and describing the internal control systems and accounting criteria applied.

It also informs on the main accounting procedures and processes used in the preparation of the economic/financial information and the financial statements with regard to the main risks and contingencies and the provisions that cover these.

The Internal Audit Department periodically presents to the Audit Committee, among other documents:

- Internal Audit Plan for the Committee's information, approval and /or modification, if appropriate.
- The stage of completion of the Audit Plan, together with the main conclusions and recommendations included in Internal Audit reports.
- The level of implementation by the organisational units audited of the guidelines agreed in the audit reports.

Lastly, the external auditor communicates any control weaknesses found during the audit to the Audit Committee and attends an Audit Committee meeting at least once a year and whenever his/her presence is required.

Specifically, the external auditor appeared before the Audit Committee four times during 2022.

**OTHER INFORMATION OF INTEREST**

Canal de Isabel II, S.A., within the framework of its 2018-2030 Strategic Plan, drew up a Plan to improve the good governance of the company and strengthen internal control, which was based on the Good Governance Code of Listed Companies approved by the National Securities Market Commission (hereinafter, the "GGC").

Regarding compliance by Canal de Isabel II, S.A. with the recommendations of the Good Governance Code of Listed Companies, many of them are not applicable in practice, as it is an unlisted company, since its shares are not traded on official markets, and as it is a fully publicly owned company. On other occasions, the factual situation resulting in the applicability of certain recommendations has not occurred. In particular, Canal de Isabel II, S.A. complies with the following recommendations from among those contained in the GGC:

During the Annual General Meeting, the Chairperson of the Board of Directors verbally informs the shareholders of the most relevant aspects of the company's corporate governance. The Company publishes the operating reports of the Audit Committee and the Appointments and Remuneration Committee on its website.

The Audit Committee ensures that the financial statements presented by the Board of Directors at the General Meeting are drawn up in accordance with accounting standards. In addition, at the Annual General Meeting, the Chairperson of the Audit Committee explains the Committee's opinion on the exceptions expressed by the auditor.

- The board of directors performs its duties with unity of purpose and independence of judgement, treats all shareholders in the same position equally and acts based on corporate interest. In the pursuit of corporate interest, in addition to compliance with laws and regulations and a behaviour based on good faith, ethics and respect for generally accepted customs and good practices, it seeks to reconcile its own corporate interest with, as appropriate, the legitimate interests of its employees, its suppliers, its customers and other stakeholders that may be affected, as well as with the impact of the company's activities on the community as a whole and on the environment.
- The Board of Directors currently comprises 15 directors, the adequate number for effective and participatory functioning.
- External directors constitute a large majority in the Board and the number of executive directors is the minimum necessary. The number of female directors exceeds 30% of the members of the Board of Directors.
- The percentage of proprietary directors out of the total number of non-executive directors is not greater than the proportion between the share capital of the Company represented by such directors and the rest of the share capital.
- The Company, which has a shareholder owning more than 30% of the share capital, has a number of independent directors representing more than one third of the total number of directors. At present, independent directors represent 40% of the total number of members of the Board of Directors.
- The company publishes and updates information on its directors on its website.
- The Board of Directors has not proposed the removal of any independent director before the expiry of the statutory period of their appointment.

- The Company has established rules obliging directors to report and, where appropriate, to resign when situations affecting them arise, whether or not related to their performance in the Company itself, which may damage the Company's credit and reputation. Directors are also obliged to inform the Board of Directors of any criminal proceedings in which they are under investigation, as well as of the progress of the proceedings.
- Directors may clearly express their opposition when they consider that any proposal submitted to the Board of Directors may be contrary to the corporate interest.
- Every time a director has resigned from office before its expiry date, said director has sufficiently explained the reasons for his resignation in a letter sent to all members of the Board of Directors and the Company has published the resignation, including sufficient reference to the reasons or circumstances provided by the director.
- The Appointments and Remuneration Committee has analysed the availability of time of the candidates for non-executive directors for the proper performance of their duties. The Board Regulations set forth the maximum number of company boards on which directors may serve.
- The Board of Directors meets as often as necessary to perform its duties effectively, having held twelve meetings in financial year 2022, in accordance with the schedule established at the beginning of the financial year.
- The absence of directors at meetings has been reduced to unavoidable cases and, in all cases, a proxy has been granted.
- When any of the directors or the Secretary have expressed concerns about any matter and such concerns have not been resolved by the Board of Directors, they have been recorded in the minutes.
- The Company has established the appropriate channels for directors to obtain the necessary advice for the performance of their duties, including, where appropriate, external advice at the Company's expense.
- The agendas of Board meetings clearly indicate those points on which the Board of Directors must adopt a decision or resolution, so that the directors may study or obtain, in advance, the information necessary for its adoption.
- The Chairperson, as the person responsible for the effective functioning of the Board of Directors, in addition to statutory and legal duties, prepares and submits a schedule of dates to the Board, organises and co-ordinates the regular evaluation of the Board, is responsible for managing the Board and for the effectiveness of its functioning and ensures that sufficient discussion time is devoted to strategic matters.
- The Secretary of the Board takes special care to ensure that the Board takes into account in its actions and decisions the recommendations on good governance applicable to the Company.
- An assessment process by the Board of Directors of the functioning of the Board itself and its specialised committees has been conducted.
- The Board of Directors has adopted an action plan to correct the deficiencies identified.
- The members of the Audit Committee, and in particular its Chairperson, have been appointed on the basis of their knowledge and expertise in accounting, auditing or

risk management. In addition, the majority of the members of this Committee are independent directors.

