Consolidated Financial Statements and Directors' Report of Canal de Isabel II, S.A. and Subsidiaries

2019

Prepared in accordance with the International Financial Reporting Standards (IFRS-EU) as adopted by the European Union

(Free translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails)

Canal de Isabel II

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Canal de Isabel II

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CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AT 31 DECEMBER 2019 AND 2018

(In thousands of euros)

ASSETS	NOTES	2019	2018
Property, plant and equipment	7	45,066	28,039
Investment property	8	10,051	10,421
Goodwill	9	12,942	18,849
Other intangible assets	10	4,135,688	4,187,294
Investments accounted for using the equity method	12	337	323
Deferred tax assets	27	14,905	9,986
Other financial assets	14	164,838	138,835
Other non-current assets	17	66,936	67,000
Total non-current assets		**4,450,763**	**4,460,747**
Non-current assets held for sale	6	4,278	4,018
Inventory	15	9,267	9,269
Current income tax asset		1,775	1,337
Trade and other receivables	16	225,927	234,257
Other financial assets	14	16,527	18,845
Other current assets	17	4,588	3,968
Cash and cash equivalents	18	321,146	355,418
Total current assets		**583,508**	**627,112**
Total assets		**5,034,271**	**5,087,859**

The accompanying Notes form an integral part of the Consolidated Financial Statements for the year ended 31 December 2019.

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CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AT 31 DECEMBER 2019 AND 2018

(In thousands of euros)

NET EQUITY AND LIABILITIES	NOTES	2019	2018
Share capital	19	1,074,032	1,074,032
Share premium	19	1,074,032	1,074,032
Other reserves	19	149,088	101,902
Accumulated gains	19	464,663	580,294
Translation differences	19	(2,028)	(5,251)
Interim dividend paid during the year	19	(133,694)	(123,750)
Equity attributed to holders of equity instruments of the Parent		**2,626,093**	**2,701,259**
Non-controlling interest	19	2,649	4,676
Total Net Equity		**2,628,742**	**2,705,935**
Financial liabilities with financial institutions	20	520	2,216
Other financial liabilities	20	600,829	105,569
Non-current official subsidies	21	734,884	706,107
Financial debt with the Public Entity	20	240,734	270,295
Deferred tax liabilities	27	785	745
Non-current provisions	23	408,272	382,860
Other non-current liabilities	25	17,712	20,531
Total non-current liabilities		**2,003,736**	**1,488,323**
Financial liabilities from issuing bonds and other	20	7,111	505,864
Financial liabilities with financial institutions	20	2,176	6,899
Financial debt with related companies	20	34,413	35,039
Other financial liabilities	20	91,178	65,118
Current official subsidies	21	18,043	16,042
Trade creditors and other accounts payable	22	135,800	154,848
Current income tax liability	22	704	1,113
Current provisions	23	107,194	103,736
Other current liabilities	25	5,174	4,942
Total current liabilities		**401,793**	**893,601**
Total liabilities and net equity		**5,034,271**	**5,087,859**

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CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2019 AND 2018 (In thousands of euros)	NOTES	2019	2018
Ordinary income	26a	984,685	1,076,446
Other income	26b	53,642	45,300
Non-current self-constructed assets		8,236	13,779
Consumption of goods, raw materials and consumables	26c	(237,464)	(272,793)
Employee benefits expense	26d	(193,927)	(199,059)
Amortization expense	26e	(128,765)	(128,497)
Losses / (Reversal of losses) for impairment of fixed assets		(6,355)	(13,396)
Other expenses	26f	(242,627)	(263,393)
Financial income	26h	8,404	5,517
Financial expenses	26h	(26,152)	(31,277)
Losses / (Reversal of losses) for investment impairment	26h	105	(18,770)
Share of profits for the financial year of investments accounted for using the equity method	12	113	(10)
Earnings before taxes from continuing operations		**219,895**	**213,847**
Income tax expense	27	6,808	(12,084)
Continuing operations profit for the year		**226,703**	**201,763**
Financial year profit		**226,703**	**201,763**
Profit for the year attributable to holders of equity instruments of the Parent		228,672	199,942
Profit for the year attributable to non-controlling interest		(1,969)	1,821

The accompanying Notes form an integral part of the Consolidated Financial Statements for the year ended 31 December 2019.

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CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED 31 DECEMBER 2019 AND 2018 (In thousands of euros)	Notes	2019	2018
FINANCIAL YEAR PROFIT		**226,703**	**201,763**
Items to be reclassified as profit/(loss)			
Translation differences of overseas businesses financial statements		3,563	15,873
OTHER COMPREHENSIVE PROFIT/(LOSS) FOR THE YEAR, NET OF TAXES		**3,563**	**15,873**
TOTAL COMPREHENSIVE PROFIT/(LOSS) ATTRIBUTABLE TO:		**230,266**	**217,636**
Holders of equity instruments of the Parent		231,920	216,772
Non-controlling interest		(1,694)	863

The accompanying Notes form an integral part of the Consolidated Financial Statements for the year ended 31 December 2019.

2019 CONSOLIDATED FINANCIAL STATEMENTS

(Free translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails)

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY FOR THE YEARS ENDED 31 DECEMBER 2019 AND 2018

(In thousands of euros)

EQUITY ATTRIBUTED TO HOLDERS OF EQUITY INSTRUMENTS OF THE PARENT

	Share capital	Share Premium	Other Reserves	Accumulated gains	Interim dividend	Translation differences	Total	Non-controlling interest	TOTAL
A. BALANCE AT 1 JANUARY 2018	**1,074,032**	**1,074,032**	**101,902**	**385,992**	**(123,750)**	**(22,082)**	**2,490,126**	**26,575**	**2,516,701**
Profit	-	-	-	199,942	-	-	199,942	1,821	201,763
Other comprehensive profit/(loss)	-	-	-	-	-	16,831	16,831	(958)	15,873
Total Statement of Comprehensive Profit/(Loss)	**-**	**-**	**-**	**199,942**	**-**	**16,831**	**216,773**	**863**	**217,636**
Distribution of profit for the financial year	-	-	-	-	-	-	-	-	-
Reserves	-	-	-	-	-	-	-	-	-
Dividends	-	-	-	-	-	-	-	-	-
Dividends (Note 19)	-	-	-	-	-	-	-	-	-
Other movements	-	-	-	(5,640)	-	-	(5,640)	(22,762)	(28,402)
B. BALANCE AT 31 DECEMBER 2018	**1,074,032**	**1,074,032**	**101,902**	**580,294**	**(123,750)**	**(5,251)**	**2,701,259**	**4,676**	**2,705,935**
Adjustment to the initial balance									
C. ADJUSTED BALANCE, BEGINNING OF YEAR 2019	**1,074,032**	**1,074,032**	**101,902**	**580,294**	**(123,750)**	**(5,251)**	**2,701,259**	**4,676**	**2,705,935**
Profit	-	-	-	228,672	-		228,672	(1,969)	226,703
Other comprehensive profit/(loss)	-	-	-		-	3,223	3,223	348	3,571
Total Statement of Comprehensive Profit/(Loss)	**-**	**-**	**-**	**228,672**	**-**	**3,223**	**231,895**	**(1,621)**	**230,274**
Distribution of profit for the financial year	-	-	-		-	-	-	-	-
Reserves	-	-	47,186	(47,186)	-	-	-	-	-
Dividends (Note 19)	-	-	-	(182,813)	123,750	-	(59,063)	-	(59,063)
Dividends (Note 19)	-	-	-	(113,847)	(133,694)	-	(247,541)	-	(247,541)
Other movements	-	-	-	(457)	-	-	(457)	(406)	(863)
E. AT 31 DECEMBER 2019	**1,074,032**	**1,074,032**	**149,088**	**464,663**	**(133,694)**	**(2,028)**	**2,626,093**	**2,649**	**2,628,742**

The accompanying Notes form an integral part of the Consolidated Financial Statements for the year ended 31 December 2019.

2019 CONSOLIDATED FINANCIAL STATEMENTS

(Free translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails)

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED 31 DECEMBER 2019 AND 2018 (In thousands of euros)	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit/(loss) for the financial year	**226,703**	**201,763**
Adjustments due to:		
Amortization of fixed assets	128,766	128,497
Impairment adjustments	9,456	27,578
Variation in provisions	105,588	94,732
Allocation of subsidies	(16,726)	(15,376)
Gains/(losses) on disposals and derecognitions of fixed assets	3,479	4,183
Gains/(losses) on disposals and derecognitions of financial instruments	(34)	18,770
Financial income	(8,404)	(5,517)
Financial expenses	20,660	28,262
Translation differences	5,492	3,015
Income tax	(6,809)	12,084
Other income and expenses	(3,458)	1,547
Share in profit/loss of equity-accounted companies	(113)	10
Variations of working capital excluding the effect of acquisitions and translation differences		
Inventory	(171)	(61)
Debtors and other receivables	(17,692)	(16,784)
Other current assets	(275)	(11,558)
Creditors and other accounts payable	(15,673)	(7,821)
Other current and non-current liabilities	(98)	(1,033)
Provisions	(76,821)	(61,437)
Exclusion from the consolidation scope	-	(4,088)
Effect caused by operating activities	**353,870**	**396,766**
Interest paid	(17,304)	(23,936)
Interest received	259	5,525
Collections (payments) of tax on profit	1,998	(5,512)
Cash flows from operating activities	**338,823**	**372,843**
INVESTMENT ACTIVITIES CASH FLOWS		
Payments for investments in Group Companies and Associates	-	(401)
Payments for the purchase of intangible assets	(80,749)	(80,961)
Payments for the purchase of property, plant and equipment	(656)	(1,036)
Payments for the purchase of investment property	(15)	(80)
Payments for the purchase of financial assets	(20,801)	(18,621)
Receivables from the sale of intangible assets	-	9
Receivables from the sale of property, plant and equipment	83	174
Receivables from the sale of investment property	2	101
Receivables from the sale of other financial assets	16,005	15,207
Investment activities cash flow	**(86,131)**	**(85,608)**
FINANCING ACTIVITIES CASH FLOWS		
Subsidies, gifts and bequests received	27,771	21,165
Receivables from debts with financial institutions	1,176	-
Receivables from other debts	3,698	8,228
Payments from debts with financial institutions	(7,642)	(7,914)
Payments from debts with Group companies and Associates	(29,048)	(79,428)
Payments from other debts	(9,086)	(10,458)
Dividends paid	(273,864)	(16,813)
Financing activities cash flows	**(286,995)**	**(85,220)**
Effect of translation differences on cash	**31**	**310**
NET INCREASE/DECREASE OF CASH OR CASH EQUIVALENTS	**(34,272)**	**202,325**
Cash or cash equivalents at beginning of the financial year	355,418	153,093
Cash or cash equivalents at close of the financial year	321,146	355,418

The accompanying Notes form an integral part of the Consolidated Financial Statements for the year ended 31 December 2019.

NOTES TO THE 2019 CONSOLIDATED FINANCIAL STATEMENTS

NOTES TO THE 2019 CONSOLIDATED FINANCIAL STATEMENTS

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

Canal de Isabel II, S.A. (formerly Canal de Isabel II Gestión, S.A.) changed its corporate name subject to an agreement by the Annual General Meeting of Shareholders on 5 de July 2017 (hereinafter the Parent or the Company) and subject to the provisions contained in Article 16. 1 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") 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 with limited liability under Spanish law on 27 June 2012 for an indefinite period by public deed granted by the Notary public of Madrid Valerio Pérez de Madrid y Palá, under number 1531 of his record and is registered with the Commercial Registry of Madrid under volume 29.733, folio 86, section 8, sheet M-534929, entry 1. Its registered office is located at Calle Santa Engracia, 125, in Madrid (Spain).

According to its Articles of Association, the Parent's corporate purpose is as follows:

1) Comprehensive water cycle management throughout the Region of Madrid, 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) Managing wastewater treatment services.
    e) Conducting studies and research, whether technical, financial, legal or administrative, where necessary for the services and activities listed above to be carried out satisfactorily.
    f) 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 corporate purpose.

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 and rental of property and other associated activities, both in Spain and overseas, as well as the management of urban and land development projects.

5) The development and provision of any other public services or activities that contribute to reinforcing the services provided by the Company and that represent an added value for users.

6) The development or provision of services in the area of telecommunications, information, communications and other related services that may arise 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.

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

When commissioned to do so by the corresponding Public Administration, the Parent 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 that the Group Companies do not meet by virtue of any Law.

The Parent Company may carry out its corporate purpose, as described above, in any part of Spain or in any other country. It may carry out all or part of these activities indirectly or through shareholdings and/or equity holdings in other companies with the same or similar corporate purposes.

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.

In accordance with Article 16.2.4 of Law 3/2008, 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.

Related information on the consolidated subsidiaries, associates and joint ventures at 31 December 2019 and 2018 is included in Appendices II, III and IV.

Pursuant to Article 4 of its Articles of Association, the Parent Company 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 Parent Company's activity is regulated under the Contract-Programme.

a) Contract-Programme

The Contract-Programme regulating the relationship between the Public Entity and the Parent in running the comprehensive water service was approved by the Governing Council of the Region of Madrid on 14 June 2012 and came into force on 1 July 2012.

The Government Council of the Regional Government of Madrid has authorised the transfer of the water supply, sanitation and recycling services previously entrusted to the Public Entity by any permits, to Canal de Isabel II, S.A. These services include the operation, maintenance and upkeep of the Region of Madrid General Network and the provision of the supply, sanitation and recycling services relating to this network and, in general, all of the services and activities that were previously carried out by the Public Entity, except those expressly reserved to the Entity under the terms of the Contract-Programme, specifically the capacity to exercise the powers, rights and obligations derived from (i) concessions and authorisations associated with water-related assets in the public domain, (ii) any administrative powers held by the

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Regional Government of Madrid in relation to the distribution and treatment of water, including the power to impose penalties, (iii) the supply and sanitation services provided under Law 17/1984 and other applicable legislation, (iv) the water-related functions entrusted to it by the Regional Government of Madrid, based on agreements signed with local authorities, and (v) all other water-related functions entrusted to it by the Regional Government of Madrid.

So that it can provide these services, Article 16 of Law 3/2008 requires the Regional Government of the Region of Madrid and the Public Entity to convey to the Parent Company any assets in the public domain that make up the Region of Madrid General Network and which are necessary for the Company to conduct the activities and functions entrusted to it. The Contract-Programme also provides for the Parent'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 the Region 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 Company. 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-Programme has a 50-year duration from 1 July 2012 and it cannot be renewed. Once this period has elapsed and the Contract-Programme expires, the Public Entity is required to compensate the Parent Company for any investments made to carry out new infrastructure plans, which were not depreciated while the Contract-Programme was in force, taking into account the condition of such infrastructures and the value of the investment made, deducting any technical depreciation under the terms set out in these plans. On expiry of the Contract-Programme, the Parent Company is required to return the assets and rights that make up the Region of Madrid General Network, and any other goods and installations in the public domain that are required to provide the service, to the public authorities in good working order and perfect condition, as required by the Progress Clause governing the Contract-Programme, ensuring that these assets are still capable of providing the service based on the depreciation schedules of the different constituent items.

Neither the assets that do not form part of the Region of Madrid General Network nor the shares and equity holdings in trading companies previously held by the Public Entity will revert on completion of the Contract-Programme.

b) Changes in the consolidated group

Canal de Isabel II, S.A. includes its investments in all of its subsidiaries, associates and joint arrangements when preparing its consolidated Financial Statements. Details of the main companies forming the Canal de Isabel II Group, and which are consolidated at the date of the accompanying consolidated Financial Statements are provided in Appendices II, III and IV hereto.

(i) During financial year ended 31 December 2019

In 2019, the company Informaciones Remotas, S.R.L. was liquidated. The balance of accounts receivable, amounting to 2,500 thousand Dominican pesos (44 thousand euros) was assumed by the parent, assets were fully depreciated/amortised and there are no balances recognised in AAA Dominicana other than those previously recognised.

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On 24 January 2019, Canal Extensia and SLASA signed an agreement to assign shares and receivables, increasing Canal Extensia's shareholding by 0.60%, from 81.24% to 81.84%, on that date. (See Note 5 and Appendices II, III and IV)

The investee, Acueducto y Alcantarillado Metropolitano de Santa Marta, S.A. E.S.P. (Metroagua, S.A. E.S.P.), was dissolved pursuant to the Shareholders' Agreement of 21 April 2017 and is still in the liquidation phase.

(ii) During financial year ended 31 December 2018

On 11 October 2018 the merger by absorption of Canal Energía Generación, S.L.U., Canal Energía Distribución, S.L.U., Canal Energía Comercialización, S.L.U. and Canal Gas Distribución, S.L.U. by the company Sociedad Canal Energía, S.L. was approved by the Extraordinary General Meeting along with its Merger Balance Sheet. For the purposes of the provisions in Article 31.7 of Law 3/2009 of 3 April, on Structural Changes to Companies, it was stated that, subject to applicable regulations, the date of the Merger for accounting purposes would be 1 January 2018 (see Note 5). The Merger did not have an impact on the consolidated Financial Statements.

Exclusion from the consolidation scope of the company Triple A de Barranquilla, S.A., E.S.P., as a consequence of the interim measure to suspend the right of alienation, sequestration and embargo, over 82% of the shareholder composition that INASSA owns, directly and indirectly owned at 81.24% by Canal de Isabel II, S.A., in the company Triple A de Barranquilla. This exclusion from the consolidation scope entails the withdrawal of the shareholding that Sociedad Triple A de Barranquilla owned in the subsidiary Gestus Gestión & Servicios, S.A.S (see Notes 5 and 14).

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 2019 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 2019 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.

On 31 December 2019, there were no significant changes in accounting estimates or accounting policies, and neither were there corrections of errors other than those described in Note 2 (e) in connection with

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changes in accounting policies adopted on 1 January 2019 after the entry into force of IFRS 16 – Leases and IFRIC 23 – Uncertainty over Income Tax Treatments. As established by the transition models of both standards, it was possible to opt not to restate the previous year's figures, an alternative which the Group applied, which is why the headings relating to those standards are not comparable with the figures detailed for 2018.

On 29 March 2019, the Board of Directors of Canal de Isabel II, S.A. agreed to call a General Meeting of Shareholders for 8 May 2019, at first call, and for 9 May 2019, at second call. Notification of the meeting was issued on the same day, 29 March 2019, 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. The Parent Company's individual and consolidated Financial Statements were approved by the shareholders at their General Meeting on 8 May 2019.

The Directors of the Parent consider that the consolidated Financial Statements for 2019, authorised for issue on 19 May 2020, will be approved without significant changes at the Annual General Meeting of Shareholders.

The Consolidated Financial Statements of Canal de Isabel II, S.A. and its subsidiaries will be filed with the Commercial Registry of Madrid after approval by the Annual General Meeting of Shareholders.

The Parent Company forms part of the Canal de Isabel II Group 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 2019 and 2018 have been as follows:

	31 December 2019		31 December 2018	
	Closing rate	Average accumulated rate	Closing rate	Average accumulated rate
United States Dollar (USD)	1.12	1.12	1.15	1.18
Colombian Peso (COP)	3,681.54	3,673.78	3,720.96	3,493.00
Dominican Peso (DOP)	59.50	57.43	57.57	58.50
Brazilian Real (BRL)	4.53	4.42	4.44	4.31
Uruguayan Peso (UYU)	41.91	39.47	37.10	36.30
Peruvian New Sol (PEN)	-	-	3.87	3.89

c) Relevant accounting estimates, assumptions and judgements in the application of accounting policies 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

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To this end, the aspects with a higher degree of judgement, complexity or where hypotheses and estimates are significant to the preparation of the consolidated Financial Statements are summarised below.

- The Group follows the accounting policy described in Note 3 (h) for the value impairment of non-financial assets subject to amortisation or depreciation. The Management and the Group must use estimates to calculate the recoverable value, 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. Estimates, including the methodology applied, may have a significant impact on value and on value impairment losses (see Note 9).

- The Group recognises a Provision for infrastructure replacement assigned systematically by third parties based on the best estimate of the annual replacement investment to be made in these infrastructures over the concession term. For the rest of its infrastructure, located in Ibero-America, the Group considers that a suitable preventative and corrective maintenance programme eradicates the need for any significant replacements.

- 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. The possible impairment of receivables that are not individually significant is collectively assessed, grouping together receivables with similar risk characteristics. The basis of the historical information of collection statistics is used to determine the collective impairment, particularly 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 given its activity are individually significant, confirmations and recognition of these debts by the customers have also been obtained by Management.

- The consolidated Financial Statements for each reporting period include an estimate of the water supplied but not yet billed 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, Group Management, although it analyses the potential risks with the support of specialist external advisers, 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 systems. 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 has recognised security deposits placed by customers to guarantee payment for the water they use. These security deposits are recognised at amortised cost considering the average

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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).

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

The consolidated statement of financial position, consolidated income statement, consolidated statement of comprehensive income, consolidated statement of cash flows and consolidated statement of changes in equity and the Notes thereto for the year ended 31 December 2019 include comparative figures for the year ended 31 December 2018 as approved at the Annual General Meeting of Shareholders on 08 May 2019.

f) Accounting standards

(i) Most significant standards, interpretations and amendments to standards effective from 1 January 2019 for the Group:

– IFRS 16: "Leases". Effective for annual periods beginning from 1 January 2019, the impacts of adopting this standard are stated in Note 3 (i)*(iii).*

– IFRS 9 (Amendment): "Prepayment Features with Negative Compensation". Effective for annual periods as of 1 January 2019.

– IFRIC 23 – Uncertainty over Income Tax Treatments Effective for annual periods as of 1

January 2019.

- IAS 28 (Amendment): "Long-Term Interests in Associates and Joint Ventures". Effective for annual periods as of 1 January 2019.
- IFRS 3 (Amendment): "Business Combinations – Annual improvements – 2015 - 2017 cycle". Effective for annual periods as of 1 January 2019.
- IFRS 11 (Amendment): "Joint Arrangements – Annual improvements – 2015 - 2017 cycle". Effective for annual periods as of 1 January 2019.
- IAS 12 (Amendment): "Income Taxes – Annual improvements – 2015 – 2017 cycle". Effective for annual periods as of 1 January 2019.
- IAS 23 (Amendment): "Borrowing Costs – Annual improvements – 2015 – 2017 cycle". Effective for annual periods as of 1 January 2019.
- IAS 19 (Amendment): "Plan Amendment, Curtailment or Settlement". Effective for annual periods as of 1 January 2019.

In preparing the accompanying consolidated Financial Statements, the Group has not early-applied any published standards, interpretations or amendments that have not yet come into force. With the exception of the impact of application of IFRS 16.

(ii) Standards, interpretations and amendments issued and not in force for periods commencing on or after 1 January 2019 and which the Group expects to adopt on 1 January 2020 or subsequently.

a) Standards, amendments and interpretations issued by the IASB and the IFRIC pending adoption by the EU:

- IFRS 3 (Amendment): "Definition of a Business". Effective for annual periods as of 1 January 2020.
- Amendments to IAS 1 and IAS 8: "Definition of material". Effective for annual periods as of 1 January 2020.
- IFRS 17: "Insurance contracts". Effective for annual periods as of 1 January 2021. In June 2019, the IASB issued an exposure draft proposing deferral of the effective date of IFRS 17 for one year until 1 January 2022.

b) Standards, modifications and interpretations approved by the European Union and effective from 1 January 2020, but which may be adopted early:

- IAS 1 (Amendment) and IAS 8 (Amendment) "Definition of material".
- IFRS 9 (Amendment), IFRS 7 (Amendment) and IAS 39 (Amendment) "Interest Rate Benchmark Reform".

The Group is currently analysing the potential impact of the new standards on the consolidated Annual Financial Statements, but it is not expected to be significant.

c) Existing standards, amendments and interpretations that may not be adopted early or have not been adopted by the European Union on the date of issuing this Note:

As of the date on which these consolidated Annual Financial Statements were authorised for issue, the IASB and IFRS Interpretations Committee had published the

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standards, amendments and interpretations listed below, that are pending adoption by the European Union:

- IFRS 10 (Amendment) and IAS 28 (Amendment) "Sale or Contribution of Assets between an Investor and its Associate or Joint Venture".
- IFRS 17 "Insurance Contracts".
- IFRS 3 (Amendment) "Definition of a Business".
- IAS 1 (Amendment) "Classification of Liabilities as Current or Non-Current".

The Group is currently analysing the potential impacts of the new standards on the consolidated Annual Financial Statements.

In terms of the standards and amendments outlined in this section, the Group is assessing the impact of the application thereof on its consolidated Annual Financial Statements. Based on the analyses conducted to date, the Group estimates that the application of these standards, amendments and interpretations, will not have a significant impact on the consolidated Annual Financial Statements.

IFRS 16 Leases

The Group has started to apply the new IFRS 16 on leases on the date of mandatory application, that is, 1 January 2019.

IFRS 16 substitutes IAS 17 and establishes that companies have to recognise the assets and liabilities arising out of all leasing agreements in their statement of financial position (except for short-term lease agreements and agreements whose subject matter are low-value assets).

With regard to the transition, the Group, as envisaged in the standard, has decided to apply said standard retroactively and in a modified manner, recognising the accumulated effect of the initial application of the standard on the initial application date. Therefore, the Group shall not restate the comparative information. Instead, the Group will recognise the accumulated effect of the initial application of said standard, if any, as an adjustment of the opening balance of the reserves for accumulated gains on the initial application date. That is to say:

- The Group shall recognise a leasing liability on the initial application date, for the case of leases that have been previously classified as operating leases under IAS 17 (except for short-term lease agreements or agreements whose subject matter is a low-value asset). The lessee shall value the lease liability at the current value of the remaining lease payments, discounted using the interest rate implied in the lease, if such a rate can be easily determined. In the event that it cannot be easily determined, the lessee shall use the lessee's incremental borrowing rate.
- The lessee shall recognise a right-of-use asset on the initial application date and it shall value said right-of-use asset for an amount equal to that of the lease liability.

For leases classified as finance leases under IAS 17, the carrying amount of the right-of-use assets and the lease liability on the initial application date shall be the carrying amount of the lease asset and the lease liability.

On another note, the Group has decided to refer to the practical solution allowed by the transition standard by virtue of which no agreement will be evaluated again if it is a lease agreement or if it contains a lease on the initial application date. Instead, the Company is allowed to:

a) Apply this standard to the agreements previously identified as leases under IAS 17 Leases and IFRIC 4 Determining Whether an Arrangement Contains a Lease.
b) Decline to apply this standard to agreements of which it has been previously determined that they do not contain a lease under IAS 17 and IFRIC 4.

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Consequently, the Group solely applies the requirements regarding the identification of a lease to agreements underwritten (or amended) since the initial application date (1 January 2019).

Neither will the lease liability and the right-of-use asset be registered for such leases whose term expires within the twelve months after the initial application date. The Group will register said leases as short-term leases, that is to say, as a linear expense through the lease term.

From 1 January 2019 on, the Group identifies the existence of a lease in the agreements and the lease term and values said lease subject to IFRS 16.

The Group has performed an assessment of the impact of IFRS 16 taking into account the duration of the lease agreements in force that are superior to 12 months, as well as the facts and circumstances that are specific to each asset and using certain assumptions to calculate the discount rate.

With regard to the impairment testing of assets, recognition of right-of-use assets made it necessary to assign their carrying amount to different cash generating units and to exclude the related fixed lease payments from the calculation of value in use, so as to ensure consistency in the assessment of the recoverability of the assets and the calculation of their recoverable value.

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.

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

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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.

IFRIC 23 – Uncertainty over Income Tax Treatments

This interpretation establishes how to apply the measurement and recognition requirements of IAS 12 – Income Taxes when there is uncertainty over income tax treatments. This requires entities to reflect the effect of the uncertainty when determining taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates.

The Group has analysed the possible uncertain tax treatments and application of this interpretation has not had a material effect on the consolidated Annual Financial Statements.

g) Going concern

The negative working capital at 31 December 2018 was due to the reclassification of the short-term bond issued in 2018 (see Note 20). The Parent Company's Directors prepared the 2018 Financial Statements on a going concern basis considering that the circumstances were temporary, and taking into account its cash-generating capacity.

At 31 December 2019, the Parent Company reclassified the aforementioned bond issue as long-term . In 2018 it was classified as short-term see Note 20).

The consolidated Financial Statements present a working capital amounting to 181,713 thousand euros at 31 December 2019 (266,489 thousand euros in negative working capital at 31 December 2018). The Parent Company's Directors prepared the 2019 Consolidated Financial Statements on a going concern basis considering that the circumstances were temporary, and taking into account its cash-generating capacity.

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 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 Income Tax Law.

The conditions of this non-monetary contribution and the valuation performed by the technical services are described in the 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 Spanish General Accounting Plan and Ministry of Economy and Finance Order EHA/3362/2010 of 23 December 2010.

In accordance with the provisions of Law 3/2008 and the Incorporation Agreement, the Public Entity conveyed all of the rights and obligations that it held as a party to the contracts and agreements arranged with third parties, under the same terms and conditions stipulated in these documents, to the Company (except for the rights and obligations retained by the Public Entity under the terms of the Contract-Programme regulating the relations involved in running the comprehensive water service entrusted to the Public Entity and the financing contracts between the Entity and lenders).

The Public Entity also conveyed its position in all ongoing procurement procedures or contracts awarded and all kinds of litigation, contracts, quasi-contracts and legal affairs to the Company. As required by Law 3/2008, all of the Public Entity's staff necessary to provide the entrusted services were transferred to the Company, maintaining the same terms of employment existing at the transfer date. This transfer is considered as a case of "company succession" under applicable Spanish legislation. Similarly, the Company assumed all pension commitments previously existing between the Public Entity and its employees, under the terms of the corresponding Pension Plan Specifications and the legislation in force.

As required by article 47 of Law 3/2001 of 21 June 2001 (on the Assets of the Regional Government 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.

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The amounts stated in the Valuation Report, in thousands of euros, are as follows:

Assets	Thousands of euros 2012
A) Non-current assets	**4,284,518**
I. Intangible fixed assets	4,020,400
II. Investment property	25,203
III. Non-current investments in group companies and associates	117,016
1. Equity instruments	115,226
2. Loans to companies	1,790
IV. Non-current financial investments	40,808
V. Non-current accruals	81,091
B) Current assets	**293,122**
I. Inventories	7,682
II. Trade and other receivables	228,885
III. Short-term investments in group companies and associates	175
IV. Short-term financial investments	12,005
V. Short-term accruals	1,609
VI. Cash and cash equivalents	42,766
TOTAL ASSETS (A+B)	**4,577,640**

Net equity and liabilities	Thousands of euros 2012
A) Net Equity	**2,809,044**
A-1) Own funds	2,148,064
Share capital	1,074,032
Share premium	1,074,032
A-2) Subsidies, gifts and bequests received	660,980
B) Non-current liabilities	**1,271,636**
I. Long-term provisions	92,125
II. Long-term debt	88,323
III. Long-term debts with group companies and associates	1,040,404
IV. Deferred tax liabilities	2,024
V. Non-current accruals	48,760
C) Current liabilities	**496,960**
I. Short-term provisions	81,057
II. Short-term debt	150,226
III. Short-term debts with group companies and associates.	127,214
IV. Trade creditors and other accounts payable	135,916
V. Short-term accruals	2,547
TOTAL NET EQUITY AND LIABILITIES (A+B+C)	**4,577,640**

Additional points: (i) Within 90 days from the date of the contribution, the difference between the values estimated for the assets and liabilities following the established valuation criteria (and stated in the valuation report) and the net worth of the assets and liabilities actually transferred on the date of the contribution and commencement of activities by the Company was adjusted by establishing a debit/credit between the Public Entity and the Company; (ii) similarly, given the complexity and diversity of the elements and relationships that make up this activity, the Company and the Public Entity adjusted the different advances, receipts or payments that could not be settled on the activity transfer date due to their nature, frequency, established payment terms or for any other reason; (iii) if any event that occurred prior to the incorporation of the Company leads to an agreement to release any public domain assets assigned to the Company and which, as a result, become part of the assets of the Public Entity, the latter

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is required to compensate the Company for the loss of the assigned goods, once the formal procedures for the loss of the public domain assets have been completed.

The following assets and liabilities made up the activity transferred in this non-monetary contribution on 1 July 2012:

Assets	Thousands of euros
A) Non-current assets	**4,364,082**
I. Intangible fixed assets (Note 7)	4,074,343
II. Investment property (Note 8)	24,017
III. Non-current investments in group companies and associates	144,779
1. Equity instruments (Note 10)	142,936
2. Loans to companies	1,843
IV. Non-current financial investments	37,018
V. Non-current accruals	83,925
B) Current assets	**206,096**
I. Inventories	8,141
II. Trade and other receivables	178,835
III. Short-term investments in group companies and associates	175
IV. Short-term financial investments	11,991
V. Short-term accruals	1,742
VI. Cash and cash equivalents	5,212
TOTAL ASSETS (A+B)	**4,570,178**

Net equity and liabilities	Thousands of euros
A) Net Equity	**2,820,614**
A-1) Own funds	**2,148,064**
Share capital	1,074,032
Share premium	1,074,032
A-2) Subsidies, gifts and bequests received (Note 16):	**672,550**
B) Non-current liabilities	**1,262,618**
I. Long-term provisions (Note 17)	126,740
II. Long-term debt	73,977
III. Long-term debts with group companies and associates	986,223
IV. Deferred tax liabilities	13,275
V. Non-current accruals	62,403
C) Current liabilities	**486,946**
I. Short-term provisions (Note 17)	82,937
II. Short-term debt	117,776
III. Short-term debts with group companies and associates.	145,152
IV. Trade creditors and other accounts payable	139,047
V. Short-term accruals	2,034
TOTAL NET EQUITY AND LIABILITIES (A+B+C)	**4,570,178**

Own funds (Share capital and Share premium) contributed to Canal de Isabel II, S.A. totalled a sum of 2,148,064 thousand euros (see Note 17).

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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

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.

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 Parent 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

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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 Income Tax Law.

The non-monetary contribution was executed at the amounts disclosed in the consolidated Financial Statements drawn up under the standards applicable for the preparation of consolidated Financial Statements, adjusted for adaptation to IFRS-EU on 1 July 2012.

In accordance with the provisions of Law 3/2008 and the Incorporation Agreement, the Public Entity conveyed all of the rights and obligations that it held as a party to the contracts and agreements arranged with third parties, under the same terms and conditions stipulated in these documents, to the Parent Company (except for the rights and obligations retained by the Public Entity under the terms of the Contract-Programme regulating the relations involved in running the comprehensive water service entrusted to the Public Entity and the financing contracts between the Entity and lenders). The Public Entity also conveyed its position in all ongoing procurement procedures or contracts awarded and all kinds of litigation, contracts, quasi-contracts and legal affairs to the Parent Company. As required by Law 3/2008, all of the Public Entity's staff necessary to provide the entrusted services were transferred to the Parent Company, maintaining the same terms of employment existing at the transfer date. This transfer is considered as a case of "company succession" under applicable Spanish legislation. Similarly, the Parent Company assumed all pension commitments previously existing between the Public Entity and its employees, under the terms of the corresponding Pension Plan Specifications and the legislation in force.

As required by article 47 of Law 3/2001 of 27 June 2001 (on the Assets of the Regional Government 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.

Additional points: (i) Within 90 days from the date of the contribution, the difference between the values estimated for the assets and liabilities following the established valuation criteria (and stated in the Valuation Report) and the net worth of the assets and liabilities actually transferred on the date of the contribution and commencement of activities by the Company was adjusted by establishing a debit/credit between the Public Entity and the Parent Company; (ii) similarly, given the complexity and diversity of the elements and relationships that make up this activity, the Company and the Public Entity adjusted the different advances, receipts or payments that could not be settled on the activity transfer date due to their nature, frequency, established payment terms or for any other reason; (iii) if any event that occurred prior to the incorporation of the Company leads to an agreement to release any public domain assets assigned to the Company and which, as a result, become part of the assets of the Public Entity, the latter is required to compensate the Company for the loss of the assigned goods, once the formal procedures for the loss of the public domain assets have been completed.

The net assets contributed to the Parent totalled 2,148,064 thousand euros.

(iii) Non-controlling interest

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

Non-controlling interests are disclosed in the 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 Group, 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 income, expenses and cash flows of subsidiaries are included in the consolidated Financial Statements from the date of acquisition, which is when the Group effectively takes control. 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 value impairment 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 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 acquisition cost, 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 profit/(loss). Dividend 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 the 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 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 reverse 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) Value impairment

The Group applies the criteria for impairment described in IAS 39: Financial Instruments: Recognition and Measurement 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 value, which shall be construed as the highest between the value in use and 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 derecognition of the asset, or the estimated cash flows expected to be received from the distribution of dividends and the final derecognition 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. Value impairment losses are presented separately from the Group's share of profit or loss of associates.

(vii) Joint operations

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 loss or value impairment 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 loss or value impairment of the assets transferred, 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 on which fair value was determined.

For the presentation of the consolidated statement of cash flows, 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 translation differences on cash".

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 profit or loss.

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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 translation differences in other consolidated 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 operating 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 at the exchange rate of the closing date of the balance sheet.
- Income and expenses are translated at the average exchange rate for the year; and
- All resulting exchange differences are recognised as translation differences in other comprehensive profit/(loss).

These criteria are also applicable to the conversion of the financial statements of equity-accounted investees, with translation differences attributable to the Group being recognised in other comprehensive profit/(loss).

Translation differences recognised in other comprehensive profit/(loss) 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 operating currencies of foreign subsidiaries are the currencies of the countries in which they are domiciled or the currency in which they operate, if different.

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 derecognised. 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 with those funds.

The Group begins capitalising borrowing costs as part of the cost of a qualifying asset when it incurs expenses 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.

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d) Intangible assets

(i) Goodwill

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

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 of the Group which are expected to benefit from the synergies of the business combination and the criteria described in section (h) "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 costs are 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 expenses actually attributable to the different projects.

The cost of internally generated assets is calculated using the same criteria established for determining inventory production cost. The production cost is capitalised by allocating the costs attributable to the asset to non-current self-constructed assets in the Consolidated Income Statement.

Expenses 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 agreements granted by different public 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

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of the concession arrangement, are recognised using the accounting policy described for provisions, to the extent that such activity does not generate revenue.

Concession agreements not subject to IFRIC 12 are recognised using general criteria. If the Group recognises assets as property, plant and equipment, 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 value impairment as a contractual outflow of future cash flows necessary to obtain future cash inflows.

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 heading under trademarks. These are measured at acquisition cost (registration).

(v) Computer software

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

(vi) Subsequent expenses

Subsequent expenses incurred in relation to intangible assets are recorded as expenses unless the expected future economic benefits of the assets are increased as a result.

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

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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) Impairment of fixed assets

The Group measures and determines impairment adjustments or reversals of impairment losses based on the criteria in section (h) entitled "Impairment of non-financial assets subject to amortisation or depreciation" of this Note.

e) Property, plant and equipment

(i) Initial recognition

Property, plant and equipment are recognised at cost or deemed cost, less accumulated depreciation and any accumulated impairment losses. The cost of self-constructed property, plant and equipment is determined using the same principles as for an acquired asset, while also considering the criteria applicable to inventory production cost. 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 property, plant and equipment 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

Property, plant and equipment is depreciated 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.

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Property, plant and equipment are depreciated on a straight-line basis applying the depreciation rates presented below:

	Depreciation percentage	
	Minimum	**Maximum**
Buildings	1.00%	3.00%
Urban Infrastructure and Roads	1.00%	12.00%
Reservoirs	1.40%	5.00%
Large pipelines	1.40%	3.00%
Treatment Plants	5.00%	10.00%
Pumping Stations	5.00%	10.00%
Deposits	2.00%	6.00%
Distribution network	2.90%	8.00%
High Voltage Power Networks and Plants	1.40%	7.60%
Low Voltage Power Networks	4.00%	8.00%
Wastewater Treatment Plants	3.30%	10.00%
Underground Water Catchment	1.40%	2.50%
Lab Equipment	5.50%	12.00%
Communications	5.50%	12.00%
IT systems and facilities	7.10%	15.00%
Utilities and tools	12.50%	30.00%
Furniture and tools	5.00%	20.00%
Machinery	5.00%	30.00%
Data-processing equipment	12.50%	25.00%
Transport elements	5.00%	16.00%

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

(iii) Subsequent expenses

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 carrying amount of the elements replaced shall be written off. In this regard, the costs arising from the daily maintenance of the property, plant and equipment are accounted as incurred in the Consolidated Income Statement.

Replacements of property, plant and equipment items subject to capitalisation reduce the carrying amount 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) Investment property

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 property, plant and equipment under construction until construction or development is complete. Nevertheless, redevelopment work to extend or improve property is classified as investment property.

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The Group measures and recognises investment property following the criteria established for property, plant and equipment.

Investment property is depreciated following the same criteria applied to property, plant and equipment.

Lease income is recognised using the criteria described in section (i).

g) Non-current assets held for sale

The Group recognises under this heading non-current assets or disposable groups of elements, the carrying amount 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 or disposable group of elements as held for sale, these 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 asset which is highly likely to go through that process.

Likewise, the Group considers subsidiaries, associates or joint ventures as a disposable 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-current assets and disposable groups of elements held for sale are not depreciated; they are measured at the lesser of their carrying amount or fair value less the costs of sale.

The Group recognises initial and subsequent impairment losses of the assets classified in this category against the earnings for continuing operations on the income statement, except in cases 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 carrying amount thereof. Value impairment losses of goodwill are not reversible.

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

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 carrying amount before their classification minus amortisation or depreciation which would have been recognised had they not been classified as such and the recoverable value on the reclassification date. Value adjustments arising from such reclassification are recognised in profit or loss of continuing operations.

h) 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 carrying amount of the assets mentioned exceeds their recoverable value, where this is understood as the greater of the fair value less any costs of sale and its value in use.

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 assets with an indefinite useful life.

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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 fixed assets from the consolidated income statement and are non-reversible.

Impairment losses are recognised in the consolidated income statement.

The recoverable value 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, the recoverable amount is determined for the cash-generating unit (CGU) to which the asset belongs.

The Group's methodology used to calculate the recoverable value is, in 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:

- Forecast of profits and losses.
- 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 weighted average cost of capital used after taxes for each country and business, which is reviewed at least once a year. The rate is intended to reflect existing market evaluations regarding the time value of money and the specific risks of the assets. Therefore, the discount rate used takes into account the risk-free 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 flows used to extrapolate cash flow forecasts 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 forecasts 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 and 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 carrying amount thereof, limited for each one to the greater of the fair value less any costs of sale, the value in use and zero.

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 assets only revert in case of a change in the estimates used to establish the recoverable value 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 carrying amount of the asset above the carrying amount it would have had, net of amortisation and depreciation, had the impairment not occurred.

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

Once an impairment adjustment, or its reversal, has been recognised, depreciation or amortisation for subsequent financial years is adjusted considering the new carrying amount.

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

i) Leases

(i) Classification of leases

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

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.

(ii) Lessor accounting

Assets leased to third parties under operating lease agreements 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 agreement are met.

(iii) Lessee accounting

IFRS 16 – Leases supersedes IAS 17 – Leases, IFRIC Interpretation 4 – 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 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.

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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 has 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 has 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.

The reconciliation between operating lease commitments broken down in the Group's consolidated Annual Financial Statements at 31 December 2018 and the lease liabilities recognised on 1 January 2019 in the consolidated Balance Sheet on that date is as follows:

	Thousands of euros
Lease commitments at 31 December 2018	**21,407**
Financial discount of future payments	33
Short-term and low-value leases	2,901
Lease liability recognised on 1 January 2019	**24,341**

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The impacts of first adoption were as follows:

	Thousands of euros		
	2019		
IMPACT ON THE BALANCE SHEET OF 1st ADOPTION OF IFRS 16	**Dec-18**	**Adjustments IFRS 16**	**Jan-19**
Right-of-use assets	521	24,560	25,081
Current and non-current financial liabilities[1]	(488)	(24,341)	(24,829)
Non-current provisions and others	-	(219)	(219)
Effect on net assets and liabilities	**33**	**-**	**33**

[1] Includes finance lease liabilities in accordance with the previous standard.

	Thousands of euros			
	2019			
IMPACT OF FIRST ADOPTION ON THE P&L 31 December 2019 IFRS 16	**Lease expenses not applying IFRS 16**	**Depreciation charge on agreements capitalised by IFRS 16**	**Finance expense on agreements capitalised by IFRS 16**	**Impact on the P&L**
Canal de Isabel II, S.A.	(4,645)	(4,782)	(316)	(453)
Hispanagua	(675)	(696)	(13)	(34)
C.G. Lanzarote	(743)	(707)	(77)	(41)
INASSA	(35)	(32)	(4)	(1)
Amerika	(6)	(6)	-	-
AAA Dominicana, S.A.	(315)	(293)	(102)	(80)
TOTAL	**(6,419)**	**(6,516)**	**(512)**	**(609)**

The impact of the new accounting treatment of leases on the Group's net performance in 2019 was not material. However, other financial figures were affected and, for example, income from operating activities increased (lower operating expenses) and financial income decreased (higher financial expenses). Neither has cash generation been altered by the adoption of IFRS 16, but its classification has, since cash flow from operating activities has increased and from financing activities has decreased to the same degree.

Detailed information concerning right-of-use assets is provided in Note 7.

j) 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.

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

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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.

Measurement:

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 fair value through profit or loss:

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 life time.

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 life time 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 creditors and other accounts payable, 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 amortised 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 nominal amount.

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

Financial liabilities are derecognised by the Group whenever the obligations attached thereto have lapsed or the Company is legally exempt from the main obligation attached to the liability whether by virtue of legal proceedings or by the creditor.

k) Inventory

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

The acquisition cost 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 finance expenses 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 in goods, raw materials and consumables used (the cost of sales) in the Consolidated Income Statement.

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l) Cash and cash equivalents

"Cash and cash equivalents" includes cash holdings and bank deposits in financial institutions.

The Group presents payables and receivables from high-rotation financial assets and liabilities at the net amount on the Statement of Cash Flows. 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.

m) Government Subsidies

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

(i) Capital subsidies

Capital subsidies awarded as monetary assets are recognised under government subsidies 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 subsidies have been received.

(ii) Operating subsidies

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

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

n) Employees Benefits

(i) Details of Group pension plans.

Canal de Isabel II, S.A. and certain subsidiaries have pension plans and other commitments with personnel:

Canal de Isabel II, S.A.:

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 Law (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.

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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).

Article 21.6 of Law 9/2018 of 26 December on the General Budget for the Region of Madrid for 2019, established that no contributions could be made during 2019 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 Canal externalised 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 widowhood 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.

In January 2011, Canal outsourced the policies for tenure and seniority bonuses corresponding to existing remunerations committed to in the Collective Bargaining 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.

Hidráulica Santillana S.A.U. and Hispanagua, S.A.U:

Pursuant to Royal Decree 1588/1999 of 15 October 1999, which sets forth the legal provisions on the arrangement of company pension plan commitments, these subsidiaries have set up an Employee Pension Plan.

The Pension Plan adopted by the subsidiaries was formally arranged in December 2000 and consists of defined contributions for retirement benefits and defined benefits for death and disability (covered by an insurance contract).

The Pension Plan takes into account the previous benefits to which the employees were entitled for past service at 1 December 2000. The total sum of the obligation for past services was 154 thousand euros in the case of Hidráulica Santillana and 2,828 thousand euros in the case of Hispanagua and was paid into the "FONDPOSTAL Canal de Isabel II, F.P." pension fund, administered by the pension fund management company "Gestión de Previsión y Pensiones, S.A." and deposited with the trustee entity BBVA.

Pursuant to Royal Decree 1588/1999 of 15 October 1999, which sets forth the legal provisions on the arrangement of company pension plan commitments, Hispanagua, S.A.U. externalised its commitments to retired personnel through an insurance policy contracted with SCH Seguros in 1999. Contributions totalling 5,672 thousand euros were paid in full in 1999.

Hispanagua S.A.U. also has an early retirement bonus commitment which was externalised in 2002 through an insurance policy contracted with BBVA Seguros. The contributions, totalling 173 thousand euros, was paid in full.

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Both subsidiaries recognise 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).

In accordance with Article 21.6 of Law 9/2018, of 26 December on the General Budget for the Region of Madrid for 2019, it was established that no contributions could be made during 2019 to pension plans or collective insurance policies covering retirement. In accordance with the provisions set forth in the relevant General Budget Legislation of the Regional Government of Madrid, no contributions were made to pension plans or collective insurance policies covering retirement in 2018, 2017, 2016, 2015, 2014 and 2013. Similarly, no contribution is expected to be made in this sense during 2020.

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 2019 the present value of the actuarial mathematical provision for employer-paid retirement plans is 330 thousand euros (322 thousand euros in 2018).

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, 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 income statement.

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

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However, on 4 May 2015 Labour Court no. 1 of Arrecife handed down a Ruling ordering Canal Gestión Lanzarote to pay an employee this compensation by law based on article 44.1 of the Workers Statute. The Court considered the subsidiary to be the new employer that had assumed the labour and Social Security rights and commitments of the former, including pension commitments.

Consequently, following a strict prudent criterion, the Subsidiary recognised 1,629 thousand euros for "Loyal service bonuses" for 2015 in the Financial Statements. In financial year 2016, the Subsidiary updated the liability accrued up to 2,131 thousand euros, which entailed an increase by 502 thousand euros with regard to the provision registered in 2015. The obligation accrued on 31 December 2017 amounted to 2,210 thousand euros and at 31 December 2018, it amounted to 2,219 thousand euros. At 2019 year end, the obligation amounts to 2,103 thousand euros, recognised under the heading "Long-term employee benefit obligations" in the balance sheet.

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.

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.

(ii) 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 the employee services in the current and prior periods. (See Note 17)

(iii) Defined contributions

The Group registers the contributions payable to the defined contribution plans when the employee has provided the corresponding services The contributions payable are recognised as "Employee benefits expense", and as a liability after deducting any contribution already paid. If the contribution already paid exceeds the accrued expense, the Group only recognises those assets which will lead to, for example, a reduction in future payments or a cash refund.

When contributions are payable in a period over twelve months, they are discounted using the market yield on high quality corporate bonds. (See Note 26 (d))

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o) 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 amounts recognised in the statement of financial position are the best estimate of the expenses 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, when material, the financial effect of discounting, provided that the expense to be made each period can be reliably estimated.

Isolated obligations are measured by the individual outcome that seems most likely. When the obligation involves a large group of identical items, it 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 amount.

The financial effect of provisions is recognised as finance expenses in the Consolidated Income Statement.

In cases where the Group has outsourced the covered risk 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 item in which the related expense was recognised, and any surplus is accounted for in other income.

p) Ordinary income recognition

Income arising from the sale of goods and provision of services are recorded at the fair value of the consideration received or to be received in exchange for those goods or services.

However, the Group includes interest added to trade receivables with a maturity under a year which do not have a contractual interest when the effect of not updating the cash flows is not significant.

Income is recognised once the Group has rendered the corresponding service, irrespective of the date of collection.

The rates 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.

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q) Interest and dividends

Interest is recognised using the effective interest rate 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.

r) 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 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 profit 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 the Revised Text 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 Company applies this tax relief as it has been commissioned to provide these services in the Region of Madrid. The tax rate imposed in Spain from the year 2016 is 25%.

This tax group comprises the following companies:

- Canal de Isabel II
- Canal de Isabel II, S.A.
- Canal Extensia, S.A.U.
- Hispanagua S.A.U.
- Hidráulica Santillana S.A.U.
- Canal de Comunicaciones Unidas S.A.U.
- Canal Energía, S.L.
- Canal Gestión Lanzarote, S.A.U.
- Ocio y Deporte Canal, S.L.U.

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(i) Recognition of deferred tax liabilities

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

(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 the Public Administration.

The Group recognises the conversion of a deferred tax asset into 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 deferred tax on profits and the receivable is credited to the current tax on profit. 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 Administrations when it accrues in accordance with the Income Tax Law.

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 accounting profit 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, providing that it has the intention to adopt them or it is likely to adopt them.

(iii) Measurement 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 Law 27/2014, of 27 November, on Corporate Income 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.

If applicable, the Group reviews the carrying amount of the deferred tax assets at year-end, with the aim of reducing this amount insofar as there aren't likely to be sufficient future taxable income to offset these.

Deferred tax assets that do not meet the preceding conditions are not recognised in the consolidated statement of financial position. 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.

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The Group only offsets income 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.

s) 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 profits or losses are regularly reviewed by the Board of Directors and Management to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

t) 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 Group, mainly kept for trading purposes, they are likely to be realised within a period of time of twelve months after the closing date 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.

u) 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.

Fixed 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.

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4. SEGMENT REPORTING

The Parent Board of Directors and 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. 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

With regard to the 15,000 thousand dollar loan granted by Canal Extensia to INASSA on 24 October 2017, Soluciones latinoamericana de aguas (hereinafter, SLASA) guaranteed the payment of that amount received by INASSA [in the percentage of SLASA's 18.76% stake in that company (18.16% at 31 December 2019)], by means of a pledge on shares and receivables from SLASA to Canal Extensia. Once the loan term and the extension thereof had expired on 27 October 2018, Canal Extensia requested materialisation of those collection guarantees. SLASA, on 14 December 2018, stated its intention to comply with the aforementioned commitment as follows:

- Voluntarily and definitively assign to Canal Extensia the amounts receivable from INASSA by SLASA amounting to 2,320 thousand dollars.
- Assign 138,753 shares held by SLASA in INASSA to Canal Extensia for an amount of 494 thousand dollars.

On 24 January 2019, Canal Extensia and SLASA signed an agreement to assign the shares and receivables, increasing the share of Canal Extensia by 0.60%.

In 2019, the company Informaciones Remotas, S.R.L. was liquidated. (See Note 1 (b)(i))

On 11 October 2018 the merger by absorption of Canal Energía, S.L.U, Canal Energía Distribución, S.L.U., Canal Energía Comercialización, S.L.U. and Canal Gas Distribución, S.L.U. by the company Sociedad Canal Energía, S.L. was approved by the Extraordinary General Meeting along with its Merger Balance Sheet. For the purposes of the provisions in Article 31.7 of Law 3/2009 of 3 April, on Structural Changes to Companies, it was stated that, subject to applicable regulations, the date of the Merger for accounting purposes would be 1 January 2018

In 2018, exclusion from the consolidation scope of the company Sociedad Triple A de Barranquilla, S.A., E.S.P., was approved as a consequence of the interim measure to suspend the right of alienation, sequestration and embargo, over 82% of the shareholder composition that Sociedad Interamericana de Aguas y Servicios, S.A. (hereinafter INASSA) owns, directly and indirectly owned at 81.24% by Canal de Isabel II, S.A., in the company Triple A de Barranquilla. This exclusion from the consolidation scope entails

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the withdrawal of the shareholding that Sociedad Triple A de Barranquilla owned in the subsidiary Gestus Gestión & Servicios, S.A.S.

On 10 April 2018, the company AAA Dominicana S.A. received notice from the Reserve Bank of the Dominican Republic on the potential risk of freezing accounts, requiring the modification of the shareholding structure of the company to adapt to the regulations. Consequently, the local shareholder decided to transfer its shares corresponding to 35% of AAA Dominicana's capital, in accordance with the appropriate formalities within the legal and statutory framework that governs it as a commercial company established in accordance with Dominican laws.

In this respect, the local shareholder formalised the corresponding Offer Notices to the majority shareholder, INASSA, in accordance with the terms established in the articles of association regarding the preferred option rights to acquire shares. INASSA waived the pre-emption right to purchase the shares offered by the local partner.

On 29 May 2018, a third party purchased the shares at the same value as the value offered in the aforementioned Offer Notice. The bill of sale was established by means of a purchase agreement, recognising it in the company's stock registry. Said change was formalised before the Commercial Registry of the Chamber of Commerce and Production, to register the change of shareholders within the Commercial Registry certificate of the Company dated 15 June 2018.

The investee, Acueducto y Alcantarillado Metropolitano de Santa Marta, S.A. E.S.P. (Metroagua, S.A. E.S.P.), was dissolved pursuant to the Shareholders' Agreement of 21 April 2017 and is still in the liquidation phase.

6. NON-CURRENT ASSETS HELD FOR SALE

In 2018, the Parent Company classified as non-current assets held for sale 45 properties that appear as investment property, and which were disposed of via electronic public auction, on the basis of the agreements adopted by the Board of Directors on 19 September 2018. The sale is expected to be effective in 2020, once the necessary contracting proceedings have been completed. The disposable group of elements was comprised of assets with a net carrying amount of 4,019 thousand euros.

Furthermore, in 2019, the subsidiary Hispanagua S.A.U. classified under non-current assets held for sale a building that had been classified as property, plant and equipment, in a net carrying amount of 257 thousand euros. This building classified as held for sale during the reporting year was measured at the lower of its carrying amount and fair value less costs to sell at the time of reclassification, and was reclassified at the lower of the two amounts. The building's fair value was determined using the methodology described in Note 3. It is expected that the sale transaction will be completed in 2020. (See Note 7)

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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						
	2019						
	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 2018	**11,224**	**-**	**71,322**	**2,135**	**-**	**38**	**84,719**
Impact of 1st adoption of IFRS 16	(431)	431	-	(257)	257	-	
Impact of 1st adoption of IFRS 16	-	15,762	-	-	8,798	-	24,560
Initial balance at 1 January 2019	**10,793**	**16,193**	**71,322**	**1,878**	**9,055**	**38**	**109,279**
Additions	18	1,197	282	70	950	286	2,803
Disposals	(655)	(13)	(453)	(185)	-	-	(1,307)
Transfers	(1)	-	18	153	-	(170)	-
Translation differences	5	(36)	(434)	(1)	-	(1)	(466)
Other movements	-	-	2	-	-	-	2
Cost at 31 December 2019	**10,160**	**17,341**	**70,737**	**1,915**	**10,005**	**153**	**110,311**
Accumulated depreciation:							
Balance at 31 December 2018	**(1,872)**	**-**	**(53,269)**	**(1,539)**	**-**	**-**	**(56,680)**
Impact of 1st adoption of IFRS 16	63	(63)	77	27	(104)	-	-
Initial balance at 1 January 2019	**(1,809)**	**(63)**	**(53,192)**	**(1,512)**	**(104)**	**-**	**(56,680)**
Depreciations (Note 26)	(158)	(3,485)	(2,869)	(116)	(3,250)	-	(9,878)
Disposals	397	9	370	172	-	-	948
Translation differences	24	10	334	(1)	-	-	367
Other movements	-	-	(2)	-	-	-	(2)
Accumulated depreciation at 31 December 2019	**(1,546)**	**(3,529)**	**(55,359)**	**(1,457)**	**(3,354)**	**-**	**(65,245)**
NET CARRYING AMOUNT AT 31 DECEMBER 2019	**8,613**	**13,812**	**15,378**	**458**	**6,652**	**153**	**45,066**

In 2019, Hispanagua S.A.U. classified under non-current assets held for sale a building that had been classified as property, plant and equipment, in a net carrying amount of 257 thousand euros. (See Note 6).

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	In thousands of euros				
	2018				
	Land and buildings	Technical installations and other property, plant and equipment	Machinery, furniture and tools	Fixed assets under construction and advances	TOTAL
Cost:					
Initial balance at 1 January 2018	11,857	73,931	3,844	-	89,632
Additions	-	806	192	37	1,035
Disposals	(253)	(2,146)	(566)	-	(2,965)
Transfers	-	-	-	-	
Translation differences	38	21	(58)	1	2
Change in the exclusion from the consolidation scope	(418)	(1,290)	(1,277)	-	(2,985)
Cost at 31 December 2018	**11,224**	**71,322**	**2,135**	**38**	**84,719**
Accumulated depreciation:					
Initial balance at 1 January 2018	**(1,861)**	**(51,515)**	**(2,524)**	-	**(55,900)**
Depreciations (Note 26)	(214)	(4,594)	(240)	-	(5,048)
Disposals	142	2,100	533	-	2,775
Translation differences	(13)	(15)	17	-	(11)
Change in the exclusion from the consolidation scope[1]	74	755	675	-	1,504
Accumulated depreciation at 31 December 2018	**(1,872)**	**(53,269)**	**(1,539)**	**-**	**(56,680)**
NET CARRYING AMOUNT AT 31 December 2018	**9,352**	**18,053**	**596**	**38**	**28,039**

[1] Disposals of the Triple A de Barranquilla amounts by reason of the deconsolidation of the share after the loss of control are included.

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

	Thousands of euros			
	2019			
	Right-of-use Buildings and construction works	Right-of-use Vehicles	Right-of-use Other assets	TOTAL
Cost:				
Initial balance at 1 January 2019	-	-	-	-
Additions	16,819	7,745	1,935	26,499
Disposals	(13)	-	-	(13)
Transfers	431	152	105	688
Translation differences	(36)	-	1	(35)
Impact of adoption of IFRS [1]	140	-	68	208
Cost at 31 December 2019	**17,341**	**7,897**	**2,109**	**27,347**
Accumulated depreciation:				
Initial balance at 1 January 2019	-	-	-	-
Depreciations (Note 26)	(3,485)	(2,979)	(271)	(6,735)
Disposals	9	-	-	9
Transfers	(63)	(59)	(45)	(167)
Translation differences	10	-	-	10
Accumulated depreciation at 31 December 2019	**(3,529)**	**(3,038)**	**(316)**	**(6,883)**
NET CARRYING AMOUNT AT 31 DECEMBER 2019	**13,812**	**4,859**	**1,793**	**20,464**

[1] Right-of-use assets reclassified to property, plant and equipment of INASSA.

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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		
	2019		
Description of the asset	Depreciation	Accumulated depreciation	Net carrying amount
Mini power plants	(1,405)	(40,314)	10,607
Total	**(1,405)**	**(40,314)**	**10,607**

	In thousands of euros		
	2018		
Description of the asset	Depreciation	Accumulated depreciation	Net carrying amount
Mini power plants	(1,572)	(39,208)	12,719
Total	**(1,572)**	**(39,208)**	**12,719**

There are no individually relevant elements of property, plant and equipment among the Ibero-American States at 31 December 2019 and 2018.

b) Fully depreciated goods

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	
	2019	2018
Construction works	951	754
Technical installations and machinery	2,118	1,680
Other installations, tools and furniture	895	951
Other fixed assets	9,794	9,599
Total	**13,758**	**12,984**

c) Insurances

The Group has subscribed several insurance policies covering those risks property, plant and equipment are subject to. The coverage of such policies is deemed to be sufficient.

d) Impairment

The Group did not recognise any significant impairment on its property, plant and equipment in 2019 and 2018.

e) Disposals

As a consequence of the disposals occurred during fiscal year 2019 under the heading of property, plant and equipment, a loss of 17 thousand euros was originated and registered on the accompanying consolidated income statement (17 thousand euros in profits in 2018).

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8. INVESTMENT PROPERTY

a) General

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

	In thousands of euros		
		2019	
	Lands	Construction works	TOTAL
Cost at 1 January 2019	**4,269**	**13,310**	**17,579**
Additions	15	-	15
Disposals	(2)	-	(2)
Transfers	(29)	-	(29)
Translation differences	-	3	3
Cost at 31 December 2019	4,253	13,313	17,566
Accumulated amortisation at 1 January 2019	-	**(7,025)**	**(7,025)**
Amortisations (Note 26)	-	**(355)**	**(355)**
Translation differences	-	(2)	(2)
Accumulated amortisation at 31 December 2019	-	(7,382)	(7,382)
Accumulated impairment at 1 January 2019	-	**(133)**	**(133)**
Other movements	-	-	-
Accumulated impairment at 31 December 2019		(133)	(133)
NET CARRYING AMOUNT AT 31 DECEMBER 2019	**4,253**	**5,798**	**10,051**

	In thousands of euros		
		2018	
	Lands	Construction works	TOTAL
Cost at 1 January 2018	**7,966**	**24,681**	**32,647**
Additions	80	-	80
Disposals	-	(10,066)	(10,066)
Transfers	32	(35)	(3)
Translation differences	(17)	(9)	(26)
Other movements	(3,380)	(1,261)	(4,641)
Change in the exclusion from the consolidation scope[(1)]	(412)	-	(412)
Cost at 31 December 2018	**4,269**	**13,310**	**17,579**
Accumulated amortisation at 1 January 2018	-	**(13,835)**	**(13,835)**
Amortisations (Note 26)	-	(376)	(355)
Disposals	-	6,556	6,556
Transfers	-	8	8
Other movements	-	622	622
Accumulated amortisation at 31 December 2018	-	**(7,025)**	**(7,025)**
Accumulated impairment at 1 January 2018	-	**(3,644)**	**(3,644)**
Other movements	-	3,511	3,511
Accumulated impairment at 31 December 2018	-	**(133)**	**(133)**
NET CARRYING AMOUNT AT 31 December 2018	**4,269**	**6,152**	**10,421**

(1) Disposals of the Triple A de Barranquilla amounts by reason of the deconsolidation of the share after the loss of control are included.

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This heading mainly comprises the sports facilities located at the Third Deposit of Islas Filipinas and several other properties owned by the Parent.

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 1,164 thousand euros. The applicable fee in 2019 came to 185 thousand euros.

On 10 May 2017, the Management Agreement was signed, whereby Canal de Isabel II, S.A. entrusted to the Public Entity Ocio y Deporte Canal, S.L.U. the management and operation of the Parent Company's sports installations located at the Third Deposit of Islas Filipinas for an annual charge of 100 thousand euros in 2018.

"Additions" include contributions made in 2019 to cover urban development and management costs at the Compensation Boards of the sectors SUS PP-B "Cristo de Rivas" (Rivas Vaciamadrid) plot RC 110-2 and PP-2 "Ampliación Portillo" (Leganés) plot A4-12.

Among the additions in 2018, the contributions made to meet the costs of the urban development and management of the Compensation Boards of the sectors SUS PP-B "Cristo de Rivas" (Rivas Vaciamadrid) plot RC 110-2, PP-2 "Ampliación Portillo" (Leganés) plot A4-12, and UZP 1.05 "Villaverde-Butarque" (Madrid) plot RC-3A must be pointed out.

In 2018, the Parent Company registered in "Other movements" the transfer to "Non-current assets held for sale" of 4,019 thousand euros arising out of the disposal, by way of an electronic public auction, of a dossier of 45 properties that were registered as investment property and that was approved by the Board of Directors of the Parent Company in September 2018.

The total net carrying amount of the Group's investments outside of Spain is 193 thousand euros (191 thousand euros in 2018). INASSA is responsible for investment property of the Group outside Spain.

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

	In thousands of euros		
	2019		
Description	Cost	Accumulated amortisation	Net
Lands	4,253	-	4,253
Patrimonial assets	2,353	(916)	1,437
Total	**6,606**	**(916)**	**5,690**

	In thousands of euros		
	2018		
Description	Cost	Accumulated amortisation	Net
Lands	4,269	-	4,269
Patrimonial assets	2,351	(871)	1,480
Total	**6,620**	**(871)**	**5,749**

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b) Income and expenses from investment property

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

	In thousands of euros	
	2019	2018
Lease income	424	88
Operating expenses from income generating investments	(310)	(312)
Operating expenses from investments that do not generate income	(45)	(45)
Total	**69**	**(269)**

c) Value impairment

The Parent Company did not recognise any impairments in 2019. During 2018, value impairment corresponding to the sports facilities located at the Third Deposit of Islas Filipinas was reduced to a sum of 3,511 thousand euros as a consequence of the necessary measures for the repositioning and reestablishing of the plot to the physical state prior to the execution of the works in accordance with Ruling 580/260, of 26 July, of the High Court of Justice of Madrid. Impairment at 31 December 2018 amounts 133 thousand euros.

d) Insurances

The Group has subscribed several insurance policies covering 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 2019 and 2018 is as follows:

Item	In thousands of euros	
	2019	2018
Construction works	67,103	64,253

f) Disposals

In 2019, no disposals had been recognised under the heading "Investment property". In 2018, disposals under this heading generated a profit of 105 thousand euros which was booked in the attached consolidated income statements (see Note 26 (g)).

In 2019, there were disposals due to the settlement of the Isla de Chamartín Compensation Board for obtaining plots T-3 and B-3 of the APR.16.03 in Madrid amounting to 2 thousand euros. In 2018, the golf facilities located at the Third Deposit sports facilities were demolished and derecognised. Accounting provision was made for these facilities after Ruling 580/2016 of 26 July of the High Court of Justice of Madrid, which declared them incompatible with the legal urban planning order. As a result of the same, only the assets corresponding to the old building which contained the offices and a restaurant, which have not been demolished, appear with impairment. The net carrying amount of the assets disposed of in 2018 for a sum of 3,511 thousand euros was fully impaired.

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9. GOODWILL

Movement during 2019 and 2018 is as follows:

	In thousands of euros 2019			
	Balance at 01/01/2019	Impairment	Translation differences	Balance at 31/12/2019
AAA Ecuador Agacase	291	-	3	294
Hidráulica Santillana, S.A.U.	12,610	-	-	12,610
AAA Dominicana, S.A.	38	-	-	38
Emissão, S.A.	5,910	(5,232)	(678)	-
Total	**18,849**	**(5,232)**	**(675)**	**12,942**

	In thousands of euros 2018			
	Balance at 01/01/2018	Impairment	Translation differences	Balance at 31/12/2018
AAA Ecuador Agacase	303	-	(12)	291
Hidráulica Santillana, S.A.U.	12,610	-	-	12,610
AAA Dominicana, S.A.	38	-	-	38
Emissão, S.A.	6,347	-	(437)	5,910
Total	**19,298**	**-**	**(449)**	**18,849**

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. Furthermore, in the case of Emissão, a sensitivity analysis is conducted on the main assumptions: turnover and average collection period.

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

- CGU Emissão:

The estimate of the recoverable value used to test the goodwill of the CGU Emissão was conducted by an independent expert and is based on the value in use calculated by taking into account Emissão's new business plan approved in 2019 by Management for the coming years.

The explicit period includes a time frame of 10 years since, at the end of 2019, the CGU has fiscal credits still to be offset for a significant amount and it is from 2029 that it would obtain the first normalised flow to calculate the terminal value.

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In these circumstances, the main considerations taken into account in the business plan are as follows:

- Only contracts in force and new contracts which experience tells us might be obtained in the short term were considered for estimating the turnover for 2019. The projected turnover for the 2020 to 2029 period mainly considers inflation.

- The Group established an operational margin based on past performance and its development expectations.

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

	Business Plan 2020	Business Plan 2019	Business Plan 2018
Income CAGR	3.79	1.16%	2.82%
EBIDTA CAGR	5.52%	12.04%	7.64%

Another relevant factor affecting the business assessment, derived from the activity of the CGU, is the average collection period. This ratio is thought to diminish by 79.65% over the projected years. Said projections are based on the determination of the recovery of the receivables that have not been provisioned that date back to more than one year, some involved in legal proceedings, in several instalments, primarily in 2023 and 2024, and the determination of a continuous rotation with that obtained in 2019 for the rest of the contracts.

The discount rate applied (weighted average cost of capital or WACC) is 12.3% (13.2% in 2018). To calculate this the reference of interest rate of securities and bonds of the United States of America over 20 years (2.3%) is used, a market risk premium of 6%, a country risk of 2.1%, a size premium of 3.7% and capital structure of similar companies.

With regard to the terminal value, a perpetual growth rate of 3.5% has been estimated (3.7% in 2018), considering the average inflation projected for Brazil from 2020 to 2029 (source: The Economist intelligence Unit, Country Forecast Brazil).

The impairment test carried out on 31 December 2019 reflects a recoverable value of 24,650 thousand euros (24,549 thousand euros at 31 December 2018). This amount must be compared with the net value of the CGU's operating assets, standing at 30,716 thousand euros (including goodwill) at said date (23,551 thousand euros at 31 December 2018). Consequently, it was necessary to book an impairment of consolidation goodwill in 2019 amounting to 5,232 thousand euros (there was no such impairment in 2018).

This was due to the Company not collecting payments from its contracts with CEDAE, a situation which generated a cash deficit which had to be offset using intragroup financing and, in July 2019, filing a legal claim against CEDAE for non-payment. The Company was also negatively affected by the devaluation of the Brazilian real against the euro during the year, in excess of 2%.

The percentage of the amount discounted from the terminal value over the total recoverable value for this goodwill in 2019 is 21.46%, with a projection horizon of 10 years (36.7% in 2018, and a projection horizon of 10 years).

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The Group has also performed a sensitivity analysis for the main key assumptions. The key assumptions of the turnover impairment test include the weighted average cost of capital (WACC) and perpetual growth. Below is an illustration of how the recoverable value would be affected if these assumptions varied:

		In thousands of euros
Sensitivity	**Hypothesis Variation**	**Recoverable Value Variation**
Turnover	+ 5%	8,377
Turnover	- 5%	(8,360)
Average collection period	+ 10%	(477)
Average collection period	- 10%	513
Discount rate (WACC)	+ 100bp	(910)
Discount rate (WACC)	- 100 bp	1,225
Perpetual growth (g)	+ 100bp	679
Perpetual growth (g)	- 100 bp	(530)

<u>- CGU Hidráulica Santillana:</u>

The Group has determined the production of energy based on the historic average production volume, increasing slightly in 2020 as a consequence of the estimated investments and being constant from that fiscal year on. In order to estimate the market price, the Company took into account OMIP estimates on the date when the projections for 2020 and 2021 were drafted. The estimated price for 2020 is of 55.85 euros/MWh and it is expected to increase in line with inflation from then on. The Group's percentage of self-consumption of energy remained constant during the projection and in line with previous years.

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

	Business Plan 2019	Business Plan 2018
Income CAGR	3.89%	0.49%
EBIDTA CAGR	4.64%	-0.53%

The discount rate applied (weighted average cost of capital or WACC) is 4.70% (5.31% in 2018). To calculate this the reference of interest rate for government securities and bonds in Spain over 10 years (0.46%) is used, a market risk premium of 5%, a size premium of 2% and a capital structure of similar companies.

In terms of the terminal value, a constant perpetual growth rate of 2% has been estimated related mainly to the price increase of energy (2% in 2018). A perpetual CapEx investment of 730 thousand euros has been estimated, in line with the studies conducted by the subsidiary regarding the need to replace the assets and equal the amortisation to that investment.

The impairment test carried out at 31 December 2019 reflects a recoverable value of 78,341 thousand euros (61,586 thousand euros in 2018), with an excess over the carrying amount of the CGU's net operating assets of 48,745 thousand euros (including goodwill) (27,537 thousand euros in 2018).

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The Group has also performed a sensitivity analysis for the 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:

	2019
Income decrease	31.3%
WACC increase (bp)	514

This sensitivity analysis illustrates that this CGU does not have significant risks associated with variations in the key assumptions. During 2019 and 2018, goodwill impairment losses were not recognised in this CGU.

- Other CGUs:

The other goodwills 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.

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10. INTANGIBLE FIXED ASSETS

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

	In thousands of euros							
	2019							
	Development	Concessions	Computer software	Right-of-use Software IFRS 16	Concession arrangement, regulated assets	Concession arrangements, regulated assets under construction	Other intangible fixed assets	TOTAL
Cost at 1 January	**582**	**2,184**	**1,860**	**-**	**6,707,849**	**179,983**	**635**	**6,893,093**
Additions	-	1,349	143	108	32,181	34,049	-	67,830
Disposals	-	-	(57)	-	(5,714)	(1,269)	-	(7,040)
Transfers	-	-	-	-	123,584	(123,555)	-	29
Translation differences	(18)	18	2	1	284	-	-	287
Cost at 31 December	**564**	**3,551**	**1,948**	**109**	**6,858,184**	**89,208**	**635**	**6,954,199**
Accumulated amortisation at 1 January	**(299)**	**(1,690)**	**(1,579)**	**-**	**(2,693,012)**	**-**	**-**	**(2,696,580)**
Amortisations	(56)	-	(136)	(5)	(118,334)	-	-	(118,531)
Disposals		-	17	-	3,560	-	-	3,577
Translation differences	10	(18)	(4)	-	(102)	-	-	(114)
Other movements	-	-	-	-		-	-	
Accumulated amortisation at 31 December	**(345)**	**(1,708)**	**(1,702)**	**(5)**	**(2,807,888)**	**-**	**-**	**(2,811,648)**
Impairment at 1 January					**(9,219)**			**(9,219)**
Impairment reversals					**2,356**			**2,356**
Accumulated impairment at 31 December					**(6,863)**			**(6,863)**
Net carrying amount at 31 December	**219**	**1,843**	**246**	**104**	**4,043,433**	**89,208**	**635**	**4,135,688**

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	In thousands of euros						
	2018						
	Development	Concessions	Computer software	Concession arrangement, regulated assets	Concession arrangements, regulated assets under construction	Other intangible fixed assets	TOTAL
Cost at 1 January	**578**	**2,088**	**2,651**	**6,859,155**	**193,005**	**635**	**7,058,112**
Additions	-	164	280	34,075	46,442	-	80,961
Disposals	-	-	(225)	(18,724)	-	-	(18,949)
Transfers	-	-	-	50,637	(50,633)	-	4
Translation differences	4	(68)	(58)	(5,568)	(377)	-	(6,067)
Change in the exclusion from the consolidation scope[1]	-	-	(788)	(211,726)	(8,454)	-	(220,968)
Cost at 31 December	**582**	**2,184**	**1,860**	**6,707,849**	**179,983**	**635**	**6,983,093**
Accumulated amortisation at 1 January	**(278)**	**(1,757)**	**(2,191)**	**(2,682,250)**	**-**	**-**	**(2,686,476)**
Amortisations	(19)	-	(242)	(122,812)	-	-	(123,073)
Disposals	-	-	225	14,445	-	-	14,670
Transfers	-	-	-	(8)	-	-	(8)
Translation differences	(2)	67	41	2,556	-	-	2,662
Other movements	-	-	-	(28)	-	-	(28)
Change in the exclusion from the consolidation scope[1]	-	-	588	95,085	-	-	95,673
Accumulated amortisation at 31 December	**(299)**	**(1,690)**	**(1,579)**	**(2,693,012)**	**-**	**-**	**(2,696,580)**
Impairment at 1 January	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Impairment reversals	-	-	-	**(9,219)**	-	-	**(9,219)**
Accumulated impairment at 31 December	**-**	**-**	**-**	**(9,219)**	**-**	**-**	**(9,219)**
Net carrying amount at 31 December	**283**	**494**	**281**	**4,005,618**	**179,983**	**635**	**4,187,294**

[1] Disposals of the Triple A de Barranquilla amounts by reason of the deconsolidation of the share after the loss of control are included.

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In December 2019 the following are particularly noteworthy among the most significant additions to "Concession arrangements, regulated assets":

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

In connection with water intake, note the measures implemented for reservoir-induced landslide protection in the El Atazar, Vado, Pozo de los Ramos and Jarosa dams, the improvements to the drainage network of the Puentes Viejas dam, and the waterproofing of the transformation and low-voltage stations in the Guadarrama well field.

With regard to supply, we highlight the completion of works to reinforce the Villanuevas Branch (sections II and III) in the municipalities of Brunete, Villaviciosa de Odón, Sevilla la Nueva and Navalcarnero; phase 2 of the pipeline linking the storage tanks of Pozuelo del Rey and Torres de la Alameda; the connection of Pelayos de la Presa and San Martín de Valdeiglesias with the drinking water treatment plant (DWTP) in Pelayos; the works executed in section 5 of the 2nd supply ring of the Region of Madrid in Majadahonda and Boadilla; and a discharge chamber in Paracuellos. Moreover, the regulation tank was executed in the Dehesa Vieja district of Galapagar, and a deposit was executed in the town of San Martín de Valdeiglesias to supply the municipalities of Pelayos, Rozas de Puerto Real, Cadalso and Cenicientos.

In connection with water treatment, note the measures at the Valmayor DWTP to improve the expanded facilities and at the Colmenar bottling plant with a semi-automatic bottled water and equipment storage system. A water quality laboratory was also installed in the Santa Lucía complex in Torrelaguna.

With regard to treatment, in compliance with the National Treated Water Quality Plan and based on urban development growth forecasts, note the actions implemented at the wastewater treatment plants (WWTPs) in Las Matas, Aranjuez, Soto-Gutiérrez, Cervera and El Berrueco and the process improvements and refurbishments at the facilities; we highlight those undertaken at the plants in the Arroyo Culebro upper-middle and lower basins, and at Navarrosillos, Villaviciosa, Arroyo del Soto, Algete II, Arroyo Valenoso, Velilla, Villa del Prado, Colmenarejo and Robledo, primarily.

In the network of sewerage collectors and pipes in the Region of Madrid, note the measures implemented at collectors as a result of the new wastewater pumping station (WWPS) in Meco, the collector at the La Jarosa DWTP, the C1 collector in the Arroyo Valenoso de Boadilla system, and section A1 of the San Martín de Valdeiglesias collector in the Picadas system.

Among the actions implemented in connection with reclaimed water for the treatment and re-use of water in the Region of Madrid, we highlight the water re-use infrastructure for the municipalities of Rivas Vaciamadrid, Pinto, Torrejón de Ardoz, Arroyomolinos, Valdemoro and Ciempozuelos.

With regard to generation of energy, a mini-hydroelectric plant was installed alongside the channel taking water from the reservoir into the Valmayor DWTP, a cogeneration system was implemented at the Soto-Gutiérrez WWTP, and a biogas dryer installed at the treatment plant in the Arroyo Culebro upper-middle basin.

In remote automatic sanitation monitoring stations (MINERVA), we highlight the work undertaken at the WWTPs at Rejas, Viveros, Sur Oriental, Butarque, Guadarrama Medio, Zarzalejo, Sevilla la Nueva, Morata de Tajuña, Algete II, Navarrosillos, Navalcarnero and El Chaparral; the project to improve control and automation (ARTEMISA) at the WWTPs in Alcalá Oeste, Velilla, Pinilla and El Endrinal, and the DWTP at Navacerrada and La Jarosa; phase 3 for the integration of the WWPS in the remote control system; and the acquisition of virtualisation servers and cabins for data storage in its DPC.

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As part of sanitation management between the Madrid City Council, the Regional Government of Madrid and Canal de Isabel II, note the construction of the visitable collector from Plaza de Cibeles to Plaza de Cánovas del Castillo, improvements to the collector in Calle de Altamira up to its junction with the collector in Avenida Daroca, and the improvement around the San Fernando bridge. In the La China treatment plants, deodorisation, enclosure and sieving works were carried out; in the Sur Oriental treatment plant, a solar thermal facility was installed and the SCADA monitoring system was integrated.

The most significant additions under "Concession arrangements, regulated assets", at December 2018, were:

The sectorisation of the supply networks within the objectives of the Quality Plan, the network extensions and renovations within the network renovation plan in the various municipalities of the Region of Madrid, together with metering devices and connections in new contracts.

In supply and treatment, design the connection of the distribution network of the municipality of Algete with the pipeline no. 2 of the distribution ring, the pipeline from the pump at Nuevo Baztán to the Olmeda de las Fuentes artery, the equipping and electrification of well G-22, the enclosure, perimeter and protection against falls and mudslides executed at the Pontón de la Oliva dam, actions on intake, control and dossification buildings of deposit no. 13 of Getafe and action on the sludge line and reactive facilities of the Navecerrada DWTP.

In the area of water treatment, highlights included the connection of the sanitation systems and treatment plants Algete I and Algete II for flexible operation and to ensure the need for reclaimed water in green areas of the municipality, the technological upgrade of the Alcalá Oeste WWTP in order to comply with the National Treated Water Quality Plan and the extension of the treatment capacity of the Chaparral WWTP.

In the network of collectors and pipes in the Region of Madrid, highlights include the refurbishment of Section C5 of the Arroyo Culebro Middle Basin pipe in Humanes, the doubling of the width of the B12 pipe in San Fernando de Henares and the works on section B of the Boadilla collector to the Valenoso WWTP.

In the activities carried out with reused water, the necessary infrastructure for the supply of irrigation water to the green areas of Villalbilla, Mejorada del Campo and Velilla de San Antonio was developed.

With regard to the generation of energy, the installation of a micro turbine in the valve chamber at the Plaza Castilla deposit, and an electricity line between the hydroelectric plant of Valmayor and the switching centre of the Valmayor DWTP.

Work on the automation and integration in the control systems of metropolitan reclaimed water control networks and facilities at different locations in the Region of Madrid. The telecommunications infrastructure in the south west, with new fibre connections between Majadahonda and Santa Engracia and the areas of Villalba, Valmayor and Santillana.

By virtue of the Management Agreement regarding sanitation services between Madrid City Council, the Regional Government of Madrid and Canal de Isabel II, upgrades were carried out in the sewers of various areas of the city of Madrid, particularly at Avenida de Carondelet, Calle Jacobina, Calle Eugenia de Montijo and Paseo del Prado.

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a) Main Concession Arrangements and Administrative Concessions

Details of the most significant concession arrangements are as follows:

				In thousands of euros			
				2019			
Concession arrangements, regulated assets	**Use**	**Expiration date**	**Amortisation period**	**Cost**	**Accumulated amortisation**	**Valuation adjustments**	**Net**
In Spain							
Region of Madrid Network Infrastructures	Operating activities	2062	50	5,292,256	(2,245,509)	-	3,046,747
Assignment of use of operating sanitation infrastructures of the Madrid City Council	Operating activities	2036	31	926,000	(416,000)	-	572,901
Recycling Infrastructures of Madrid City Council	Operating activities	2061	50	191,986	(32,305)	-	159,681
Infrastructures of the municipal sewerage networks	Operating activities	2062	50	132,834	(23,629)	-	109,205
Technical Facilities Aguas de las Cuencas de España	Operating activities	2039	30	69,781	(23,951)	-	45,830
Administrative Concession Lanzarote	Operating activities	2043	30	93,131	(13,978)		79,153
Additional investments "Granting of rights to use Madrid City Council sanitation infrastructures"	Operating activities	2036	31	57,644	(16,153)	-	41,491
Investments for the extension and upgrade of Alcalá de Henares concession	Operating activities	2029	25	18,488	(10,679)	-	7,809
Granting of rights to use Municipal Land in Guadarrama	Operating activities	2039	30	10,752	(3,912)	-	6,840
Administrative Concession Cáceres	Operating activities	2039	24	39,259	(7,406)	(6,863)	24,990
In Ibero-America							
Rights over contracts AAA Ecuador	Operating activities	2051	50	15,394	(5,770)	-	9,624
Other minicipalities concession Atlántico	Operating activities	Miscellaneous	Miscellaneous	2,220	(2,220)	-	-
Rights over contracts Fontes da Serra (Brazil)	Operating activities	2030	30	1,075	(526)	-	(549)
Rights over contracts AAA Dominicana, S.A.	Operating activities	2015	11	1,708	(1,708)	-	-
Total				**6,852,528**	**(2,803,746)**	**(6,863)**	**4,041,919**

				In thousands of euros			
				2018			
Concession arrangements, regulated assets	**Use**	**Expiration date**	**Amortisation period**	**Cost**	**Accumulated amortisation**	**Valuation adjustments**	**Net**
In Spain							
Region of Madrid Network Infrastructures	Operating activities	2062	50	5,160,663	(2,178,005)	-	2,982,658
Assignment of use of operating sanitation infrastructures of the Madrid City Council	Operating activities	2036	31	926,000	(386,000)	-	540,000
Recycling Infrastructures of Madrid City Council	Operating activities	2061	50	192,015	(28,459)	-	163,556
Infrastructures of the municipal sewerage networks	Operating activities	2062	50	132,742	(21,061)	-	111,681
Technical Facilities Aguas de las Cuencas de España	Operating activities	2039	30	69,780	(21,583)	-	48,197
Administrative Concession Lanzarote	Operating activities	2043	30	76,324	(10,946)		65,378
Additional investments "Granting of rights to use Madrid City Council sanitation infrastructures"	Operating activities	2036	31	56,327	(13,913)	-	42,414
Investments for the extension and upgrade of Alcalá de Henares concession	Operating activities	2029	25	16,886	(9,381)	-	7,505
Granting of rights to use Municipal Land in Guadarrama	Operating activities	2039	30	10,752	(3,554)	-	7,198
Administrative Concession Cáceres	Operating activities	2039	24	39,259	(6,231)	(9,219)	23,809
In Ibero-America							
Rights over contracts AAA Ecuador	Operating activities	2051	50	15,090	(4,963)	-	10,127
Other minicipalities concession Atlántico	Operating activities	Miscellaneous	Miscellaneous	2,196	(2,196)	-	-
Rights over contracts Fontes da Serra (Brazil)	Operating activities	2030	30	902	(505)	-	397
Rights over contracts AAA Dominicana, S.A.	Operating activities	2015	11	1,690	(1,690)	-	-
Total				**6,700,626**	**(2,688,487)**	**(9,219)**	**4,002,920**

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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 required the Regional Government of Madrid and the Public Entity to convey to the Parent Company any assets in the public domain that make up the Region of Madrid General Network and which are necessary for the Company to conduct the activities and functions entrusted to it. The Contract-Programme also provides for the Parent 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 Company. 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 it cannot be renewed.

  In 2019 the Parent charged 71,600 thousand euros to the provision for infrastructure replacement relating to the Region of Madrid General Network (71,208 thousand euros in 2018) (see Note 23).

  The consideration received by the Parent is the right to collect tariffs from customers for their use of the public services provided. Tariffs 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 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 sewerage 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 a total remuneration of 226 million euros and the Agreement term was extended by a further six years (in addition to the initial 25 years) until 31 December 2036.

  The Agreement includes a commitment to carry out any maintenance work required on the sanitation infrastructures 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 456 million euros was considered investment in replacements. During the period ended 31 December 2019 the Parent Company charged 16,379 thousand euros to the provision for replacements (16,369 thousand euros in 2018) (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 at the end of the initially

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established term, under the terms of the Agreement Madrid City Council agrees to pay the Parent Company any amortisation/depreciation pending on the new investments made.

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 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 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.

The consideration received by the Parent 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 or updates thereto are authorised by the Regional Government 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 reuse, signed between Madrid City Council, the Region of Madrid and Canal de Isabel II on 4 May 2011, which assigned to Canal the running of the reclaimed water transportation and supply service in the municipal area of Madrid for any of the uses foreseen by the legislation in force, 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 infrastructures will be included in the Region of Madrid Network and will be managed by the Parent, although ownership of the infrastructures 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 at the end of the initially established term, under the terms of the Agreement Madrid City Council agrees to pay the Parent 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 or updates thereto are authorised by the Regional Government of Madrid in accordance with the legislation in force. During the year ended 31 December 2019 the Parent Company charged 652 thousand euros to the provision for replacements (652 thousand euros in 2018) (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 Regional Government 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 management and operation of the

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sewerage services, as well as related infrastructures and facilities to Region of Madrid. These management and operation will be carried out by the Parent Company.

No new Sewerage Agreements were signed in 2019. At 31 December 2019, 135 towns or cities have signed these Sewerage Agreements. The following 31 towns or cities came into force between 1 July 2012 and 31 December 2019:

			In thousands of euros	
			2019	2018
Sewerage networks Municipalities	**Life (years)**	**Expiration Year**	**Cost**	**Cost**
Ambite	50	2062	33	33
Cadalso de los Vidrios	50	2062	177	177
Corpa	50	2062	36	36
Fresnedillas Oliva	50	2062	90	90
Fuentidueña de Tajo	50	2062	126	126
Navas del Rey	50	2062	157	157
Pelayos de la Presa	50	2062	157	157
Santorcaz	50	2062	49	49
Valverde de Alcalá	50	2062	29	29
Getafe	50	2062	10,148	10,148
Chinchón	50	2062	321	321
Perales de Tajuña	50	2062	174	174
Santa Mª Alameda	50	2062	70	70
Velilla San Antonio	50	2062	700	700
Villamantilla	50	2062	57	57
Villanueva de Perales	50	2062	92	92
San Martín de Valdeiglesias	50	2062	491	491
Moraleja de Enmedio	50	2062	317	317
Villanueva Pardillo	50	2062	1,009	1,009
Valdemorillo	50	2062	673	673
Arroyomolinos	50	2062	1,367	1,367
Torrelaguna	50	2062	-	-
Boadilla del Monte	50	2062	2,683	2,683
Alcobendas	50	2062	6,756	6,756
San Fernando de Henares	50	2062	2,483	2,483
San Sebastián de los Reyes	50	2062	4,995	4,995
Villarejo de Salvanés	50	2062	444	444
Villaviciosa de Odón	50	2062	1,604	1,604
Casarrubuelos	50	2062	189	189
Rascafría	50	2062	-	-
Serranillos del Valle	50	2066	268	268
Total			**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. Tariffs and any amendments thereto are authorised by the Regional Government of Madrid in accordance with the legislation in force. If the Agreement is terminated at the initially established term, under the terms of the Agreement Madrid City Council agrees to pay the Parent any amortisation/depreciation pending on the new investments made.

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From all such Agreements signed since 1 July 2012, 1,358 thousand euros are pending payment at 31 December 2019 and have been recognised under payables to suppliers of fixed assets (1,448 thousand euros in 2018) (see Note 20 (b)).

- 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 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 2019 the Parent Company charged 1,360 thousand euros to the provision for replacements (1,360 thousand euros in 2018). (See Note 23)

  The concession has a nominal fee of 39,217 thousand euros, the last instalment of which was paid in 2019 in the nominal amount of 2,254 thousand euros. At 31 December 2018, the amount pending payment totalled 2,251 thousand euros and was recognised net of its financial effect under "Current payables to suppliers of fixed assets". (See Note 20(c)).

  Additionally, the Parent Company has to pay Cáceres City Council a variable fee of 4% of total billings.