- Canal de Isabel II, S.A. has a unit that, under the supervision of the Audit Committee, is in charge of the internal audit function, which is responsible for ensuring the proper functioning of the information and internal control systems and which reports functionally to the Audit Committee.
- The person in charge of the internal audit function submits its annual work plan to the Audit Committee for approval and reports directly to it on its performance, including any incidents and limitations to the scope of its implementation that may arise, the results and follow-up of its recommendations, and submits an activity report to it at the end of each year.
- The Audit Committee performs the functions listed in Recommendation 42 of the GGC.
- The Audit Committee may summon any employee or manager of Canal de Isabel II and order them to appear without the presence of any other manager.
- The Audit Committee is informed of the structural and corporate changes planned by the company for prior analysis and report to the Board of Directors on their financial conditions and accounting impact.
- Supervision of compliance with internal codes of conduct is the responsibility of the Audit Committee.
- The Company's risk management considers and identifies the elements covered by Recommendation 45 of the GGC.
- The Company has established an internal risk control and management function, under the direct supervision of the Audit Committee.
- The members of the Appointments and Remuneration Committee are elected with a view to ensuring that they have the knowledge, skills and expertise appropriate to the duties of the Committee. The majority of the members of this Committee are independent directors.
- The Appointments and Remuneration Committee performs the duties listed in Recommendation 50 of the GGC as applicable to Canal de Isabel II, S.A.
- The Appointments and Remuneration Committee refers to the CEO of the Company on matters relating to senior management.
- A Sustainability Committee has been set up to monitor compliance with the company's environmental, social and corporate governance policies and rules. This Committee is comprised solely of non-executive directors, the majority of whom are independent.
- Variable compensation linked to the Company's performance and personal performance is limited to executive directors. Furthermore, the payment of variable components of compensation is subject to sufficient verification that the performance or other conditions set in advance have been effectively fulfilled, with the possibility for the Company to claim repayment of the variable components of compensation when the circumstances provided in Recommendation 63 of the GGC are met. The recommendations on termination payments are also complied with.

As for the remaining recommendations contained in the GGC that may be applicable, most of them are in the process of being fulfilled, within the framework of the objectives set by the Strategic Plan 2018-2030 of Canal de Isabel II, S.A.

PREPARATION OF THE 2022 CONSOLIDATED FINANCIAL STATEMENTS

CANAL DE ISABEL II, S.A., M.P. AND SUBSIDIARIES

Preparation of the Consolidated Financial Statements and Consolidated Directors' Report, prepared in accordance with International Financial Reporting Standards adopted by the European Union (IFRS-EU) corresponding to financial year ended 31 December 2022.

The Board of Directors of Canal de Isabel II, S.A., M.P. on 30 March 2023 and in compliance with the requirements established in article 253.2 of the Consolidated Text of the Spanish Companies Act and in article 37 of the Commercial Code, have prepared the Consolidated Annual Accounts and the Directors' report, in accordance with International Financial Reporting Standards adopted by the European Union (IFRS-EU) for the period comprising 01 January 2022 and 31 December 2022.

Signatories:

Signed: Ms Paloma Martín Martín Chairperson of the Board of Directors	
Signed: Mr Mariano González Sáez Deputy Chairperson of the Board of Directors and Chief Executive Officer	Signed: Mr Guillermo Hita Téllez Director
Signed: Ms Isabel Aguilera Navarro Member of the Board of Directors	Signed: Mr Antonio Javier Cordero Ferrero Director
Signed: Mr Francisco Muñoz García Director	Signed: Mr Jaime Sánchez Gallego Director
Signed: Mr Jaime García-Legaz Ponce Director	Signed: Ms Alicia Muñoz Lombardía Member of the Board of Directors
Signed: Ms Lourdes Vega Fernández Member of the Board of Directors	Signed: Mr Salvador Marín Hernández Director
Signed: Mr José Ignacio Tejerina Alfaro Director	Ms Cristina Aparicio Maeztu Director
Signed: Mr Fernando Arlandis Pérez Director	Canal de Isabel II Director Represented by: Mr Pablo José Rodríguez Sardinero



Santa Engracia, 125. 28003 Madrid
www.canaldeisabelsegunda.es

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