- On 26 July 2017, Hispanagua, S.A.U. assigned all the rights and obligations arising from the "Concession agreement for the management, operation and conservation of the municipal water and sewerage service of town of Monroy (Cáceres)" to the Parent Company, by means of the relevant notarised instrument. The Concession agreement was signed by Hispanagua 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 agreement 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 2019, totalled 53,954 thousand euros, including 7,750 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.

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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, 2018 and 2019. 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 according to the contract are of 2.3% (CPI increase 1.3%+1%) from 1 June 2017, of 2.1% (CPI increase 1.1%+ 1%) from 1 June 2018, and of 2.4% (CPI increase 1.4%+1%) from 1 June 2019, implying an income reduction of 3,238 thousand euros for Canal Gestión Lanzarote at 31 December 2019, not recognised at the end of the year.

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 I. 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, and the addendum thereto signed on 14 December 2009, for a 50-year period from March 1998 onwards. The service provided by Amagua also falls within the scope of the town charter passed by the Mayor of Samborondón on 28 May 2010.

    - With regard to operations in the Daule canton, these are covered by an Agreement signed with the canton authorities on 10 February 2005, a first addendum signed on 22 July 2009 and a second addendum dated 1 August 2012, for a 15-year period from 2005 (until 2020). This service is governed by a town charter passed by the Mayor of Daule on 24 July 2009.

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

  Amagua’s obligations derived from these agreements do not include any investment commitments, as its operations are limited to the existing infrastructure available for the service, in some cases provided by the municipal authorities themselves, and in others by property development firms. 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.

- Fontes da Serra (Brazil) is party to the following concession agreement:

    - A concession agreement entered into on 30 June 2000 with the town council of Guapimirim for a period of 30 years, renewable for a further 30 years. The purpose of this 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.

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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 agreement:

  - 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 will 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 of Riohacha. There is no requirement to return current assets.

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

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

		In thousands of euros	
Description	**Years**	**2019**	**2018**
Region of Madrid General Network	50	80,132	158,105
Total		**80,132**	**158,105**

c) Disposals

As a consequence of the disposals in 2019 under "Intangible assets", a loss of 3,462 thousand euros was generated, which has been recognised in the accompanying Consolidated Income Statement (a loss of 4,270 thousand euros under Intangible assets in 2018) (see Note 26).

Disposals in the year 2019 in the Parent Company were a consequence of the periodic review and reconciliation of inventories, mainly in the project for Section V of the Second Ring, amounting to 1,269 thousand euros, meters, amounting to 1,098 thousand euros, the site on Calle de Cea Bermúdez No. 2 to the Madrid City Council, amounting to 509 thousand euros and the automatic control systems and telecommunications equipment, amounting to 500 thousand euros.

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In 2018, the disposals in the Parent Company were a result of the periodic review and reconciliation of inventories, primarily DWTPs (2,549 thousand euros), meters (1,133 thousand euros), telecontrol and telecommunications elements (264 thousand euros) and IT equipment (218 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.

At 31 December 2018, the recoverable value of the concession for supply and sanitation services in Cáceres amounted to 18,360 thousand euros, i.e. less than the net carrying amount of net operating assets associated with the concession, which was 27,579 thousand euros. Consequently, the Parent Company recognised an impairment of 9,219 thousand euros relating to the Cáceres Concession.

There was no progress or significant events in 2019 with an impact on the concession’s business plan. However, the reduction in the discount rate (WACC), to 4.70% in 2019 compared with 5.31% in 2018, as the risk-free rate decreased in the year, impacted positively on the value of the concession business. The recoverable value of the concession totalled 21,016 thousand euros, higher than the net carrying amount of the net operating assets associated with the concession net of impairment, which was 18,660 thousand euros. Consequently, the Parent Company booked an impairment reversal of 2,356 thousand euros.

Regardless of the 6,863 thousand euros of impairment recognised on the balance sheet at 31 December 2019, the Parent Company continues to work on defining the methodology for the review of rates allowing 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 2019 and 2018.

The Parent Company has not recognised any value impairment loss in its intangible fixed 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 net 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.

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g) Investment Budget

The Parent Company's budget for the coming year includes investment amounting to 156.6 million euros. Replacements account for approximately 59.6 million euros of this balance (63 million euros in 2018).

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 2019, actions arising out of this commitment have been carried out for an amount of 196 million euros (182 million euros up to 2018), of which 130 million euros reflect the application of the replacement provision (118 million euros in 2018) (see Note 23).

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 1,040 thousand euros in 2019 (1,571 thousand euros at 31 December 2018) (see Note 23).

h) Individually significant items

Details of individually significant items included in "Concession arrangements, regulated assets", which relate to the Region of Madrid Network, are as follows:

	In thousands of euros	
	2019	2018
	Carrying amount	Carrying amount
Canals and general pipelines	885,398	902,104
Distribution network	641,985	635,336
WWTP	359,912	360,398
Deposits	208,069	209,171
Lands	196,019	200,155
General buildings	149,440	150,336
DWTP	118,218	121,057
Low voltage transformation and distribution	103,599	96,910
Reusage networks	82,852	87,247
Underground water catchment	17,402	17,743
TOTAL	**2,762,984**	**2,780,457**

As of 31 December 2019 and 31 December 2018 there are no individually significant elements in Ibero-America.

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i) Fully amortised goods

The cost of fully amortised intangible assets at 31 December 2019 and 2018 is as follows:

	In thousands of euros	
	2019	**2018**
Development	14	14
Applications	985	856
Concessions and Concession arrangements	267,789	268,336
Total	**268,788**	**269,206**

j) Lease contracts under IFRS 16

At 31 December 2019, the breakdown and movements of leases subject to IFRS were as follows:

	Thousands of euros				
	2019				
	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 2018	431	152	105	-	688
Impact of 1st adoption of IFRS 16	15,902	6,863	1,935	-	24,700
Initial balance at 1 January 2019	16,333	7,015	2,040	-	25,388
Additions	1,057	882	68	108	2,115
Disposals	(13)	-	-	-	(13)
Translation differences	(36)	-	1	1	(34)
Cost at 31 December 2019	**17,341**	**7,897**	**2,109**	**109**	**27,456**
Accumulated amortisation:					
Balance at 31 December 2018	(63)	(59)	(45)	-	(167)
Impact of 1st adoption of IFRS 16	-	-	-	-	-
Initial balance at 1 January 2019	(63)	(59)	(45)	-	(167)
Amortisations (Note 26)	(3,485)	(2,979)	(271)	(5)	(6,740)
Disposals	9	-	-	-	9
Translation differences	10	-	-	-	10
Accumulated amortisation at 31 December 2019	**(3,529)**	**(3,038)**	**(316)**	**(5)**	**(6,888)**
NET CARRYING AMOUNT AT 31 DECEMBER 2019	**13,812**	**4,859**	**1,793**	**104**	**20,568**

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At 31 December 2019, financial debt associated with right-of-use (lease) assets is as follows:

	In thousands of euros	
	2019	
	Non-Current	Current
Lease liabilities:		
Lease payables	14,933	5,870
TOTAL	**14,933**	**5,870**

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 2019 totalled 6,277 thousand euros.

At 31 December 2019, the financial debt associated with right-of-use assets under lease arrangements amounted to 20,803 thousand euros, and interest accrued in the income statement amounted to 511 thousand euros.

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	
	2019	2018
Up to a year	2,391	2,299
One to five years	1,946	2,440
More than five years	499	479
Total	**4,836**	**5,218**

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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 associates is as follows:

	In thousands of euros					
	2019					
	Balance at 01/01/2019	Homogenisation movements	Profit/(Loss)	Translation differences	Other	Balance at 31/12/2019
GSS Venture, S.L.	323	-	14	-	-	337
Avanzadas Soluciones de Acueducto y Alcantarillado SA ESP	-	-	99	(99)	-	-
Total	**323**	**-**	**113**	**(99)**	**-**	**337**

	In thousands of euros					
	2018					
	Balance at 01/01/2018	Homogenisation movements	Profit/(Loss)	Translation differences	Other	Balance at 31/12/2018
GSS Venture, S.L.	255	-	25	-	43	323
Avanzadas Soluciones de Acueducto y Alcantarillado SA ESP	-	-	(35)	35	-	-
Total	**255**	**-**	**(10)**	**35**	**43**	**323**

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 (Class Action Lawsuit), an interim 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.

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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 tariff and which are recognised in the amount of 63,250 million Colombian pesos (17,674 thousand euros), on 8 November 2019 the court of arbitration 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.

At present, the liquidator of Metroagua is exploring other legal options to collect payment for the improvements which, in any case, must involve an expert appraisal thereof.

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 2019 and 2018, Metroagua's results did not have an impact on the consolidated income statements as the sum of the interest was impaired at 2015 year-end.

At 31 December 2019 and 2018, 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 2019 and 2018 were positive, on 31 December 2017, the value of the equity interest, once the equity method was applied, was negative, as was the case with Metroagua, the losses registered at year-end are limited to the value of the equity interest, therefore, at 31 December 2019, the equity interest balance is zero euros (zero euros at 31 December 2018). (See Note 23).

13. JOINT OPERATIONS

Information on joint operations in the form of temporary joint ventures (UTE) 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:

	2019		
	Thousands of euros		
	UTE Aguas de Alcalá	Other	TOTAL
Non-current assets	20,660	-	20,660
Current assets	4,408	1,422	5,830
Net Equity	(2,020)	-	2,020
Non-current liabilities	(1,080)	-	(1,080)
Current liabilities	(21,967)	(536)	(22,503)
Net turnover	14,586	9,270	23,857
Supplies	(5,183)	-	(5,183)
Other operating income	37	-	37
Personnel expenses	(2,492)	-	(2,492)
Other operating expenses	(2,417)	(6,824)	(9,241)
Amortisation and Depreciation	(1,645)	-	(1,645)
Financial expenses	(989)	-	(989)

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	2018		
	Thousands of euros		
	UTE Aguas de Alcalá	Other	TOTAL
Non-current assets	21,377	-	21,377
Current assets	4,809	5,671	10,480
Net Equity	(1,594)	-	(1,594)
Current liabilities	(24,592)	(1,614)	(26,206)
Net turnover	13,710	10,022	23,732
Supplies	(5,261)	-	(5,261)
Other operating income	29	-	29
Personnel expenses	(2,238)	-	(2,238)
Other operating expenses	(2,294)	(7,566)	(9,860)
Amortisation and Depreciation	(1,445)	-	(1,445)
Financial expenses	(1,052)	-	(1,052)

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

Outside Spain, these are the consortia in Brazil in which the company Emissão, S.A. participates:

The consortia active in 2019 were Consorcio Rio Resolve and Consorcio Módulo, which ended on 15 and 23 October 2019, respectively.

Consorcio Módulo – A 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 71.80% stake in the consortium.

Consorcio Magé – A consortium in charge of carrying out the expansion of the Niagara Falls water supply system, in the state of Rio de Janeiro. The Group owns 99.99% of the consortium.

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

Consorcio Due Fatto – A consortium in charge of the commercial services for loan 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.

Consorcio de Alagoas – A consortium in charge of reading the water meters in the entire area of the Casal concession. The Group holds 0.01% of the consortium.

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14. FINANCIAL ASSETS

a) Other financial assets

Details of other financial assets are as follows:

	In thousands of euros			
	2019		2018	
	Non-Current	Current	Non-Current	Current
Related				
Equity instruments	115	-	70	-
Loans to Group and related companies	-	4,027	637	5,914
Unrelated				
Equity instruments	67,877	-	67,964	-
Loans to third parties	98,137	10,697	65,697	12,893
Deposits and guarantees	10,618	3,632	11,390	1,752
Impairment adjustments	(11,909)	(2,722)	(6,923)	(2,722)
Other financial assets		893	-	1,008
Total	**164,838**	**16,527**	**138,835**	**18,845**

Details of loans to Group companies are outlined in Note 28.

Equity instruments mainly includes, at 31 December 2019 and 2018, the Group’s investment in Vale S.A. – Debêntures, amounting to 2,341 thousand euros (2,440 thousand euros in 2018) and which is impaired by an amount of 2,307 thousand euros (2,354 thousand euros in 2018). The maturity of this investment is undetermined.

Details of Loans to third parties without taking the impairment into account are as follows:

		In thousands of euros		
		2019		
Type	Year of maturity	Nominal amount	Non-current	Current
For works performed for City Councils	2,045	98,546	65,024	7,527
For derecognitions of fixed assets	2,009	2,722	-	2,722
For regeneration works	2,040	254	150	31
UTE Loan - Alcalá de Henares City Council	2,029	3,518	2,863	370
Other loans Emissão	Miscellaneous	29,982	29,982	-
Other loans AAA Dominicana, S.A.	Miscellaneous	65	18	47
Loans to personnel	Miscellaneous	100	100	-
Total		**135,187**	**98,137**	**10,697**

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		In thousands of euros		
		2018		
Type	**Year of maturity**	**Nominal amount**	**Non-current**	**Current**
For works performed for City Councils	2,045	96,752	58,264	9,757
For derecognitions of fixed assets	2,009	2,722	-	2,722
For regeneration works	2,040	291	180	29
UTE Loan - Alcalá de Henares City Council	2,029	3,888	3,202	343
Other loans Emissão	Miscellaneous	3,916	3,916	-
Other loans AAA Dominicana, S.A.	Miscellaneous	86	45	42
Loans to personnel	Miscellaneous	90	90	-
Total		**107,745**	**65,697**	**12,893**

At 31 December 2019, Emissão had non-current amounts receivable in the amount of 29,982 thousand euros (3,916 thousand euros at 31 December 2018), most of which have been claimed through legal proceedings over the course of 2019. It is the view of the Company's legal advisers that, although the likelihood of success and recoverability are high, the time frame for resolution is four years, which is why, in 2019, these receivables were transferred from current to non-current.

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 2019 amounted to 15,079 thousand euros (18,204 thousand euros in 2018). These balances are generally settled through customer bills, and a total amount of 13,907 thousand euros was received in 2019 (11,703 thousand euros in 2018).

Additionally, "non-current and current loans" include 2,863 and 370 thousand euros respectively (3,202 and 343 thousand euros non-current and current in 2018), for 50% of the amounts owned by the City Council of Alcalá to the UTE 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. Non-current impairment adjustments reflect unrecoverable receivables from these City 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 is INASSA, S.A., 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 2019.

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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 considers that there is no market to sell the equity interest that will allow to establish the reasonableness of the estimated amount obtained through 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 compared to 2019 was a decrease in assets of 194,501 thousand euros and a decrease in liabilities of 128,976 thousand euros.

	In thousands of euros
	2018
Non-current assets	**148,656**
Current assets	45,845
TOTAL ASSETS	**194,501**
Non-controlling interest	20,118
Non-current liabilities	**58,267**
Current liabilities	50,591
TOTAL LIABILITIES	**128,976**

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On another note, the income statement submitted by Triple A de Barranquilla during fiscal year 2018 to the consolidated income statement is as follows:

	In thousands of euros
	2018
CONTINUING OPERATIONS	
Ordinary income	107,538
Other income	582
Non-current self-constructed assets	-
Consumption of goods, raw materials and consumables	(38,874)
Employee benefits expense	(10,080)
Amortization expense	(6,389)
Other expenses	(28,911)
OPERATING PROFIT/(LOSS)	**23,866**
Financial income	61
Financial expenses	(4,188)
Losses / (Reversal of losses) for shareholding impairment	(337)
FINANCIAL PROFIT/(LOSS)	**(4,464)**
EARNINGS BEFORE TAXES FROM CONTINUING OPERATIONS	**19,402**
Income tax expense	(8,534)
INCOME FOR THE YEAR FROM CONTINUING OPERATIONS	**10,868**
MINORITY SHAREHOLDERS	**(3,487)**
INCOME ATTRIBUTABLE TO HOLDERS OF EQUITY INSTRUMENTS	**7,381**

The statutory financial statements of Triple A de Barranquilla for 2018 were prepared subject to applicable legislation in Colombia and audited by an authorised Colombian tax auditor. 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 was no change in the value of the shareholdings and, due to the current situation (Note 23), Management has no further information with which to estimate the fair value of the investment.

b) Deposits and guarantees

"Deposits and guarantees" mainly reflect amounts deposited with the General Directorate of Contracting, Assets and Treasury of the Regional Ministry of Economy, Employment and Finance of the Regional Government of Madrid in relation to compulsory purchase process. On completion of the compulsory purchase process, these amounts will be included within the Parent's intangible assets.

c) Impairment adjustments

The balance listed under impairment adjustments relates to the derecognition of Canal's interest in the share capital of Global Sales Solutions Line, S.L. for 4,234 thousand euros in 2007, at which time the 2,722 thousand euros receivable were recognised under other financial assets in the statement of financial

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position. Provision has been made for this entire balance as payment was not settled on the agreed date and reasonable doubts remain as to its recovery.

The amount booked under non-current "Impairment adjustments" at 31 December 2019 corresponds to Emissão, S.A. and stands at 5,539 thousand euros (2,790 thousand euros in 2018).

The movements in impairment accounts are as follows:

	In thousands of euros	
	2019	2018
Balance at 1 January	**(9,645)**	**(30,527)**
Allocations	-	(803)
Transfers (Note 16)	(5,245)	(449)
Translation differences	189	1,134
Impairment reversals	70	-
Change in the exclusion from the consolidation scope[1]	-	21,000
Balance at 31 December	**(14,631)**	**(9,645)**

[1] Disposals of the Triple A de Barranquilla amounts by reason of the deconsolidation of the share after the loss of control are included.

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	
	2019	2018
Production and Distribution Business		
Trade	786	1,505
Materials	1,159	1,051
Chemical reagents	842	811
Other supplies	6,730	5,973
Impairment adjustments	(250)	(71)
Total	**9,267**	**9,269**

Impairment adjustments have decreased during fiscal year 2019 by 179 thousand euros (25 thousand euros in 2018) as a consequence of wastage, defects, deterioration, unauthorised or unregulated materials and prolonged storage of unused items. The amount registered by the Parent Company in 2019 is of 8 thousand euros (21 thousand euros in 2018).

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

16. TRADE AND OTHER RECEIVABLES

Details are as follows:

	In thousands of euros	
	Current	
	2019	2018
Customers	211,108	243,547
Sundry debtors	60,652	39,822
Personnel	154	168
Other loans from Public Administrations	3,815	5,525
Impairment adjustments	(49,802)	(54,805)
Total	**225,927**	**234,257**

The heading "Customers" mainly includes receivables from customers for amounts billed and estimated consumption in relation to the Group's principal activity. It also includes 619 thousand euros receivable from the Aguas de Alcalá temporary joint venture for water treatment services (615 thousand euros in 2018); 238 thousand euros receivable from Canal de Isabel II (Public Entity) (1,898 thousand euros in 2018); and 1,278 thousand euros receivable from non-consolidated Group companies (543 thousand euros in 2018).

The relationship between Madrid City Council and Canal dates back to 1972 and is established through an Agreement. 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 Canal and the City Council with regard to water supply to the city of Madrid, based on Law 17/1984, of 20 December 1984, which regulates water supply and sanitation in the Region of Madrid, which entitles Canal to carry out these services. 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 Canal and the City Council would be settled by offsetting balances.

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The movements in impairment accounts are as follows:

	In thousands of euros	
	2019	2018
Balance at 1 January	**(54,805)**	**(103,903)**
Allocations	(2,902)	(15,571)
Applications	6,300	3,185
Surplus	-	938
Impairment losses	(4,420)	-
Impairment reversals	762	161
Transfers (Note 14)	5,245	449
Translation differences	18	3,548
Impact of 1st adoption of IFRS 16	-	(10,645)
Change in the exclusion from the consolidation scope[1]	-	67,033
Balance at 31 December	**(49,802)**	**(54,805)**

[1] Disposals of the Triple A de Barranquilla amounts by reason of the deconsolidation of the share after the loss of control are included.

Impairment adjustments include accounts receivable that various Group companies (INASSA, Amerika Tecnologías de la Información and Gestus Gestión & Servicios S.A.S.) maintain with Metroagua (see Note 12).

In 2019, the Group did not recognise losses for unrecoverable trade receivables (loss of 73 thousand euros in 2018).

17. OTHER ASSETS

Details of other assets at 31 December are as follows:

	In thousands of euros			
	2019		2018	
	Non-current	Current	Non-current	Current
Prepaid expenses	66,936	4,588	67,000	3,968
Total	**66,936**	**4,588**	**67,000**	**3,968**

Details of "prepaid expenses" are as follows:

	In thousands of euros			
	2019		2018	
	Non-current	Current	Non-current	Current
Seniority asset prepaid expenses	64,401	4,089	64,295	3,396
Long-service bonus asset prepaid expenses	2,535	165	2,705	174
Prepaid expenses	-	334	-	398
Total	**66,936**	**4,588**	**67,000**	**3,968**

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"Prepaid expenses for long-service bonuses" 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 force, an internal fund was set up to cover long-service bonuses for employees with 25 or 35 years' service. Allocations are made to this provision on a straight-line basis from 15 and 25 years, respectively, of service in the Company, in accordance with the years from which the corresponding commitment with personnel started to accrue. On 4 January 2011, as a result of the Agreement signed with employee representatives on 30 April 2010, the Public Entity took out and paid an insurance policy for the accrual of early settlements of long-service bonuses, making a single payment of 5,833 thousand euros. The insurance company guarantees the payment of a deferred endowment to the beneficiary in the event that he or she is still alive. To receive the insured benefit, the insured party must have worked for the Company for 25 or 35 years.

These accruals are taken to profit or loss as the premium in question is accrued. An amount of 479 thousand euros was accrued in 2019 (461 thousand euros in 2018) (see Note 26 (d)). Additionally, in 2019 an amount of 302 thousand euros was recognised in relation to the financial update of this item (389 thousand euros in 2018).

"Seniority prepaid expenses" reflects the deferred premium paid to an insurance company in respect of a risk insurance policy for early settlement of the seniority payments. In years prior to 2011, under the terms of the Collective Bargaining Agreement in force, a seniority supplement was recognised for each three years' service provided.

On 4 January 2011 the Public Entity took out and paid a liability insurance policy for the early settlement of this item, making a single payment of 55,591 thousand euros, with this being adjusted in 2017 by the sum of 1,517 thousand euros pursuant to the Rulings issued by the Spanish National High Court and the Supreme Court. 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 2019, 3,393 thousand euros were paid in respect of this item to employees of Canal de Isabel II S.A. (2,769 thousand euros in 2018).

These accruals are allocated to profit or loss as accrued. A sum of 3,393 thousand euros was accrued in 2019 (2,875 thousand euros in 2018) (see Note 26 (d)). Additionally, in 2019 an amount of 3,912 thousand euros was recognised in relation to the financial update of this item (3,452 thousand euros in 2018).

"Current advances" includes payments made in the financial year, corresponding primarily to costs for taxes and insurance premiums in the year 2020.

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18. CASH AND CASH EQUIVALENTS

The breakdown of "Cash and cash equivalents" is the following:

	In thousands of euros	
	2019	**2018**
Cash and banks	319,988	354,437
Short-term deposits with financial institutions	1,158	981
Total	**321,146**	**355,418**

"Cash and banks" reflects the aggregated of each of the companies forming the consolidated Group, with 302,283 thousand euros corresponding to Canal de Isabel II (339,361 thousand euros in 2018).

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

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 with a par value of 1 euro each, which were subscribed and fully paid 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 Board of Directors of 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 2019 and 2018 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 Region of Madrid.

The shareholders with direct interests of at least 10% in the share capital of the Parent are as follows:

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

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b) Share premium

The shares were issued with a share premium of 1 euro 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.

c) Other reserves:

(i) Legal reserve

Allocations to the Legal Reserve of the Parent Company in 2019 amounted to 47,186 thousand euros, corresponding to the allocations of 26,189 and 20,997 thousand euros for the appropriation of profit in 2017 and 2018, respectively, in accordance with Article 274 of the Spanish Companies Act, which establishes that, in any case, an amount equivalent to 10% of the profit for the financial year will be devoted to the Legal Reserve until it reaches at least 20% of share capital.

No amount was allocated to the Legal Reserve in 2018, as the Annual General Meeting of Shareholders approved the distribution of profits of the Parent Company for the financial year 2017 on 25 January 2019.

This reserve may not be distributed and if it is used for the compensation of losses, in the event that there are no other reserves available to such purpose, it must be replenished by means of future profits.

At 31 December 2019, the Parent has appropriated 149,088 thousand euros to this reserve (102,147 thousand euros at 31 December 2018), included under other reserves.

d) Accumulated gains

At 31 December 2019, this heading reflects the Parent's voluntary reserve as well as the reserves of the subsidiaries and the profit for the year attributable to the Group.

The voluntary reserves are of free disposal.

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e) Translation differences

Details of translation differences are as follows:

	In thousands of euros	
Company	**2019**	**2018**
Interamericana de Aguas y Servicios S.A.	(7,141)	(7,080)
Sociedad de Acueducto, Alcantarillado y Aseo de Barranquilla, S.A. E.E.P. (1)	-	-
Gestus Gestión & Servicios S.A.S.	(1,004)	(1,045)
AAA Dominicana, S.A.	(585)	(557)
AAA Ecuador Agacase, S.A.	110	50
Amerika	(149)	(159)
Soluciones Andinas	9,950	6,062
Emissão, S.A.	(3,209)	(2,522)
Total	**(2,028)**	**(5,251)**

(1) Disposals of the Triple A de Barranquilla amounts by reason of the deconsolidation of the share after the loss of control are included.

f) Distribution of profit

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 2018, approved by the shareholders at their Annual General Meeting held on 8 May 2019, was as follows:

	Euros
Base for distribution	
Financial year profit	209,971,312.80
Distribution	
Legal reserve	20,997,131.28
Voluntary reserve	57,826,099.55
Interim dividend	113,847,392.00
Complementary dividend	17,300,689.97
Total	**209,971,312.80**

The Annual General Meeting of Shareholders of the Parent Company, held on 25 January 2019, approved the distribution of the Complementary Dividend from the profits for 2017 for a sum of 41,762,118.98 euros. It also agreed to distribute an interim dividend of 113,847,392.00 euros for 2018, calculated as 0.10600 euros per share.

The Board of Directors of the Parent Company, on 22 November 2019, agreed to distribute an interim dividend of 133,694,097.00 euros for 2019, calculated as 0.12448 euros per share.

The agreement established that the distribution will be made between the shareholders in proportion to the capital disbursed and will be paid from the day following the adoption of the aforementioned agreement and up to the date of the Annual General Meeting at which the Financial Statements corresponding to the financial year ending 31 December 2019 are approved, to every shareholder who notifies the Parent Company in writing of their wish to receive the payment of all or part of the amount

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to which they are entitled. The Parent Company must pay the aforementioned amounts in the eight (8) working days immediately following receipt of the communication from the shareholder.

If, at the date of the Annual General Meeting at which the Financial Statements corresponding to the financial year ending 31 December 2019 are approved, the Company had not received any communication from any shareholder requesting the payment of the corresponding amounts for the 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.

In this connection, in a meeting of the Board of Directors on 22 November 2019, the Directors of the Parent Company compiled the accounting statement and established that there was sufficient liquidity with which to distribute the agreed dividend.

Likewise, the aforementioned accounting statement establishes that the dividend payment amount agreed for 2019 does not exceed the income obtained since the end of the previous year, having deducted (i) prior years' losses, (ii) the statutory and legal amounts to be allocated to reserves, and (iii) the estimated Corporate Income Tax payable on said income.

The provisional accounting statement formulated by the Board of Directors on 22 November 2019 in accordance with legal requirements and which evidenced sufficient liquidity for the distribution of said dividend is provided below:

	Thousands of euros
Forecast of distributable profits for 2019:	
Forecast of net profit/(loss) from tax up to 31.12.2019	243,080
Less required allocation to Legal Reserve	(24,308)
Estimated distributable profits for 2019	218,772
Interim dividend distributed	133,694
Treasury forecast for the period 1 November 2019 to 1 November 2020:	
Cash balances at 1 November 2019	419,122
Projected collections	1,019,980
Projected payments, including interim dividend	(1,023,907)
Treasury balances projected at 1 November 2020	**415,195**

The proposed distribution of the Parent Company's 2019 profit to be submitted to the shareholders for approval at their Annual General Meeting is as follows:

	Euros
Base for distribution	
Financial year profit	241,912,006.46
Distribution	
Legal reserve	24,191,200.65
Voluntary reserve	70,363,657.79
Interim dividend	133,694,097.00
Complementary dividend	13,663,051.02
Total	241,912,006.46

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g) Non-controlling interest

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

	In thousands of euros	
Company	**2019**	**2018**
Sociedad Interamericana de Aguas y Servicios S.A.	(384)	392
Sociedad de Acueducto, Alcantarillado y Aseo de Barranquilla, S.A, E.S.P. (1)	-	-
Gestus Gestión & Servicios S.A.S.	342	309
AAA Dominicana S.A.	1,606	1,694
AAA Ecuador Agacase S.A.	2,697	2,461
Amerika	147	126
Soluciones Andinas	(3,324)	(3,149)
Emissão, S.A.	1,565	2,842
Total	**2,649**	**4,675**

(1) Disposals of the Triple A de Barranquilla amounts by reason of the deconsolidation of the share after the loss of control are included.

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

	In thousands of euros	
	2019	**2018**
Balance at 1 January	**4,675**	**26,575**
Share in profit/(loss)	(1,969)	1,821
Translation differences variation	348	(958)
Dividends paid	(196)	(1,048)
Provisions adjustment	-	41
Increases and disposals	(223)	(1,637)
Other movements	14	-
Change in the exclusion from the consolidation scope(1)	-	(20,119)
Balance at 31 December	**2,649**	**4,675**

(1) Disposals of the Triple A de Barranquilla amounts by reason of the deconsolidation of the share after the loss of control are included

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. and subsidiaries manages 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.

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Ratios in 2019 and 2018 are calculated as follows:

	In thousands of euros	
	2019	2018
Non-current debts with financial institutions (Note 20)	520	2,216
Current debts with financial institutions (Note 20)	2,158	6,824
Non-current debts with Group and related companies (Note 20)	240,714	269,762
Current debts with Group and related companies (Note 20)	29,048	29,048
No-current debts for issues of debentures and other marketable securities	498,955	-
Current debts for issues of debentures and other marketable securities (Note 20)	-	498,752
Financial debt	**771,395**	**806,602**
Less Cash and cash equivalents (Note 18)	(321,146)	(355,418)
Net financial debt	**450,249**	**451,184**
Plus interest for current debts with financial institutions (Note 20)	19	76
Plus other debts with Group and related companies (Note 20)	5,386	6,525
plus interests for debentures and other marketable securities (Note 20)	7,111	7,111
Net Debt (ND)	**462,765**	**464,896**
Net Equity	**2,628,742**	**2,705,935**
Adjusted debt/equity ratio	**0.18**	**0.17**

20. FINANCIAL DEBT

Details of financial liabilities are as follows:

	In thousands of euros			
	2019		2018	
	Non-current	Current	Non-current	Current
Debts with financial institutions	520	2,176	2,216	6,899
Debts with Group and related companies (Note 28)	240,734	34,413	270,295	35,039
Other financial liabilities	101,874	91,178	105,569	65,118
Financial liabilities from issuing bonds and other marketable securities	498,955	7,111	-	505,864
	842,083	**134,878**	**378,080**	**612,920**

At 31 December 2019 debts with financial institutions include the interest accrued and outstanding for an amount of 19 thousand euros (76 thousand euros in 2018). In 2019 and 2018 the Parent has repaid all loans and borrowings from financial institutions.

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a) Debts with financial institutions

This heading includes debts with financial institutions detailed below, as well as credit facilities:

							In thousands of euros
				2019			
COMPANY	ORIGINAL AMOUNT	TRANSACTION	MATURITY DATE	ANNUAL INTEREST RATE	CURRENT	NON-CURRENT	TOTAL
SUBGROUP INASSA							
INASSA (Colombia)	5,829 MM COP and	Ordinary	Miscellaneous	FTD +4%	1,188	-	**1,188**
Amagua	1,95 MM USD	Ordinary	Miscellaneous	Fixed (between 8.30 and 9.33%)	881	520	**1,401**
Fontes da Serra	468 m BRL	Ordinary	22/12/2020	29.84%)	89	-	**89**
				Total	2,158	520	**2,678**

							In thousands of euros
				2018			
COMPANY	ORIGINAL AMOUNT	TRANSACTION	MATURITY DATE	ANNUAL INTEREST RATE	CURRENT	NON-CURRENT	TOTAL
SUBGROUP INASSA							
INASSA (Colombia)	33,526 MM COP and 11 MM USD	Ordinary	Miscellaneous	IBR (between 5% and 5.2%), FTD (between 3.05 and 5%), LIBOR (between 3.7% and 5.2%)	4,956	1,654	**6,610**
Triple A de Barranquilla [(1)]	-	-	-	-	-	-	**-**
Emissão	320,286 MM COP	Ordinary	Miscellaneous	IBR (between 2.7% and 5.6%) and FTD (between 2.25 and 6.15%)	921		**921**
Amagua	2,1 MM USD	Ordinary	Miscellaneous	Fixed (between 8 and 9.33%)	947	562	**1,509**
Gestus Gestión & Servicios S.A.S.	1,336 MM COP	Cash	Miscellaneous	Fixed-term deposit (FTD) (between 6.68 and 7.35%)	-	-	**-**
AAA Dominicana, S.A.	6.406 MM DOP and 1 MM USD	Ordinary	Miscellaneous	LIBOR +3 and Fixed (between 13.5% and 15.22%)	-	-	**-**
				Total	**6,824**	**2,216**	**9,040**

(1) Disposals of the Triple A de Barranquilla amounts by reason of the deconsolidation of the share after the loss of control are included.

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At 31 December 2019, loans in INASSA in dollars for the sum of 13 million dollars, are backed by promissory notes and do not have special conditions as in the previous year (8 million dollars in 2018).

At 31 December 2018, Emissão, S.A. had a credit facility arranged with Banco Santander whose outstanding balance at 31 December 2019 had been fully settled. In 2018, this debt accrued interests for an amount of 53 thousand euros.

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

	In thousands of euros			
	2019		2018	
Entity	**Credit limit**	**Drawn-down amount**	**Credit limit**	**Drawn-down amount**
CaixaBank	6,000	-	6,000	-
HSBC	10,000	-	10,000	-
Bankinter	6,000	-	6,000	-
Unicaja Banco	6,000	-	6,000	-
Bankia	10,000	-	-	-
Ibercaja	10,000	-	10,000	-
Santander	21,000	-	21,000	-
Cajamar	15,000	-	15,000	-
Sabadell	6,000	-	6,000	-
Liberbank	6,000	-	6,000	-
Abanca	20,000	-	-	-
Eurocaja Rural	6,000	-	-	-
BNP	10,000	-	-	-
TOTAL	**132,000**	-	**86,000**	**-**

These credit facilities expire in December 2020, since they require annual authorisations from the Board of Directors and from the Regional Ministry of Economy, Employment and Finance of the Region of Madrid.

b) Debts with Group companies

The heading "Debts with Group companies" primarily reflects the Parent Company's obligation to repay to the Public Entity (mirror debt) the amount of 271,187 thousand euros (300,367 thousand euros in 2018) of the financing contracts arranged between the Parent Company and its lenders (see Note 2).

c) Other financial liabilities

"Other payables" includes a current amount of 238 thousand euros (392 thousand euros in 2018) and a payable to Sociedad Estatal Aguas de las Cuencas de España, S.A. for the works carried out in the Guadarrama Well Field and the Second Ring amounting to 12,969 thousand euros (12,969 thousand euros in 2018), of which a sum of 5,073 thousand euros was recognised as current (2,597 thousand euros in 2018). At 31 December 2018, it included 19,939 thousand euros, of which 392 thousand euros were recognised as current corresponding to the amounts pending payment to the Tagus Hydrographic Confederation for the right to use the Picadas pipeline. At 31 December 2019, these payables were reclassified under Subsidies since they are non-repayable in accordance with the Tariffs for Usage approved by the Tagus Hydrographic Confederation for 2020."

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This heading also includes deposits and guarantees amounting to 69,573 thousand euros (70,238 thousand euros in 2018) due to payments 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 20,803 thousand euros (488 thousand euros in 2018).

This heading also includes payables to suppliers of fixed asset, which amount to 25,717 thousand euros at 31 December 2019 (38,626 thousand euros in 2018).

This heading also reflects a 37,262 thousand euros dividend payable by the Parent to certain shareholders at 31 December 2019 (4,326 thousand euros in 2018) (see Note 19).

Other financial liabilities mainly reflect the financing repayable Emissão, S.A.'s debts with the Public Administration which, at 31 December 2019, amount to 10,936 thousand euros (5,950 thousand euros in 2018). At 31 December 2019, this debt has accrued interest for the amount of 793 thousand euros (543 thousand euros in 2018).

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 Canal de Isabel II successfully finalised the conditions of a 500 million euros issue of straight non-subordinate bonds maturing in 2025. The bonds will pay an annual coupon of 1.68%. There was substantial demand from national and international investors (orders totalled approximately 3,311 million euros) for this inaugural issue of bonds by the Company. During 2019, accrued interest payable totalled 8,400 thousand euros, of which, 7,111 thousand euros is pending payment at 31 December 2019 (8,400 and 7,111 thousand euros respectively in 2018). The maturity of the interest is established for February 2020.

The arrangement fees for these bonds amounted to 2,025 thousand euros, of which 202 thousand euros (202 thousand euros in 2018) was charged to the consolidated income statement in 2019. These arrangement fees are recognised at 1,045 thousand euros under "Other non-current financial liabilities" (1,248 thousand euros in 2018).

The fair value of the bond at the reporting date was 528,180 thousand euros (506,949 thousand euros at the 2018 reporting date), based on the quoted price on the Spanish Fixed Income Market (AIAF).

In 2018, the issuance of bonds was classified as "Current liabilities" in accordance with Accounting Standards as, on 3 October of that year, the Office of the Prosecutor General of Colombia ordered the suspension of the right of alienation, sequestration and embargo of the shares held by INASSA, a company that was indirectly controlled by Canal de Isabel II, in Triple A de Barranquilla, which amount to 82% of Triple A's share capital, and ordered that the shares be deposited in the custody of Sociedad de Activos Especiales (Special Assets Company — SAE). In this sense, the schedule for the issue, in Clause 11.11, states that if any of the relevant subsidiaries of the issuer are impeded from exercising normal control of all or a substantial part of their assets and revenue, the Commissioner, acting on the resolution of the Syndicate of Bondholders, can notify the issuer of the declaration of maturity of the bonds (see Note 23).

On 12 December 2019, the General Meeting of Bondholders was scheduled to take place at first call, the relevant regulatory disclosure having been filed with the CNMV and the meeting notification having been

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communicated via Iberclear to participant entities. Those communications included in the agenda of business a request for the exclusion of the subsidiary Triple A de Barranquilla as a relevant subsidiary. There not being sufficient quorum it was not possible to hold the General Meeting at first call. At second call, the meeting was held on 13 January 2020, and it approved, by unanimous vote of all those present and represented, the dispensation or exclusion of Triple A de Barranquilla from the definition of "Relevant Subsidiary" in accordance with the provisions of the Terms and Conditions of the Issue, ending the "Event of Default" situation.

On 13 February 2020, the Commissioner of the Syndicate of Bondholders confirmed to the Company that, as of that date, it had not received any communication or request from bondholders in relation to a potential "Event of Default" by "Government Intervention" provided in clause 11.11. of the Terms and Conditions of the bonds.

On 31 December 2019, the Company decided to reclassify as "Non-current liabilities" the bond issue which at 31 December 2018 was classified as "Current liabilities", in accordance with the provisions of Article 34.4 of the Commercial Code and as stipulated by the Spanish General Accounting Plan in relation to the prevalence of economic reality over form and based on the knowledge of the circumstance and the fact that the event triggering compliance was irrefutable in 2019.

21. GOVERNMENT SUBSIDIES

Movements in the years ended 31 December 2019 and 2018, are as follows:

	In thousands of euros	
	2019	2018
Balance at 1 January	**722,149**	**716,287**
Subsidies granted during the year	27,771	21,165
Transfer to the Consolidated Income Statement	(16,726)	(15,408)
Translation differences	31	75
Net tax effect	1	30
Other movements	19,701	-
Balance at 31 December	**752,927**	**722,149**

This heading 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 7,022 thousand euros are pending recognition in profit and loss (7,187 thousand euros in 2018). This Cohesion Fund contribution was approved by the Commission of the European Communities on 13 October 1997.

The 14,215 thousand euros Cohesion Fund contribution to the project "Tagus Basin Clean-up 2001, Group III", of which 8,594 thousand euros are pending recognition in profit and loss (8,797 thousand euros in 2018). This contribution 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 26,184 thousand euros is pending release to profit and loss, was approved by the Commission of European Communities on 26 March 2002 (26,806 thousand euros in 2018).

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The 12,338 thousand euros Cohesion Fund contribution to the project for the "Tagus Basin Clean-up 2002", of which 6,533 thousand euros are pending recognition in profit and loss (6,687 thousand euros in 2018).

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 funding was granted on 7 March 2001. 40,981 thousand euros of the total balance have yet to be taken to income (41,945 thousand euros in 2018).

The contributions from the European Regional Development Fund's CAM 2007-2013 Operational Programme amounting to 2,719 thousand euros (of which 1,857 thousand euros were received in 2019), 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. 1,426 thousand euros of this amount have yet to be taken to profit and loss (439 thousand euros in 2018).

The contributions from the European Regional Development Fund's CAM 2014-2020 Operational Programme amounting to 3,627 thousand euros (of which 3,155 thousand euros were received in 2019), aimed at renewable energy and energy efficiency projects. The ERDF's CAM 2014-2020 Operational Programme was approved on 14 July 2015. 3,623 thousand euros have yet to be taken to profit and loss (471 thousand euros in 2018).

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 contribution was approved by the Commission of the European Communities on 20 December 2006. 21,767 thousand euros is pending transfer to profit and loss (22,279 thousand euros in 2018).

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. 10,901 thousand euros have yet to be taken to profit and loss (11,158 thousand euros in 2018).

The Spanish Energy Diversification and Saving Institute (IDAE) 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 2,971 thousand euros (3,091 thousand euros in 2018).

The value of 90,018 thousand euros attributed to facilities assigned to the Parent by various town councils. At 31 December 2019, 6,060 thousand euros are pending transfer to profit and loss (6,205 thousand euros in 2018).

The amounts received from new water utility customers for hook-up rights and pipeline adaptation and extension totalled 903,002 thousand euros (880,347 thousand euros in 2018). At 31 December 2019, 594,872 thousand euros is pending transfer to profit and loss (584,733 thousand euros in 2018).

The right-of-use value not repayable to the Tagus Hydrographic Confederation for the Picadas – Valmayor pipeline, amounting to 19,701 thousand euros and recognised at 31 December 2019.

Details of the main subsidies received in 2019 and 2018 are as follows:

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		In thousands of euros	
		2019	
Awarding organisation	**Amount**	**Purpose**	**Award date**
European Office for Climate Change (Ministry of the Environment)	118	CO2 emission allowances	22/03/2019
Financing third party works	22,641	Supply works	Miscellaneous
ERDF funds 2007-2013	1,857	Supply works	28/11/2019
ERDF funds 2014-2020	3,155	Supply works	28/11/2019
Total	**27,771**		

		In thousands of euros	
		2018	
Awarding organisation	**Amount**	**Purpose**	**Award date**
Financing third party works	21,091	Supply works	Miscellaneous
European Office for Climate Change (Ministry of the Environment)	74	CO2 emission allowances	21/03/2018
Total	**21,165**		

The breakdown of amounts recognised is the following:

	In thousands of euros	
	2019	**2018**
Capital subsidies	568	283
ERDF and Cohesion Funds	3,510	2,907
Transfers from City or Town Councils	146	146
Financing third party works	12,502	12,072
Total	**16,726**	**15,408**

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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	
	2019	**2018**
	Current	**Current**
Related		
Suppliers, group and related companies (Note 28)	2,445	6,351
Unrelated		
Suppliers	15,848	16,022
Creditors	92,522	104,150
Personnel	13,449	13,806
Other payables to Public Administrations (Note 27)	11,148	13,963
Customer advances	388	556
Total	**135,800**	**154,848**
Current income tax liability (Note 27)	704	1,113
Total	**136,504**	**155,961**

The main contribution to the Accounts payable heading is an amount of 82,461 thousand euros from the Parent Company.

b) Information on average term of payment to suppliers Third additional provision. "Reporting Requirement" of Law 15/2010 of 5 July 2010 (amendment due to the Spanish Accounting and Auditing Institute's Resolution of 29 January 2016).

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

Average term of payment to suppliers at the closing date of the balance sheet	
	2019
	Days
Average term of payment to suppliers (*).	36
Ratio of paid transactions	38
Ratio of transactions payable	25
	In thousands of euros
Total payments made	359,267
Total pending payments	37,522

Average term of payment to suppliers at the closing date of the balance sheet	
	2018
	Days
Average term of payment to suppliers (*).	42
Ratio of paid transactions	44
Ratio of transactions payable	29
	In thousands of euros
Total payments made	326,883
Total pending payments	43,718

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(*) The average term of payment to suppliers in commercial operation is established in accordance with Law 15/2010, of 5 July, establishing the measures to combat late payments in commercial transactions and in accordance with the provisions of the Resolution of 29 January 2016 of the ICAC. The figures correspond to trade payables and do not include balances payable to suppliers of fixed assets and only those amounts contributed by the Parent Company and its Spanish subsidiaries.

23. PROVISIONS AND CONTINGENT LIABILITIES

The breakdown of the Provisions heading is as follows:

	Thousands of euros			
	2019		2018	
	Non-current	Current	Non-current	Current
Provisions for long-term compensations to employees for defined benefits	330	-	322	-
Other benefits for employees	2,280	312	2,347	1,347
Provisions for taxes	17,923	1,985	16,437	2,176
Provisions for infrastructure works	381,495	89,993	360,000	90,014
Provisions for decommissioning, dismantling or restoration	10	-	-	-
Provisions for other liabilities	6,234	14,904	3,754	10,199
Total	**408,272**	**107,194**	**382,860**	**103,736**

The movement under provisions for the years ended 31 December 2019 and 2018, is as follows:

	In thousands of euros					
	2019					
	Provisions for taxes	Provisions for employees	Provisions for other liabilities	Other provisions	Provisions for infrastructure works	TOTAL
At 1 January 2019	**18,613**	**4,016**	**13,952**	**-**	**450,015**	**486,596**
Allocations	5,867	248	11,673	1	89,991	**107,780**
Provisions update	-	-	-	-	2	**2**
Applications	(3,455)	(460)	(4,374)	-	(68,520)	**(76,809)**
Excess of provisions	(1,117)	(88)	(987)	-	-	**(2,192)**
Translation differences	-	16	63	-	-	**79**
Transfers	-	(811)	811	-	-	**-**
Impact of 1st adoption of IFRS 16	-	-	-	10	-	**10**
At 31 December 2019	**19,908**	**2,921**	**21,138**	**11**	**471,488**	**515,466**

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	In thousands of euros					
	2018					
	Provisions for taxes	Provisions for employees	Provisions for other liabilities	Other provisions	Provisions for infrastructure works	TOTAL
At 1 January 2018	**25,308**	**3,513**	**18,036**	**-**	**425,745**	**472,602**
Allocations	8,948	973	3,930	-	90,232	**104,083**
Provisions update	-	-	-	-	425	**425**
Applications	(5,978)	(427)	(4,681)	-	(60,164)	**(71,251)**
Excess of provisions	(8,513)	(80)	(758)	-	-	**(9,351)**
Translation differences	(31)	37	(286)	-	(253)	**(532)**
Change in the exclusion from the consolidation scope[(1)]	(1,121)	-	(2,289)	-	(5,970)	**(9,380)**
At 31 December 2018	**18,613**	**4,016**	**13,952**	**-**	**450,015**	**486,596**

[(1)] Disposals of the Triple A de Barranquilla amounts by reason of the deconsolidation of the share after the loss of control are included.

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					
	2019					
	Provision Region of Madrid Network	Provision Sanitation Agreement Madrid City Council	Provision Reuse Agreement Madrid City Council	Provision Cáceres Agreement	Provision Municipality of Soledad	Total
At 1 January 2019	**413,139**	**28,236**	**5,442**	**3,198**	**-**	**450,015**
Allocations (Note 26 (f))	71,600	16,379	652	1,360	-	**89,991**
Provisions update (Note 26 (h))	-	2	-	-	-	**2**
Applications	(54,942)	(12,197)	(342)	(1,039)	-	**(68,520)**
Translation differences	-	-	-	-	-	**-**
At 31 December 2019	**429,797**	**32,420**	**5,752**	**3,519**	**-**	**471,488**

	In thousands of euros					
	2018					
	Provision Region of Madrid Network	Provision Sanitation Agreement Madrid City Council	Provision Reuse Agreement Madrid City Council	Provision Cáceres Agreement	Provision Municipality of Soledad	Total
At 1 January 2018	**390,056**	**21,792**	**4,908**	**3,409**	**5,580**	**425,745**
Allocations (Note 26 (f))	71,208	16,369	652	1,360	643	**90,232**
Provisions update (Note 26 (h))	413	12	-	-	-	**425**
Applications	(48,538)	(9,937)	(118)	(1,571)	-	**(60,165)**
Translation differences	-	-	-	-	(253)	**(253)**
Change in the exclusion from the consolidation scope[(1)]	-	**-**	**-**	**-**	**(5,970)**	**(5,970)**
At 31 December 2018	**413,139**	**28,236**	**5,442**	**3,198**	**-**	**450,015**

[(1)] Disposals of the Triple A de Barranquilla amounts by reason of the deconsolidation of the share after the loss of control are included.

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Based on the Parent Company's estimates, the investment plan for replacement initiatives in the Region of Madrid Network over the concession period totals 3,890 million euros (3,891 million euros in 2018).

The outflows of economic benefits, due to the commitments undertaken in respect of infrastructure work, will occur systematically over the term of the corresponding concessions, with the estimated outflow of economic benefits for 2020 being reflected as a current provision.

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 2019 and 2018. It is highly probable that these provisions will have to be applied, although both the amount to ultimately be settled and the timing are uncertain and dependent on the outcome of the pending lawsuits.

The Parent Company booked a provision of 2,392 thousand euros for greenhouse gas emission expenses (931 thousand euros in 2018). 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.

Moreover, in 2019 the Parent Company reversed a sum of 226 thousand euros (353 thousand euros in 2018) for provisions amounting to 3,835 thousand euros for demolition and dismantling costs which it allocated in 2016. This provision is subject to a high degree of uncertainty due to the methods used in the dismantling and the relevant cost estimation, based on the Madrid High Court of Justice Ruling No. 157/2010, of 21 January 2010 and Ruling No. 580/2016, of 26 July 2016 ordering the adoption of the measures required to replace and re-establish the plot on which the sports facilities of the Third Deposit of Islas Filipinas is located to its original condition before the works were carried out.

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

On 22 May 2018, Colombia's DIAN issued special notice No. 022382018000008, proposing the modification of the 2015 tax return, on the basis that the aforementioned technical assistance costs were unknown, in an amount of 20,664 million Colombian pesos (5,774 thousand euros).

On 24 August 2018, in response to the aforementioned notice and based on external advice, the Company corrected its 2015 income tax filing, referring only to the non-deductibility of the costs related to the contract signed with the Sociedad Interamericana de Aguas de México S.A. de C.V. whose value was 1,428 million Colombian pesos (400 thousand euros) because they did not fulfil certain contractual requirements for deductibility. The resulting higher tax and penalties paid amounted to 681 million Colombian pesos (190 thousand euros). With regard to the technical assistance of Canal Extensia, S.A.U. and Soluciones Latinoamericanas del Agua S.A. SLASA, INASSA and its advisers considered that there were sufficient defence arguments to continue with the proceedings to higher jurisdictions.

On 15 January 2019, the DIAN issued the official liquidation, which established that the amount to be paid as tax return corresponding to year 2015 amounted to 7,029 million Colombian pesos (1,909 thousand euros).

On 17 May 2019, the Company's Directors and its tax advisers decided to present a petition for dismissal and reinstatement of the right or *certiorari per saltum* before contentious-administrative courts as they consider that there is sufficient evidence to prove the rendering of the service. On the date of authorising these financial statements for issue, the Company has not received a response from the DIAN.

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On 1 August 2019, the DIAN issued INASSA with an official settlement of fairness tax (CREE, introduced in 2013 and applied until 2016) in connection with 2015. On 5 December 2019, the Company and its attorneys presented the petition for dismissal and reinstatement of the right, which is pending acceptance.

In 2018, it decided to allocate a provision in INASSA amounting to 14,993 million Colombian pesos (4,189 thousand euros), corresponding to the increased tax payable due to the tax contingency in 2015. However, at 31 December 2019 it decided to allocate a larger provision totalling up to 21,450 million Colombian pesos (5,826 thousand euros) due to updates and potential fines for tax the contingency in 2015.

Moreover, in connection with 2016 and 2017 and based on the same criterion as in 2015, at 31 December 2018 the Company recognised a provision amounting to 10,498 million Colombian pesos open to inspection by the DIAN. At 31 December 2019, a larger provision was booked up to a total of 15,657 million Colombian pesos (4,253 thousand euros) due to updates and potential fines.

With regard to the 2018 and 2019 financial years, the company, together with the external adviser, has reviewed the supporting documentation evidencing the technical assistance provided throughout the year and they have deemed it sufficiently abundant and extensive so as to be able to perform an adequate substantiation. For this reason, no provision has been made.

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 Company and its Group at 31 December 2019, 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.

In 2018, as a result of the entry into force, in that year, of General State Budget Law 6/2018, dated 3 July, the Parent Company reversed an amount of 6,238 thousand euros that at 31 December 2017 had been provisioned, based on the tax regime for biogas obtained at wastewater treatment plants, pursuant to Special Tax Law 38/1992, and Law 15/2012, of 27 December, concerning fiscal measures for energy sustainability, along with the Parent Company's assessment of the claims filed by companies operating the treatment plants in relation to the tax regime for biogas.

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.

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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 2019 and 2018 are as follows:

	In thousands of euros	
	2019	2018
Guarantees received	(208,541)	(145,450)
Guarantees presented before Public Bodies	32,339	32,394

The Parent Company has provided guarantees to Public Bodies in relation to the normal course of business amounting to 31,877 thousand euros (30,997 thousand euros in 2018). 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, dated 23 May 2013. 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 agreement in that city. The Parent Company's Directors do not expect any significant liabilities to arise from these guarantees.

Emissão, S.A. has insurance guarantees covered for a total amount of 793 thousand euros (4,600 thousand euros in 2018), which primarily correspond to administrative contracts, the main being Embassa (Bahia). 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 INASSA 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 (4,193 and 2,792 thousand euros), were cancelled.

Such guarantees were substituted with two loans granted by INASSA. The funds, in turn, originate from a credit facility granted to INASSA 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 INASSA, to grant real guarantees in order to secure 18.76% (18.16% at 31 December 2019) of the loan by means of a pledge on shares and receivables from SLASA to Canal Extensia. On 24 January 2019, the companies signed pledge arrangements for INASSA's accounts payable to SLASSA for the sum of 6,812 million Colombian Pesos (1,903 thousand euros) and for 138,753 nominative ordinary shares in INASSA worth 494 thousand dollars (434 thousand euros).

On 23 November 2018 and 25 November 2018, the Boards of Directors of Canal de Isabel II and Canal Extensia approved the authorisation of an intercompany loan between Canal Extensia and INASSA for the amount of 38 million US dollars that included the aforementioned credit facility and existing borrowings (technical assistance due and dividends). Moreover, the same Board meetings approved an intercompany loan between Canal de Isabel II, S.A. and Canal Extensia, up to a limit of 4 million euros in order to cover the working capital needs of the latter.

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On 6 February 2019, a loan contract was arranged with INASSA for 2,300 thousand US dollars to finance the cash requirements of INASSA. Subsequently, on 3 May 2019, Canal Extensia granted a new loan to INASSA for 3,000 thousand US dollars, giving INASSA a combined borrowings total of 42 million US dollars.

On 25 November 2019, Canal Extensia granted INASSA an intercompany loan of up to 49 million dollars to regulate the repayment of the loan previously granted. Of this new loan, amounting to 3.9 million dollars, at 31 December 2019 INASSA had only drawn down 1.8 million dollars, and the remainder was pending drawing down in 2020.
As a prerequisite for granting the intercompany loan, INASSA's minority shareholders will be asked to produce performance guarantees in connection with the liabilities undertaken by INASSA within the context of financing based on their percentage ownership in the Company's share capital (18.16% at 31 December 2019), and the pledge of INASSA's payables to SLASA and of its shares will be requested.

On 30 January 2019, Canal Extensia granted Soluciones Andinas de Aguas a loan of 2.9 million euros to cover one-off liquidity requirements at its Brazilian subsidiary Emissão, S.A. as a result of the CEDAE default claimed in July 2019.

On 3 May 2019, an addendum to the aforementioned loan contract was approved, increasing the loan amount by 2.9 million euros to give a total of 5.8 million euros.

On 25 November 2019, another addendum was signed aimed at regulating the repayment of the existing loan, up to a maximum of 13.1 million euros. Of the new loan, amounting to 7.16 million euros, at 31 December 2019 Soluciones Andinas had only drawn down 5.9 million euros, and the remainder was pending drawing down in 2020.

On 22 November 2019, the Board of Directors of Canal de Isabel II approved the formal granting of two intercompany loan transactions between the Parent Company and Canal Extensia with a view to granting, in turn, INASSA and Soluciones Andinas loans amounting to 8.4 and 13.1 million euros, respectively.

(i) Emissão, S.A.

Contingencies claim against the seller (First Arbitration Proceedings No. 22/17)

In relation to the contingencies claim against the seller in the sale-purchase contract of Emissão, S.A., on 15 May 2018, arbitration proceedings No. 22/17 was signed. On 30 July 2018 a claim was presented for the amount of 33.6 million Brazilian reals (8 million euros).

On 6 September 2019, the Arbitration Award was issued stating that Sebastião Cristovam breached the share sale-purchase contract and ordering Sebastião Cristovam to pay Soluciones Andinas the sum of 21.9 million Brazilian reals plus the Brazilian CPI (INPC-IBGE), which was the monetary correction criterion adopted by the Court of Rio de Janeiro (4,840 thousand euros), from 31 December 2012, plus late payment interest at a monthly rate of 1% from 2 January 2018, until the payment has been made, in the case of hidden liabilities, and from 6 September 2019 until the payment has been made, in the case of attorney fees and legal expenses.

After a clarification period, on 18 November 2019, the relevant Court issued its ruling in connection with the motion for clarification filed, granting Soluciones Andinas the right to receive from Sebastião Cristovam another 2 million Brazilian reals (441 thousand euros).

Accordingly, Sebastião Cristovam must pay Soluciones Andinas a total of 23.9 million Brazilian reals plus the aforementioned adjustments (5,279 thousand euros). However, Sebastião Cristovam asked the Court to grant a second motion for clarification, which, on 23 January 2020, was dismissed by the competent judicial body.

According to our external legal advisers, this latest decision might still be subject to a request for clarification, but such request has not yet been filed by Sebastião Cristovam.

The amount owed by Sebastião Cristovam pursuant to the Award is partially secured by the pledge of his 4,743,000 shares in Emissão. In the view of our external legal advisers, these shares cannot be considered to be an asset of Soluciones Andinas at 2019 year end since on that date Soluciones Andinas had not commenced any action aimed at executing the Award. Furthermore, they consider that Sebastião Cristovam is unlikely to comply voluntarily with the obligations imposed on him by the Arbitration Award. Consequently, the adjudication of the shares will be subject to a process of execution before the Brazilian Courts based on mandatory procedures and rules aimed at determining the value of the shares, which parties typically dispute, and will require a considerable period of time. Lastly, our legal advisers indicate that it is debatable whether, pursuant to Brazilian legislation, the adjudication, in the context of execution of a legal ruling, must necessarily be for the pledged items or whether, conversely, debtor and creditor might offer or claim other goods in their stead.

At 31 December 2019, the Award in favour of Soluciones Andinas, and taking into account updated CPI (INPC-IBGE), which was the monetary correction criterion adopted by the Court of Rio de Janeiro, from 31 December 2012, plus late payment interest at a monthly rate of 1% from 2 January 2018, came to a total of 42,422,773 Brazilian reals (9,364 thousand euros).

Minority shareholder claim (Second Arbitration Proceedings No. A 283/2019)

On 28 August 2018, notification was received from the two minority shareholders of their intention to cease to be shareholders in the company. We understand that there are no grounds for their claim, filed on the basis of articles 1,089 and 1,029 of the Brazilian Civil Code, as in accordance with our legal advisers, the re-acquisition was improper as Emissão is a public limited company therefore governed by the Brazilian Commercial Code and not the Civil Code.

On 13 March 2019, Sebastião and Alessandro Cristovam filed a request for arbitration with the Brazilian arbitration service (Cámara de Mediación y Arbitraje Empresarial de Brasil – CAMARB), and a claim was filed on 14 June 2019 requesting the partial liquidation of Emissão with their withdrawal as shareholders in the Company and the reimbursement of their shares. Soluciones Andinas and Emissão responded to said claim on 7 October 2019. On 5 December 2019, the parties outlined their arguments in connection with the evidence presented and Sebastião and Alessandro Cristovam filed another request for the presentation of evidence which, on 16 December 2019, was dismissed by the Court of Arbitration.

Essentium's claim

In relation to Essentium's claim against INASSA, claiming 5% of the sum of INASSA's total investment to acquire the Brazilian company Emissão, S.A. due to a breach of the confidentiality agreement and non-agreement of the parties, on 28 February 2017, a Court Order was issued after the Preliminary Hearing, in which the defendant was ordered to provide documentation. In compliance with the aforementioned injunction, the company submitted the requested documentation. Pursuant to the court order dated 12 September 2017, the judge with jurisdiction over the case agreed to the suspension of the procedure through criminal pre-prosecution, until the definitive resolution of the case called "Operación Lezo". The Group's Directors believe that, pursuant to applicable legislation, relevant liabilities shall not accrue in relation to this lawsuit.

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Financial liabilities of Emissão, S.A.

In September 2017, the Department of Federal Revenue of Brazil recorded a fiscal debt pending payment by Emissão, S.A. for taxes from previous years, before the acquisition of Emissão, S.A. in 2013, for the sum of 17,165 thousand Brazilian reals (4,324 thousand euros) and which entered a process of administrative discussion in 2009 and 2012.

The company's analysis and that of its external advisers concluded that Emissão, S.A. did not have to pay this debt and that cancellation thereof should be requested, since a portion of these taxes had been claimed in duplicate and another portion did not apply to the activity carried out by the company. Therefore, Emissão, S.A. submitted a request to the Brazilian justice system for interim measures which, on 8 March 2018 ruled in favour of Emissão, S.A., suspending the fiscal obligation until the claim is definitively resolved.

On 31 October 2019, the Finance Ministry concluded that the proceedings should be closed with no fine or penalty for the Company.

(ii) Pre-Trial Proceedings 91/2016

During 2019, the Pre-Trial Proceedings 91/2016 are still pending before the Central Examining Magistrate's Court No. 6 of the Spanish National High Court, instituted, inter alia, on the basis of the information provided by Canal de Isabel II, S.A. through a complaint lodged with the Office of the Prosecutor General of the State.

Via a public tender process, Canal de Isabel II, S.A. hired the services of a prestigious law firm and appeared in the proceedings as private prosecutor on 2 October 2017, pursuant to Article 110 of the Code of Criminal Procedure and was accepted by the Court as such. Therefore, in principle, any possibility that Canal de Isabel II, S.A. can be considered responsible, and therefore bear either civil or criminal liability for the facts investigated, is excluded, and it rather seems to consolidate its condition of injured party as the investigation progresses.

The procedure was divided, in addition to the main cause, into six separate pieces, as far as is known to date. The first, second and fifth pieces respectively refer to the expansion of the Group in Latin America (INASSA and Emissão, S.A.), the Canal Golf Course, and the money-laundering of the different transactions that are being investigated. The third (tram of Navalcarnero), and fourth (illegal financing of the Partido Popular party) pieces are alien, in principle, to the interest of Canal de Isabel II. The sixth piece (Mercasa), also alien to the Parent Company, has already been submitted to another Court that is investigating related crimes.

Within the framework of Item 1, on 29 May 2019 the Court ruled that summary proceedings should continue in view of "the possible irregularities committed in 2001 and 2002 in the process of acquisition by the public entity Canal De Isabel II (CYII) of the Colombian company Interamericana De Aguas Y Servicios SA (INASSA)". This item was comprised in the so-called "Main Item or Item 1" originally referring to Canal's expansion in Latin America and the possible deviation of public funds in the acquisitions of INASSA and Emissão and the adjudication of a public contract in La Pintada. This item of proceedings would remain in the investigative phase which was to be reduced to the investigation of the operations of Emissão and La Pintada.

The Ruling of 29 May 2019 dismissed the proceedings against fifteen investigated persons and ordered the launch of summary proceedings against another twenty two investigated persons, charged with the acquisition of 75% of the Colombian company INASSA and 51% of the Dominican company Watco by Canal Extensia between 2001 and 2002, which is considered fraudulent as, according to the Ruling, an unlawful mark-up price was charged against public funds, and due to the unauthorised interjection of the Panamanian company Sociedad de Aguas de América, S.A.

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A report having been submitted by Colombia's State Comptroller (Intervención General de la Administración del Estado) corroborating the fraudulent nature of the mercantile operation and the existence of multimillion-euro damages to the public coffers, the Regional Attorney General's Office called for sentences it deemed opportune against eight defendants, and civil liability damages of 29 million euros payable to the regional government and the public entity.

As a result of this initiative, the exercise of criminal and civil proceedings by Canal de Isabel II and Canal Extensia became unnecessary, as the public interest of the penalty sought, and the assets of the Madrid Regional Government, were already safeguarded by the legal proceedings filed. Accordingly, the Boards of Directors of Canal de Isabel II and Canal Extensia agreed not to present interim filings in connection with the proceedings, both companies reserving the right to act as plaintiffs and/or file civil proceedings at the start of the trial.

On 18 November 2019, Central Examining Magistrate's Court No. 6, within the framework of Item 1, dismissed proceedings against fourteen investigated persons and ordered the launch of summary proceedings against seven investigated persons, accused of taking part in the acquisition of Emissão between 2012 and 2014, stating that said acquisition "was plagued with illegalities and implied improper use of funds to the detriment of the Regional Government amounting to between 6.4 and 9.6 million euros, due to the marked-up price paid for the acquisition".

In this regard, it is important to highlight, given the importance thereof and the sum of the verified provisional deposits in the consignment accounts of the Court made by the parties being investigated Mr Edmundo Rodríguez Sobrino for the sum of 2,739,003 dollars (2,438,137 euros) and Mr Diego Fernando García Arias, for the sum of 828,547 dollars (737,535 euros), both in relation to the Emissão Engenharia e Construçoes transactions being investigated.

(iii) Complaint lodged by Canal de Isabel II, S.A. and Canal Extensia, S.A.U. leading to Pre-Trial Proceedings 51/2018

As a result of the irregularities detected in the management of INASSA, the managers, who replaced those under investigation before the Spanish National High Court, requested the preparation of four expert reports from a prestigious international consulting firm to determine the existence of possible fraudulent transactions, and the identification of the people who could be liable for said transactions.

The conclusions of such reports evidence the alleged commission of new crimes of unfair administration, accounting forgery, and/or misappropriation, unknown until now and different from those already included in the investigation carried out by the Central Examining Magistrate's Court No. 6 in Pre-Trial Proceedings 91/2016. Such crimes may have included an illicit deviation of up to 8,900,000 euros from Triple A de Barranquilla, partly to INASSA and partly to the subsidiary Gestus (formerly, Recaudos y Tributos), a different deviation from those already investigated. Mr Rodríguez Sobrino, under investigation, would be presumptively responsible for said new alleged crimes in the periods of time in which he held the leadership positions in INASSA and Triple A de Barranquilla (the subsidiary company that provides the water service for the District of Barranquilla, and in which shares are shared with said District) between 2012 and 2015.

However, until then there had not been an open procedure in Spain for the acts committed by Mr Edmundo Rodríguez Sobrino in relation to the aforementioned 8,900,000 euros, nor had the proceedings in Colombia been formally pending against him.

For this reason, with the intention of promoting an investigation that certifies who were the other participants, co-authors, accomplices or accessories in Spain and Colombia, and the final beneficiaries and recipients of said payments, the Board of Directors of Canal Extensia, S.A.U., in its meeting of 14 June 2018, decided to bring criminal action in relation to the content of the reports, and assigned said task to a legal firm.

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Already having initiated the Pre-Trial Proceedings 91/2016 in the Central Court No. 6 of the Spanish National High Court, in which Mr Edmundo Rodríguez Sobrino appears from the beginning as being under investigation in conjunction with many others in the case known as "Operación Lezo", and given the presence of new facts intimately linked to those investigated in said proceedings, on 19 June, a complaint was lodged on behalf of Canal de Isabel II, S.A. and Canal Extensia, S.A.U. before the Central Court. This Court initially decided to file the complaint without performing any formal proceedings, arguing that there is already a procedure that is followed in Colombia for the same occurrences. The legal representation of both companies presented an appeal as they understood that the Spanish jurisdiction cannot be subject to the Colombian courts, an appeal that was heard by the Criminal Division of the Spanish National High Court, who by Court Order on 26 September 2018 ordered the Court to investigate the allegations, in Pre-Trial Proceedings 51/2018.

After the proceeding was reopened, we filed a writ requesting: 1. Deposition in their quality as investigated parties of Diego García Arias, Ramón Navarro Pereira, Julia Margarita Serrano Monsalve and Ana Patricia Rodríguez Revuelta; 2. For a requirement to be made to the investigated parties to jointly raise a bond for the amount of 9 million euros; 3. The documentary evidence consisting of the issuance of a Letter Rogatory to the Colombian Authorities so that a full copy of the depositions made by the investigated parties, the witnesses and the experts, as well as the relevant documentary and expert evidence of the facts subject to investigation in the proceeding that is being pursued in Colombia for the same facts is sent; a response thereto is still pending.

The Court issued a court order dated 11 December 2018 ruling to submit a Letter Rogatory to the Colombian Authorities for a full copy to be sent of the depositions made by the investigated parties, the witnesses and the experts, as well as the documentary and expert evidence supporting the investigated facts in the proceeding instituted in Colombia for the same facts, and dismissed through a Ruling dated 15 January 2019 the request for new depositions to be made by the investigated parties and for bonds to be deposited. An appeal for amendment and a subsidiary appeal to a higher court was filed against this order, and a Ruling was issued on 12 March 2019 by Section 2 of the Criminal Division of the National High Court, dismissing our appeal.

On 26 September 2019, a Ruling was issued by Central Examining Magistrate's Court No. 6 newly agreeing to dismiss the proceedings, against which Ruling an appeal was also filed.

On 21 November 2019, Ruling No. 667/2019 was received from the Criminal Division of the National High Court whereby, accepting the appeal filed by Canal de Isabel II, S.A. and Canal Extensia, it agreed to revoke the Ruling to dismiss the proceedings.

On 12 December 2019, a Ruling was issued by Central Examining Magistrate's Court No. 6 ordering the reopening of Pre-Trial Proceedings 51/2018 and agreeing to send a Letter Rogatory to Colombia to specify certain aspects of the investigation being conducted in Colombia.

Therefore, from the information available up to the date of formulation of these consolidated Financial Statements, from the external advice received by Canal de Isabel II, S.A. and from the analysis and evaluation carried out by the Canal de Isabel II, S.A. Management regarding the possible impacts that could arise from the aforementioned actions, the Company's Directors do not foresee any liability arising in the consolidated Financial Statements to be registered as consequence of the aforementioned actions.

(iv) Actions Control Entities: Procurator's Office, Comptroller, Prosecutor's Office, Superintendence of Companies and Superservices and DIAN

On the other hand, as a result of the legal actions initiated in Spain in relation to the possible cases of corruption and irregularities in the purchase of Emissão, S.A., the Colombian control entities (Procurator's Office, Comptroller, Prosecutor's Office, Superintendence, DIAN and Superservices) began to require both INASSA and the group of companies that make up the corporate group, in order to obtain information on transactions between related companies, capitalisations, and technical assistance agreements.

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In response to the aforementioned facts, the new executive management of INASSA decided to carry out a set of specific audits in different companies of the INASSA Group, in order to try to identify irregularities that could have caused a patrimonial damage to the different companies and to INASSA, as well as actions that could configure some type of crime on the part of some officials and ex-employees, however, to date, no situations have been identified that generate adjustments to the financial statements.

The actions carried out by the aforementioned control entities are detailed below (additionally, see Note 32):

Procurator's Office (PGN)

Class Action Lawsuit

On 2 April 2018, the Procurator's Office (PGN) forwarded a statement to Triple A de Barranquilla, requesting the following from its legal representative, the District of Barranquilla and the Superintendence of Public Utilities:

- To adopt immediate and effective measures that are necessary to guarantee the recovery of the stock control of the company Triple A de Barranquilla, on behalf of the District of Barranquilla in order to maintain and comply with the provisions of Agreement 023 of 1991 of the Council of Barranquilla, by exercising an effective and efficient control over the operation, contracting, administration and accounting of the entity.
- To intervene for purposes of terminating the Technical Advisory contract between Triple A de Barranquilla and INASSA, together with the return by both companies of all the money paid on the occasion of said contract, and of those amounts embezzled by the officials currently under investigation, duly updated and applying the current commercial interests referenced in article 884 of the Commercial Code, as well as the reassessment of the benefits in favour of the District of Barranquilla, among others, and the other measures that are necessary in defence of legality, public property and administrative morality, mainly.
- Alleged breach of the Shares Democratisation Process under Law 226 of 1995 with no impact on the Financial Statements.

On 22 June 2018 notification was received of the Class Action Lawsuit presented by the Procurator's Office (PGN) before a court in Cundinamarca. It includes the following provisions:

- Annul the technical assistance agreement entered into by Triple A de Barranquilla and INASSA S.A. of 31 March 2000 and later, 4 September 2000, as well as ordering the return by INASSA of all money paid on the occasion of said contract, duly updated and the interests of the case applied. It also includes the remaining balance of the profits and losses of Triple A de Barranquilla in favour of the District of Barranquilla.
- Order Triple A de Barranquilla to advance the necessary measures for the reimbursement of that amount of money improperly appropriated by the officials currently being investigated, as well as the remaining balance of the profits in favour of the District of Barranquilla.
- Order Triple A de Barranquilla i) to adopt the immediate measures of restitution of resources by the order of 237,837 million Colombian pesos (66,459 thousands of euros), for which it is imperative to impose the formulation of an immediate recovery plan for resources paid to INASSA and ii) that the recovery of resources is made with charge to the shareholding, benefits and other rights and income or assets of INASSA in Colombia and abroad and iii) to improve the quality of the service and/or the stabilisation or reduction of tariffs with the resources.
- Order the Superintendence to adopt and implement the immediate and effective measures for performing effective surveillance and control over the contracting, administration and accounting of Triple A de Barranquilla.

(Free translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails)

Furthermore, the following were sought as interim measures:

- The immediate suspension of the execution and payment of the technical assistance agreement.
- The initiation or immediate response plan is ordered, in which it is considered the way INASSA should proceed to return the money paid during the technical assistance agreement.
- The immediate seizure and confiscation of the shares held by INASSA in Triple A de Barranquilla and, in general, the seizure and confiscation of the shareholding, rights, income and assets of INASSA in Colombia and abroad are ordered.
- The seizure and confiscation is ordered of the benefits that INASSA should receive within the carrying out of social activities in Triple A de Barranquilla.

On 29 June 2018 a written opposition to the interim measures was presented. The main arguments were related to the non-compliance with the requirements set forth in Article 231 of the Code of Administrative Procedure and Administrative Disputes (CPACA) (none of the requirements was met), in addition to its decree seeking to obtain the result of a Ruling of conviction in advance.

On 9 July 2018, the case was defended. Arguments of a judicial, procedural, and substantial nature were presented, among the main ones we have: i) Lack of legitimacy in the legal standing in the cause to sue by the Procurator's Office; ii) Legal impossibility to discuss the cancellation of the agreement through a Class Action Lawsuit; iii) Inadmissibility of the Class Action Lawsuit in this case for the non-violation of any collective interest; iv) The technical assistance services have been provided and executed and their rendering benefited Triple A de Barranquilla and its users (financial support services, computer support services, support services for the management of best practices in the sector); v) If the lawsuit intentions are recognised, an unjust enrichment and a correlative asset impairment for INASSA would be configured; vi) The claims of the Class Action Lawsuit are contradictory and violate the rights to property, private sector initiatives and free enterprise; vii) If the intentions of the Procurator's Office are recognised, the Colombian state would violate its international obligations - direct and indirect expropriatory effect.

On 5 December a performance covenant hearing was held subject to the provisions of Law 472 of 1998. Notwithstanding, cancellation thereof was necessary as well as rescheduling the hearing due to the fact that the Procurator's Office filed new evidence that need to be examined in the event of executing an agreement or a performance covenant.

Between 5 December 2018 and 8 October 2019, INASSA filed a submission offering to document a performance covenant with the Procurator's Office: "Offer of terms and conditions of a draft performance covenant" on 29 October 2019. The Procurator's Office rejected the proposed covenant.

Since 30 October 2019 there has been no further progress in these proceedings. In the next few months, the Cundinamarca Administrative Court is expected to rule on the interim measures requested (subject to an examination of the arguments against them presented by INASSA) and discovery is expected to continue.

The Managers and the Directors of INASSA, based on the reports and opinions issued by their legal advisers, considering the available information and that the evidence phase has not yet occurred, conclude that it is not possible to foresee: i) whether the court will issue or not interim measures, ii) whether the process shall end by reason of a performance covenant and, iii) The result of the prospect Ruling. Therefore, they consider that at this time it is not necessary to register provisions or allocation in the equity of INASSA and its Group.

Disciplinary proceedings against the former general manager of Triple A de Barranquilla

On 13 November 2018, a first instance judgement was issued in the disciplinary proceedings of the Procurator's Office (PGN) against the former managers of Triple A de Barranquilla, S.A. E.S.P. Ramón Navarro Pereira and Julia Serrano Monsalvo, as well as the then manager Ramón Hemer Redondo.

(Free translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails)

The judgement of the court, in the case of Navarro Pereira, sentences him to reimburse the sum of 33,332 million Colombian pesos (9,314 thousand euros) to the same company and Serrano Monsalvo the sum of 2,240 million Colombian pesos (626 thousand euros). The judgement also includes a disqualification sanction for holding any public office for 12 years, in the case of the former, and 6 years, in the case of the latter; whereas Ramón Hemer was acquitted. The Ruling considers that the convicted offenders ordered the payment of the technical assistance to INASSA in the period between 2013 and 2017 "without there being indications that the technical assistance agreement was executed". The judgement was appealed by those sentenced and it will be necessary to await the second instance decision.

The operative part of the ruling orders for copies to be certified for the Class Action Lawsuit that is being processed before the Administrative Court of Cundinamarca, Procurator's Office of Barranquilla, Superintendence of Public Services, Superintendence of Companies, and for the Prosecutor General against those convicted in the first instance and the members of the Board of Directors in disciplinary matters.

The disciplinary sanctions in Colombia are of an individual nature and do not compromise the institution or the entity of which the public servant or individual administrator of public resources forms part. For this reason, the company considers that no provision of an accounting or financial nature is appropriate, since the factual or legal grounds that may affect INASSA's equity are not met.

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 Company and its Group at 31 December 2019, 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.

District Comptroller of Barranquilla against 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 INASSA, 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 (168 thousands of euros), and ii) Remuneration for technical assistance to INASSA, which preliminarily values the damage for the sum of 221,753 million Colombian pesos (61,965 thousands of euros).

INASSA 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 (168 thousand euros).
- In connection with the underwriting and alleged non-execution of the Technical Assistance Agreement, the likelihood of a Fiscal Liability Judgement against INASSA 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 INASSA 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 was to be suspended until such time as there is a final decision on the criminal proceedings currently underway in this connection.

(Free translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails)

Subject to what has been exposed above, and at the date of issuance of the Financial Statements on 31 December 2019, no additional notification on this proceeding has been received and no additional registration of liabilities is deemed necessary in this regard on INASSA's Financial Statements at 31 December 2019.

Delegate Prosecutor’s Office 5 (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 INASSA were subpoenaed for the inquiry phase with regard to the technical assistance agreement between the two companies on 4 September 2000 as it is considered that said agreement was allegedly not performed and therefore implied an irregular deviation of funds. In this regard, INASSA's and Triple A de Barranquilla’s Boards find it unlikely for the investigation against INASSA’s and Triple A de Barranquilla’s current managers to succeed, for the current managers have behaved diligently and taken the necessary steps to investigate what happened. They have likewise cooperated with the different entities linked to the proceeding and have not engaged in illicit behaviour. It is important to inform that some managers were subpoenaed for the inquiry, which took place in April and May 2018.

On 3 January 2019, the District filed a Civil Liability Lawsuit against INASSA. 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 INASSA in third-party civil liability. In May 2019, INASSA filed a writ of revocation and appeal which the Prosecutor’s Office rejected on 5 August 2019.

On 19 December 2019, Prosecutor Office 42 of the Delegated Unit before the High Court of the Judicial District of Bogotá D.C. declared the actions of process 2528 (Law 600) to be null and void, therefore:

i) The decision of 3 October 2018 to formally link the process to all the natural persons (resolving legal situation) was declared null and void, and;
ii) The decision of 19 March 2019 to accept the indictment linking the civilly liable third-party was declared null and void.

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 Company and its Group at 31 December 2019, 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.

Office of the Prosecutor General of Colombia

Expired ownership proceedings

An interim injunction was served to INASSA on 3 October 2018 of a Decision by the Prosecutor General ordering suspension of the right of alienation, sequestration and embargo concerning eighty-two percent (82%) of the share capital of Triple A de Barranquilla, of which INASSA is the holder, and their delivery to Sociedad de Activos Especiales (SAE).

On 5 October 2018, at Canal de Isabel II, S.A.’s and INASSA’s request, their external advisers issued a legal opinion on the new injunction. The main conclusions contained in said legal opinion are:

- “*These interim measures are provisional, transient and temporary for a term of six months, during which the prosecutor shall adopt the decision to either dismiss the investigation or to pursue the claim for ownership expiration before the relevant court*”

(Free translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails)

- *"The measures adopted are not subject to appeal for reversal or appeal to a higher court. Notwithstanding, INASSA, in its quality as affected party and subject to the prior filing of a founded request, may request the subsequent review of legality before the relevant ownership expiration court. The term for such a reversal and review of legality of the measure is of six months".*

The steps to be taken contained in the aforementioned Legal Opinion were: i) to request a preliminary hearing to review the legality of the interim measures awarded, ii) to make an appearance in the ownership expiration investigation in our quality as affected party and iii) to prepare a legal strategy with regard to this new judicial action.

On 10 October 2018, a General Meeting of Shareholders in Triple A de Barranquilla was called for the purpose, among others, of appointing a new Board of Directors to replace the existing management body.

With regard to the information above, the Company shall undertake all actions within its reach to defend its rights and guarantees against the measure awarded by the Prosecutor General of Colombia.

Canal de Isabel II S.A. (via Canal Extensia, S.A.U.) and INASSA plan to appear before the Guarantee Control Judge, to uphold the interests of INASSA, its shareholders and those of Triple A de Barranquilla, with the aim of safeguarding their economic and property rights.

The interim measures expired on 4 April 2019, when the legal authority was to decide whether or not to shelve the proceedings or continue into the next stage: namely to activate the expired ownership actions.

On the day the injunction expired, the Prosecutor General of Colombia filed an expired ownership claim, requesting that Law 1849 of 2017 be applied to the 60,736,424 shares belonging to INASSA which make up 82% of the share capital of Triple A de Barranquilla. The action is grounded mainly in criminal proceedings 2528 (Law 600) against physical persons who have acted as legal representatives of INASSA 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 (12.5 million euros) against INASSA, for third-party civil liability.

However, on 19 December 2019 Prosecutor Office 42 of the Delegated Unit before the High Court of the Judicial District of Bogotá D.C. declared the actions of proceedings 2528 (Law 600) to be null and void, therefore:

i) The decision of 3 October 2018 to formally link the process to all the natural persons (resolving legal situation) was declared null and void.
ii) The decision of 19 March 2019 to accept the indictment linking the civilly liable third-party was declared null and void.

The foregoing due entirely to the lack of (legal) competency of the investigating official, ordering that the respective proceedings and the third-party civil liability claim be referred to the competent official. According to our external legal advisers, this practically amounts to the entire proceedings being declared null and void.

<u>Agreement by the Prosecutor General of Colombia ordering the suspension of the right of alienation, sequestration and embargo of the shares of INASSA in Triple A de Barranquilla.</u>

<u>Impact on the Annual Financial Statements of the sequestration and embargo of the stake in Triple A de Barranquilla</u>

(Free translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails)

The Canal de Isabel II S.A. Group 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 Financial Statements, 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 corresponding to the Company 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 assets. 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.

At 31 December 2019, and pursuant to the information provided in this Note and the ongoing uncertainty, Management of the Parent Company maintains that the estimated value recognised for shares in Triple A de Barranquilla is the previous value, and that there have been no changes to the value of the financial asset booked.

Considering all the facts outlined above, and pursuant to the legal annulment decision on 19 December 2019 within the framework of proceedings 2528 (Law 600), and the annulment petition of the interim measures and of the expired ownership claim filed by INASSA on 24 January 2020, the Company's Management and its external advisers consider that in the current stage of the proceedings it is unnecessary to allocate provisions to cover the potential risk of non-payment of the technical assistance owed by Triple A de Barranquilla to INASSA or to modify any balances in the financial statements at 31 December 2019.

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 Company and its Group at 31 December 2019, 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.

Delegate Prosecutor's Office 38 (Law 906)

On 20 March 2018, the Office of the Prosecutor General of Colombia issued a press release providing information on the progress of Phase I of Operation Accordion with the arrest of a former manager of Triple A de Barranquilla, accused of embezzling 27,880 million Colombian pesos (7,790 thousand euros) of operations allegedly not carried out in Triple A de Barranquilla.

The Management of INASSA informed the Colombian Prosecutor's Office of the results of the internal auditing carried out in case any legal action could be derived from them. Said conclusions have served as a basis for the Prosecutor Office's actions, and thus INASSA was declared a victim in this proceeding. This decision was appealed by the District of Barranquilla on 30 November 2018, requesting that it be declared a victim in the proceedings and that INASSA's status be changed to that of non-victim.

(Free translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails)

On 11 March 2019, the High Court of the District of Barranquilla (Criminal Division) declared the entire prior proceedings null and void, including the ruling of 23 November 2018, with the purpose of the Judge of First Instance issuing a new ruling. As a result of this decision, which the Court confirmed in its Acceptance Verification Hearing on 10 July 2019, INASSA's status in the process was changed, and it is no longer considered to be a victim for the purposes of the proceedings underway, and this remains the case on the date of issuing this report. Lastly, on 18 October 2019, the High Court of the District of Barranquilla resolved to modify the ruling issued on 10 July 2019, and decided to accept as a victim the company Triple A de Barranquilla, and confirmed the other parties' status as non-victims.

The investigation regarding the final destination of the funds syphoned unlawfully from Triple A de Barranquilla has shown scant progress. Accordingly, on 8 June 2018, the company's external advisers submitted to the Prosecutor's Office a request for fast-tracking the investigation in the hope of seeing more progress. Given the scant progress in the investigations in connection with the proceedings in Colombia, the claim was filed in Spain included in the new lawsuit filed by the Parent Company and Canal Extensia in Pre-Trial Proceedings 91/2016.

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 Company and its Group at 31 December 2019, 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.

Superintendence of Companies

Ecuador

On 30 April 2018 INASSA was notified of Resolution No. 2018-01-217881 issued by the Superintendence of Companies, by means of which makes known to INASSA a set of conducts allegedly constitutive of transnational bribery, in accordance with that set forth in Article 2 of Law 1778. (See Note 32)

The events date back to 2016 and consist of public servants of the government of Ecuador having allegedly received money from INASSA's branch in that country to carry out procedures related to the termination and/or liquidation of contracts entered into with the National Secretariat of Water (SENAGUA).

INASSA was awarded 30 working days to submit its pleadings and to file and request evidence against the charges presented by the Superintendence. An external firm was hired for these purposes who performed an audit at the Ecuador Branch with the aim to shed some light on the situation. The audit's conclusion was delivered to the Superintendence of Companies.

This past 6 July 2018 the Superintendence of Companies issued the Resolution 2018-01-312262 in which it was stipulated that a fine of 6,500 statutory minimum monthly wages in force be imposed, equivalent to the sum of 5,078 million Colombian pesos (1,419 thousand euros). However, it was shown that the irregular actions were carried out by former company officials and with total ignorance on the part of its control bodies and shareholders.

Nevertheless, INASSA filed the appropriate appeals. The control and monitoring body accepted many of the arguments put forward and reduced the sanction to 5,000 minimum monthly salaries, equivalent to 3,906 million Colombian pesos (1,092 thousand euros), an amount that was settled in 2018 and 2019. These proceedings are now closed.

(Free translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails)

Panama

In view of the situation discovered in the Ecuador Branch, it was decided for an independent firm to perform an audit at the Panama Branch, with the aim to identify any irregularity that may affect INASSA's equity. Although no evidence was discovered of potential bribery, the results of the audit were submitted to the relevant authorities.

On 18 February 2019 an injunction by the Superintendence of Companies was received to submit detailed information on the transactions carried out in years 2016 and 2017 at the Panama Branch and all requested documentation was submitted on 20 March 2019.

Note that, in the second half of 2018, INASSA notified the Superintendence of Companies, in the spirit of due collaboration, of an expert's report outlining the unlawful acts committed by officials at INASSA's branch in Panama. Nevertheless, pursuant to Resolution 200-005417 of 6 September 2019, no benefits were granted for collaboration. In the opinion of the Superintendence of Companies, relevant aspects were not included to determine the conduct subject to investigation, and the petitions for collaboration benefits filed under numbers 2018-01-395445 and 2018-01-398333 from 31 August and 4 September 2018 were dismissed.

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, Provisions for other liabilities.

(Free translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails)

(v) Work-related claims:

Work-related claims by company	Year	Reason for the claim	Status of the claim	Amount claimed In thousands of euros
INASSA (Colombia)				
From the former corporate manager of INASSA	2017	1. Severance compensation. 2. Recognition of an extra-legal compensation payment.	On 13/11/2019, the Court issued a ruling indicating that the dismissal was legal, but, recognising the extra-legal compensation payment, it ruled against INASSA. This ruling was appealed and is pending a decision from the High Court of the Judicial District of Barranquilla. The amounts relating to this ruling have been fully provisioned by the Company.	115
From the former manager of INASSA	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.	223
From the former Executive Chairperson of INASSA	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.	(*)
INASSA (Panama) [Branch of INASSA]				
From the former Legal Representative of the Branch	2018	1. Due to special indemnity clause	The decision by the first instance court has not yet been delivered.	475
		2. Due to unlawful dismissal	On 27/05/2019 the Labour High Court ruled, in second instance, in favour of the plaintiff. At 31 December 2019, applying the prudence principle, the company booked a provision covering the full litigation amount of 656 thousand euros.	220
Gestus Gestión & Servicios, S.A.S.				
From the former Legal Representative of the company	2018	1. 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 has appealed the ruling to a higher court. The company has allocated a provision amounting to 127 thousand euros.	123

(*) Amount to be determined.

(Free translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails)

(vi) Other cases:

Class Action Lawsuit, Víctor Díaz

The plaintiff argues a supposed 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, on the occasion of the contract between the District of Barranquilla, and Triple A de Barranquilla and the linkage of INASSA as a qualified partner and the management of the activities (technical assistance); he also attacks the capitalisation carried out by INASSA in Triple A de Barranquilla in the years 2006 and 2007.

On 8 September 2019, a ruling favourable to INASSA and Triple A de Barranquilla was issued in first instance. Management is expecting the appeal court (second instance) decision from the Administrative Court of the Atlantic.

Corporate liability lawsuits

With a view to rebuilding the company's wealth, undermined by the activities performed by its former directors, two corporate liability lawsuits were filed:

i) The first, filed on 18 July 2019 against Messrs Diego García, German Sarabia and Andrés Fernández, which was accepted, notified and contested by the plaintiffs, includes cumulative claims for more than 3,331,250 dollars (2,965,328 euros). It is important to note that although the value of these claims is, in principle, the one mentioned, the lawsuit also mentions additional compensation claims which it is not yet possible to measure, such as possible future sentences in employment proceedings, in which INASSA might act again against the former directors in the amounts ruled due if so ordered by the Superintendence of Companies in the corporate liability lawsuit.
ii) The second claim, filed on 4 December 2019 against Mr Edmundo Rodríguez Sobrino, entails amounts exceeding 5,633,759 dollars (5,014,918 euros). The Superintendence of Companies ordered the certain sub-headings to be corrected and ruled that the statute of limitations applied to the issue of the golden parachute as two months had elapsed since the Board of Directors made the decision. INASSA made the relevant corrections to the indictment and filed a writ of revocation 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 years.

The external attorneys provided all available evidence. The presentation of additional evidence in a future supplement (reform) of the indictment is currently under review.

INASSA branch in Panama:

Commercial management contract and reinstatement of service

On 2 April 2014, INASSA submitted a formal arbitration request via its legal representatives 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, and entered into by the Company and IDAAN, whereby the latter hired INASSA 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 Panama Metro, Colón, Arraiján and Panama Oeste.

By means of these proceedings, INASSA requests cancellation 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 (13.35 million euros).

(Free translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails)

On 29 September 2015, the Arbitration Court issued the Arbitration Award, which, among other points, ordered IDAAN to pay the Company the sum of 8,878 thousand dollars which, in euros, is 7,403 thousand euros, for damages.

INASSA has been carrying out processes before the IDAAN for the effective payment of the arbitration award and is waiting for the budgetary adjustments to be made, with the aim of scheduling it for 2018 or 2019. The court order is obligatory for the IDAAN and therefore, enforceable, for seven years since it becomes final and enforceable, that is, once said term expires, it would become a natural obligation with regard to the IDAAN.

On the other hand, because a public entity, such as IDAAN, cannot be seized in Panama, it is necessary to initiate before the end of the 7 years, a special action called "late payment" that has been presented before a Special Court and that seeks to compel the public entity to include in its general budget of expenses and investments the total value of the award with its interests in a term not exceeding 12 months, after the claim is presented. Should the amount due not be included in the budgets, the claim for payment will be processed.

On 14 April 2019 the lawsuit was filed to commenced the process of execution of the award. On 10 September 2019, the Panamanian court responded that the claim had been accepted and referred to the legal representative of the IDAAN to proceed to its compliance.

On 10 September, the legal representatives of INASSA filed an appeal to include legal costs and interest; the appeal was rejected. The matter is pending clarification.

Meter reading and invoice distribution service.

On 31 December 2019, contract No. 19-2016 concerning "Meter reading and invoice distribution service" ended and it was not possible to extend it in view of IDAAN's repeated failure to pay. At 2019 year end, the receivables in connection with this contract amounted to 6,491 thousand dollars (5,778 thousand euros).

AAA Dominicana, S.A.:

ITBIS CAASD

As part of the contracts related to the commercial management and the supply and installation of meters, which the subsidiary maintains with the Corporación de Acueducto y Alcantarillado de Santo Domingo (CAASD), with the Corporación de Acueducto y Alcantarillado de La Vega (CORAAVEGA) 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 CORAAVEGA and CORAAPLATA, of the total of the contracts, which are updated annually pursuant to the works carried out in each project.

At 31 December 2019, AAA Dominicana has a litigation open with the Dominican State Administration Agency, as a result of the Resolution 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 Corporación de Acueducto y Alcantarillado de Santo Domingo (CAASD) and with regard to which AAA Dominicana filed an appeal requesting reversal.

This appeal suspended the obligation to pay the taxes, the determination of which has been established by the DGII, until resolution thereof.

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On 6 October 2013, the Directorate General of Internal Taxes (DGII) informed AAA Dominicana of the Decision regarding the appeal for reversal, dated 18 September 2013, which was rejected in its entirety and confirmed the initial decision regarding the tax obligation, ordering the company to pay the sum of 2,110 thousand euros for the January-December 2009 period, including the established tax, interest and surcharges.

AAA Dominicana filed another taxation law-related appeal to be filed before the High Administrative Court, with the aim of revoking this unfavourable decision.

The High Administrative Court ruled in favour of the Directorate General of Internal Taxes (DGII), ratifying that AAA Dominicana, S. A. shall have to invoice the services provided to the CAASD with the Tax on the Transfer of Industrialised Goods and Services (ITBIS). The Company filed a new appeal for reversal before the High Administrative Court providing new elements that were not able to be submitted before the Court ruling and which could change this ruling, although this appeal was also rejected in favour of the Directorate General for Internal Taxes (DGII).

On 4 March 2016, the appeal was filed before the Supreme Court of Justice (SCJ) of the Dominican Republic, appealing against the decision of the Administrative Court. On 22 January 2018, AAA Dominicana was informed of a ruling in favour of the SCJ, returning the case to the Administrative Court and ordering the basic points to be reviewed, since they were not suitably analysed.

In March 2018, the High Administrative Court delivered a judgement in favour of the DGII and, therefore, an appeal was filed once again in May 2018 before the Supreme Court of Justice (SCJ).

An Appeal was filed before the SCJ dated 28 May 2018 against Ruling 030-03-2018-SSEN-00106 of 28 March 2018 delivered by the Second Chamber of the High Administrative Court (TSA). A decision by SCJ has not yet been delivered.

Management of the subsidiary and its legal advisers believe there are sufficient legal arguments to defend the case in favourable conditions for AAA Dominicana. Furthermore, pursuant to the fourth addendum of the contract entered into by AAA Dominicana, S.A. and the Corporación de Acueducto y Alcantarillado de Santo Domingo (CAASD), the CAASD shall be liable for the payment of the ITBIS if a successful outcome is not obtained, with all the penalties and fiscal charges that have been generated.

In October 2015, AAA Dominicana was also sued for civil liability for damages totalling 812 thousand euros as a result of interrupting the supply of drinking water and the sewerage service for a customer of the Corporación de Acueducto y Alcantarillado de Santo Domingo (CAASD).

The subsidiary has a civil liability insurance policy in place to cover these types of incidents, for a maximum sum of 20,000,000 Dominican pesos (345 thousand euros) (50% of the amount claimed). The insurance company is assessing the damage to determine the real amount, as the claimed sum has not been justified.

Late payment interest CAASD

In the process of circulation of letters of confirmation with Corporación de Acueducto y Alcantarillado de Santo Domingo (CAASD), this entity responded by acknowledging the total amount owed to AAA Dominicana in late interest payments, which on 31 December 2019 amounted to 36.5 million Dominican pesos (613 thousand euros).

The company expects to collect this debt, and hence has not provisioned it in its financial statements.

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Gestus Gestión & Servicios S.A.S.

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 should 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).

In April 2018, the Third Administrative Court of Santa Marta decided to declare the lack of competency for the claim factor, to hear the process of contractual dispute with accumulation of claims for direct reparation promoted by INASSA against the District of Santa Marta, and submit the file to the Administrative Court of Magdalena for its jurisdiction.

The sum of the claim amounts to the amount of 11,938 million Colombian pesos (3,336 thousand euros), recorded in the financial statements of this subordinate on 31 December 2017 and according to the evaluation of the Management of INASSA an impairment was recorded for 2,646 million Colombian pesos (740 thousand euros) and a provision for the legal costs of 450 million Colombian pesos (126 thousand euros).

The INASSA and Gestus 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.

On 23 October 2018, the claim was admitted by the Administrative Court of Magdalena. Likewise, on 15 January 2019, notification of said claim was conveyed to the Santa Marta District.

On 20 March 2019, GESTUS, GESTIÓN & SERVICIOS was notified of the ruling issued on 14 November 2018, granting the claims of the District de Santa Marta (as per the lawsuit filed by the latter on 2 December 2012) requesting the termination through a court order of the contract for tax management signed in December 2002 and dismissing the counter-claim filed by GESTUS (previously R&T), deemed in contravention, essentially seeking compensation for the damages arising from the termination of this contract and the same selection (contractual selection process) conducted by the District in 2002 as tax manager.

An appeal may be filed against said Ruling before the issuing Court that will however be processed before the Council of State (Bogotá), the Court's hierarchical superior.

The Group's management considers that said appeal applies based on the fact that the period to claim expiration of the contract, as the Santa Marta District is claiming, had already expired subject to Article 136 of the Administrative Code, the fact that there is a final ruling already issued on said matter and the fact that the ruling infringes Articles 110 to 112 of Law 489/1998.

The initial hearing was held on 30 January 2020, with the court requesting evidence on its own initiative.

The Company's management considers that the probabilities of success are high, and there is sufficient evidence to prove that the services were provided between February and May 2015. In addition, there is a VAT payment in respect of the DIAN, which the District should have recognised to its contractor, which performed the distribution at the time. Pursuant to the aforementioned evidence the Company is claiming the aforementioned items plus the relevant late payment interest.

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Metroagua

On 17 April 2017, in accordance with its expiry, the lease agreement came to an end 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, by means of INASSA, in 29.13% of Metroagua's capital (29.35% at 31 December 2019).

On 21 April 2017, the shareholders of Metroagua approved the company dissolution and started the liquidation process as a result of not being able to carry out its corporate activities, pursuant to the decision of the Third Administrative Court, which ruled, on February of the same year, within the framework of a judicial process (Class Action Lawsuit), an interim measure consisting of handing over the city's entire conduit and sewerage infrastructure to the Santa Marta District.

The Court did not accept the company's arguments in relation to the subscription of an "Additional pleading" in 2002 to the contract signed in 1989, 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, reflects 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 the debt with the Santa Marta District for improvements to the city's conduit and sewerage infrastructure, and which is recognised in the report in the amount of 63,250 million Colombian pesos (17,674 thousand euros), the liquidating company is exploring the legal options available for collection thereof. It has been envisaged for a technical assessment to be made on the improvements performed and for the liquidating company to file a claim against the District claiming its amount within the first half of April.

At present, the liquidator of Metroagua is exploring other legal options to collect payment for the improvements which, in any case, must involve an expert appraisal thereof.

In any case, bearing in mind the legal obligations of the Group in this respect, the losses in the associates that correspond to the Group are limited to the value of the investment, in the case of Metroagua, 11,767 million pesos, equal to 3.3 million euros at the end of 2017. The investment is reflected as being fully impaired in the Financial Statements.

Tax Inspection of Canal de Isabel II, S.A. and Canal Extensia, S.A.U.

On 19 April 2017, Canal de Isabel II S.A. 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.

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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Among the auditing actions, by means of Proceeding No. 13, the Tax Inspectorate 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".

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 INASSA, 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 conclusion of which was:

"*In the hypothesis that the Colombian Treasury carried out a fiscal regularisation regarding the expenses deducted by INASSA from the technical assistance provided by Canal Extensia, S.A.U., requiring the former to pay the corresponding tax, not adopting corrective measures regarding the fiscal burden borne by Canal Extensia, S.A.U. would determine the existence of a double taxation not allowed by the CDI (Article 22), which would authorise the request for a mutual agreement procedure by Canal Extensia, S.A.U. in order to remedy that situation with the adoption by the corresponding fiscal administration of the appropriate corrective measures. These measures, without prejudice to other alternatives, could consist of the recognition by the Spanish Treasury of the exemption of dividends on the surplus of the amounts received as technical assistance by Canal Extensia, S.A.U. regarding those that had been agreed upon between independent parties and under normal market conditions. In this sense, two limitations would have to be considered, since the correction of double taxation through the application of the dividend exemption could only affect the part of the surplus that corresponds to the ownership interest of Canal Extensia, S.A.U. in the capital of INASSA, and only in respect of the non-prescribed fiscal years*"

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.

By means of written notice presented to the Madrid Examining Magistrate's Court No. 6, the Central Office of High-Income Taxpayers of the Tax Agency requested that the inspection procedures followed with the Company for Corporate Income Taxes from 2012 to 2015, VAT and Withholdings from 3/2013 to 12/2016 be suspended or stayed, as it was determined that the result of these actions depends on the facts proven in the criminal proceedings.

On 23 May 2018 the Court issued a Ruling 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.

On the date of authorising the 2019 annual financial statements for issue there have been no updates on the matter.

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. (hereinafter, CANAL).

Disagreeing with the ruling, CLUB LANZAROTE, S.A. filed an appeal before the High Court of Justice of the Canary Islands, which, on 21 November 2017, partially accepted the appeal filed with respect to the review request by CLUB LANZAROTE, S.A. in the understanding that CONSORCIO should have processed

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that request and rejected the appeal in respect of the annulment of the adjudication of the contract to CANAL.

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 properly and fully execute the Ruling 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 (TRLCSP).

Article 35.1 of TRLCSP envisages as a necessary effect of the Contract's being declared void the reciprocal restitution of the benefits constituting its purpose or, where this is not possible, the value thereof. This necessary effect is identified in jurisprudence as the restitution of the Parties to their situation prior to the adjudication, so that neither Party incurs harm or obtains a benefit due to the adjudication and the subsequent execution of the Contract. In this particular case, we understand that Canal must not suffer any harm or impairment as a consequence of the adjudication of the Contract and this must mean that Canal may recover the capital invested for the purposes of executing the Contract, specifically:

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:

Canal de Isabel II maintains a receivable with Canal Gestión Lanzarote amounting to 122,961 euros, associated with the loan granted to finance its operation and the outstanding unpaid interest, as well as a holding in the share capital of 60,000 euros.

At 31 December 2019, as mentioned above, there is uncertainty with regard to the continued involvement of Canal Gestión Lanzarote, S.A.U. in the operation of the public service concession agreement for water supply, sanitation and recycling services in the islands of Lanzarote and La Graciosa, since there is a possibility that the adjudication of the Contract might be declared null and void.

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In the event the contract adjudication is declared null and void, the Company shall be entitled, based on the report compiled by the external advisers on 3 February, to receive 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.

Canal de Isabel II conducted an analysis of the recoverability of its assets, shareholding and loan in Canal de Isabel Gestión Lanzarote in the two potential scenarios, namely continued involvement in the concession's operation or the contract adjudication being declared null and void, and in both cases the recoverable value exceeds the carrying amount, it not being necessary to book an impairment.

On the date of authorising these consolidated Annual Financial Statements for issue, neither of the Parties involved in the Club de Lanzarote S.A. process has commenced proceedings to request that the Lanzarote 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 2019 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 Canal.

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		
	2019		
	Cost	Accumulated depreciation	Net
Construction and installation in WWTP	618,260	(230,949)	387,311
Sewerage network	28,367	(8,862)	21,852
Reuse network	96,650	(13,798)	82,852
Total	**743,277**	**(253,609)**	**489,668**

	In thousands of euros		
	2018		
	Cost	Accumulated depreciation	Net
Construction and installation in WWTP	609,950	(221,775)	388,175
Sewerage network	29,680	(8,013)	21,667
Reuse network	99,232	(11,984)	87,248
Total	**738,862**	**(241,772)**	**497,090**

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Details of environmental investments made by the Group are as follows:

	In thousands of euros	
	2019	**2018**
Description		
Water treatment	8,253	11,442
Sewerage	1,056	1,760
Reuse	2,396	5,971
Total	**11,705**	**19,173**

The breakdown of environmental expenses incurred by the Group is as follows:

	In thousands of euros	
	2019	**2018**
Description		
Water treatment	158,682	151,084
Sewerage	71,687	68,536
Reuse	8,381	7,842
Others (green areas, environmental expenses, etc.)	2,334	2,379
Total	**241,084**	**229,841**

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-14001:2005 environmental management standard. The follow-up audit for this certificate was carried out in 2019, with favourable results for the permanent development and improvement of this Management System.

In 2019, the compulsory analyses of environmental risks were carried out at some of the Parent Company's facilities in accordance with the regulation on environmental responsibility and the corresponding responsible declarations have been presented to the competent administration.

The Parent Company has 48 cases open for a breach of environmental regulations (35 in 2018). These cases are in various phases of processing and appeals have already been filed against a number of these through administrative proceedings or even through the corresponding contentious-administrative actions. 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 coverage, since June 2010 the Parent Company, as the affected operator, holds 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 was arranged for the maximum financial guarantee of 25 million euros, 5 million over the maximum guarantee stipulated by Law.

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The Group has pursued the following lines of action in Ibero-America:

- Amagua C.E.M. in 2019:

– **Collector in Buijo Histórico:** This project consisted of extending the existing rainfall collector located in Buijo Histórico in the district of Samborondón, made of PVC material with a diameter of 630mm and an approximate length of 40 linear metres. The main purpose of this project was to complete the extension and filling of the waterfront by the Samborondón municipal government, to prevent collapse in connection with rainfall discharges at that location.

And in 2018:

– **Rainwater drainage in Ciudad Celeste:** The purpose of this project was to collect and transport rainwater from the course that leads to the communities of Ciudad Celeste, El Cortijo and Buijo Histórico. This project included the supply and installation of PVC piping in various diameters, excavation work, filling and removal, construction of discharge pipes and redesigning open channels.

– **Entre Ríos residential complex collector:** These works consisted of the reposition of the old simple concrete AASS collector located at Calle Malecón in the Entre Ríos residential complex. A new collector was installed together with its respective H.A. chambers. A total of 90 ml of 250 mm PVC NVF piping were installed.

25. OTHER LIABILITIES

Other current and non-current liabilities include the following:

	In thousands of euros			
	2019		2018	
	Non-current	Current	Non-current	Current
Advance income for consumption advances	17,712	4,980	20,531	4,780
Other	-	194	-	162
Total	**17,712**	**5,174**	**20,531**	**4,942**

"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 financial year 2015, a more detailed information source has been used to calculate the present value of the "Advances for water use", which sets the average reimbursement period at 18 years for 2019 (19 years in 2018). 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.

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26. INCOME AND EXPENSES

a) Ordinary income

Ordinary income includes the operation of infrastructure to provide water supply, sanitation and recycling services. Details are as follows:

	In thousands of euros					
	National		Ibero-America		TOTAL	
	2019	2018	2019	2018	2019	2018
Income from the provision of operations services of Infrastructure	908,720	874,602	32,553	124,579	941,273	999,181
Income from the provision of services	13,507	12,941	27,050	60,734	40,557	73,675
Income from electricity sale	2,840	3,577	-	-	2,840	3,577
Income arising from the sale of goods	2	5	13	8	15	13
Total	**925,069**	**891,125**	**59,616**	**185,321**	**984,685**	**1,076,446**

All of these domestic revenues have been earned in euros. Sales in Ibero-America have been made in Colombian pesos, Dominican pesos, US Dollars and Brazilian reals.

b) Other income

Casual 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, gifts and bequests received which are allocated to profit and loss in accordance with the relevant depreciation and amortisation of the assets financed with this income.

c) Cost of supplies by nature and geographical area

The breakdown of supplies is the following:

	In thousands of euros					
	National		Ibero-America		TOTAL	
	2019	2018	2019	2018	2019	2018
Electricity consumption	68,000	62,793	628	8,368	68,828	71,161
Consumption of raw materials	25,391	27,342	2,191	10,061	27,582	37,403
Consumption of goods	1,410	1,339	3,866	3,715	5,276	5,054
Inventory variation	688	(2,816)	(690)	1,437	(2)	(1,379)
Total consumption	**95,489**	**88,658**	**5,995**	**23,581**	**101,484**	**112,239**
Works carried out by other companies	127,113	124,902	8,867	35,652	135,980	160,554
Total	**222,602**	**213,560**	**14,862**	**59,233**	**237,464**	**272,793**

d) Employee benefits expense

The breakdown of personnel expenses is the following:

	In thousands of euros	
	2019	**2018**
Wages, Salaries and similar payments	141,595	144,210
Social security contributions	51,985	53,300
Social security at the expense of the Company	38,956	38,234
Contributions to defined contribution plans (payout)	317	342
Long-service bonus (Note 17)	502	487
Seniority (Note 17)	3,393	2,875
Other social contributions	8,817	11,362
Total	**193,580**	**197,510**
Provisions	347	1,549
Total	**193,927**	**199,059**

e) Amortisation, depreciation and impairment of non-financial assets

Details of amortisation and depreciation are as follows:

	In thousands of euros	
	2019	**2018**
Intangible assets amortisation expense (Note 10)	118,531	123,073
Property, plant and equipment and investment property depreciation expense (Notes 7 and 8).	10,234	5,424
Total depreciation and amortisation expenses	**128,765**	**128,497**
Intangible asset impairment expense (Note 10)	-	9,218
Investment property impairment expense (Note 8)	-	(5)
Impairment reversal related to investment property	(2,356)	-
Total impairment expenses	**(2,356)**	**9,213**

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f) Other expenses

Details of other expenses are as follows:

	In thousands of euros	
	2019	**2018**
Research expenses	997	640
Leases and fees	20,901	35,446
Repairs and maintenance	44,787	44,677
Outsourced professional services	19,834	24,001
Transport	572	1,335
Insurance premiums	4,122	4,140
Advertising and publicity	1,906	3,151
Supplies	6,341	7,362
Other external services	2,209	2,906
Taxes	29,879	33,740
Value impairment losses and non-payment of trade and other receivables (Notes 14 and 16)	4,454	5,408
Provision for restoration and major repairs actions (Note 23)	89,992	90,232
Other expenses	16,633	10,355
Total	**242,627**	**263,393**

g) Profit and loss from derecognitions of fixed assets

The breakdown of profit/(loss) from derecognitions of fixed assets is the following:

	In thousands of euros	
	2019	**2018**
Profit		
Property, plant and equipment	52	19
Intangible fixed assets	-	5
Investment property	-	188
	52	**212**
Loss		
Property, plant and equipment	(69)	(37)
Intangible fixed assets	(3,462)	(4,275)
Property fixed assets	-	(83)
	(3,531)	**(4,395)**
Total	**(3,479)**	**(4,183)**

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h) Financial income and expenses

Details of finance income and expenses are as follows:

	Thousands of euros	
	2019	**2018**
From shares in equity instruments	210	2
Financial income for investments held to maturity	505	516
Other financial income	7,689	4,999
Translation differences	-	-
Other financial income	**8,404**	**5,517**
Financial expenses of debts with third parties	(5,460)	(11,635)
Financial expenses with regard to provisions (Note 23)	(23)	(425)
Other financial expenses	(15,178)	(16,203)
Translation differences	(5,492)	(3,014)
Investment impairment and losses	70	(1,023)
Profit/(Loss) due to disposal and other investments	34	(17,747)
Total financial expenses	**(26,047)**	**(50,047)**

27. TAX STATUS

As stated in Note 2, the contribution of the branch of activity availed of the special tax regime regulated in Title VII, Chapter VIII of Royal Legislative Decree 4/2004 of 5 March 2004, which approved the Revised Text of the Law on Corporate Income Tax, through the written document submitted to the Tax Authorities on 25 July 2012.

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.

Otherwise, 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.

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 (Public Entity) under the Special Tax Consolidation Regime set forth in Article 64 et seq. of the Revised Text of Royal Legislative Decree 4/2004 of 5 March 2004. All of the subsidiaries in Ibero-America 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 corporate income tax returns.

The breakdown of deferred tax assets and liabilities at 31 December 2019 and 2018 is the following:

(Free translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails)

	In thousands of euros					
	Assets		Liabilities		Net	
	2019	2018	2019	2018	2019	2018
Concessions	-	-	-	-	-	-
Amortisation and Depreciation	294	351	-	-	294	351
Provisions	4,045	3,332	-	-	4,045	3,332
Other items	10,566	6,303	-	-	9,781	6,303
Industry and Trade	-	-	(785)	(744)	-	(744)
Net assets and liabilities	**14,905**	**9,986**	**(785)**	**(744)**	**14,120**	**9,242**

The breakdown or deferred tax assets and liabilities, at 31 December, whose term for realisation or reversal exceeds 12 months is the following:

	In thousands of euros	
	2019	2018
Assets	**10,086**	**6,176**
Amortisation and Depreciation	281	194
Other	9,805	5,982
Liabilities	**(834)**	**(745)**
Concessions	-	-
Other	(834)	(745)
TOTAL	**9,252**	**5,431**

The breakdown of tax on profit expense is the following:

	In thousands of euros	
	2019	2018
Current tax	(726)	18,928
Deferred tax	(4,879)	(5,969)
Adjustments in final tax returns of prior financial years	(1,204)	(870)
Positive adjustments on income tax	-	(5)
Total	(6,809)	12,084

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The relationship between the tax on profit expense and the profit for the year is as follows:

	In thousands of euros	
	2019	2018
Income and expenses balance for the year	**219,895**	**213,848**
Tax rate at 25%	(54,974)	(53,462)
Tax effect rates other than 25%	863	(1,360)
Presumptive income tax effect	(133)	(106)
Other non-deductible expenses	926	3,840
Other adjustments	1,174	(494)
Corporate tax adjustments in previous years	1,204	870
Consolidation adjustments	(421)	509
Deductions and credits for the financial year	58,170	38,119
Expense for consolidated tax on profit	**6,809**	**(12,084)**

The effective average tax rate in 2019 is 3.10% (5.65% in 2018).

Movement in deferred tax assets and liabilities in 2019 and 2018 is as follows:

	In thousands of euros				
	2019				
	Net balance at 1 January	Recognised in Profit and Loss	Net	Deferred tax assets	Deferred tax liabilities
Concessions	-	-	-	-	-
Accelerated Amortisation	351	(57)	294	294	-
Provisions	3,332	713	4,045	4,045	-
Other items	6,303	3,478	9,781	10,566	(785)
Industry and Trade	(744)	744	-	-	-
Net assets and liabilities	**9,242**	**4,878**	**14,120**	**14,905**	**(785)**

	In thousands of euros				
	2018				
	Net balance at 1 January	Recognised in Profit and Loss	Net	Deferred tax assets	Deferred tax liabilities
Concessions	(8,068)	8,068	-	-	-
Accelerated Amortisation	(1,188)	1,539	351	351	-
Provisions	4,593	(1,261)	3,332	3,332	-
Other items	7,861	(1,558)	6,303	6,303	(744)
Industry and Trade	-	(744)	(744)	-	-
Net assets and liabilities	**3,198**	**6,044**	**9,242**	**9,986**	**(744)**

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On 31 December 2019 there are tax loss carryforwards for an amount of 13,950 thousand euros (5,494 thousand euros at 31 December 2018) registered under the heading "Other items" corresponding to the following companies:

	In thousands of euros			
	2019		2018	
Company	**Accounted for**	**Not accounted for**	**Accounted for**	**Not accounted for**
INASSA	6,957	-	-	3,208
Gestus Gestión & Servicios S.A.S.	156	-	206	-
AAA Dominicana, S.A.	269	-	144	-
Emissão, S.A.	6,291	-	5,144	-
TOTAL	**13,673**	**-**	**5,494**	**-**

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.

Additionally, 4,131 thousand euros were recognised under this heading in relation to deductions pending offsetting for investments in the Canary Islands and corresponding to the subsidiary Canal Gestión Lanzarote, S.A.U. (3,052 thousand euros in 2018).

Likewise, at 31 December 2019 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 2018). In 2013, the entity decided not to recognise it as the tax effect of this tax loss carryforward was insignificant.

The Directors of the companies consider that the taxable bases to be applied will be recoverable as the company generates tax profits.

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, with these continuing at 31 December 2017.

On 23 May 2018 the Examining Magistrate's Court 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 Spanish Group has the following main applicable taxes open to inspection by the Spanish taxation authorities:

Tax	Years pending inspection
Corporate income tax	2012 and later
Value Added Tax	2013 and later
Personal Income Tax	2013 and later
Trade Tax	2014 and later
Social Security	2016 and later
Non-residents	2016 and later

In 2019 permanent differences primarily included as increases the amount of 3,649 thousand euros 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.

In 2019, among the reductions for permanent differences, the main sum, of 3,090 thousand euros, corresponds to the reversal of impairment losses considered non-deductible in 2018 according to Article 13.2 of Corporate Income Tax Law 27/2014. Reductions also include an amount of 300 thousand euros corresponding to dividends distributed by the Group company Ocio y Deporte, S.L.

In 2018, within the permanent differences, the amount of 15,592 thousand euros is recognised, corresponding to non-deductible impairment losses according to Article 13.2 of Corporate Income Tax Law 27/2014.

Pursuant to Article 7 of Law 16/2012, of 27 December 2012, for tax periods commencing in 2013 and 2014, companies domiciled in Spain shall deduct from taxable income up to 70% of the amortisation/depreciation that would have been tax deductible had the percentage pursuant to sections 1 and 2 of Article 12 of Corporate Tax Law 27/2014 not been applied. Non-tax-deductible accounting amortisation and depreciation that was considered as such 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 2019, reductions in temporary differences originating in prior years include an amount of 5,998 thousand euros (5,998 thousand euros in 2018) in respect of the reversal of part of the amortisation/depreciation not considered as tax deductible in 2013 and 2014. As a result of this adjustment, in 2019 the deferred tax asset recognised was lower by 18 thousand euros, bringing cumulative deferred tax assets recognised at 31 December 2019 for this item to 90 thousand euros.

Subject to current tax legislation, the Colombian Companies are subject to income taxes and complementary taxes. Applicable rates are as follows: 33% in 2019, and for 2020, 2021 and 2022 the rates of 32% and 31% shall apply. The 4% surcharge is removed on corporate income tax for domestic companies in 2018, applied to tax profits in excess of 800 million Colombian pesos.

The base to establish the income tax cannot be less than 1.5% of its net equity on the last day of the immediately preceding taxable year (presumptive income tax) for fiscal year 2019, 0.5% for 2020 and 0% from taxable year 2021. In 2018, the taxable base was 3.5% of equity on the last day of the immediately previous taxable year.

In Ecuador, in 2019 and 2018 the company declared as final corporate income tax the amount resulting from application of a 25% rate on taxable profits, since this was higher than the minimum advanced payment of the relevant corporate income tax.

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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, in 2019 and 2018 the company declared as final corporate income tax the amount resulting from application of a 34% rate on taxable profits.

Analysis of the potential fiscal impact resulting from the acquisition of Sociedad Aguas de América:

On 13 December 2001, by means of the share sale-purchase contract, Canal Extensia S.A.U. acquired 100% of the Panamanian company Sociedad de Aguas de América, which in turn owns 75% of the shares of INASSA and 51% of Watco Dominicana, S.A., for a sum of 73 million dollars. This sale/purchase was formalised by means of the notarised instrument executed in Panama on 21 February 2002.

Likewise, by means of the notarised instrument executed in Panama on 21 February 2002, Sociedad Aguas de América was liquidated, handing over the ownership of the INASSA and Watco Dominicana shares to Canal Extensia, S.A.U. Watco Dominicana was dissolved and liquidated in 2016.

An analysis has been conducted in Colombia regarding the potential fiscal impact the aforementioned acquisition of INASSA's shares by Canal Extensia could have at the time of a sale transaction for these shares, since tax was not paid on the capital gains that would have been generated for the seller in 2002.

In the analysis of the potential fiscal impact two aspects are determining factors, the fiscal cost assigned to the INASSA shares in Canal Extensia, S.A.U., and the possible application of article 13.5 of the Double Taxation Agreement signed between Spain and Colombia.

Based on the analysis conducted by an external tax adviser, specialising in Colombian fiscal legislation, the Company's Directors believe that, pursuant to Colombian tax legislation, and the possible application of article 13.5 of the Double Taxation Agreement, the probability of success, in the event of a claim, and that the fiscal cost assigned to the INASSA shares acquired by Canal Extensia, S.A.U. conform with the acquisition cost for Canal Extensia S.A.U. (73 million dollars), no additional tax liability needs to be recorded for the difference between the acquisition cost and a possible lower fiscal cost derived from the seller's non-taxation in 2002.

In any event, it is worth noting that the maximum risk, if the acquisition cost is not considered the fiscal cost by Canal Extensia S.A.U., would be 10% of the difference between the 73 million dollars of acquisition costs and the assigned fiscal cost.

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28. BALANCES AND OPERATIONS WITH RELATED PARTIES

a) Balances and Operations with Related Parties

The consolidated Financial Statements 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			
	2019		2018	
	Debtor balances	Credit balance	Debtor balances	Credit balance
	(Notes 14 and 16)	(Notes 20 and 22)	(Notes 14 and 16)	(Notes 20 and 22)
Group companies				
Canal de Isabel II (Public Entity)	4,055	(276,845)	7,675	(310,653)
Aguas de Alcalá, UTE	619	-	615	-
Other	149	-	-	-
Associates				
Compañía de Acueducto y Alcantarillado Metropolitano de Santa Marta, S.A. E.S.P.	-	(20)	-	(19)
Avanzadas Soluciones de Acueducto y Alcantarillado S.A.	1,223	-	1,340	-
GSS Venture, S.L.	-	(663)	-	(434)
Other	114	(66)	(22)	(578)
Total	**6,160**	**(277,594)**	**9,608**	**(311,684)**

In accordance with the Contract-Programme, the debt with the Public Entity for the sum of 271,187 thousand euros (300,367 thousand euros in 2018) for the item "Mirror Debt" corresponds to the Parent Company's obligation, as per financing contracts, to pay the Public Entity the sums provided for the purpose of compliance with all obligations arising from the 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 lenders corresponds to the Public Entity. The Parent Company assumed all of the obligations originally agreed in these contracts with lenders for the corresponding amounts. 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 lenders (see Note 20). In 2019 the weighted average interest rate of the mirror debt was 2.22%. (2.12% in 2018).

The heading Canal de Isabel II (Public Entity) includes the balances of companies paying tax under the tax consolidation regime.

Outside Spain, the Group has carried out transactions with Avanzadas Soluciones de Acueducto y Alcantarillado S.A during 2019 and 2018 for an amount of 352 thousand euros (434 thousand euros in 2018). No transactions were carried out with Acueducto y Alcantarillado Metropolitano de Santa Marta, S.A. E.S.P during 2019 and 2018. The company is undergoing liquidation.

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Details of the Public Entity's balances with financial institutions at 31 December 2019 in thousands of euros, excluding accrued interest payable, as a result of the loan transactions from the mirror debt are as follows:

FINANCIAL INSTITUTION	ORIGINAL AMOUNT	TRANSACTION	EXPIRATION DATE	ANNUAL INTEREST RATE	CURRENT	NON-CURRENT	TOTAL
- EIB (1)	150,000	Loan	01-dec-21	Fixed (3.894%)	14,286	14,286	28,572
- EIB (2)	100,000	Loan	15-oct-35	Fixed (3.268%)	4,762	71,428	76,190
- EIB (3)	200,000	Loan	21-feb-36	Fixed (1.342%)	10,000	155,000	165,000
				TOTAL	**29,048**	**240,714**	**269,762**

(1) Fixed-rate loan from the European Investment Bank.
(2) Fixed-rate loan from the European Investment Bank.
(3) Fixed-rate loan from the European Investment Bank

At 31 December 2018, the balances were as follows:

FINANCIAL INSTITUTION	ORIGINAL AMOUNT	TRANSACTION	EXPIRATION DATE	ANNUAL INTEREST RATE	CURRENT	NON-CURRENT	TOTAL
- EIB (1)	150,000	Loan	01-dec-21	Fixed (3.894%)	14,286	28,571	42,857
- EIB (2)	100,000	Loan	15-oct-35	Fixed (3.268%)	4,762	76,190	80,952
- EIB (3)	200,000	Loan	21-feb-36	Fixed (1.342%)	10,000	165,000	175,000
				TOTAL	**29,048**	**269,761**	**298,809**

(1) Fixed-rate loan from the European Investment Bank.
(2) Fixed-rate loan from the European Investment Bank.
(3) Fixed-rate loan from the European Investment Bank

Interest accrued and not paid at 31 December 2019 arising from mirror debt is 1,425 thousand euros (1,558 thousand euros in 2018).

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 2019, other financial assets, other assets and trade and other receivables include 69,349 thousand euros, 98,688 thousand euros and 65,518 thousand euros, respectively, receivable from shareholders that are town or city councils (71,389 thousand euros, 76,050 thousand euros and 50,461 thousand euros, respectively, in 2018). Dividends payable include 37,262 thousand euros payable to these same shareholders (4,326 thousand euros in 2018).

Transactions between the Group and Canal de Isabel II (Public Entity) at 31 December 2019 for financial expenses arising out of the mirror debt, operating expenses and other operating income amount to 6,358 thousand euros (7,320 thousand euros in 2018), 3,676 thousand euros (3,693 thousand euros in 2018) and 252 thousand euros (154 thousand euros in 2018), respectively.

Transactions carried out by the Group with GSS Venture amount to 4,069 thousand euros (4,014 thousand euros in 2018) and primarily relate to telemarketing activities.

As a result of town councils gaining stakes in its share capital, at 31 December 2019 the Parent has carried out transactions with shareholders, primarily in the form of services and tax settlements totalling 47,082 thousand euros and 22,474 thousand euros, respectively (41,332 thousand euros and 23,134 thousand euros, respectively, in 2018).

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b) Information on the members of the Board of Directors and Senior Management Personnel of the Parent Company.

Pursuant to the Parent Company's Articles of Association, during 2019 the members of the Board of Directors received only expenses for attendance at meetings of the Board of Directors for a sum of 47,4 thousand euros, not having received any remuneration for other items (48.0 thousand euros at 31 December 2018), nor do they have any advances or loans or any outstanding balances at 31 December 2019 and 2018. The Parent Company has not assumed any obligations on behalf of the Directors as a guarantee. The Parent has a civil liability insurance policy in place for damages caused by acts or omissions while carrying out their functions, with a premium of 515 thousand euros. In 2019 and 2018, 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 2019, the Parent Company's senior management received total remuneration of 945 thousand euros (905 thousand euros in 2018). The senior management personnel have received no 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 2019 amounted to 179 thousand euros (182 thousand euros at 31 December 2018). The Parent Company has pension plans and life insurance obligations with respect to the senior management personnel (see Note 3(n)). Furthermore, in 2019 they received 10 thousand euros (10 thousand euros in 2018) for the seniority policy.

c) Conflicts of interest concerning the Directors of the Parent Company.

At 31 December 2019 and 2018, the Directors of the Parent and their related parties have had no conflicts of interest requiring disclosure in accordance with Article 229 of the Revised Text of the Spanish Companies Act.

d) Transactions unrelated to normal business or under different market conditions carried out by the Directors.

During 2019 and 2018, 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.

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29. RISK MANAGEMENT AND FAIR VALUE

a) Financial risk factors

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 exchange rate risk at 31 December 2019 and 2018 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					
			2019			
	Colombian pesos	Dominican pesos	Dollars (Ecuador)	Uruguayan pesos	Brazilian reals	Total
ASSETS						
Equity instruments	115	-	-	-	46	161
Loans to third parties	-	18	-	-	24,443	24,461
Other financial assets	-	40	-	-	-	40
Total non-current financial assets	**115**	**58**	**-**	**-**	**24,489**	**24,662**
Trade and other receivables	25,396	3,854	1,659	-	8,300	39,209
Short-term financial investments	978	96	-	-	2,134	3,208
Total current financial assets	**26,374**	**3,950**	**1,659**	**-**	**10,434**	**42,417**
Total financial assets	**26,489**	**4,008**	**1,659**	**-**	**34,923**	**67,079**
LIABILITIES						
Debts with financial institutions	-	-	77	-	11,793	11,870
Other financial liabilities	228	465	520	-	91	1,304
Financial debts with Group companies	20	-	-	-	-	20
Total non-current liabilities	**248**	**465**	**597**	**-**	**11,884**	**13,194**
Debts with financial institutions	1,199	-	888	-	89	2,176
Other financial liabilities	4,670	1,723	2,472	-	1,244	10,109
Trade creditors and other accounts payable	2,014	58	404	-	1,093	3,569
Total current liabilities	**7,883**	**1,781**	**3,764**	**-**	**2,426**	**15,854**
Total financial liabilities	**8,131**	**2,246**	**4,361**	**-**	**14,310**	**29,048**
Gross exposure of the balance sheet	**18,358**	**1,762**	**(2,702)**	**-**	**20,613**	**38,031**

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	In thousands of euros					
	2018					
	Colombian pesos	Dominican pesos	Dollars (Ecuador)	Uruguayan pesos	Brazilian reals	Total
ASSETS						
Equity instruments	70	-	-	-	85	155
Loans to third parties	637	45	-	-	3,480	4,162
Other financial assets	-	43	-	-	-	43
Total non-current financial assets	**707**	**88**	**-**	**-**	**3,565**	**4,360**
Trade and other receivables	24,076	3,806	1,606	-	29,906	59,394
Short-term financial investments	1,021	361	-	14	1,296	2,692
Total current financial assets	**25,097**	**4,167**	**1,606**	**14**	**31,202**	**62,086**
Total financial assets	**25,804**	**4,255**	**1,606**	**14**	**34,767**	**66,446**
LIABILITIES						
Debts with financial institutions	1,654	-	563	-	-	2,217
Other financial liabilities	279	-	633	-	6,579	7,491
Financial debts with Group companies	533	-	-	-	-	533
Total non-current liabilities	**2,466**	**-**	**1,196**	**-**	**6,579**	**10,241**
Debts with financial institutions	5,026	-	952	-	921	6,899
Other financial liabilities	1,558	1,440	2,867	-	6,067	11,932
Trade creditors and other accounts payable	4,976	32	350	23	3,094	8,475
Total current liabilities	**11,560**	**1,472**	**4,169**	**23**	**10,082**	**27,306**
Total financial liabilities	**14,026**	**1,472**	**5,365**	**23**	**16,661**	**37,547**
Gross exposure of the balance sheet	**11,778**	**2,783**	**(3,759)**	**(9)**	**18,106**	**28,899**

(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 and other receivables. 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 credit rating of trade and other receivables 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 and other receivables 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 and other receivables 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.

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The most significant customer is Madrid City Council, which generates 2.50% of the Group's total revenues (2.06% in 2018).

The following tables show an ageing analysis of financial assets that are past-due but not impaired at 31 December 2019 and 2018:

	2019	2018
0 - 30 days	3,937	27,078
31 - 60 days	3,299	3,470
61 - 90 days	6,813	8,904
91 - 180 days	24,018	27,279
181 - 360 days	12,439	15,570
More than 361 days	129,196	69,558
Total	**179,702**	**151,859**

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 or loss of a rise in interest rates, which increases the cost of financial debt. The Group endeavours to mitigate this risk through drawdowns on fixed-rate loans and the issuance of bonds, which at 31 December 2019 represent 100% of total fixed-rate borrowings; hence there is no interest rate risk (100% in 2018).

The interest rate on variable-rate net debt is pegged to the Euribor in Spain and the FTD and Libor in Colombia. The estimated sensitivity of the finance costs included in the net finance cost at 31 December 2019 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 profit or loss (in thousands of euros)
Euribor	± 10 bp	-
FTD	± 10 bp	12
Libor	± 10 bp	-

Details at 31 December 2018 are as follows:

	Increase of interest rate	Impact on financial profit or loss
Euribor	± 10 bp	-
FTD	± 10 bp	3
Libor	± 10 bp	3

(vii) 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

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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 and other receivables together with outflows expected through trade creditors and other accounts payable.

The Group's exposure to liquidity risk at 31 December 2019 and 2018 is shown below. These tables reflect the analysis of financial liabilities by remaining contractual maturity dates:

	In thousands of euros					
	2019					
	2020	2,021	2,022	2,023	2,024	Subsequent years
Debentures and other marketable securities	7,111	2,369	2,559	2,621	2,621	500,655
Debts with financial institutions	2,176	520	-	-	-	-
Other financial liabilities	91,178	13,365	12,312	10,119	7,061	47,147
Debts with Group companies and associates	34,413	29,066	14,762	14,762	14,762	167,382
Suppliers	15,848	-	-	-	-	-
Suppliers group companies and associates	2,445	-	-	-	-	-
Sundry creditors	92,522	-	-	-	-	-
Customer advances	388	-	-	-	-	-
Personnel	13,449	-	-	-	-	-
Total	**259,530**	**45,320**	**29,633**	**27,502**	**24,444**	**715,184**

	In thousands of euros					
	2018					
	2019	2020	2,021	2,022	2,023	Subsequent years
Debentures and other marketable securities	505,864	-	-	-	-	-
Debts with financial institutions	6,899	2,216	-	-	-	-
Other financial liabilities	65,118	9,570	8,800	8,762	7,528	70,908
Debts with Group companies and associates	35,039	29,581	29,048	14,762	14,762	182,142
Suppliers	16,022	-	-	-	-	-
Suppliers group companies and associates	6,351	-	-	-	-	-
Sundry creditors	104,150	-	-	-	-	-
Customer advances	556	-	-	-	-	-
Personnel	13,806	-	-	-	-	-
Total	**753,805**	**41,367**	**37,848**	**23,524**	**22,290**	**253,050**

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Additionally, at 31 December 2019 the Parent Company has credit facilities with an outstanding amount of 132,000 thousand euros (86,000 thousand euros in 2018).

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 2019 and 2018 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		
		2019	
	Loans and receivables	Debits and payables	Total
Financial assets not valued at fair value			
Loans to group companies	4,027	-	4,027
Equity instruments	65,685	-	65,685
Loans to third parties	97,402	-	97,402
Deposits and guarantees	14,251	-	14,251
Trade and service provision customers	169,105	-	169,105
Other receivables	53,008	-	53,008
Financial liabilities not valued at fair value			
Debts with Group companies and associates	-	275,147	275,147
Debts with financial institutions	-	2,697	2,697
Other financial liabilities	-	106,111	106,111
Government subsidies	-	752,926	752,926
Suppliers	-	15,848	15,848
Suppliers Group companies and associates	-	2,445	2,445
Sundry creditors	-	92,522	92,522
Other payables	-	388	388
Personnel	-	13,449	13,449
Total	**403,478**	**1,261,533**	**1,665,011**

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	In thousands of euros		
		2018	
	Loans and receivables	Debits and payables	Total
Financial assets not valued at fair value			
Loans to group companies	6,676	-	6,676
Equity instruments	65,679	-	65,679
Loans to third parties	72,182	-	72,182
Deposits and guarantees	13,141	-	13,141
Trade and service provision customers	196,540	-	196,540
Other receivables	32,192	-	32,192
Financial liabilities not valued at fair value			
Debts with Group companies and associates	-	305,334	305,334
Debts with financial institutions	-	9,116	9,116
Other financial liabilities	-	65,396	65,396
Government subsidies	-	722,149	722,149
Suppliers	-	16,022	16,022
Suppliers Group companies and associates	-	6,351	6,351
Sundry creditors	-	104,150	104,150
Other payables	-	556	556
Personnel	-	13,806	13,806
Total	**386,410**	**1,242,880**	**1,629,290**

At 31 December 2019, the Company decided to classify under Non-current liabilities the bond issue which at 31 December 2018 was classified under Current liabilities (see Note 20).

(i) Net profit and loss by category of financial assets and liabilities

Details of profit and loss on financial assets are as follows:

	In thousands of euros	
	Loans and receivables	
	2019	2018
Financial income applying the amortised cost method	3,388	273
Financial expenses applying the amortised cost method	(651)	(2,476)
Financial income applying the amortised cost method Other loans	67	73
Net Earnings/(Losses) on the income statement	**(2,804)**	**(2,130)**

The amount of financial income and costs is mainly derived from the revaluation in the year of non-current receivables at amortised cost from certain Local Authorities for works carried out on the water distribution and sewerage infrastructure, financed through rate supplements.

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Details of profit and loss on financial liabilities are as follows:

	In thousands of euros	
	Debits and payables	
	2019	2018
Financial expenses applying the amortised cost method	(2,193)	(2,247)
Interests corresponding to obligations and bonds	(8,602)	(8,602)
Interest from debt with Group companies	(6,358)	(7,358)
Interest from debt with third parties	(1,080)	(5,916)
Net Earnings/(Losses) on the income statement	**(18,233)**	**(24,123)**

Financial income and expenses 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:

	2019	2018
Management	54	59
Technical personnel	1,505	1,435
Administrative	1,981	1,912
Workers and auxiliary personnel	2,770	2,844
Total	**6,310**	**6,250**
Partially retired	137	139

The average headcount of the equity-accounted investees Metroagua, GSS Venture and ASAA, by professional category, is as follows:

	2019	2018
Management	13	13
Technical personnel	53	59
Administrative	30	27
Workers and auxiliary personnel	189	173
Total	**285**	**272**

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At the 2019 and 2018 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:

	2019		2018	
	Women	Men	Women	Men
Members of the Board of Directors	2	7	4	6
Management	21	30	24	31
Technical personnel	582	1,035	535	944
Administrative	672	1,196	798	1,296
Workers and auxiliary personnel	166	1,382	380	2,969
Total	**1,443**	**3,650**	**1,741**	**5,246**
Partially retired	30	94	40	112

The year-end distribution by gender of personnel, members of the Board of Directors and senior management of the equity-accounted investees GSS Venture and ASAA is as follows:

	2019		2018	
	Women	Men	Women	Men
Members of the Board of Directors	-	-	-	4
Management	4	9	4	4
Technical personnel	23	17	25	35
Administrative	18	14	16	10
Workers and auxiliary personnel	126	68	31	43
Total	**171**	**108**	**76**	**96**

The average number of Group employees in Spain with a disability equal to or higher than 33% in 2019 and 2018, detailed by category, is as follows:

	In thousands of euros	
	2019	2018
Technical personnel	14	6
Administrative	54	21
Workers and auxiliary personnel	17	5
Total	**85**	**32**

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31. AUDIT FEES

AUREN, the auditors of the consolidated Financial Statements of the Group, have invoiced the following fees for professional services during the periods ended 31 December 2019 and 2018:

	In thousands of euros	
	2019	**2018**
For auditing services	316	320
Other audit-related services	104	82
Total	**420**	**402**

Other services refer to the following amounts for the Parent: limited reviews of the financial statements for the sum of 3 thousand euros, agreed procedures report "Ecoembes" for 3 thousand euros, the review of the information from the Internal Control Over Financial Reporting (ICFR) for 11 thousand euros and the review of the non-financial information in the Annual Report for a sum of 65 thousand euros and the remaining 14 thousand euros are for the review carried out in the investee Canal Gestión Lanzarote, S.A.U. of the account justifying subsidies and procedures agreed for the request of the subsidy for drinking water plants for the desalination of water.

Other AUREN International affiliates have invoiced the Group the following fees and expenses for professional services during the year ending 31 December 2019 and 2018:

	In thousands of euros	
	2019	**2018**
For auditing services	67	77
Total	**67**	**77**

The amounts detailed in the above tables include the total fees for services rendered in 2019 and 2018, irrespective of the date of invoice.

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32. EVENTS AFTER THE REPORTING DATE

Canal Extensia:

Renewal of the intercompany loan from Canal de Isabel II, S.A. to Canal Extensia

The Boards of Directors of Canal Extensia and Canal de Isabel II, S.A. (in meetings on 28 February 2020 and 31 March 2020, respectively), approved the modification of the maturity of the 4 million euro loan granted by Canal de Isabel II, S.A. to Canal Extensia to cover operating requirements. Adapting it to the estimated cash flows of its subsidiaries until 26 March 2025, when (according to projections on the basis of the opinions of the legal advisers of the Group companies), they will recover part of the recovery rights currently on their respective balance sheets.

Amagua:

Extension of the Daule Delegation contract

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.

(See Note 23 (f)).

Emissão S.A.:

Contingencies claim against the seller (First Arbitration Proceedings No. 22/17)

In relation to the arbitration award, this may be executed from 28 February 2020. From that date the company began planning all the possible legal actions to be undertaken with a view to collecting the amounts arising from the arbitration award in its favour.

Minority shareholder claim (Second Arbitration Proceedings No. A 283/2019)

On 27 January 2020, the Parties presented their closing arguments, and on 17 February 2020 they were able to present new arguments in connection with the evidence adduced by the counterparty.

On 25 March 2020, the Arbitration Chamber ruled against all claims presented by the minority shareholders and orders them to pay all costs and expenses in relation to the arbitration proceedings except fees incurred, and including interest and monetary adjustments.

On 9 April 2020, Sebastião and Alessandro Cristovam filed before the Arbitration Chamber a motion for clarification stating that the second arbitration award issued is the result of the absence of evidence presented in the proceedings as a result of their request to adduce additional evidence being rejected. Accordingly, they request clarification from the Arbitration Chamber, along with the annulment of the Award and the presentation of the relevant evidence.

In response to this motion for clarification, the Arbitration Chamber gave Soluciones Andinas until 29 April to respond, on which date its legal representatives submitted its response. On 7 May, the Court of

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Arbitration of Brazil rejected the clarification motion of the second arbitration filed by Sebastião and Alessandro Cristovam.

Pre-Trial Proceedings:

An indictment was filed on 8 January 2020 by Canal de Isabel II and Canal de Isabel II, S.A. against the persons involved in the unlawful operations for the acquisition of Emissão, requesting compensation for civil liability damages incurred by the Group.

On 5 March 2020, Central Examining Magistrate's Court No. 6 ordered the opening of trial proceedings in relation to the item concerning the acquisition of Emissão, on the basis of the indictment of 18 November 2019 against seven accused, in which the Prosecution requests a joint and several ruling to compensate Canal de Isabel II for civil liability damages amounting to 2,006,117 euros.

On 5 March 2020, Central Examining Magistrate's Court No. 6 ordered the opening of trial proceedings in relation to the item concerning the acquisition of INASSA, on the basis of the indictment against twenty two accused, in which the Prosecution requests a joint and several ruling to compensate Canal de Isabel II for civil liability damages in relation to the marked-up price paid for the acquisition of Aguas de América, S.A. (SAA), amounting to at least 19,065,500 euros, without prejudice to a larger amount being established in the processing of final conclusions.

New complaint lodged by Canal de Isabel II, S.A. and Canal Extensia within the frame of the Pre-Trial Proceedings 51/2018:

On 12 December 2019, a Ruling was issued by Central Examining Magistrate's Court No. 6 ordering the reopening of Pre-Trial Proceedings 51/2018 and agreeing to send a Letter Rogatory to Colombia to specify certain aspects of the investigation being conducted in Colombia.

Actions Control Entities: Prosecutor's Office, Superintendence of Companies and Superservices and DIAN:

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

On 21 February 2020, the Company presented a modification to the *certiorari per saltum* claim to strengthen the defence, presenting as evidence the reports compiled by the independent expert.

Agreement by the Prosecutor General of Colombia ordering the suspension of the right of alienation, sequestration and embargo of the shares of INASSA in Triple A de Barranquilla.

Pursuant to the legal annulment decision on 19 December 2019 within the framework of proceedings 2528 (Law 600), and the annulment petition of the interim measures and of the expired ownership claim filed by INASSA on 24 January 2020, the Company's Management and its external advisers consider that in the current stage of the proceedings it is unnecessary to allocate provisions to cover the potential risk of non-payment of the technical assistance owed by Triple A de Barranquilla to INASSA

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Office of the Prosecutor General of Colombia:

Expired ownership proceedings

On 24 January 2020, a motion for dismissal was filed before the High Court of the Judicial District of Bogotá (Division Specialising in Expired Ownership). Said motion for dismissal requests that the Judge declare null and void the Decision issued on 3 October 2018 by the Delegated Prosecutor's Office and that the interim measures suspending rights of alienation, sequestration and embargo of INASSA's shares in Triple A de Barranquilla be lifted, since the proceedings are vitiated by the lack of competency of the prosecutor commencing the proceedings.

On 23 January 2020, Triple A de Barranquilla was accepted as the third party affected as part of the expired ownership proceedings.

On 24 January 2020, another writ was filed, this time at the Criminal Court Specialising in Expired Ownership in Barranquilla, also due to transcendent undermining of due process. The writ requests i) revocation of leave to hear the Expired Ownership claim filed, ii) that the proceedings be restored to the initial phase so that the Delegated Prosecutor's Office can compile such evidence as it deems fit on which to base the claim, and iii) all evidence compiled and/or provided by Anti-corruption Prosecutor's Office 5 be excluded, as said office did not have the necessary competency.

Regardless of the accounting data, both at individual and consolidated level, that subsequent situations may give raise to, the Company will study all the relevant legal actions in this regard, including appearing as informant, plaintiff and/or injured party in the proceedings conducted before the Colombian courts, directly or via its subsidiaries, in an equivalent mode as verified by Canal de Isabel II in the Spanish procedure indicated above.

Corporate liability lawsuits

Pursuant to the corporate liability lawsuits against Messrs Diego García, German Sarabia and Andrés Fernández, it was reformed on 28 January 2020 to include new claims against Diego García amounting to 5,736,046 dollars (5,105,969 euros), the total claims in this civil liability proceedings now amounting to 9,067,297 dollars (8,071,298 euros). On 5 March 2020, the Superintendence of Companies accepted the reform of the indictment and, accordingly, consideration in the proceedings of all the claims filed by INASSA. On 4 May, INASSA was notified of a resolution by the Superintendence of Companies in which it ruled that the preliminary exceptions sought by the accused were not proven, and ordered Diego García Arias and Germán Sarabia to pay the legal costs. On 6 May, the accused filed a writ of revocation.

It is important to note that although the value of these claims is, in principle, the one mentioned, the lawsuit also mentions additional compensation claims which it is not yet possible to measure, such as possible future sentences in employment proceedings, in which INASSA might act again against the former directors in the amounts ruled due if so ordered by the Superintendence of Companies in the corporate liability lawsuit.

The external attorneys provided all available evidence. The presentation of additional evidence in a future supplement (reform) of the indictment is currently under review. All stages of the proceedings are expected to be conducted over the course of 2020.

In relation to the lawsuit filed on 4 December 2019 against Mr Edmundo Rodríguez Sobrino, additional evidence is currently being carefully examined and new claims are being considered for inclusion in a supplement (reform) of the lawsuit.

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Work-related claims

INASSA:

Former corporate manager: This ruling was duly appealed and is pending a decision from the High Court of the Judicial District of Barranquilla.

Former manager of the company: The company's attorneys consider that it is not yet possible to gauge the probabilities of success of this lawsuit since it is still in the very early stages.

Former Chairperson: The company's attorneys consider that it is not yet possible to gauge the probabilities of success of this lawsuit since it is still in the very early stages. On 4 March 2020, the response to the lawsuit was presented.

Gestus Gestión y Servicios S.A.S.:

Former Manager of Gestus Gestión y Servicios S.A.S.: Due to special indemnity clause – contract with parachute clause: The Company has filed an appeal (second instance), and the claim is fully provisioned.

Other cases:

INASSA Panamá:

Arbitration Award Concerning Contract No. 115-2010 "Commercial management contract and reinstatement of service"

INASSA's legal representatives filed a motion for reconsideration on 14 November 2019 to include legal costs and interests in the award ordered. The motion was denied on 17 January 2020.

On 31 January 2020, INASSA filed a motion for clarification of Ruling No. 1822 in order to include the aforementioned items.

Contract No. 19-2016 "Meter reading and invoice distribution service".

On 28 January 2020, INASSA submitted a communication to the IDAAN requesting settlement of the contract, reconciliation of all the sums owed and an agreed payment schedule. Furthermore, in order to activate administrative proceedings, from 28 March 2020 a communication will be submitted to collect the receivables by administrative means, with a copy issued to the Governing Board of the IDAAN. Accordingly, if within a period of two months the IDAAN does not respond favourably to INASSA's request, legal proceedings will be commenced before the Supreme Court of Justice for recognition of the IDAAN's debt to INASSA, with an estimated period for resolution of the proceedings of between 5 and 8 years depending on whether it is the National Bank of Panama that eventually undertakes payment of the debt.

If, after three years from execution of the Ruling, payment has not been made, INASSA may ask the Magistrate to notify the National Bank of Panama to make available to the court a sum equivalent to the execution award amount within a period of one month. Once this has been done, the Magistrate will release a payment order to the creditor.

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Gestus Gestión & Servicios S.A.S.:

The initial hearing was held on 30 January 2020, with the court requesting evidence on its own initiative.

The Company’s management considers that the probabilities of success are high, and there is sufficient evidence to prove that the services were provided between February and May 2015. In addition, there is a VAT payment in respect of the DIAN, which the District should have recognised to its contractor, which performed the distribution at the time. Pursuant to the aforementioned evidence the Company is claiming the aforementioned items plus the relevant late payment interest.

Metroagua:

At present, the liquidator of Metroagua is exploring other legal options to collect payment for the improvements which, in any case, must involve an expert appraisal thereof.

Dominicana:

ITBIS CAASD: At present, the Company is pending a ruling from the Supreme Court of Justice.

Late payment interest – CAASD: The company expects to collect this debt, and hence has not provisioned it in its financial statements.

Lanzarote:

In the event the contract adjudication is declared null and void, the Company shall be entitled, based on the report compiled by the external advisers on 3 February, to receive 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.

Canal de Isabel II conducted an analysis of the recoverability of its assets, shareholding and loan in Canal de Isabel Gestión Lanzarote in the two potential scenarios, namely continued involvement in the concession’s operation or the contract adjudication being declared null and void, and in both cases the recoverable value exceeds the carrying amount, it not being necessary to book an impairment.

On the date of authorising these financial statements for issue, neither of the Parties involved in the Club de Lanzarote S.A. process has commenced proceedings to request that the Lanzarote 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 2019 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 Canal.

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Canal Extensia:

Lawsuit against Triple A de Barranquilla for fraudulent use of intellectual property in connection with the Amerika software

Since 3 October 2017 (when INASSA ceased to collect payment for Technical Assistance and therefore the free-of-charge provision of the sub-license for the Amerika software granted by INASSA to Triple A de Barranquilla dependent upon collection of the Technical Assistance payment also ceased), and, to date, Triple A de Barranquilla 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 license, the value of which, according to market research, is approximately 8,946 million Colombian pesos (2,430 thousand euros, excluding VAT and other taxes/levies). In this connection, Triple A de Barranquilla has been urged, using friendly, extra-judicial channels, to present a payment plan with a view to invoicing and collecting the debt. Moreover, in order to avoid entering a legal process, Triple A de Barranquilla has been informed several times of the intention to grant it a new license for the Amerika software which would enter into force on 1 January 2020 in accordance with market parameters. However, to date the Parties have not been able to reach an agreement, so we believe legal proceedings (civil and criminal) will be required to safeguard Canal Extensia, S.A.U.'s intellectual property rights over the Amerika software.

Accordingly, Canal Extensia, S.A.U. commenced a negotiated procedure without public notice to commission a Colombian law firm specialising in the field to advise and file the relevant legal proceedings. External legal advisers were adjudicated said commission in Colombia, and a formal services contract has been drawn up with a view to defining the related legal strategy.

Both the lawsuit and the claim are expected to be filed once the Covid-19 lockdown in Colombia comes to an end.

COVID-19

On 11 March 2020, the World Health Organization (WHO) declared the coronavirus outbreak (COVID-19) to be a pandemic, due to its rapid global spread, having affected more than 150 countries. Most governments are taking restrictive measures to contain the spread, which include: isolation, confinement, quarantine and restrictions on the free movement of people, closure of public and private venues (except for those providing healthcare and essential goods), border closures and drastic cuts in air, sea and rail and road traffic.

In Spain, the government approved Royal Decree 463/2020, of 14 March, declaring a state of emergency in order to manage the healthcare crisis unleashed by the COVID-19 outbreak, which was to have an initial duration of 15 calendar days and which, by means of Royal Decrees subject to parliamentary approval, was extended until at least 24 May.

On 17 March, the Cabinet approved Royal Decree-Law 8/2020, concerning extraordinary emergency measures to tackle the economic and social impact of the COVID-19 outbreak, which came into force on 18 March 2020. The Royal Decree-Law was to remain effective for a period of one month from its entry into force, notwithstanding it being possible to assess the situation and extend its duration. Moreover, on 31 March, the Cabinet approved Royal Decree-Law 11/2020 adopting supplementary emergency social and economic measures to tackle the COVID-19 outbreak. In this regard, the Parent Company applied these measures immediately.

In Colombia, by means of Decree 417-17 of March 2020, the government declared a state of economic, social and ecological emergency throughout the national territory until 31 May 2020. The Decree followed the declaration, on 11 March 2020, by the World Health Organization (WHO) of the current Coronavirus outbreak (COVID-19) as a global pandemic, due primarily to the speed and scale of its spread.

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On 6 May 2020, by means of Decree 636, the government ordered mandatory preventive isolation for all persons living in the Republic of Colombia until midnight on 25 May 2020, within the framework of the health emergency unleashed by the COVID-19 outbreak. This Decree indicates which persons may (exceptionally) leave their homes and provides instructions to municipalities where there are not yet any cases. Domestic air transport was also suspended for the same period.

Furthermore, the government issued Decree 637, of 6 May 2020, declaring a second state of economic, social and ecological emergency throughout the national territory for a term of 30 calendar days, granting the president powers under Article 215 of the Constitution to take measures to overcome the crisis. Accordingly, the central government and controlling bodies have implemented a series of measures to offset the potential social, economic and employment impacts.

In Brazil, the president declared a state of public calamity and issued an emergency plan to mitigate the impacts of the coronavirus pandemic.

In Ecuador, on 16 March, the president declared a state of emergency throughout the country in response to the coronavirus pandemic. The resolutions issued due to the emergency refer mainly to the extension of periods of compliance with corporate and tax obligations. Measures were also issued to regulate labour relations and the financial sector. At present, although it is up to each municipality to declare the end of the state of emergency, a generalised return to normality is expected from the third week of May onwards.

In the Dominican Republic, the government has implemented a series of measures to tackle the national emergency triggered by the coronavirus, including declaring a state of emergency, initially for twenty-five days and then extended until 17 May, involving monetary, exchange, financial and tax measures.

Group companies in Spain and Latin America have set up a COVID-19 Monitoring Committee in order to ensure continuity of the service they provide both in the Region of Madrid and elsewhere in Spain and abroad, and to avoid spreading the coronavirus, all consistent with the measures implemented by the authorities. A series of measures have also been launched in connection with various spheres of management, such as service continuity, commercial, prevention, work-life balance, teleworking and the organisation of human, social and leisure resources.

The consequences of COVID-19 are considered a subsequent event that does not require an adjustment of the consolidated annual financial statements of 2019, without prejudice to their being recognised in the consolidated annual financial statements of 2020.

Although on the date of authorising the consolidated annual financial statements for issue it is not possible to estimate the present and future impacts deriving from this crisis on the Group, some of the consequences are as follows:

<u>In Spain</u>

The severe economic and social impacts of the current emergency make it advisable to temporarily implement tariff rebates on comprehensive water cycle services provided by the Parent Company in order to mitigate the economic impact of the COVID-19 outbreak, in respect of commercial and industrial activities whose business has been significantly reduced as a result of the measures implemented in the state of emergency, and in connection with households affected by temporary layoffs.

In a meeting on 31 March 2020, the Parent Company's Board of Directors agreed to propose to the Regional Department for the Environment, Planning and Sustainability a Departmental Order approving rebates on tariffs for water intake, distribution, sewerage, treatment and reuse services provided by Canal de Isabel II, S. A., to mitigate the economic impact of COVID-19, for approval, in accordance with the provisions of Article 4.2 of Decree 137/1985, dated 20 December, approving the Regulation concerning the Economic and Financial Framework for Water Supply and Sanitation in the Region of Madrid. On 8

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April 2020, Order 615/2020, of 6 April, by the Regional Department for the Environment, Planning and Sustainability was published in the Official Regional Gazette. The Order approved rebates on tariffs for water intake, sewerage, treatment and reuse services provided by Canal de Isabel II, S.A. in order to mitigate the economic impact of the COVID-19 outbreak.

In the scenario considered most likely, it is estimated that the impact of the rebates could entail a reduction of up to 1.51% in the Parent Company's turnover.

As a result of the declaration of the state of emergency, and the ensuing decline in business activity, the volume of water for consumption decreased by 9% with respect to similar previous periods. Although a part of the variations in consumption may be attributed to the weather, the Parent Company has performed an analysis of the economic impact of the aforementioned 9% reduction in consumption volume on turnover in the coming months. The resulting impact on turnover would amount to 4.5 million euros per month. Accordingly, based on a continuation of this scenario for 3 months, the total impact would amount to 13.6 million euros, equivalent to 1.5% of the Parent Company's turnover.

As a result, considering the effect of the rebates approved and the reduction in consumption, the estimated impact on the Parent Company's annual turnover might be of 3%.

Note that, in March, the costs in which the Parent Company incurred, due mainly to its aid and support for the Madrid Healthcare System by means of the supply of bottled water, PPE and other products, as well as expanding remote working and the Communication campaign, amounted to 875 thousand euros.

The Parent Company's activity has not been stopped and neither have there been any temporary layoffs.

The Parent Company is complying with all payments of financial debt and to suppliers.

The Parent Company has not been adversely affected by customer non-payments.

In connection with public contracting and with regard to the Parent Company's contracts currently being executed, it is applying the provisions of Royal Decree-Law 463/2020, of 14 March, declaring a state of emergency in order to manage the healthcare crisis unleashed by the COVID-19 outbreak and of Royal Decree-Law 8/2020, of 17 March, concerning extraordinary emergency measures to tackle the economic and social impact of the COVID-19 outbreak.

With regard to the rest of countries located in Spanish territory, we highlight Canal Gestión Lanzarote, S.A.U. due to the potential operating and business risk as a result of the weighting of tourism and commercial activity on the total turnover. The estimates by Management of Canal Gestión Lanzarote took into account the impact of the total shutdown of commercial premises and a freeze on the tourism sector for a period of 4 months, following by a gradual recovery with a more moderate impact until the end of the year, with domestic tariffs associated with first residences, agriculture and institutions all remaining unchanged. Note that, in a normal year, revenues from tourism and commercial activities account for roughly half of the total. A reduction in activity was applied to water for tourism, while the various other water tariffs remained unchanged, and meter-reading has been suspended and replaced by an assessment system. So far, this subsidiary is meeting its payments in respect of financial debt and payments to suppliers, and it is not expected to be adversely affected by customer non-payments.

At Ocio y Deporte, the suspension of activities will have a significant impact on the financial statements for 2020, due to the lack of revenues triggered by the absence of activity and the measures implemented under Article 34.1 of Royal Decree-Law 8/2020, dated 17 March, whereby it is required to compensate subcontractors for the provision of technical management services in relation to sporting activities, with the salary expenses the contractors would have paid to their staff on the payroll on 14 March 2020 throughout the suspension period, and the finance expenses on the guarantees delivered to secure the provision of the service contracted. Nevertheless, this subsidiary has a sufficiently robust financial structure to support these circumstances without incurring cash stresses. In this case, to further

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strengthen its solvency, the dividend scheduled for payment to the Parent Company against 2019 profit and amounting to 200 thousand euros has been cancelled. The subsidiary does not plan to take extraordinary measures in connection with the management of its suppliers or staff on the payroll.

With regard to the Group's investees with registered offices abroad

At the Colombian companies the collection of technical assistance payments has temporarily been reduced to the extent that the subsidiaries' revenues have been temporarily reduced. INASSA has implemented immediate measures such as delaying the payment of financial obligations from March until the end of June, requesting the offsetting of VAT rebate balances, and agreements for supplier payments and negotiations, so liquidity difficulties are not anticipated at the companies. On the date of authorising these financial statements for issue, INASSA has 2.1 million dollars (8,200 million Colombian pesos), from the intercompany loan granted in November 2019 by Canal Extensia.

In Brazil, as a result of the delay in starting contracts already adjudicated or the suspension of existing contract renewals by the public bodies with which it works, Emissão S.A. has been obliged to lay off 604 workers involved in those contracts. The company's Management has conducted an operating cash flow management analysis on the basis of conservative assumptions and expects to end the year without a cash shortfall. Note that this subsidiary currently has an available intercompany loan granted in November and amounting to 683 thousand euros. Furthermore, on the date of authorising these financial statements for issue, the company may have access to financing through financial institutions to tackle potential eventualities.

In Ecuador, Amagua CEM estimates a potential temporary decrease in revenues as a result of the lockdown measures and the suspension of payment collection activities. Although it has managed to fulfil its cash commitments normally, due to the uncertainty over the coming months the company is considering adopting certain measures, including: financing agreements with banks and the deferral of tax and supplier payments so as to avoid liquidity stresses.

In the Dominican Republic, AAA Dominicana S.A. expects a temporary reduction in revenue collection and turnover from April. Accordingly, the company reorganised its activities and closed two customer services offices in vulnerable districts. It is also taking the necessary measures to boost cash, projecting a 31% reduction in operating payments, suspension of technical assistance payments and loan payments to INASSA for the next quarter. The company is in talks to improve its main contracts and plans to request access to the government's FASE programme (employment solidarity fund) from which it hopes to achieve a saving of some 18.3 million Dominican pesos (307 thousand euros).

In accordance with the estimates at the various Group companies, at the time of authorising these consolidated annual financial statements for issue, and in accordance with the available public information in each of the countries where they operate, the estimated impact of COVID-19 is expected to be limited, and equivalent to approximately 5% of the Group's annual income.

The assessment of a potential future impact on the consolidated annual financial statements is based on the information available at the time of issuing these consolidated annual financial statements. It is worth noting that the current situation is highly uncertain, and there is no unanimous consensus regarding the way out of the current state of emergency.

Over the course of 2020, the Group will assess the impact of the aforementioned events and any taking place in the future on its consolidated equity and financial position at 31 December 2020 and on the results of its operations and the cash flows relating to the year ended on that date.

APPENDICES

APPENDICES

(Free translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails)

CANAL DE ISABEL II, S.A. AND SUBSIDIARIES

Appendix I (1)

Segment reporting at 31 December 2019

(In thousands of euros)

	SEGMENTS		TOTAL
	National	International	
Ordinary income	**925,069**	**59,616**	**984,685**
- Services to external customers	925,069	59,348	984,417
- Inter-segment services	-	268	268
Segments earnings before taxes	**235,666**	**(15,771)**	**219,895**
Financial income	**8,365**	**39**	**8,404**
Financial expenses	**(18,517)**	**(7,635)**	**(26,152)**
Amortisation and depreciation	**(126,001)**	**(2,764)**	**(128,765)**
Share of profits for the financial year of associates accounted for using the equity method	**14**	**99**	**113**
Losses, impairment and variation in provisions	**(1,023)**	**(5,227)**	**(6,250)**
- Losses / (Reversals of losses) for impairment of fixed assets	(1,094)	(5,261)	(6,355)
- Losses / (Reversal of losses) for investment impairment	71	34	105
Income tax expense	**4,290**	**2,518**	**6,808**
Segment assets	**4,972,436**	**61,835**	**5,034,271**
Segment liabilities	**2,355,258**	**50,271**	**2,405,529**
Net cash flows related to	**(32,226)**	**(2,077)**	**(34,303)**
- Operating activities	318,310	20,513	338,823
- Investment activities	(80,916)	(5,215)	(86,131)
- Financing activities	(269,620)	(17,375)	(286,995)
Acquisition of non-current assets during the financial year	**92,983**	**2,034**	**95,018**

This Appendix forms an integral part of Note 4 to the Consolidated Financial Statements, in conjunction with which it should be read.

(Free translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails)

CANAL DE ISABEL II, S.A. AND SUBSIDIARIES

Appendix I (2)

Segment reporting at 31 December 2018

(In thousands of euros)

	SEGMENTS		TOTAL
	National	International	
Ordinary income	**891,125**	**185,321**	**1,076,446**
- Services to external customers	891,125	176,832	1,067,957
- Inter-segment services	-	8,489	8,489
Segments earnings before taxes	**216,342**	**(2,495)**	**213,847**
Financial income	**4,768**	**749**	**5,517**
Financial expenses	**(21,316)**	**(9,961)**	**(31,277)**
Amortisation and depreciation	**(116,845)**	**(11,652)**	**(128,497)**
Share of profits for the financial year of associates accounted for using the equity method	**25**	**(35)**	**(10)**
Losses, impairment and variation in provisions	**(13,961)**	**(18,205)**	**(32,166)**
- Losses / (Reversals of losses) for impairment of fixed assets	(13,494)	98	(13,396)
- Losses / (Reversal of losses) for investment impairment	(467)	(18,303)	(18,770)
Income tax expense	**(1,552)**	**(10,532)**	**(12,084)**
Segment assets	**5,006,656**	**81,203**	**5,087,859**
Segment liabilities	**2,322,827**	**59,097**	**2,381,924**
Net cash flows related to	**167,235**	**34,780**	**202,015**
- Operating activities	308,654	64,189	372,843
- Investment activities	(70,870)	(14,738)	(85,608)
- Financing activities	(70,549)	(14,671)	(85,220)
Acquisition of non-current assets during the financial year	**73,729**	**8,268**	**81,997**

This Appendix forms an integral part of Note 4 to the Consolidated Financial Statements, in conjunction with which it should be read.

(Free translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails)

DETAILS OF SUBSIDIARIES AT 31 DeCEMBER 2019 **APPENDIX II (1)**

Company	Registered Address	Activity	Auditor	Direct	Indirect	Total
Canal Extensia, S.A.U.	Santa Engracia 125 - Madrid (Spain)	Shareholding	AUREN	100.00%	-	100.00%
Hispanagua, S.A.U.	San Enrique 3 - Madrid	Maintenance, operation, distribution and sanitation of water	AUREN	100.00%	-	100.00%
Canal de Comunicaciones Unidas, S.A.U.	Santa Engracia 125 - Madrid (Spain)	Public service operation of terrestrial mobile radio-communications in the Madrid area	AUREN	100.00%	-	100.00%
Hidráulica Santillana, S.A.U.	San Enrique 3 - Madrid	Electricity production	AUREN	100.00%	-	100.00%
Canal Gestión Lanzarote, S.A.U.	Ctra. Arrecife-Las Caletas Km.3,5 - Lanzarote	Comprehensive 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%
Interamericana de Aguas y Servicios S.A. (INASSA)	Barranquilla (Colombia)	Comprehensive 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)	Comprehensive water cycle	AUREN	-	53.20%	53.20%
AAA Ecuador Agacase, S.A.	Ecuador	Public resources management	AUREN	-	82.02%	82.02%
Amagua, CEM	Ecuador	Comprehensive water cycle	AUREN	-	57.41%	57.41%
Amerika Tecnologías de la Información, 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	Comprehensive water cycle	-	-	80.20%	80.20%
Mexaqua	Mexico	Comprehensive water cycle	-	-	56.14%	56.14%
Emissão, S.A.	Brazil	Maintenance, operation, distribution and sanitation of water	AUREN	-	68.19%	68.19%
Fontes da Serra Saneamento de Guapimirim Ltda.	Brazil	Comprehensive water cycle	AUREN	-	66.83%	66.83%

This Appendix forms an integral part of the notes to the Consolidated Financial Statements, in conjunction with which it should be read.

(Free translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails)

DETAILS OF SUBSIDIARIES AT 31 December 2018 **APPENDIX II (2)**

Company	Registered Address	Activity	Auditor	Direct	Indirect	Total
Canal Extensia, S.A.U.	Santa Engracia 125 - Madrid (Spain)	Shareholding	AUREN	100.00%	-	100.00%
Hispanagua, S.A.U.	San Enrique 3 - Madrid	Maintenance, operation, distribution and sanitation of water	AUREN	100.00%	-	100.00%
Canal de Comunicaciones Unidas, S.A.U.	Santa Engracia 125 - Madrid (Spain)	Public service operation of terrestrial mobile radio-communications in the Madrid area	AUREN	100.00%	-	100.00%
Hidráulica Santillana, S.A.U.	San Enrique 3 - Madrid	Electricity production	AUREN	100.00%	-	100.00%
Canal Gestión Lanzarote, S.A.U.	Ctra. Arrecife-Las Caletas Km.3,5 - Lanzarote	Comprehensive 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%
Interamericana de Aguas y Servicios S.A. (INASSA)	Barranquilla (Colombia)	Comprehensive water cycle operator	AUREN	-	81.24%	81.24%
Gestus Gestión & Servicios S.A.S.	Barranquilla (Colombia)	Comprehensive consultancy service provision for tax collection management	AUREN	-	80.46%	80.46%
AAA Dominicana, S.A.	Santo Domingo (Dominican Republic)	Comprehensive water cycle	AUREN	-	52.81%	52.81%
Informaciones Remotas, S.R.L.	Santo Domingo (Dominican Republic)	Comprehensive water cycle	AUREN	-	52.80%	52.80%
AAA Ecuador Agacase, S.A.	Ecuador	Public resources management	AUREN	-	81.43%	81.43%
Amagua, CEM	Ecuador	Comprehensive water cycle	AUREN	-	57.00%	57.00%
Amerika Tecnologías de la Información, S.A.S.	Barranquilla (Colombia)	Design, maintenance, development, support and management of information technology projects	AUREN	-	81.24%	81.24%
Soluciones Andinas de Aguas, S.R.L.	Montevideo (Uruguay)	Investment and asset holding	AUREN	-	90.62%	90.62%
Interamericanas de Aguas de México, S.A.	Mexico	Comprehensive water cycle	-	-	79.61%	79.61%
Mexaqua	Mexico	Comprehensive water cycle	-	-	55.73%	55.73%
Emissão, S.A.	Brazil	Maintenance, operation, distribution and sanitation of water	AUREN	-	67.96%	67.96%
Fontes da Serra Saneamento de Guapimirim Ltda.	Brazil	Comprehensive water cycle	AUREN	-	66.61%	66.61%

This Appendix forms an integral part of the notes to the Consolidated Financial Statements, in conjunction with which it should be read.

APPENDICES

(Free translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails)

DETAILS OF EQUITY-ACCOUNTED INVESTMENTS AT 31 DECEMBER 2019 **APPENDIX III (1)**

				% share			In thousands of euros					
Company	Registered Address	Activity	Auditor	Direct	Indirect	Total	Share capital	Reserves	Other Net Equity items	Profit/(Loss)	Total Own Funds	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	(871)	54	1,349	1,349
Metroagua S.A., E.S.P. (1)	Santa Marta (Colombia)	Comprehensive water cycle operator	-	-	29.35%	29.35%	-	-	-	-	-	-
Avanzadas Soluciones de Acueducto y Alcantarillado, S.A. E.S.P.	Riohacha (Colombia)	Comprehensive water cycle operator	AUREN	-	32.74%	32.74%	543	689	(2,182)	246	(705)	(705)

DETAILS OF EQUITY-ACCOUNTED INVESTMENTS AT 31 December 2018 **APPENDIX III (2)**

				% share			In thousands of euros					
Company	Registered Address	Activity	Auditor	Direct	Indirect	Total	Share capital	Reserves	Other Net Equity items	Profit/(Loss)	Total Own Funds	Total Net Equity
GSS Venture, S.L.	c/ Guzmán el Bueno, 133 (Madrid)	Communication and telemarketing service	MAZARS AUDITORES SLP	25.00%	-	25.00%	60	2,106	(973)	100	1,293	1,293
Metroagua S.A., E.S.P. (1)	Santa Marta (Colombia)	Comprehensive water cycle operator	-	-	29.13%	29.13%	-	-	-	-	-	-
Avanzadas Soluciones de Acueducto y Alcantarillado, S.A. E.S.P.	Riohacha (Colombia)	Comprehensive water cycle operator	AUREN	-	32.50%	32.50%	537	681	(2,921)	1,042	(661)	(661)

This Appendix forms an integral part of Note 12 to the Consolidated Financial Statements, in conjunction with which it should be read.
Figures converted using the exchange rate at the closing date, and presented under IFRS.

(1) *No information available.*

(Free translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails)

DETAILS OF JOINT OPERATIONS AT 31 DECEMBER 2019							APPENDIX IV (1)
Jointly controlled operations					**% share**		**In thousands of euros**
Name	**Registered Address**	**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%	14,586
Unión Temporal de Sociedades A.A. Santa Marta [(1)]	Santa Marta (Colombia)	Water cycle consultancy		-	44.77%	44.77%	-
Module	Rua Joaquim Laje, 115, Mutondo, São Gonçalo - Rio de Janeiro	Meter reading, simultaneous delivery of bills, installation of meters, water service suspension and reconnection		-	48.96%	48.96%	8,621
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 "by pass" and clandestine connections, identification of technical, commercial and operational anomalies, sales service and registration		-	34.09%	34.09%	415
Magé	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	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 "by pass" and clandestine connections, identification of technical, commercial and operational anomalies, sales service and registration		-	53.87%	53.87%	-
Alagoas	Rua Major Vicente Sabino, 437 Gruta de Lourdes, Maceió - Alagoas	Meter reading		-	0.01%	0.01%	-
							23,622

Figures converted using the exchange rate at the closing date, and presented under IFRS.

[(1)] *No information available.*

(Free translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails)

DETAILS OF JOINT OPERATIONS AT 31 December 2018							APPENDIX IV (2)
Jointly controlled operations					**% share**		**In thousands of euros**
Name	**Registered Address**	**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%	13,710
Unión Temporal de Sociedades A.A. Santa Marta (1)	Santa Marta (Colombia)	Water cycle consultancy		-	44.45%	44.45%	-
Module	Rua Joaquim Laje, 115, Mutondo, São Gonçalo - Rio de Janeiro	Meter reading, simultaneous delivery of bills, installation of meters, water service suspension and reconnection		-	48.80%	48.80%	9,228
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 "by pass" and clandestine connections, identification of technical, commercial and operational anomalies, sales service and registration		-	33.98%	33.98%	503
Magé	Av. Ayrton Senna, 3000, Bloco 1 sala 107 Parte, Barra da Tijuca - Rio de Janeiro	Construction and extension of water reservoirs		-	67.96%	67.96%	-
Due Fatto	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 "by pass" and clandestine connections, identification of technical, commercial and operational anomalies, sales service and registration		-	53.69%	53.69%	-
Alagoas	Rua Major Vicente Sabino, 437 Gruta de Lourdes, Maceió - Alagoas	Meter reading		-	0.01%	0.01%	-
							23,441

Figures converted using the exchange rate at the closing date, and presented under IFRS.

(1) *No information available.*

CONSOLIDATED DIRECTORS' REPORT FOR FINANCIAL YEAR 2019

(Free translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails)

CONSOLIDATED DIRECTORS' REPORT FOR FINANCIAL YEAR 2019

1. Business model

Canal de Isabel II S.A. (hereinafter "the Parent Company", or "Canal"), heading the Canal de Isabel II Group, is a public-owned entity whose ownership structure includes the government of the Region of Madrid, by means of the Public Entity Canal de Isabel II, and the one hundred and eleven municipalities of which the region is comprised.

Pursuant to its Articles of Association and the Contract-Programme signed between the Company and the Public Entity Canal de Isabel II, Canal is responsible for running (operation, maintenance and upkeep) the Region of Madrid General Network and providing the water supply, sanitation and reuse services for this Network, which until 30 June 2012 were rendered by the Public Entity Canal de Isabel II.

The comprehensive water cycle comprises two broad phases: supply and sanitation, which correspond to the necessary actions to provide consumers with drinking water and to collect and treat wastewater. In addition to this cycle there is 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.

Canal currently manages all these phases and stages, providing the comprehensive water cycle in practically all the Region of Madrid.

Canal's management model in the drinking water supply and sewerage segments, which are owned by the municipal government, is based on long-term agreements with municipal governments to operate said infrastructure. Carrying out these activities by means of a supra-municipal approach generates scale economies and synergies in the operation which imply considerable advantages for the municipalities.

For economic purposes, managing the entire cycle and on a supra-municipal basis means not only covering costs in the various process phases but also obtaining sufficient margin to ensure the necessary investments and the economic and financial balance, thanks precisely to the aforementioned scale economies and synergies, guaranteeing a homogeneous service at a single tariff in all municipalities, regardless of their size.

Services provided in the Region of Madrid	Supply	Sewerage	Treatment
Number of municipalities served	174	135	179
Population served	6,442,547	5,680,102	6,654,752
Coverage in the Region of Madrid	96.69%	85.24%	99.87%

In addition to providing services in the Region of Madrid, Canal provides supply, sanitation and wastewater treatment services in the city of Cáceres and the municipality of Monroy. It also provides supply services to 7 municipalities in Castilla-La Mancha, adjacent to the Region of Madrid, and treatment facilities in one of these.

Canal's vast water management experience spanning over a century and-a-half enables it to contribute added value by means of other activities relating to the water sector and in regions other than Madrid. In the 1960s, Canal began investing in a set of investees which, together with the Company, form the Canal de Isabel II Group (hereinafter, "the Group").

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The other companies of the Group perform activities that fall into three types of activity:

- Comprehensive water cycle management, in Spain and also in Colombia, Ecuador and Brazil.
- Support services for comprehensive water cycle management, such as advisory and consultancy services, civil engineering, third party plant operation, works for connection and meter installation, the purchase of supplies, commercial management of the water supply and sanitation and the management of call centres, among others. To carry out these activities, the Group has companies in Spain, Colombia, Panama, the Dominican Republic and Brazil.
- Other activities that share synergies relating to comprehensive 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 and Brazil.

In Appendix II of these consolidated Notes, the activities carried out by the different companies of the Canal de Isabel II Group are detailed case by case. With all of these activities the Group provides a service to around 7.46 million people (approximately 93% in Spain and the remaining 7% in Latin America).

In order to guarantee service quality and tackle the challenges posed by the water sector, a large investment volume and adequate long-term planning are pre-requisites, which is why the Group's strategic plan, devised in 2018, runs until 2030.

Strategic Plan 2018-2030

The 2018 financial year was the first year to see the implementation of the new Strategic Plan 2018-2030. With it, the Parent Company redefines its medium and long-term positioning: strengthening the public nature of the Company and focussing on providing the people living in Madrid with an excellent service. In this regard, the Parent Company has established the following objectives: to promote the company's leadership in the comprehensive water cycle management and to include all the towns of Madrid in its management model.

Likewise, the aim of the Strategic Plan is to address the following key challenges for the water sector: to maintain fair and accessible rates as a public and essential service, tackle the consequences of population growth and climate change, incorporate new regulations and technologies, increase customer and user satisfaction and develop skills and manage the talent of its professionals.

The Strategic Plan is based on 10 strategic lines:

1) Ensuring the supply, establishing a reduction of 25% of the volume of diverted water for consumption in 2030.
2) Ensuring the quality of drinking water.
3) Strengthening service continuity.
4) Boosting environmental quality and energy efficiency. The company hopes to achieve a level of self-consumption of 100% through renewable energies by 2030.
5) Developing cooperation with the municipalities of Madrid.
6) Reinforcing the commitment to, and relationship with, the users.
7) Fostering transparency, good governance and commitment to society.

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8) Fostering talent, commitment and health of workers.

9) Leading in innovation and development. Innovating in its activities to be a leader in the water sector and to develop technologies and services demanded by customers in the future.

10) Ensuring sustainability and efficiency in management. This strategic line includes the targets of reducing debt, establishing accessible and supportive rates and to be an instrument of economic growth in the region.

In short, the new strategy aims to establish the bases for enabling Canal de Isabel II to achieve its mission: "Care for our Community by managing the water of all transparently, efficiently and sustainably" and strengthening the corporate values of commitment, proximity, transparency, excellence and sustainability. This will enable the Parent Company to become a European leader in terms of quality and technology and establish the Region of Madrid as a centre of international excellence in water and the circular economy.

Canal, as a company providing a public and essential service, is committed to meeting the Sustainable Development Goals (SDGs). With the implementation of the new Strategic Plan, the 17 SDGs will be approached through its 10 strategic lines. In the next few years, the Parent Company will continue to foster projects and will include sustainability indicators in monitoring the strategy.

2. Business Development

On 3 October 2018, the Office of the Prosecutor General of Colombia ordered interim measures regarding the suspension of the right of alienation, sequestration and embargo of INASSA's participation in Triple A de Barranquilla. Consequently, in accordance with International Financial Reporting Standards, the Canal de Isabel II Group lost the indirect control it had hitherto over Triple A de Barranquilla. Consequently, in the Directors' Report of the Canal de Isabel II Group, quantitative and qualitative information on Triple A de Barranquilla for the years 2019 and 2018 is not included, with the exception of the economic figures that include the contribution of Triple A de Barranquilla up to 30 August 2018, the last date for which sufficient information is available. The contribution is included for the financial year 2017.

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Supply

Business indicators: Supply	2019	2018	2017
Number of customers (thousands)	1,759.49	1,701.12	2,183.02
Canal de Isabel II	1,504.79	1,484.56	1,466.89
Triple A Barranquilla	N/A	N/A	503.98
Lanzarote	72.44	71.58	70.77
Others*	182.26	144.97	141.37
Population supplied (thousands)	7,462.69	7,085.25	9,287.55
Canal de Isabel II	6,455.10	6,370.09	6,298.73
Triple A Barranquilla	N/A	N/A	2,245.51
Lanzarote	207.36	204.19	204.39
Others*	800.23	510.97	538.92
Water for consumption (Hm3)	591.78	550.43	812.40
Canal de Isabel II	501.08	479.87	504.29
Triple A Barranquilla	N/A	N/A	235.68
Lanzarote	26.14	24.70	25.45
Others*	64.57	45.86	46.97
Reused reclaimed water (Hm3)	24.12	20.23	23.92
Canal de Isabel II	15.88	12.10	15.89
Lanzarote	3.04	2.93	3.33
Amagua	5.20	5.20	4.69
Other business indicators			
Index of Supply from reservoirs Canal de Isabel II (months)	27.83	17.39	11.59
Breakage index per 1000km of distribution network Canal de Isabel II	108.55	110.50	111.07
Breakage index per 1000km of distribution network Lanzarote	8,421.54	6,882.58	6,194.35

*In addition to that of the rest of companies, information is included on the Cáceres Concession and the Alcalá de Henares temporary joint venture.

Throughout 2019, the Group continued with the lines of action aimed at meeting the aforementioned targets, seeking an increasingly more efficient management system for available water resources, taking into account the lack thereof in most of the regions in which the Group operates, and foreseeable consumption trends going forward.

Therefore, as part of the policy for the continuous improvement of processes, throughout the year the Company has continued to systematically incorporate the most advanced technologies available in different processes, with the aim of always offering the best product quality and to minimise the loss of water and attempt to reduce the environmental impact in the services provided.

Canal is the Group's main company, providing 98.8% of all the assets and 90.1% of ordinary consolidated income at the close of 2019. The important work carried out by the Company to meet its targets are testament to the commitment to, and involvement in, the well-being of the people of the Region of Madrid and the sustainable development, optimising the consumption of natural energy resources and raw materials.

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In this connection, the Parent Company continued to pursue one of its main strategic goals, namely to guarantee water supply in the face of the challenges posed by climate change and population growth. Accordingly, the Company has set a goal of reducing by 25% the volume of water for consumption per capita by 2030. To achieve this, there are three key aspects: efficient use of the resources available, efficient management of demand and developing the production and use of reclaimed water.

Specifically, in 2019 water for consumption in the Region of Madrid totalled 501.08 hm^3, a 4.4% increase on the figure in 2018, when drinking water consumption in the Region hit a 20-year low. Climate is a key factor in consumption, since variations in the volume of precipitation or in temperature have a significant impact on consumers' demand, which is why the Parent Company is working on long-term sustainability. Nevertheless, despite the scant precipitation—natural precipitation was 17% below the average of the last 15 years—and a 12% increase in population since 2005, the volume of water for consumption has fallen by 4.4% compared with the average over the same period. This reflects the outcome of all the optimisation actions and measures carried out by Canal.

Water reserves stored in reservoirs managed by Canal de Isabel II stood at 66.2% of their total capacity at the end of 2019, or 624.7 hm^3, a figure four percentage points higher than the year-end average in the last 30 years. This volume of reserves is 9 percentage points below the volume stored on the same date of the previous year, when reservoirs presented record values of 75% of their maximum capacity as a result of the exceptional precipitation in the spring of 2018, which was the rainiest in the Region of Madrid in the last 50 years.

To ensure the supply of water resources in the Madrid region, Canal has 13 reservoirs, 78 underground water catchments and 14 Drinking Water Treatment Plants (DWTPs) with a nominal total capacity of 4.55 million cubic metres per day.

The supply system for Lanzarote is based on the catchment of seawater using coastal wells located along the coast of Punta de Los Vientos, Arrecife, Janubio and Yaiza. Canal Gestión Lanzarote has four reverse osmosis desalination plants between two production centres, which at the close of 2019 have produced 26.1 hm^3 of drinking water (24.7 hm^3 in 2018). The 5.8% increase in output is consistent with the slight improvement in tourism activity and higher demand for agricultural water in response to the subsidy from the Consorcio del Agua de Lanzarote.

Canal Gestión Lanzarote currently has a maximum annual production capacity of desalinated water of 35 hm^3.

In order to raise users' awareness of the need for responsible consumption of water, in 2019 the Parent Company implemented its "Cuidar el agua es una labor de todos" (It's up to everyone to look after water) campaign, with tips on saving water, availability of water and efficient water use over its social media and website. At certain times of the year, when consumption was higher and precipitation scarce (especially in summer), it was necessary to convey this message more forcefully by means of advertising drives.

Among all the actions carried out by the Parent Company relating to the area of Supply, note especially those aimed at reducing unrecorded water, through more accurate metering, efficient planning of the upgrading of the network, pre-locating leaks, inspection and fraud detection campaigns, etc. There was a slight reduction in the percentage of unrecorded water in 2019 (13.6%) compared to 2018 (14.2%), which represented a considerable challenge because these values are already below the European average.

Similarly, the work on the sectioning of the distribution system allows for improvements in pressure management which, together with the other aforementioned actions, are resulting in a significant drop in the number of system breakages in the network of the Parent Company. More than 44% of accumulated reduction in the last 10 years in the number of general pipe breakages and 46% in connections. At Canal Gestión Lanzarote the rate of breakages per 1,000 km of network is of 8,421 in 2019 (6,883 in 2018), high levels due to the age of the network and the Island's mountainous terrain, and the increase on the

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previous year is associated with intensified efforts to detect leaks, which has led to the detection of more breakages.

In this regard, the resources used for maintaining and conserving the network, detecting and preventing leaks, and, in general to improve efficiency in the system management processes, are aimed, not only at obtaining operational improvements and reductions in the loss of water, but they are also aimed at improving customer service, emphasising the reduction of the average service disruption time through breakdowns and the frequency and impact rates per contract.

Another of the objectives which has been in development for some years in relation to guaranteeing supply is the extension of the supply of reclaimed water for irrigating parks and gardens, cleaning streets and for use in industrial processes.

Accordingly, the commitment to optimise efficiency in the use of water, as a resource, not only focuses on reducing water losses but also on carrying out specific recycling initiatives and seeking new sources to obtain it because water recycling is an essential component in the comprehensive management of water resources in accordance with environmental sustainability, contributing to the net increase thereof.

In 2019, the Parent Company channelled 15.9 hm^3 for the irrigation of parks and gardens and for street cleaning, which are the main uses in the Region of Madrid, an increase of 31% on the figure in 2018 (12.10 hm^3). In 2019, the number of irrigable hectares increased by 160 (up 5.6%), to a total of 2,857, and one more municipality added a reuse network, bringing the current total to 24. Furthermore, since it was a dry year, more water was supplied for irrigation purposes.

Canal Gestión Lanzarote and Amagua designate part of the treated water to reuse, for which it undergoes additional tertiary treatment which seeks to make it suitable for agricultural use and for irrigation of gardens and golf courses. In 2019, Canal Gestión Lanzarote and Amagua respectively processed 3.0 hm^3 and 5.2 hm^3 of reclaimed water (2.9 hm^3 and 5.2 hm^3 respectively in 2018).

Water Quality

In terms of the quality of water for consumption, the Group has intensified actions geared towards reducing warnings to customers. The percentage of samples compliant with regulatory requirements at the Parent Company (93.81%) fell slightly compared with 2018 (96.4%). This was because, in view of the considerable length of the distribution network, ensuring the presence of disinfectants at all usage points required slightly higher dosing in outlets from water purification plants. This led to an increase in non-compliances in plant outlets and a reduction in non-compliances in the network control points, ensuring water that is suitable for human consumption.

At Canal Gestión Lanzarote and Amagua, respectively, 94.6% and 100% of samples met the regulatory requirements, compared with 99.3% and 99.8% in 2018. The lower sample percentages compliant with regulatory requirements at Canal Gestión Lanzarote was a consequence of the decline of the Lanzarote III desalination plant, which is currently in refurbishment. Once the plant has been refurbished and relaunched, scheduled for the end of 2020, the percentage of compliance is expected to increase.

The Parent Company has a network of 57 automatic surveillance stations for consumer water quality (17 more than in 2018), installed in DWTP outlets, large storage deposits and the main supply intersections. All are equipped with sensors that continuously measure a series of chemical parameters and send the results in real time via Canal's own communication network to the Control Centre, with a permanent warning system in place.

In 2018 and 2019, Canal ran a trial for a spectroscopic fingerprint continuous monitoring system at the Islas Filipinas deposit that basically allows for the detection of changes in the standard characteristics of

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water, therefore warning of any possible contamination. Based on the analysis of the information obtained through this pilot test, the system will be deployed at the automatic surveillance stations.

The Parent Company also has 20 water quality laboratories (16 for consumption water and 4 for treated water) where water for human consumption and treated water are analysed. Moreover, the automatic systems perform an analysis every three seconds (over 9 million analyses annually) to ensure water quality is excellent.

In 2020, Canal expects to begin activity and the new laboratory at Torrelaguna. The new facility enables samples and analyses of water for human consumption for all the towns in the northeast area of the Region of Madrid to be taken.

Moreover, progress continues in the study of the behaviour of water quality in the reservoirs of the Region of Madrid, for which purpose an initial assessment was made of the loads and correlations with the results of the catchment areas of the Manzanares, La Aceña and Pedrezuela. In addition, limnocorral was introduced to investigate the effect of shade balls on water quality.

At the same time, the Company examined ways to improve the functioning of the Manzanares dam intake and 50 sewer overflows were checked to continue implementing the necessary measures to prevent spillages.

To guarantee the excellent quality of water supplied and framed within strategic line 2, a "Plan to enhance the use of new treatment technologies" has been developed by the Parent Company. In 2019, criteria, costs and deadlines were established for the new technologies to be implemented, including the launch of tools to select technologies (MOISES Project to select membranes).

Further progress was also made in the research concerning the formation of halogenated and nitrogenated by-products, and concerning the disinfectant efficacy of monochloramine, at the same time fostering the quantitative assessment of microbiological risk as a quality standard beyond legal requirements.

Lastly, investments have been made in non-conventional treatments: 1) Application of innovative solutions to enhance conventional treatments — purging of static decanters and new flap systems, and 2) Improvement of decanted water quality using floating panels in the decanting process.

For its part, Canal Gestión Lanzarote has a "Self-monitoring Protocol" both for human water consumption (HWC), in line with the HWC Monitoring and Control Programme of the Regional Government of the Canary Islands, and for reused water, in accordance with the provisions of the relevant legislation. Furthermore, the company is completing the implementation of a continuous measuring system for both SWTPs and WWTPs and for deposits and networks which will allow for tele-controlled quality measures to be obtained, thus improving response times. For these controls, there are 2 laboratories, 1 for drinking water and the other for treated and reused water.

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Sanitation

Business indicators: Sanitation	2019	2018	2017
Treated water (Hm3)	493.22	532.16	526.47
Canal de Isabel II	460.13	501.44	458.62
Triple A Barranquilla	N/A	N/A	37.04
Lanzarote	7.87	7.89	8.18
Others*	25.22	22.83	22.63
Reclaimed water discharged to waterways (Hm3)	106.99	114.16	108.59
Canal de Isabel II	105.77	112.62	107.38
Lanzarote	1.22	1.54	1.21

*In addition to that of the rest of companies, information is included on the Cáceres Concession.

In terms of Sanitation, in 2019, the Company continued to carry out actions established in the National Treated Water Quality Plan, to comply with Framework Water Directive 2000/60/EC, water 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 notable projects executed in 2019 are those undertaken by the Parent Company: the expansion of the WWTPs of Aranjuez and Soto Gutiérrez (the latter of which treats water for Valdemoro, Ciempozuelos and San Martín de la Vega).

In 2019, the 157 treatment plants managed by Canal processed a total of 460.13 hm^3 of wastewater, of which 444.25 hm^3 was discharged into waterways and 15.88 hm^3 was reused. 26% of the water processed at our treatment plants, i.e. 121.65 hm^3, was subject to tertiary treatment for reclaiming, with a view to its reuse for the irrigation of parks and gardens and street cleaning, and, since 2018, to improve the quality of the water discharged to waterways. The scant rainfall in 2019 resulted in lower treated volumes than in 2018 (501 hm^3).

Accordingly, the Region of Madrid is one of the regions that treats all the urban wastewater of which it is in charge.

Another notable action pursuant to the Strategic Plan and associated with the sanitation service is the "Plan Sanea" for the modernisation and improvement of the Region of Madrid sewerage networks, with a view to achieving the most efficient sanitation network in Spain. In 2019, the plan was launched, with 10 municipal governments having signed up for it, for a cumulative 83 million euros in projects for execution over the next few years.

Lastly, note that in November 2019 Canal joined the awareness campaign "*No alimentes al monstruo de las cloacas*" (Don't feed the sewer monster) promoted by the Spanish Water Supply and Treatment Association (AEAS), and hosted at its facilities the presentation of this campaign and of its own campaign, entitled "*Matilda y el monstruo de las toallitas*" (Matilda and the wet wipes monster) to national media. The main issues this campaign aims to prevent are the economic and environmental problems caused by solid waste flushed down household toilets that end up in sewerage networks, pumping equipment and treatment plants.

For its part, Canal Gestión Lanzarote manages 8 treatment plants that treat wastewater to bring it to conditions that are adequate and required for it to be returned to the sea. At 2019 year end, the Company

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had treated a total water volume of 7.87 hm^3, of which 4.83 hm^3 were discharged to waterways and 3.04 hm^3 reused. As in the case of the Parent Company, 54% of the water processed at the treatment plants, i.e. 4.26 hm^3, was subject to tertiary treatment for reclaiming, with a view to its reuse in agriculture and for the irrigation of parks and gardens, as well as to improve the quality of the water discharged to the sea.

Lastly, Amagua manages 98 water treatment plants, 3 more than in 2018, which have treated a combined total of 16.79 hm^3 of wastewater in 2019, compared to 14.16 hm^3 in 2018.

Telecontrol

To preserve its benchmark strategic position in the comprehensive water cycle, throughout 2019 the Group maintained its policy of developing projects for the ongoing improvement of its management information systems in different areas, striving to improve the effectiveness and efficiency of operating and support processes by equipping them with the latest technologies for data handling and telecontrol.

The Parent Company's general communication system covers the entire geographical area in which it operates, with a network that integrates all the company's communication services (telecontrol and remote control, landlines, mobile telephony and data communication between computers), enabling it to improve the efficiency of its water resources and commercial management, its administration and the services offered to users.

Through its complete telecontrol system it can know, in real time, the water situation in a large number of supply and sanitation infrastructures, the water quality, the energy usage and other similar parameters.

In this regard, in recent years the focus has shifted to standardising the automation of facilities and their remote management. Thus, a step forward is taken, extending the facilities to wells, re-chlorinators and drinking water pumping stations and, in the near future, wastewater and reclaimed water pumping stations and storm tanks.

Energy production and consumption

Business indicators: Energy production and consumption	2019	2018	2017
Energy consumption (GWh)	619.75	603.08	796.07
Electricity production (GWh)	363.96	312.22	242.70
Production/Consumption (%)	58.73%	51.77%	30.49%

**In 2017, electricity consumption at Triple A de Barranquilla amounted to 156.58 GWh.*

*** Data referring to the end of 2019 are estimates.*

The production processes needed to provide the services require significant electricity consumption (water treatment at drinking water and wastewater plants, sea water desalination and pumping both for water harnessing and throughout the supply and sanitation network system). Therefore, given the importance of optimising this consumption, in recent years initiatives have been conducted to improve efficiency in processes and generate clean energy.

In 2019, the Parent Company's energy consumption (470.6 GWh), which accounts for 75.9% of the Group total, increased by 2.5% year-on-year (459.11 GWh in 2018). The increase with respect to the previous

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year was due to the increase in thermal drying of sludge following the entry into service of the Planta Sur facility in October 2018 and the consumption growth in the sanitation business. With a view to compliance with Water Directive 2000/60/EC, the Company is making a series of investments in the WWTPs it manages to intensify the treatment processes, most notably those associated with nitrogen removal, which require greater energy consumption.

We highlight that 100% of the energy purchased by the Parent Company since 2018 is certified as having come from renewable sources.

Canal Gestión Lanzarote consumes large amounts of electricity through the seawater desalination system (115.5 GWh in 2019), 18.6% of Group consumption. Electricity consumption has risen by 0.85% compared to the previous year as a result of the increase in water channelled (5.8%) in response to the increase in demand, which was offset by greater efficiency thanks to the measures implemented, including: an energy efficiency study and the gradual adaptation of its facilities.

The Group generates renewable electricity from the processes related to the management of the comprehensive water cycle: through the 8 hydroelectric plants managed by Hidráulica Santillana, the production of biogas in 13 treatment plants and, to a lesser extent, in three wastewater water falls in the treatment plants Sur and La Gavia, in 9 microturbines in several points of the supply network and in the photovoltaic panels installed in several treatment plants. Furthermore, the Group relies on high-efficiency cogeneration from two thermal sludge-drying plants. At present, it has an installed capacity for the production of electric power of 107 MW.

In 2019, the Group produced 364.0 GWh, a significant increase of 16.6% compared to 2018 (312.2 GWh), thanks to the addition of the Planta Sur facility to Canal's infrastructure in October 2018. In 2019, the equivalent of 58.7% of the electricity consumed was generated by the Group, an increase on the previous year's figure (51.8% in 2018).

Customer-oriented

The Group has always been distinguished by its commitment to its users. Accordingly, Line 6 of the Strategic Plan is aimed at strengthening the commitment and proximity to users, maximising the customer experience and boosting the efficiency of commercial processes.

Evidence of this commitment and of the objective of keeping fair and accessible tariffs is that, in 2019, the Parent Company's tariffs remained frozen, as indeed they will continue in 2020 for the fifth consecutive year, making Canal's tariffs among the most accessible in Europe.

Furthermore, since they provide an essential service, Group companies' tariff structures include social rebates aimed at especially vulnerable groups. Notably among these, in 2019 the Parent Company earmarked a total of 3.3 million euros (an increase of 17.8% on the 2.8 million euros in 2018) to the application of social rebates, and increased the number of people included compared with the previous year to encompass those receiving a widowhood pension of less than 14,000 euros per year.

Moreover, Canal updated and increased its Commitment Charter to include ten specific points in relation to its users. In 2019 the Company also signed up to the Consumer Arbitration System of the Region of Madrid.

The degree of satisfaction of the people of Madrid with the service provided by Canal is very high. In the latest survey encompassing the various customer categories, customers afforded the public company a score of 8.53, an improvement of three tenths of a point on the average score at the end of 2018 (8.25).

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Lastly, the Parent Company has two major projects underway that will significantly impact on its relationship with customers. Canal is working to develop a new, next-generation commercial system to tackle the digital transformation, integrate the entire customer relationship and implement a process of continuous efficiency improvement in all commercial processes. Furthermore, remote meter reading will enable the Company to provide customers with tips on how to save water, among others, and help detect leaks.

Structure of the workforce

Business indicators: Workforce	2019	2018	2017
Canal de Isabel II	2,879	2,808	2,611
Emissão	1,082	2,977	1,357
Triple A Barranquilla	N/A	N/A	954
Others	1,435	1,515	1,427
TOTAL	5,396	7,300	6,349

**Including workforce data for ASAA and the Alcalá joint venture*

At close of 2019, the headcount at the Parent Company constituted 53.4% of the total staff of the Canal Group. The staff of Emissão represented 20.1%.

As the table above shows, the total number of Group employees significantly decreased in 2019. This was due to the reduction in the workforce of Emissão, down 63.7% compared to 2018 as a result of contract completions and layoffs in 2019.

In the last few years, regulatory restrictions have limited the capacity for open-ended contracts at companies located in Spain, significantly increasing staff turnover.

Aware of the major importance of reducing the percentage of temporary contracts in our workforce, which in 2018 reached almost 45%, and to ensure the continuity of the company's professionals and the stability of the workforce as a key element of service quality and medium- and long-term sustainability, in the last few years Canal has worked to obtain the regional government's approval to post new public employment vacancies. Accordingly, coverage was approved of around 1,000 positions with open-ended contracts. In 2018 and 2019, Canal has implemented 30 selection processes to cover 454 positions, through which it has recruited 426 people, reducing the proportion of temporary contracts to 32.28% at the end of 2019, a reduction that will continue in 2020 as the approved recruitment processes are completed.

Other key aspects in relation to the Group's business

Canal Gestión Lanzarote:

Since 2013, Canal Gestión Lanzarote has operated the concession for the Public Supply, Sanitation and Recycling of water on the islands of Lanzarote and La Graciosa, for a duration of 30 years. In 2019 the company continued to provide the service normally. However, a number of factors may have a significant impact on its business:

- Award of the concession: At 31 December 2019, as a result of the situation detailed in Note 23 to the financial statements, there is some uncertainty regarding the continuity of the concession's

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operation by Canal Gestión Lanzarote, since there is a possibility that the contract adjudication might be declared null and void.

The High Court of Justice Ruling of 21 November 2017 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*.

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 (TRLCSP). On the date of issuing this report, neither of the Parties involved in the Club de Lanzarote S.A. process has commenced proceedings to request that the Lanzarote concession be declared void. There is a 6-month period in which to resolve these proceedings and is it possible to appeal.

It is worth noting that the Group conducted an analysis of the recoverability of its assets in Canal Gestión Lanzarote in accordance with two potential scenarios, namely continued involvement in the concession's operation or the contract adjudication's being declared null and void; in both cases the amount invested is estimated to be recoverable.

- Rate increase: 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, 2018 and 2019. Therefore, the Company is in the process of claiming the approval of said price review or compensation for the same amount.

Canal Extensia Group:

As a result of the legal actions initiated in Spain in relation to possible cases of corruption and irregularities in the purchase of Emissão, as mentioned in Point 23 of the Notes to the Financial Statements, the Colombian control entities began requesting information in 2017 from INASSA and all the companies forming the corporate group, with the aim of obtaining information about transactions between related companies, capitalisations and technical assistance agreements.

Due to the potential impact on the business, it is worth noting the loss of control of the Group company Triple A de Barranquilla in October 2018, a situation which persists at the time of issuing this report.

On 3 October 2018, the Office of the Prosecutor General of Colombia ordered interim measures to suspend the right of alienation, sequestration and embargo concerning eighty-two percent (82%) of the share capital of Triple A de Barranquilla, of which INASSA, S.A. is the holder, and their delivery to Sociedad de Activos Especiales (Special Assets Company — SAE). These interim measures were valid for a maximum period of six months, during which the Prosecutor's Office had to decide whether to close the judicial investigation underway or continue with the expired ownership claim before the competent judge, the latter being the option ultimately chosen by the Prosecutor's Office, filing the expired ownership claim on 4 April 2019 and, therefore, continuing to apply the interim measures in 2019.

Triple A de Barranquilla has hitherto been the main source of income and activity of the Canal Extensia Group. The impact of the loss of control of Triple A de Barranquilla is not limited to its individual contribution but it is also the main client of Amerika and Gestus, and the main source of income of INASSA through technical assistance payments and dividends.

Accordingly, the Group is exercising all pertinent legal actions to defend this company's interests and safeguard its economic and property rights. As a result of the decree of nullity in the process of Law 600 concerning Technical Assistance, explained in Note 23 to the financial statements, the factual and legal elements were available to present an additional and different motion for dismissal seeking to lift the interim measures.

Based on the legal defence strategy, on 24 January 2020, another writ was filed, this time at the Criminal Court Specialising in Expired Ownership in Barranquilla, also due to transcendent undermining of due process. The writ requests i) revocation of leave to hear the Expired Ownership claim filed, ii) that the proceedings be restored to the initial phase so that the Delegated Prosecutor's Office can compile such evidence as it deems fit on which to base the claim, and iii) all evidence compiled and/or provided by Anti-corruption Prosecutor's Office 5 be excluded, as said office did not have the necessary competency.

The Company's attorneys are in the process of proving to the judge that there is no legal basis for accepting the expired ownership claim and they are seeking that the proceedings be restored to their initial phase.

Canal Extensia:

In addition to holding shares, its activity focuses on providing technical assistance services to INASSA and Amerika and financial support to the Extensia Group companies. In 2019, Canal Extensia increased its shareholding in INASSA by 0.6%, to 81.84%, after the pledge of SLASA shares to the company to secure the intercompany loan granted by Canal Extensia.

Furthermore, Canal Extensia continued to strengthen its workforce over the course of 2019 with a view to intensifying the monitoring and control of Group companies in Latin America.

Emissão:

This company focuses on providing services to public companies that manage water supply and sewerage networks. In 2019, it focused mainly on providing services to two customers: Embasa (Bahía) and CEDAE (Rio de Janeiro).

In view of Brazil's difficult economic situation and political instability, as the company's customers are public entities its recoverability has been undermined, especially in the contracts with CEDAE (Rio de Janeiro), due to the troubled public coffers in that State.

As a result of non-payments by CEDAE, the contracts with this customer were not renewed, and ended during the course of 2019, with the necessary legal actions having been undertaken to recover the amounts due from contracts with said company, plus compensation for damages caused to Emissão's operations. Termination of the contracts had a significant impact on the company's volume of business, and its turnover fell by 35% year-on-year, from 35 million euros in 2018 to 22.9 million euros in 2019.

Furthermore, the absence of payments from CEDAE generated liquidity stresses in the year and prevented the Company from fulfilling its tax obligations. The Group's financial support redressed this situation.

Emissão continued its efforts to diversify its customer portfolio in various Brazilian states, strengthening its ties with Embasa (Bahía), and maintaining 5 contracts, as well as attracting new customers such as Sanepar (Paraná).

Moreover, as explained in Note 23 to the consolidated annual financial statements, the Arbitration Court ruled that Sebastião Cristovam breached the share sale-purchase contract since there were concealed liabilities in the transaction that were hidden from the buyer. Sebastião Cristovam was ordered to pay Soluciones Andinas the sum of 24.3 million Brazilian reals (5.4 million euros), plus interest in accordance with Brazilian inflation since the acquisition date, giving a total of 42.4 million reals (9.4 million euros). This award is executable from 28 February 2020.

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INASSA Panamá:

On 31 December 2019, the contract concerning "Meter reading and invoice distribution service" ended and it was not possible to extend it in view of IDAAN's repeated failure to pay. In 2019 revenues associated with this contract amounted to 3.1 million euros. In January 2020, a communication was issued requesting that IDAAN settle the contract, in a contractual phase in which it is hoped to reconcile all the amounts owed and agree a payment schedule.

Since the branch's only activity was to provide that service, in the first few months of 2020 it was necessary to let go of the employees since the activity will now be confined to collecting the amounts due and subsequent liquidation.

Amagua:

This company provides drinking water and sewerage services in La Puntilla parish in the Samborondón canton and in La Aurora parish in the Daule canton by means of long-term management agreements ending in 2051 and 2020 respectively. The Company has completed talks to extend the Daule contract for another 4 years; this contract accounts for 46.7% of its turnover (19.3 million euros).

Gestus:

The company's activity comprises entirely the commercial management services, meter reading and installation and connections provided to Triple A de Barranquilla, implying a turnover of 3.2 million euros in 2019. Two of the company's three services contracts accounting for 50% of its activity ended in 2019, with only the commercial management contract remaining in force. The latter expires in 2020 and, given the current circumstances, expectations of renewal are low, jeopardising the continued activity of the company.

Amerika T.I:

This company specialises in the integrated software solution called Amerika and provides technological support services. The company also offers cloud computing, consultancy, hardware and licenses. Most of these services are provided to companies belonging to the INASSA Group, most notably to Triple A de Barranquilla (approximately 45%), although services to other companies represented 20% of the total in 2019.

The company has continued to implement its expansion and customer diversification strategy. In 2019 it attracted new customers like Semdo and Aguacaribe and renewed technological support and services contracts with Aguas de Manizales.

COVID-19:

On 11 March 2020, the World Health Organization (WHO) declared the coronavirus outbreak (COVID-19) to be a pandemic, due to its rapid global spread, having affected more than 150 countries. Note 32 to the financial statements outlines the various measures implemented by the governments of the countries where the Group operates and by the Group itself in the first few months of 2020 in light of the situation, and their potential impact on the Group's business.

It is important to note that the Group's main business is to provide an essential service, so it has taken the necessary measures to guarantee the continuity of its service and prevent the spread of the virus, in accordance with the measures adopted by the Authorities. Furthermore, Canal's financial position is robust, so this situation is not expected to have a material effect on the Group.

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However, in order to help mitigate the economic impact of COVID-19 on the Region of Madrid's economy, as detailed in Note 30, the Parent Company's Board of Directors agreed to present to the Regional Department for the Environment, Planning and Sustainability a proposed Order approving rebates on tariffs for commercial, industrial and household customers affected by a significant reduction in economic activity and or furloughed by temporary layoff schemes (ERTEs), as a result of the pandemic crisis. On 8 April 2020, Order 615/2020, of 6 April, by the Regional Department for the Environment, Planning and Sustainability was published in the Official Regional Gazette. The Order approved rebates on tariffs for water intake, sewerage, treatment and reuse services provided by Canal de Isabel II, S.A. in order to mitigate the economic impact of the COVID-19 outbreak. In addition, as a result of the declaration of the state of emergency, and the resulting hiatus in business activity, consumption has been lower. As a result, considering the effect of the rebates approved and the reduction in consumption, the estimated impact on the Parent Company's annual turnover might be of 3%.

In accordance with the estimates at the various Group companies and with the available public information in each of the countries where they operate, the estimated impact of COVID-19 is expected to be limited, and equivalent to approximately 5% of the Group's annual income. The economic situation and the likely slowdown in activity in the first half of 2020 could generate one-off liquidity stress at some of the Group's subsidiaries. Accordingly, it might be necessary for Canal, as the Parent Company and as it has done in the last few years, to provide some of its subsidiaries with financial support in 2020.

3. Economic figures

Consolidated figures:

Turnover (millions of euros)	2019	2018	2017
Ordinary income	984.68	1,076.45	1,145.71
EBITDA	355.82	384.87	416.88
Amortisation and Depreciation	(128.77)	(128.50)	(129.26)
Operating Profit/(Loss)	237.42	258.39	303.86
Financial Profit/(Loss)	(17.64)	(44.53)	(35.00)
Consolidated net profit/(loss)	226.70	201.76	254.60

Other financial indicators	2019	2018	2017
EBITDA/Turnover	36.14%	35.75%	36.39%
Average collection period Canal de Isabel II (days)	49.28	52.65	51.71
Average term of payment Canal de Isabel II (days)	33.88	39.52	38.68

As mentioned in Note 1 of the consolidated Notes, the Group stopped consolidating Triple A de Barranquilla in 2018. Consequently, the consolidated income statement for the year 2018 includes the results at this company from January to August and the effects of its deconsolidation, whereas the income statement for 2019 does not include results for this company. This has had a significant impact on the Group's consolidated results, since Triple A de Barranquilla is the main company in the Canal Extensia Group.

Meanwhile, average exchange rates of the foreign currencies in which the Group operates remained at similar levels to the previous year, and hence have not had a material impact on the Group's profit and loss.

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The Group's consolidated **ordinary income** fell by 8.5%, as it did not include income from Triple A de Barranquilla (-107.5 million euros) and as a result of the completion in 2019 of various contracts managed by Emissão (-13.6 million euros). These effects offset the higher revenues contributed by the Parent Company (+32.9 million euros), as a result of the 4.75% rise in the volume of water invoiced due to weather conditions (less precipitation) and the 1.36% increase in customer numbers as tariffs remained frozen for the fourth consecutive year.

Revenues contributed by the Parent Company, which account for 90.1% of the Group total, are significantly affected by weather, and in particular precipitation, which has a direct effect on water consumption, with higher increases in consumption of invoicing blocks 2 and 3, with the highest unit price, often associated with higher irrigation in public and private areas. In this regard, 2019 was quite dry until November, while 2018 saw the lowest consumption of drinking water in the last 20 years in the Region of Madrid, due mainly to the high level of precipitation.

EBITDA fell by 29.1 million euros compared with 2018 due to not including the results at Triple A de Barranquilla (-30.3 million euros). Conversely, operating profitability increased in the year, from 35.75% in 2018 to 36.14% in 2019, as a result of the higher weighting over EBITDA of the Parent Company, whose operating margin is higher than that of other Group companies.

Moreover, in 2019 and 2018 the following significant events took place that directly affected the Company's operating profit/(loss) and its year-on-year comparison:

- New Collective Bargaining Agreement: In 2017 the I Collective Bargaining Agreement for Canal came into effect, which standardises salaries and conditions of the various groups within the Company. It is being implemented on a step-by-step basis over the years 2017, 2018 and 2019 and increases the personnel expenses of the company.

- Reversal of tax provision: As a consequence of the entry into force of Law 6/2018, of 3 July, on the General State Budget for the year 2018 and the valuation of the Company in relation to the claims lodged by the operators of the treatment plants in relation to the biogas tax regime, 6.2 million euros were reversed in 2018 in the Parent Company.

- Provisions update: In 2019, INASSA updated the provision associated with the contingency in respect of DIAN concerning corporate income tax for the years 2015, 2016 and 2017, in view of the progress in the proceedings, booking an expense of 3.5 million euros.

- Cáceres concession impairment: In 2019, 2.4 million euros associated with the Cáceres concession were reversed as a result of revising down the discounted cash flows rate; while in 2018 an impairment of 9.2 million euros was recognised in connection with the Cáceres concession after updating the concession's business plan.

- Goodwill impairment: As a result of the expiry of contracts in the year, the updated business plan of Emissão is lower than the net carrying amount of the operating assets involved in the business, and it was necessary to recognise an additional goodwill impairment of 5.2 million euros in 2019 (fully impaired). In 2018, there were no such impairments.

- First year of adoption of IFRS 16: As mentioned in Note 2 to the consolidated annual financial statements, 2019 was the first year IFRS 16 was applied to the consolidated annual financial statements. Application of this standard had a net negative impact of 0.6 million euros on consolidated profit and loss in 2019. The impact on the consolidated income statement affected various headings: an improvement of 6.4 million euros in EBITDA, since operating leases decreased; an increase of 6.5 million euros in amortisation/depreciation, since the Company's assets increased;

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and an increase of 0.5 million euros in financial expenses associated with additional indebtedness booked.

Financial profit/(loss) significantly improved compared with the previous year, as a result of various factors:

- In 2018, the impact of cumulative translation differences at Triple A de Barranquilla on consolidated equity was taken to income, having an impact of -17.7 million euros. In addition, the 8 months of contribution by Triple A de Barranquilla implied -4.4 million euros in consolidated profit/loss.

- Interest expenses on payables to Group companies decreased due to the steady reduction in indebtedness over the course of the year.

- Financial updates to maintain asset and liability accounts at their current values resulted in a positive balance in 2019 4.7 million euros higher than in 2018.

Consolidated corporate income tax expenses improved significantly on the previous year, with the Group logging a tax gain in 2019. This was the result of the higher deductions obtained in the Canary Islands on the back of investments in fixed assets and the capitalisation of tax loss carryforwards at INASSA and Emissão in the wake of losses in the year. In 2018, Triple A de Barranquilla contributed a corporate income tax loss of 8.5 million euros.

As a result of the foregoing, **Consolidated net profit/loss** improved by 24.9 million euros compared to 2018.

Segmented financial reporting

(in millions of euros)	2019			2018		
	Canal de Isabel II	Spanish investees	Canal Extensia Group	Canal de Isabel II	Spanish investees	Canal Extensia Group
Ordinary income	887.01	38.06	59.62	854.14	36.99	185.32
EBITDA	350.22	5.93	-0.33	338.82	9.49	36.56
Consolidated profit/(loss)	241.74	-1.79	-13.25	217.41	-2.62	-13.03

As mentioned above, Canal de Isabel II's contribution to profit/loss improved by 24.3 million euros as a result of the higher volume of drinking water invoiced and the improvement in financial profit/loss. Conversely, after the loss of control in Triple A de Barranquilla, the Canal Extensia Group contributed a loss of 13.3 million euros in 2019 due to the decreased activity in the wake of termination of several service contracts provided by the Canal Extensia Group and the associated compensation, the impairment of goodwill at Emissão and the updating of existing contingency provisions.

Triple A de Barranquilla's contribution to consolidated profit/loss in 2018 amounted to a loss of 8 million euros, due to offsetting entries associated with its deconsolidation (17.3 million euros), notably including

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the transfer to profit of cumulative translation differences, as a result of 8 months of activity (+9.3 million euros).

Net financial debt

Turnover (millions of euros)	2019	2018	2017
Net financial debt (millions of euros)	451.29	452.43	796.13
Net financial debt/EBITDA	1.27	1.18	1.91

In 2019, net financial debt continued to decrease in accordance with its programme of maturities, from 808 million euros in 2018 to 772 million euros at the end of 2019.

Note that 99.7% of financial debt corresponds to the Parent Company (98.9% in 2018). In addition to the issuance of bonds amounting to 500 million euros, the Parent Company's average borrowings from lenders by means of "mirror debt" with the public entity Canal de Isabel II amounted to 286 million euros, a decrease of more than 17% compared with the 346 million euros of 2018.

No new indebtedness was taken on by the Parent Company in 2019, but rather total debt was reduced in the amount due for repayment in the year (29 million euros, compared with 81 million euros in 2018).

With regard to cash, the Group business's high cash generation capacity coupled with some delays in the launch of projects envisaged in the Strategic Plan enabled the Company to meet all its commitments in the year, which ended with a balance of 321 million euros, bringing net financial debt to 451 million euros.

To understand this performance with respect to the previous year, it is necessary to consider that, due to the approval of the Parent Company's 2017 annual financial statements being delayed until January 2019, both the supplementary dividend for 2017 and the interim dividend for 2018 were paid in 2019, in addition to the supplementary dividend for 2018 and the interim dividend for 2019. Hence, in 2019 the Parent Company paid dividends totalling 306.6 million euros, comprising payments corresponding to two years. Accordingly, net financial debt only decreased by 1 million euros with respect to 2018 year end, as it offset the cash generated in the year. The net financial debt/EBITDA ratio stands at 1.27 at the end of 2019, compared to 1.18 at the end of 2018, having deteriorated due to the non-contribution by Triple A de Barranquilla to consolidated EBITDA in 2019.

4. Investments

The cash flow generated in operating activities were mainly used to address the volume of investment carried out in 2019, which amounts to 137.4 million euros in construction works and projects (compared with 136 million euros in 2018).

Canal de Isabel II

The Parent Company carried out investments for the sum of 131.5 (95.7% of all the Group's investments). The most significant investments made by the Company are the result of the aforementioned targets of guaranteeing a satisfactory level of operation, maintaining the levels of productive efficiency and competitiveness, the extension and improvement of the transport and distribution network and the

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storage capacity, the upgrading and modernisation of the sewerage treatment system and the expansion of recycling infrastructures.

It should be pointed out that this figure includes investments considered replacement investments, pursuant to the standard to adapt to the Spanish General Accounting Plan for public infrastructure concessionaire companies and that pursuant to this standard, they have not been capitalised by the Parent Company as a greater value of Fixed Assets. Canal executed investments of this kind amounting to 68.9 million euros (60.2 million euros in 2018).

Furthermore, the Parent Company is undertaking refurbishment and improvement works in the municipality-owned distribution and sewerage networks. The amount associated with 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 2019, projects of this kind amounted to 15.91 million euros (18.55 million euros in 2018).

The following table illustrates the volume of investment for each of the different categories:

Investment by category (millions of euros)	2019	2018	2017
Guarantee of supply	52.20	47.85	55.65
Quality assurance	3.59	5.52	3.60
Commitment to the environment	40.17	45.80	56.67
Technological innovation	13.44	10.65	18.39
Adaptation of Canal de Isabel II general services	6.50	4.83	12.03
Other investments	15.60	13.38	7.19
TOTAL INVESTMENTS	**131.50**	**128.03**	**153.54**
Works in distribution and sewerage networks owned by third parties	15.91	18.55	14.49
TOTAL INVESTMENTS AND PROJECTS OWNED BY THIRD PARTIES	**147.41**	**146.58**	**168.03**

The total amount of investments undertaken in 2018 and 2019 was below the Company's historical average. From 9 March 2018, it began to apply the new Public Procurement Act, which increased the average contract adjudication periods, having a significant impact on the execution of investments in 2018 and 2019. As a result of the implementation of the Strategic Plan, many projects are in the initial phase of study and pilot testing.

The Strategic Plan requires a substantial investment in the first few years, which is why large contracts with long adjudication periods are being tendered. In the next few years, the volume of projects and investments executed by the Company is expected to increase significantly, with investment estimated to amount to around 1.5 billion euros in the next five years.

Some of the 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 to obtain greater water quality and the "Plan Smart-Region", with the aim of reaching 100% for the installation of smart meters by 2030.

Within the investments made in 2019 towards guaranteeing the supply, those allocated to upgrading the distribution network stand out in particular. In terms of those aimed at environmental commitments, the most significant investments are related to the "Upgrade Plan for the Treatment System and the Extension of the Reusable Water Supply". Other investments include, primarily, matters of technical compliance.

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Completed investments

Among the most significant investments recognised in December 2019, note the network extensions and renovations within the network renovation plan in the various municipalities of the Region of Madrid, together with metering devices and connections in new contracts.

In supply, we highlight the connection of the distribution network for the municipalities of Majadahonda and Boadilla with the pipeline of the 2nd ring in order to enhance supply; completion of the strengthening of the Villanuevas Branch (sections II and III) in the municipalities of Brunete, Villaviciosa de Odón, Sevilla la Nueva and Navalcarnero; and the connection of Pelayos de la Presa and San Martín de Valdeiglesias with the Pelayos DWTP. To guarantee supply in the municipalities of Galapagar and Colmenarejo, the regulation tank was executed in the Dehesa Vieja district of Galapagar, and a deposit was built in the town of San Martín de Valdeiglesias to supply the municipalities of Pelayos, Rozas de Puerto Real, Cadalso and Cenicientos.

In connection with water treatment, note the measures at the Valmayor DWTP to improve the expanded facilities, and at the Colmenar bottling plant with a semi-automatic bottled water and equipment storage system to guarantee the traceability of the plant's product. A water quality laboratory was also installed in the Santa Lucía complex in Torrelaguna.

In water treatment, measures were implemented to adapt and improve various WWTPs in compliance with the National Treated Water Quality Plan and to tackle forecast urban development growth.

As for the measures taken in connection with reclaimed water, the necessary infrastructure has been developed for the supply of reusable water in the municipalities of Rivas Vaciamadrid, Pinto, Torrejón de Ardoz, Arroyomolinos, Valdemoro and Ciempozuelos.

With regard to power generation, a cogeneration system was installed at the Soto-Gutiérrez WWTP and a biogas dryer installed at the treatment plant in the Arroyo Culebro upper-middle basin.

In 2019, the Company continued its efforts to automate the operation, enhance the security of IT systems and assemble equipment and infrastructure in the telecommunications network.

By virtue of the Management Agreement Regarding Sanitation Services between the Madrid City Council, the Regional Government of Madrid and Canal, upgrades were carried out in various districts of the city of Madrid, most notably the construction of the visitable collector from Plaza de Cibeles to Plaza de Cánovas del Castillo, deodorisation, enclosure and sieving works in the La China and Sur Oriental wastewater treatment plants, a solar thermal facility and the integration of the SCADA monitoring control. More information on the additions in 2019 is available in Note 10 to the consolidated annual financial statements.

Current investments

The most significant measures under execution at the end of 2019 are as follows: new regulation tanks in Villanueva de Perales and Villamantilla, supply projects in Talamanca del Jarama, the refurbishment of the Majadahonda lifting platform, network renovation in the Ronda de Toledo gallery, the network for the supply of reusable water for irrigation in the municipality of Algete, improvements at the Villanueva de la Cañada WWTP and the works to adapt the Arroyo de la Vega WWTP in San Sebastián de los Reyes to the Spanish National Water Quality Plan (PNCA).

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Lanzarote

Likewise, Canal Gestión Lanzarote, S.A. undertook to carry out extension and improvement investments for a sum of 54.5 million euros, of which, at the close of 2019, a total of 53.9 million euros have been executed, including 7.8 million euros in projects underway.

In 2019, Canal Gestión Lanzarote made investments for the sum of 3.5 million euros (5.7 million euros in 2018), 2.4% of the total group investments, highlighting the finalising of the Janubio SWTP and the renovation of the Arrecife north-centre network. Among the investments underway, note the renovation of the Lanzarote III reverse osmosis desalination plants and the new Diaz Rijo drinking water pumping station.

The rest of companies

Investment volume in the rest of companies, given their size and business model, is not material. However, it is important to note the projects Amagua has planned for future years. It plans to extend the Interagua pipeline to increase supply capacity in 2020 and to develop a project for the future construction of a DWTP in Daule to supply the municipalities of Daule and Samborondón.

RDI at the Canal de Isabel II Group

The Canal Group 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 by 2022.

Investment by Canal in 2019 amounted to 6,921 thousand euros, an increase of 74% on the 2018 figure, giving a ratio of RDI investment to turnover of the Parent Company of 0.78%, helping to achieve another of the main goals set out in the Company's Strategy, the development of 100 research or innovation projects, established as "Plan Estrella Innova100", of which in 2019 there were 40.

Notable among the projects implemented this year are the "study on developing water quality in drinking water tanks using mathematical modelling", "the development of a system to identify and quantify risk in the event of floods associated with urban drainage" or "research and development of an innovative system for the inspection of galleries and visitable collectors using drones" by means of a pre-commercial public procurement, as a tool for the so-called Public Innovation Procurement, which affords public administrations other means of contracting to foster innovation.

Other notable projects, along with the implementation of digital solutions, contribute directly to the Company's Digital Transformation, "Canal 4.0". The development of information, communications and advanced automation technologies enhances Canal's position as a leader in digitalisation and Industry 4.0, and a standard-bearer among companies in the water sector. These include "Culebro 4.0, the future of water treatment plants", or "the development of an AUV-ROV Robot for underwater inspection", and, most notably, the key element in this digital transformation of water operators, "the design and mass roll-out of a remote water meter reading system based on NB-IoT communications technology". Another aspect of the Strategic Plan addressed is the "Smart Region" Star Plan, aimed at achieving 100% remote reading of our meters in the Region of Madrid by 2030, which will imply a radical change in the relationship of this kind of company with its customers.

Other, clearly research-focused projects, position the Group as a national and international standard bearer, such as the establishment of the so-called Centres for Research and Excellence (CEIC), of which it has two in 2019. One, the Centre for Research and Excellence for Sustainable Urban Drainage Techniques (CEIC TDUS), focuses on the efficiency of sustainable urban drainage techniques in the pilot plant of the Meco WWTP and the other, the Centre for Research and Excellence for Water Treatment (CEIC

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Depuración), focuses on experiments with water at various stages of the treatment process and using various technologies.

The Group participates actively in national and international groups such as AEAS (the Spanish Association for Water Supply and Sanitation) or the IWA (International Water Association), an organisation with a global reach. In 2019, Canal took part in the Innovative Solutions for Water Management Fair (SIGA), where it shared its latest advances, projects and future prospects with other professionals from the sector.

5. Risk Factors

The Group's activities are subject mainly to: operational risks (arising from the economic legal and political conditions of the environment in which it operates, together with those inherent to its business) and financial risks (as a result of the volatility in interest and exchange rates).

a) Operational risks

Water is a limited resource

The Group's main operating risks arise from managing water, a limited resource. This limitation affects the Parent Company to the greatest extend, as Canal Gestión Lanzarote is concerned with the desalination of sea water.

The availability thereof is directly affected by external weather factors, mainly rainfall and temperatures, beyond the control of the company. Climate change also presents a challenge in terms of hydric stress, with rainfall differing greatly from levels to which we had become accustomed up until now. In terms of the challenge of water availability, we are facing moderate population growth over the coming years in the Region of Madrid.

This is why efficiency in the management of this resource is one of the main objectives and that's why it's framed within strategic line 1. To mitigate this risk, Canal works on: improving its infrastructure to reduce losses, optimising management of reservoirs, exploitation of underground waters, the extension of reclaimed water and the development of campaigns to raise awareness and motivate people to save water.

Specifically, the Company manages 13 reservoirs with a capacity for 943.5 hm^3 and 78 underground water catchments.

Amagua purchases the high ground water and therefore does not manage the supply process. To tackle the risk of water as a scarce resource, it runs campaigns to raise awareness and foster the use of reclaimed water for irrigation of parks and gardens.

Potential damage to infrastructure

Furthermore, as a Group whose primary activity is management of the comprehensive water cycle, it requires considerable investment in infrastructures and, therefore, is exposed to possible damage to its assets due to external factors. To mitigate these risks, the Company has various insurance policies in place. These policies are reasonably sufficient to cover the carrying amounts of the Group's property, plant and equipment and intangible assets.

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Environmental impact

The management of an essential resource, high levels of energy consumption and large investments the Group must make in operations have a considerable environmental impact. Inappropriate management may have negative impacts for the Group from a legal and social point of view.

In this regard, the Group is firmly committed to environmental protection by using resources in a sustainable manner, preventing contamination of water ecosystems and soil, continuously improving company – environment interrelations, complying with environmental requirements, generating trust, image and positioning with regard to the relevant community by optimising processes in operations, environmental culture and human talent, maximising value invested in the environment and strengthening relationships with control bodies.

Retaining talent

In recent years, the Spanish public sector has been affected by numerous restrictive regulations that have limited the management capacity of the Spanish Group companies in terms of human resources, reducing the possibility of hiring permanent staff and having a negative impact on employment conditions, which has significantly increased staff turnover. This has led to a new operating risk for Group companies located in Spain, in terms of retaining talent.

Among the measures and actions developed by the Group is the aforementioned increase in the number of open-ended contracts at the Parent Company.

Political interference

Given the 100% public nature of the Parent Company's shareholding structure, and its close relationship with the Regional Government of Madrid, there is risk of political influence that could result in pressures on regulatory, operational and/or economic aspects of the Group. To mitigate this risk and disassociate the Group's activities from potential interference, the Strategic Plan includes clearly defined strategic lines and actions for development, that will allow the Group to focus on its mission and achieve its long-term objectives.

Corruption and bribery

There is a risk of corruption and bribery which, should it materialise, could have negative legal and reputational consequences, jeopardising relations for some companies of the Group with financial institutions, suppliers and customers, and also hinder the renewal or access to new contracts.

The Group pursues transparency and efficiency in all its actions as part of its strategic goals. To achieve this, the Group has devised a number of Policies and has adopted measures to enable it to fulfil, not only its legal obligations, but also best practices in connection with good corporate governance and internal controls, intending, for example, to make additional progress in the implementation of the National Securities Market Commission guidelines in connection with corporate governance so as to strengthen that aspect even further.

In 2019, for example, the composition and functioning of the Parent Company's Ethics and Compliance Committee were modified, making it a supervisory and control body within the framework of the crime prevention model implemented at the Company as a result of changes to the Spanish Criminal Code in connection with legal persons' criminal liability. Likewise, the main companies located in Spain are working to implement the crime prevention model.

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Political instability

Another operational risk to which some of the Group companies are exposed in Latin America, is the political instability and lack of legal security in the countries in which they are located. In the companies located overseas, the most important contracts are long-term concessions, which require a significant initial investment, the companies are subject to the risk of possible unilateral changes to these contracts by the relevant Public Administrations. The Group tries to mitigate this risk by maximising the quality of the service provided and strengthening relations with the Public Administrations and end customers.

Cybersecurity

Finally, cybersecurity risk has gradually acquired greater relevance given the general use of IT resources and the growing investment in IT and telecontrol systems, to the point of becoming a key element in any company's activity.

The Group seeks to attain a greater degree of maturity in managing cybersecurity in accordance with international standards and widely accepted best practices in connection with data security. With regard to its operating technology assets, work is ongoing to boost cybersecurity levels based on the nature of this technology and its specific requirements to strengthen the cyber-attack prevention and detection systems by means of enhanced use of threat intelligence, and establishing operating protocols for responding to cyber-attacks.

The Parent Company's policies are described in greater detail in section "E.3.2. Internal Control Policies and Procedures for Information Systems" of the 2019 Annual Corporate Governance Report.

b) Financial risks

Interest rates

After issuing 500 million euros in ordinary unsubordinated bonds in February 2015, the Group increased the percentage of fixed-rate debt, standing at 99.85% at the end of 2019, which reduces the Group's exposure to interest rate risk.

Liquidity risk

The Group has a stable activity and moderate debt, allowing it to have a solid financial position and reduce financial debt annually. With the aim of controlling the liquidity risk, the Group engages in long-term financial planning and constantly monitors and controls its cashflows. The Parent also has credit facilities for the sum of 132 million euros maturing in December 2020, from which no amount was drawn down during the year. At 2019 year-end, the Group's cash amounted to 321 million euros.

In 2019, there was a risk that, although unlikely, had it materialised, would have had an impact on the Group's liquidity situation. As a consequence of the agreement adopted by the Office of the Prosecutor General of Colombia in 2018, ordering the suspension of the right of alienation, sequestration and embargo of the shares of INASSA, a company controlled indirectly by Canal, in Triple A de Barranquilla, there was an "Event of Default" pursuant to the provisions of clause 11.11 of the fixed income programme registered at the National Securities Market Commission (CNMV) and regulating the issuance of bonds by the Company. Accordingly, in 2018 the Group classified all the payables in this connection as current.

The Group worked during the course of 2019 to remedy this situation, calling a General Meeting of Bondholders in order to inform bondholders with regard to its financial and asset solvency and to request the exclusion of Triple A de Barranquilla as a "Relevant Subsidiary".

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On 12 December 2019, the General Meeting of Bondholders was scheduled to take place at first call, the relevant regulatory disclosure having been filed with the CNMV and the meeting notification having been communicated via Iberclear to participant entities. Those communications included in the agenda of business a request for the exclusion of the subsidiary Triple A de Barranquilla as a relevant subsidiary. There not being sufficient quorum it was not possible to hold the General Meeting at first call. At second call, the meeting was held on 13 January 2020, and it approved, by unanimous vote of all those present and represented, the dispensation or exclusion of Triple A de Barranquilla from the definition of "Relevant Subsidiary" in accordance with the provisions of the Terms and Conditions of the Issue, ending the "Event of Default" situation.

On 13 February 2020, the Commissioner of the Syndicate of Bondholders confirmed to the Company that, as of that date, it had not received any communication or request from bondholders in relation to a potential "Event of Default" by "Government Intervention" provided in clause 11.11. of the Terms and Conditions of the bonds.

On 31 December 2019, the Group decided to reclassify as "Non-current liabilities" the bond issue which at 31 December 2018 was classified as "Current liabilities", in accordance with the provisions of Article 34.4 of the Commercial Code and as stipulated by the Spanish General Accounting Plan in relation to the prevalence of economic reality over form and based on the knowledge of the circumstance and the fact that the event triggering compliance was irrefutable in 2019.

At the close of 2019, the Group's credit was rated by the agencies Fitch (BBB+, with stable outlook) and Moody's (Baa2, with negative outlook). In 2019, Moody's downgraded the Group's credit rating and kept it on negative outlook as a result of non-compliance with the aforementioned clause. In the wake of the agreement for the exclusion of Triple A de Barranquilla as a relevant subsidiary, there is no longer an "Event of Default" and, accordingly, on 10 February 2020, Moody's revised the outlook on the Group to positive, and it is likely to upgrade its rating at its next review.

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.

This situation is being resolved by negotiating extensions and new payment agreements with the different lenders and restructuring debt. 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 on the part of Canal, through Canal Extensia, once exhausted.

Price pressure

Another risk factor inherent to the Group's activities is possible price pressures, as a result of providing an essential service as is comprehensive water cycle management. Exposure to this risk is evidenced by the freezing of the tariff programmed in the services provided by the Parent Company since 2016, and so it will continue in 2020.

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 including this in the price review formula in the concession agreement, Canal Gestión Lanzarote is currently in the process of claiming approval of the rate review or compensation for the same sum.

Credit risk

Credit risk is not a material factor in global terms, since most Group companies have a highly atomised customer population, with the exception of Emissão, AAA Dominicana and the Panama Branch of INASSA, whose sales are concentrated among a small number of major customers. At these companies,

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commercial efforts and the selection of projects is being stepped up to reduce this risk since, in the last few years, late payment from the main customer of these companies has increased liquidity stresses therein, in particular in the case of Emissão and INASSA, where it has been necessary to take legal action to recover the amounts due and to stop providing the service in both cases.

Furthermore, the financial situation of some regions in which the Group operates is also particularly important. The companies' main activity is the comprehensive management of water, i.e. a basic service that has to 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 optimisation in the collection of payments.

Exchange Rate Risk

Finally, the Group has no significant exposure to the exchange rate risk since there is a natural cover, as most of the Group companies' debts, inter-group financing notwithstanding, are in the same currency as revenues and the majority of their purchases.

c) Risk Management

With regard to risk management, the Group's main companies have set up systems to identify, assess, analyse and control the risks to which they are or could be exposed.

Moreover, since 2015 the Group has been gradually rolling out the system for internal control over financial reporting (ICFR). This tool for the identification and management of financial risks is fully implemented at the Group's main companies. In 2019, the number of processes covered by this tool was increased at Emissão and it has started to be implemented at AAA Dominicana, scheduled for completion in 2020.

More detailed information on the Group's risk management systems, as well as actions and measures implemented to limit risks, is provided in the separate "Non-Financial Information Statement (NFIS)", in the Group's 2019 Sustainability Report.

6. Non-financial information

The Non-Financial Information Statement (NFIS), in the 2019 Sustainability Report which forms a part of this Directors' Report is presented separately and is made available on Canal's website from the date of publication of the annual financial statements. To prepare said document, the provisions established in Law 11/2018, amending the Commercial Code, the Spanish Companies Act and the Law on the Auditing of Accounts were taken into account, with regard to non-financial information and diversity, having included environmental, social and corporate governance indicators in accordance with the G4 Global Reporting Initiative (GRI) and it was verified by an independent provider of verification services.

7. Own shares

During the year ended 31 December 2019 the Group has not acquired any own shares.

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8. Financial instruments

The Group has not arranged any financial instruments during the year that are relevant to the valuation of its assets, liabilities, financial position or results.

9. Events after the Reporting Date

The subsequent facts are displayed in Note 32 of the Consolidated Notes to the Financial Statements.

10. Annual Corporate Governance Report

This report includes, as an integral part thereof, the Annual Corporate Governance Report for 2019, as required by article 538 of the Spanish Companies Act.

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Annual Corporate Governance Report

Canal de Isabel II, S.A.

(Free translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails)

MODEL APPENDIX IV

ANNUAL CORPORATE GOVERNANCE REPORT FOR ENTITIES COMPRISING THE INSTITUTIONAL PUBLIC SECTOR ISSUING SECURITIES TRADED ON OFFICIAL MARKETS

PARTICULARS OF ISSUER

END DATE OF YEAR OF REFERENCE 31/12/2019

C.I.F. (TAX IDENTIFICATION CODE) A-86488087

Corporate Name: CANAL DE ISABEL II, S.A.

Registered Address: C/ SANTA ENGRACIA, 125, 28003 - MADRID

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ANNUAL CORPORATE GOVERNANCE REPORT FOR ENTITIES COMPRISING THE INSTITUTIONAL PUBLIC SECTOR ISSUING SECURITIES TRADED ON OFFICIAL MARKETS

A NATURE AND LEGAL REGIME

A.1 Explain the nature and legal regime of the entity, indicating the applicable regulatory framework and the ownership and/or control structure.

Canal de Isabel II, S.A. (hereinafter, also, "the Company" or "Canal") 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.

In particular, the following laws apply to Canal de Isabel II, S.A.: 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 is as follows:

Name or corporate name of the shareholder	% of the share capital
Canal de Isabel II Public Entity	82.40%
Madrid City Council	10.00%
Another 110 municipalities in the Region of Madrid	7.60%

A.2 Explain the purposes and functions of the entity.

In accordance with its Articles of Association, Canal de Isabel II, S.A. has the following purpose:

1. The comprehensive management of the water cycle throughout 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 residents of Madrid: 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:

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a. Managing the supply and recycling of drinking water. This activity covers works including, but not limited to, the following: extraction and delivery of ground water and catchment of surface water subject to the correct licenses and concessions; treatment and purification of drinking water of any origin, control of water quality and distribution to third parties for human consumption, irrigation or other uses. Among others, the maintenance, replacement and extension of networks, deposits and other existing infrastructure, and the civil works related to such acts; the management of consumption, recycling and distribution of water; the supply, installation and maintenance of meters; the measurement of consumption and the billing and collection of rates for the provision of the service; and, in general, any activities required for the management and provision of the service.

b. The management of the sewerage service which will encompass works announced subsequently: the collection of wastewater and storm water generated within the municipal area and transport to treatment 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; and, in general, 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 wastewater circulating through the municipal sewerage system, the identification, where necessary, of the origins of contaminating discharges and the adoption of corrective measures to combat the discharge of contaminating wastewater, civil works related to such activities, the billing and collection of rates for the provision of the service; and, in general, any activities required for the management and provision of the service.

d. The management of the wastewater treatment 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; and, in general, any activities required for the management and provision of the service.

e. 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.

f. The execution and/or management of works, including related civil works, required for the maintenance, replacement, upgrading, installation or extension of a) distribution networks, deposits, catchment, treatment plants and other infrastructure of the drinking water supply network; b) collection and evacuation of wastewater and storm water, scuppers, register wells, pumps and other infrastructure of the sewerage network and; c) the general collector networks, impulsions, wastewater and drinking water treatment plants and other infrastructure of the wastewater 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.

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3. The exercise and development of the sale of electricity, directly and indirectly through subsidiaries or investees, 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 electricity production 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 electricity;
   d) trade of products and services related to the sale of electricity and gas, operating directly through several points of sale and/or third parties.

4. The development, construction, sale and rental of property and other associated activities, both in Spain and overseas, as well as the management of urban and land development projects.

5. The development or provision of other public services or activities involving the use of networks or infrastructures, in the management of which it participates or the exercise of technical or commercial activities that contribute to strengthening the services provided by the Company and that represent an 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, production, distribution and/or exhibition of own or external contents, website and e-commerce 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.

   The Company may carry out its corporate purpose, as described above, in any part of Spain or in any other country. It may carry out all or part of these activities indirectly or through shareholdings and/or equity holdings in other companies with the same or similar corporate purposes.

   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:

   a) IT services.
   b) Network connectivity and telephone services.

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c) Technical assistance and advice in telecontrol projects.
d) Advice concerning quality management systems.
e) Internal audit, risk management and internal control services.
f) Legal advice and assistance.
g) Data protection officer services.
h) Advice and assistance in human resources management and occupational health and safety.
i) Document record and filing services.
j) Technical advice and assistance in relation to consolidation, tax matters and accounting.
k) Cleaning, gardening and maintenance of offices and facilities, removing waste where necessary.
l) Security services.
m) Courier services between group companies and entities.
n) 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 List the different governing bodies of the entity and explain their composition, procedures and organisational rules and their 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 Meeting of Shareholders 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 Meeting of Shareholders shall be validly convened regardless of the share capital present.

Nevertheless, in order that the Meeting of Shareholders may validly resolve on the items referred to in Article 194 of the Spanish Companies Act, 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 twenty-five (25) percent of share capital is required to be present.

With regard to the regime for the adoption of agreements of the Company, the statutory regime replicates the statutory regime in force at the date of approval of this Annual Corporate Governance Report.

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 present 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 Act. However, the affirmative vote of two thirds of the share capital present in person or by proxy at the Meeting of

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Shareholders 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 the 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, comprised of a minimum of three (3) and a maximum of twelve (12) 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 ten.

The Directors appointed shall carry out their duty for a term of six (6) 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 the Law and these Articles of Association.

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 Chairperson or the person replacing them. The Directors, constituting at least one third of the members of the Board, may also call Meetings, indicating the agenda of business, to be hold at the registered address of the Company if, subject to a previous request to the Chairperson, he or she would have failed to call the meeting within the term of one month with no justified grounds.

The call shall be made by post, telegram, fax or any other written or electronic means. The call shall be addressed individually to each of the members of the Board of Directors, whose address shall appear in their appointment or, in the event of a change of same, that which they have provided to the Company with at least five (5) days' notice. 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, 2 Directors must be present for a Board of Directors comprised of 3 members; 3 of 5; 4 of 7; etc.).

The agreements of meetings of the Board of Directors held by videoconference or by conference call shall be valid provided that none of the Directors opposes this procedure, they 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.

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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 Members present, the absolute majority shall be determined by default (for example, 2 Directors must vote in favour of an agreement where 3 are present, 3 in the case of 5; 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.

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.

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.

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AUDIT COMMITTEE

In accordance with the Articles of Association, the Company shall have an Audit Committee, which comprises a minimum of three non-executive directors appointed by the Board of Directors, the majority of whom shall be independent directors and one of whom shall be designated taking into account their knowledge and experience in relation to accountancy, audit or both.

The composition is the following:

Name	Position	Category
Mr Antonio Javier Cordero Ferrero	Chairperson	Independent
Mr Jacobo Martínez Pérez de Espinosa	Board Member	Independent
Ms María Antonia Otero Quintas	Board Member	Independent

% of proprietary directors	
% of independent directors	100%
% of other external members	-
Number of meetings	11

The director appointed, taking into account their knowledge and experience in accountancy, audit or both is Mr Antonio Javier Cordero Ferrero.

The Audit Committee has the functions attributed to it in the Articles of Association which are the legal functions contained in Article 529m of the Spanish Companies Act and, in particular, the following:

a) To respond to any questions raised by shareholders at their general meeting on matters which fall within its remit 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.

b) 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 Board of Directors and the relevant deadline for monitoring thereof.

c) 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.

d) 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, in line with Articles 16, Sections 2, 3 and 5 and 17.5 of Regulation (EU) No. 537/2014, of 16 April 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.

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e) To establish the appropriate relationships with auditors or audit firms in order to receive information regarding any issues that may compromise their independence, for their examination by the Committee, and any other issues involved in the process of auditing financial statements, and, when applicable, the authorisation of services other than those prohibited in the terms set forth in Articles 5, Sections 4 and 6.2.b) of Regulation (EU) No. 537/2014, of 16 April and Section 3, Chapter IV, title I of Law 22/2015, of 20 July on the auditing of financial statements, regarding independence and any 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 linked to this in accordance with that established in the legislation on account auditing.

f) 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 opinion on the provision of all of the 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 auditing regulatory policy.

g) To inform the Board of Directors in advance on all the issues envisaged by the Law, the Articles of Association, and in particular regarding:

Financial reporting that must be made public periodically by the Company;

1. The creation or acquisition of shares in entities with a special purpose or domiciled in countries or territories considered to be tax havens; and
2. Other related-party transactions.

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. The decisions or recommendations of the Audit Committee shall be adopted by a majority vote.

In 2019 the Audit Committee rigorously discharged the duties entrusted to it by law and the Articles of Association. In this respect, foremost is the analysis conducted prior to the authorisation for issue by the Board of Directors, of the Individual and Consolidated Annual Financial Statements, the 2018 Annual Corporate Governance Report, the Company's budget for 2020, the Regulation of the Ethics and Compliance Committee, the General Crime Prevention Policy Manual and the Rules concerning the Compliance Department. The Annual Report on the Activities of the Audit Committee for the year ended 31 December 2018 was also approved.

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APPOINTMENTS AND REMUNERATION COMMITTEE

In accordance with the Articles of Association, the Company shall have an Appointments and Remuneration Committee comprising a minimum of three non-executive directors appointed by the Board of Directors, of which at least two must be independent directors.

The composition is the following:

Name	Position	Category
Ms María Antonia Otero Quintas	Chairperson	Independent
Mr Jacobo Martínez Pérez de Espinosa	Board Member	Independent
Mr Antonio Javier Cordero Ferrero	Board Member	Independent

% of proprietary directors	-
% of independent directors	100%
% of other external members	-
Number of meetings	7

Members who left the Appointments and Remuneration Committee in 2019:

Name	Position	Category
Ms Rosalía Gonzalo López (From 26/06/2018 to 31/10/2019)	Board Member	Proprietary

The duties of the Appointments and Remuneration Committee as per the Articles of Association in force at 31 December 2019 are those currently attributed by the Spanish Companies Act in article 529n. Without prejudice to any other functions assigned by law, the Appointments and Remuneration Committee shall, at a minimum, perform the following functions:

a) 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.
b) To establish a target representation rate for the less-represented gender on the Board of Directors, proposing ideas on how to achieve this target rate.
c) 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 and removal of those directors by the Annual General Meeting of Shareholders;
d) To report on the appointment proposals of the remaining members for designation by co-opting or submission the decision of the Annual General Meeting of Shareholders, and proposals for the re-election or separation at the Annual General Meeting.
e) To report on proposals for senior officer appointments and removals and the standard terms of their contracts.

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f) To examine and organise the succession of the Chairperson of the Board of Directors and of the Company's chief executive and, where applicable, making recommendations to the Board of Directors to ensure a well-planned and orderly succession.

g) To make recommendations to the Board of Directors on remuneration policy for directors and general managers or other members of senior management reporting directly to the Board, for executive committees or managing directors, and for individual remuneration and other contractual conditions of executive directors and ensuring compliance with this policy.

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 required. The Committee shall have the necessary means to discharge its duties and operate independently. The decisions or recommendations of the Appointments and Remuneration Committee shall be adopted by a majority vote.

In 2019 the Appointments and Remuneration Committee rigorously discharged the duties entrusted to it by law and the Articles of Association. In this respect, foremost is the preparation of the proposals for nomination of non-independent or proprietary Directors. The Annual Reports on the Activities of the Audit Committee for the years ended 31 December 2017 and 2018 were also approved.

B.2. Please complete the following table with details of the directors/members of the management body:

DIRECTORS/MEMBERS OF THE MANAGEMENT BODY

NIF (Tax Identification Number) or CIF (Tax Identification Code) of Director	Name or corporate name of director/member of the management body	Representative	Last date of appointment
	Ms Paloma Martín		18/12/2019
	Mr Rafael Prieto Martín		27/04/2016
	Mr Mariano González Sáez		18/12/2019
	Ms María Antonia Otero Quintas		13/11/2017
	Mr Jacobo Martínez Pérez de Espinosa		09/09/2015
	Mr Antonio Javier Cordero Ferrero		13/11/2017
	Mr Francisco Muñoz García		18/12/2019
	Mr Guillermo Hita Téllez		27/04/2016
	Mr Pascual Fernández Martínez		18/12/2019

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In 2019, other directors included:

- Mr Pedro Rollán Ojeda, who was appointed on 9 September 2015 and resigned on 9 October 2019.
- Ms Engracia Hidalgo Tena, who was appointed on 9 September 2015 and resigned on 28 June 2019.
- Ms Rosalía Gonzalo López, who was appointed on 13 November 2017 and resigned on 31 October 2019.
- Ms Rita Maestre Fernández, who was appointed on 13 November 2017 and resigned on 16 October 2019.
- Mr Carlos Izquierdo Torres, who was appointed on 23 November 2018 and resigned on 8 October 2019.
- The Madrid City Council, appointed by co-optation on 23 October 2019 and on the Board, in accordance with the provisions of Article 244 of the Spanish Companies Act, until the following General Meeting of Shareholders, which took place on 18 December 2019. In the aforementioned period, the Madrid City Council was represented by Mr Francisco Muñoz García.

As outlined above, the Company's General Meeting of Shareholders established the number of Board members at ten, but there are currently only nine, so there is a vacant seat on the Board. In this connection, the General Meeting of Shareholders of 18 December 2019 agreed unanimously to keep said Board seat vacant so as to allow it to be filled after the meeting, if deemed appropriate, by means of co-optation, all in compliance with the provisions of the Resolution dated 8 February 2017 of the Department of Registries and Notaries.

B.3 Explain the 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 2019, the Directors shall have the right to receive expenses for attending meetings of the Board and, where applicable, meetings of the committees constituted by the Board of Directors. The amount of the expenses must be determined by the General Meeting. Said sum shall remain in force until the General Meeting adopts the change thereof. To these effects, the General Meeting may establish the aforementioned sum for one of the directors, or set said sum for the entire Board, the distribution between the different members in line with the positions held by each member of the body itself and their membership or involvement in the different committees.

The remuneration provided for in the above sections, arising from the membership to the Board of Directors, shall be compatible and independent of other income corresponding to any executive functions (regardless of their nature, within the Company) or the advisory services, where applicable, provided for the Company, other than those considered part of the role as director, whether they are commercial or employment related, monetary or in kind (fixed, variable or contingent, including forecast and insurance plans and, where applicable, Social Security, pensions or compensation of any kind, regardless of the compensation sum), which shall be submitted to the applicable legal regime.

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The remuneration of the members of the Board of Directors, accrued during the year, was as follows:

Remuneration item	In thousands of euros	
	Individual	Group
Fixed remuneration	103.0	-
Variable remuneration	16.9	-
Expenses	47.4	-
Other remunerations	-	-
TOTAL	167.3	-

Directors with executive functions

Fixed and variable remuneration corresponds to that of Mr Rafael Prieto Martín, Executive Vice-Chairperson of Canal de Isabel II, S.A.

B.4 Complete the following table on the number of female directors on the Board of Directors or management body and other governing bodies of the company:

	Number of women							
	Financial year 2019 Number	%	Financial year 2018 Number	%	Financial year 2017 Number	%	Financial year 2016 Number	%
Board of Directors	2	22.22%	4	40.00%	4	40.00%	1	10.00%
Audit Committee	1	33.33%	1	33.33%	1	33.33%	1	33.33%
Appointments and Remuneration Committee	1	33.33%	2	50.00%	1	25.00%	-	0.00%

B.5 State whether the entity has 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.

YES ☐ NO ☒

If so, please describe this diversity policy, its objectives, the measures taken and the way in which they have been applied and the results for the financial year. You should also indicate the specific measures adopted by the Board or management body and, where applicable, the Appointments and Remuneration Committee to achieve a diverse balance of directors.

In the event that the entity does not implement a diversity policy, explain the reasons why not.

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Although Canal de Isabel II, S.A. has not formally implemented specific diversity policies for the Board of Directors and its Committees, the presence of women on said bodies has increased considerably in the last 3 years. Notwithstanding the foregoing, in 2019 the presence of women diminished exceptionally as a result of the voluntary resignation of three of its Board members for reasons beyond the Company's control.

B.6 Indicate the address and means of accessing the Company's website as regards information on corporate governance.

Although it is not required to do so, not being a listed company, the Company has a corporate website, http://www.canaldeisabelsegunda.es/en/home, which contains information on corporate governance in the section "About Us", under "Shareholders", in the sub-section "Corporate Governance". Furthermore, on the aforementioned website, under the section "Shareholders" and sub-section "Relevant Facts" there is a link to the website of the Spanish National Securities Market Commission, which contains "Relevant Information" (regulatory disclosures) pertaining to Canal de Isabel II, S.A. http://www.cnmv.es/Portal/HR/ResultadoBusquedaHR.aspx?division=1&nif=A86488087. In addition, at an Extraordinary General Meeting of 23 November 2018, shareholders approved the Corporate Website as www.canaldeisabelsegunda.es/en/home.

C RELATED AND INTER-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 Stock Market Law 24/1988, of 28 July 1988) or any significant influence over the taking of financial and operational decisions at the Company.

C.1 Provide details of transactions between the entity or group entities and the directors, management or members of the management body of the entity.

N/A

C.2 Provide details of intergroup 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 82.4% and 10%, 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

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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 managing the water supply.

Details of transactions with the Public Entity in 2019 are as follows:

Nature of the relationship	Type of transaction	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	5,869
Contract-Programme	Distributed dividends	252,640
Contract-Programme	Debt repayments – mirror debt	29,048
Contract-Programme	Financial expense on debt – mirror debt – and other	6,358
Contract-Programme	Tax obligations - VAT Self-supply Theatre assignment -	851
Contract-Programme	Tax consolidation of corporate income tax	(2,415)
Contract-Programme	Other services rendered	253

(1) Sums accrued in 2019

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 2019 are as follows:

Nature of the relationship	Type of transaction	Sums excluding VAT (Thousands of euros) [1]
Contract	Service provision - comprehensive water cycle -	23,325
Tax	Municipal taxes	11,157
Collective Bargaining Agreement	Discharge fees	4,226
Company dividends	Distribution dividends	30,660

(1) Sums accrued in 2019

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.

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The amounts of the Company's transactions with Group companies, associates and joint ventures in 2019 are as follows, as detailed in Note 25 of the Company's individual financial statements:

	In thousands of euros								
	Canal de Isabel II Public Entity	**Hidráulica Santillana S.A.U.**	**Canal de Comunica Unidas S.A.U.**	**Hispanagua, S.A.U.**	**Lanzarote S.A.U.**	**GSS Venture, S.L.**	**Emissão**	**Ocio y Deporte S.L.U.**	**Joint Ventures**
INCOME									
Dividends	-	-	-	-	-	-	-	-	-
Water sales	-	-	-	4	-	-	-	-	-
Materials sales	3	-	-	-	-	-	-	-	-
Service provision	-	-	-	-	-	-	-	1	-
Compensation for faults	-	-	-	7	-	-	-	-	-
Concession fee	-	428	-	-	-	-	-	185	-
Financial income	-	-	-	-	5,545	-	-	-	479
Other Operating Income	250	570	108	831	792	-	-	4	557
EXPENSES									
Purchase of water	-	-	-	-	-	-	-	-	(2)
Supplies				-					
Energy	-	(1,715)	-	-	-	-	-	-	-
Telephone helpline	-	-	-			(3,222)	-	-	-
WWTP operations	-	-	-	(3,386)	-	-	-	-	-
Sales offices	-	-	-	-	-	(847)	-	-	-
Other operating works	-	-	-	(5,681)	-	-	-	-	-
Other operating expenses			(30)						
Other leases	-	-	-	-	-	-	-	(7)	-
Repair technical facilities	-	-	(3,862)	(1,156)	-	-	-	-	-
Technical assistance	(2,825)	-	(61)	(782)	-	-	-	-	-
Advertising								-	
Other services								-	
Other current operating expenses	(851)	-	-	-		-	-	(2)	-
Financial expenses	(6,358)								
INVESTMENT	-	-	(455)	(3,573)	-	-	-	-	-

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In 2019, 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	**Income**	**Expenses**	**Item**
Hispanagua, S.A.U.	4		
Canal de Isabel II Public Entity		4	Repairs and maintenance
Canal de Comunicaciones Unidas, S.A.U.	38		Communications services
Hispanagua, S.A.U.		38	
Canal Extensia. S.A.U.	1,533		
INASSA		1,384	Technical assistance
Amerika Tecnologías de la información, S.A.S.		149	Technical assistance
INASSA	2,571		
AAA Dominicana, S.A.		537	Technical assistance
Amagua, CEM		1,945	Technical assistance
Amerika Tecnologías de la información, S.A.S.		43	Back office lease
Gestus Gestión & Servicios, S.A.S.		46	Technical assistance
Amerika Tecnologías de la información, S.A.S	616		
INASSA		42	Software services
AAA Dominicana, S.A.		253	Software services
Amagua, CEM		250	Software services
Gestus Gestión & Servicios, S.A.S.		71	Software services
AAA Dominicana, S.A.	384		
INASSA		384	Other services
Gestus Gestión & Servicios	1		
INASSA		1	Technical assistance
Canal Extensia, S.A.	3,580		
INASSA		2,485	Interest on loans
Soluciones Andinas de Aguas, S.R.L.		1,095	Interest on loans
INASSA	1,577		
AAA Dominicana, S.A.		364	Interest on loans
Soluciones Andinas del Agua, S.R.L.		852	Interest on loans
Emissão, S.A.		214	Interest on loans
Gestus Gestión & Servicios, S.A.S.		147	Interest on loans
Amerika Tecnologías de la información, S.A.S.	3,468		
Gestus Gestión & Servicios, S.A.S.		3,468	Interest on loans
AAA Dominicana, S.A.	49		
INASSA		49	Interest on loans
Soluciones Andinas del Agua, S.R.L.	245		
Emissão, S.A.		245	Interest on loans

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With regard to related transactions with financing agreements:

- At meetings of the Board of Directors of Canal de Isabel II on 23 November 2018 and of the Board of Directors of Canal Extensia on 25 March 2019, an intercompany loan operation was approved between Canal Extensia and INASSA amounting to 38 million US dollars, and an intercompany loan operation was approved between Canal de Isabel II, S.A. and Canal Extensia up to a maximum of 4 million euros, to meet the working capital requirements of the latter company.
- On 6 February 2019, a loan contract was arranged with INASSA for 2.3 million US dollars to finance the cash requirements of INASSA. Subsequently, on 3 May 2019, Canal Extensia granted a new loan to INASSA for 3 million US dollars, giving a combined borrowings total of 42 million US dollars.

- On 25 November 2019, Canal Extensia granted INASSA a loan of up to 49 million US dollars in order to unify all the loans already granted (42 million US dollars) plus the interest accrued on that date, amounting to 2.7 million US dollars. Furthermore, said contract granted a new loan amounting to 3.9 million US dollars.

- On 30 January 2019, Canal Extensia granted Soluciones Andinas de Aguas a loan of 2.9 million euros to cover one-off liquidity requirements at its Brazilian subsidiary Emissão.

- On 3 May 2019, an addendum to the aforementioned loan contract was approved, increasing the loan amount by 2.9 million euros to 5.8 million euros.

- On 25 November 2019, a second addendum to the aforementioned contract was approved, with the purpose of combining all the previously granted loans amounting to 5.8 million euros and the interest accrued on that date, amounting to 173 thousand euros. Furthermore, said contract granted a new loan amounting to 7.16 million euros.

- On 22 November 2019, another addendum to the 14.5 million US dollar loan contract granted to Soluciones Andinas was approved, extending the grace period for both the principal and interest.

- Related-party transactions with guarantees at 31 December 2019 in which INASSA is the guarantor are as follows:

	Company	thousands of euros
Guarantee to support bank balances		
Banco Davivienda	ASAA [1]	11
TOTAL		11

[1] Avanzadas Soluciones de Acueducto y Alcantarillado, S.A.

C.3 List the mechanisms established to detect, determine and resolve any possible conflicts of interest between the company or its group, and its directors or members of the managing body or executives.

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

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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 corporate purpose.

D CONTROL SYSTEMS AND RISK MANAGEMENT

Canal de Isabel II has an Internal Audit, Risk Management and Control Sub-Directorate, under the organic management of General Management and the functional supervision of the Audit Committee. Its duties include Internal Audit, Risk Management and 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) who can attest to the excellence of the internal audit services provided, along with Certification in Risk Management Assurance (CRMA) granted by the Global Institute of Internal Auditors and Internal Control, and the COSO Internal Control Certificate Program.

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 Explain the 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.

Canal de Isabel II is bound by this risk management policy and all the Company's personnel are responsible for its correct application.

It is based on the following principles:

1. Understanding risk to mean any threat, event, action or omission that might prevent Canal de Isabel II from achieving its objectives, successfully implementing its strategies or correctly conducting its operations.
2. Setting in place the mechanisms for proper risk management, having regard to the identification, evaluation, response to, monitoring and reporting of such risks.
3. 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.
4. Assigning responsibility for identifying, analysing, evaluating and supervising the Risk Management System to the various levels of the organisation.
5. Encouraging the creation and implementation of guidelines, limits and mechanisms that help to ensure that risk management is performed in line with the risk threshold accepted by the organisation.
6. Promoting, developing and raising awareness, via training and communication, of the Risk Management System, guaranteeing awareness of this policy, together with its implementing documentation.

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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.

Over the coming years, the Risk Management function is set to expand in order to include the Group's subsidiaries, following the approval of the Audit Committee.

Thus, there is now an Operational Risk Map showing the three levels of consolidation (Deputy Managers, Senior Management, Company) and a High-level Risk Map showing a breakdown of management-related risks.

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 it to include any new risks that might affect the Company and which are identified over the course of the year. Furthermore, it ensures that all risks are reviewed at least once 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 body reports to 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"*.
- Executive Vice-Chairperson. 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-Directorate 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.

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- Risk Assessors. The Risk Assessors are all the Deputy Directors, in charge of updating the Operating Map.
- Persons in charge of Risk by Organisational Unit. They are responsible for defining the indicators and controls and for monitoring risks.

In 2019, the Company has a total of 66 participants between Managers, Directors, Heads and Assessors.

Risk Categories

The risks that may affect the fulfilment of the Company's goals are classified based on the categories used in COSO (Committee of Sponsoring Organization of the Treadway Commission):

- Information Risks. Those pertaining to information of a financial, non-financial, internal and external nature at the Company.
- Compliance risks. These risks relate 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. Category No. Risks % of total:

- Information 13 (10%)
- Compliance 21 (15%)
- Strategy 27 (20%)
- Operations 64 (47%)
- Senior Management 11 (8%)

Process

Canal de Isabel II conducts its risk management based on the COSO methodology, 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 impact aspects.
- A list is drawn up of the potential risks at Canal de Isabel II based on the categories used in COSO.
- The entity's risk map is updated periodically (the Operational Risk Map and High-level Risk Maps were updated twice in 2019, in May and in November).
- 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.

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- There is also another high-level risk map that consolidates management-level risks and Canal de Isabel II; it comprises the strategic risks (which arise from grouping all operational risks) and 11 risks pertaining to senior management.
- 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, pursue, reduce or share.

Among all the risks managed which are decided to be mitigated, 98% have indicators, 79% have controls that periodically evaluate their design and effectiveness, and 11% have measures (occasional controls that do not need to be maintained over time).

Crossing of risks and strategic lines.

In early 2019, the Internal Audit, Risk Management and Control Sub-Directorate, along with the Coordinators of the various Strategic Lines and the Risk Managers of each Department cross checked operational risks from the risk catalogue of Canal de Isabel II against each Strategic Line of the 2018-2030 Strategic Plan.

The risks with the biggest impact on the achievement of each Strategic Line were identified, and for each of them a *"key risk"* was pinpointed, i.e. the risk considered most significant.

The cross-check of risks against Strategic Lines was approved by the Audit Committee on 19 November 2019. Moreover, in the SAP-GRC tool it is possible to visualise which risks are associated with each Strategic Line by means of the Risk Map.

The risk catalogue of Canal de Isabel II must be loaded with the risks identified in this cross-check against the Strategic Lines and the transverse risks affecting the entire Organisation. Risks not related to any Line of the Strategic Plan will be eliminated from the catalogue.

In 2019, the Company has worked to ensure that all key risks and other major risks for each Strategic Line are properly managed. This means each risk is afforded a key risk indicator (KRI) to assess the risk objectively and controls are implemented to maintain or mitigate the risk.

E INTERNAL CONTROL AND RISK MANAGEMENT SYSTEMS RELATED TO FINANCIAL REPORTING (ICOFR)

E.1 Describe the mechanisms which comprise the internal control over financial reporting (ICOFR) risk control and management systems at the entity.

E.1.1. Bodies and/or functions responsible for: (i) the existence and maintenance of an adequate ICOFR system; (ii) its implementation; and (iii) monitoring thereof.

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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, which 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.

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 18. bis), 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

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 Executive Vice-Chairperson 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.

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 de Isabel II", approved on 1 December 2016. 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 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 information. These responsibilities have been validated by the sub-departments of these structures through a formal approval process.

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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 presents the general ethical principles for the whole organisation, specified as the values to be followed by the Company, which include 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 recorded in the 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.

Canal de Isabel II also has an Internal Regulation of Conduct for issues relating to Stock Markets, which was also approved by the Board of Directors in the meeting held on 8 January 2015. 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 parties created in 2015, which is periodically updated or when any of the persons included in the scope of said Regulation are incorporated or replaced.

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Whistle-blowing hotline, 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 de Isabel II 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.es

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 is the supervisory and control body to which Article 31 bis of the Spanish Criminal Code refers, establishing the criminal liability of legal persons.

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 2019, the Ethics and Compliance Committee met on five 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 departments 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 2019, 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 information and the assessment of ICOFR, 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 information and the assessment of ICOFR, covering at least accounting standards, audit, internal control and risk management.

The 2019 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.

In 2019, personnel from the Finance and Business Development Department that take part in preparing and reviewing the financial information, received a total of 1,511.53 hours of training.

37 courses were held, which were taught by consulting agencies or external entities, and attended by 116 employees. Most of the courses were on accounting, consolidation and taxation and code of conduct.

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In addition, 10 participants from the company INASSA S.A. were trained in a joint session by the Finance and Business Development Department and the Internal Audit Department in connection with the ICOFR and the use of the "SAP-GRC Process Control" tool, respectively.

Furthermore, in connection with specific ICOFR training, for the management of the internal control over financial reporting system, in 2019, training sessions were provided by the Finance and Business Development Department to 25 people at Canal.

E.2. Assessment of financial reporting risks

E.2.1. What are the main 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 comprehensive risk management system in Canal and described in the previous sections, Control Systems and Risk Management of this Corporate Governance Report, the Internal Control System of Financial Information also includes a specific process for identifying risks regarding financial information in the Parent Company.

Whether the process covers all financial 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.

Financial risk management consists of identifying risks in respect of the reliability of the financial information and establishing controls to mitigate these risks. A separate section in the SAP-GRC IT application is devoted to ICOFR, and the tool also contains the documentation relating to processes that affect internal control over financial 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 information published: existence and occurrence, completeness, valuation, presentation, disclosures and comparability, rights and obligations.

(Free translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails)

In Triple A de Barranquilla once the processes, control and managers have been defined, this control system was implemented after the relevant training was given in 2018. In the first quarter of 2019, material process documents were completed concerning ICOFR in INASSA S.A., Hidráulica Santillana S.A. and Emissão, and the controls in place at each of them. In the second half of the year tests were launched on key controls via SAP-GRC in material processes at those companies.

Accordingly, in the second half of the year the preparation commenced of new material processes in connection with ICOFR at AAA Dominicana S.A. and Emissão, S.A., in compliance with the commitment to extend this control system to the other companies in the Group according to the methodology set forth in the "ICOFR Management and Evaluation Manual".

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 de Isabel II 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.

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).

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 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.

(Free translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails)

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 information, as well as the description of ICOFR, are formally carried out every year. Also, monthly reviews are performed, with the main objective of guaranteeing the quality of the financial information reflected in the financial statements.

In this process, those in charge of the Consolidation and Investees area, 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.

The financial information approval process starts with the preparation and monthly presentation to Canal de Isabel II's Management Committee of the monthly financial close information and ends with the preparation and annual presentation of the "Canal Gestión Group's Consolidation Report" by the Consolidation and Investees Area for the Finance and Business Development Department. All information is validated through SAP BPC. Once reviewed, the report is sent to General Management for review and approval.

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 2019 in each of the Canal Group companies with ICOFR implemented:

- At Canal's "Business", 489 tests have been launched (119 design tests and 370 effectiveness tests for 119 key controls). In addition, there are 104 non-key controls. At Canal's "IT", 186 tests have been launched (75 design tests and 111 effectiveness tests for 75 key controls). At Canal's "Senior Management" (COSO), 34 tests have been launched (16 design tests and 16 effectiveness tests for 17 key controls). In Hispanagua, S.A.U, 347 tests have been launched (94 design tests and 248 effectiveness tests for 95 key controls). In Canal Gestión Lanzarote, 454 tests have been launched (118 design tests and 336 effectiveness tests for 118 key controls).

(Free translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails)

Company	No. of key controls	No. of design tests	No. of effectiveness tests
CANAL	119	119	370
IT	75	75	111
HISPANAGUA	95	95	252
LANZAROTE	118	118	336
HS	13	13	34
EMISSÃO	13	13	41
INASSA	35	35	105
COSO	17	16	16
TOTAL	**485**	**484**	**1,265**

The total number of tests in 2019 at the aforementioned companies amounted to 1,749.

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
- Tenders

Canal 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, from this year, 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 Compliance, which has been gradually rolled out at the Organisation in recent years, the Rules of the Compliance Department were approved by the Board of Directors in its meeting of 8 May 2019, on the basis of a favourable report from the Audit Committee dated 7 May 2019.

As part of the crime prevention model, in relation to the criminal liability of legal persons, the Board of Directors, at its meeting on 8 May 2019 and on the basis of a favourable report from the Audit Committee dated 7 May 2019, on the one hand designated the Ethics and Compliance Committee as the supervisory and control body pursuant to the terms of the Spanish Criminal Code, and on the other hand approved the General Crime Prevention Policy Manual which provides the general controls in this connection.

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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 de Isabel II, S.A., 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
- Separation of functions
- Management of software and infrastructure modifications
- Project management
- Secure software development
- Operations management
- Operating 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 General Manager 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 Security Director and has representatives from all of the areas 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.

In 2019, the security portal went live, featuring the various security awareness campaigns, and all the employees have access to all documents relating to security. Particular attention was paid this year to the prevention of phishing by means of preparing informative content and providing access to a self-assessment test.

Note that in 2019, the Operating Technology Security Master Plan (OTSMP) was launched, identifying the information security risks for the various types facilities for water cycle operations. Based on this diagnosis, the policies, organisation and securing programmes of Operating Technology (OT) are devised.

Management of weaknesses and security incidents:

The IT systems are updated periodically whenever the software manufacturers issue notifications that software patches and security updates are available. Likewise, weaknesses reported by these manufacturers or official or non-official lists are taken into account.

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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, a CCN probe was installed to monitor systems exposed to the Internet, although, until it is fully operational, the probe stipulated in the collaboration agreement signed in 2014 with the INCIBE and CNPIC for managing 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.

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 potential threats and launch processes for containment and remediation. This SOC also warns Canal's security teams in connection with vulnerabilities or malware or phishing campaigns in order to take the necessary preventive measures.

As part of the Risk Management System (RMS) Cyber-attack 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 Physical Security area 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 mail and storage on the Microsoft Office 365 platform. It has been implemented in the Organisation's structure and is being gradually rolled out to the rest of employees.

Separation of functions

Prior authorisations and periodic reviews are used to monitor super users. The implementation of the identity management project will also make these aspects more robust.

In 2019, an analysis was conducted of the necessary functions and roles in accordance with 3 risk levels for the financial and human resources systems.

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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

As part of the Information Security Management System, a general procedure of Secure Development has been drawn up, which contains a set of good practices in codification and secure development that are included in the life cycle of software development as codification requirements. As a result of their implementation the most common software weaknesses can be mitigated. This procedure contemplates performing security assessments in the design and audit stage of the finished product. 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 accessible from Internet, security software audits are implemented as a preliminary step prior to their entry into service.

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.

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Operating continuity

In recent years the Company's IT Infrastructure area has been developing several disaster recovery plans (DRPs) for the main IT systems, which focus on the strategy of recovery through the back-up centre. Unit recovery tests are carried out systematically as part of these plans. Note that, in 2019, a shutdown test was conducted with satisfactory results at one of the back-up centres to test the suitability of the continuity model if needed.

Additionally, Canal has a Business Continuity Plan, which is focused on all critical processes performed at Company headquarters and the back-up centre. This Plan includes scenarios where systems (based on the various DRPs), buildings, personnel and suppliers are not available. It includes all the documents and procedures (governance model, recovery strategies and procedures, crisis management, training plans, updating and tests) necessary to guarantee a minimum impact on critical business processes in the event of disaster. Also, the Information Security Committee has been assigned Business Continuity Management duties and responsibilities, making it the maximum governing body for continuity in the organisation.

In 2019, business continuity information tests were conducted in various contingency scenarios of loss of buildings and critical providers. Likewise, the Business Continuity Plan was updated based on the results of the Business Impact Analysis (BIA) conducted the previous year.

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, concerning Public Sector Contracts or the relevant part of Royal Decree-Law, of 4 February, concerning 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 Law 31/2007 of 30 October, concerning 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 2019, 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.

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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 from December 2019 was distributed to all the Group's control departments in March 2020.

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. ICOFR supervisory activities conducted by the Audit Committee and whether the entity has an internal audit department whose competences include supporting the committee in its oversight of the internal control system, including ICOFR. Also report on the scope of the assessment of ICOFR in the year and the process by which the person responsible for conducting the evaluation reports the results, whether the entity has an action plan detailing any corrective measures, and whether the impact on financial reporting has been considered.

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As established in article 18 bis of the Articles of Association "the Company shall have an Audit Committee formed by at least three directors, appointed by the Board of Directors, who will have the necessary capacity, experience and dedication to carry out their duties". All Committee members must be external or non-executive directors.

The Audit Committee meets with the frequency determined and whenever the Chairperson or two of its members call(s) a meeting. During 2019, 10 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.

At least one must be an external independent director, and his or her knowledge of and experience in accounting and/or audit matters shall be considered at the time of appointment.

The Audit Committee consists of three independent 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 2019, the first meeting of the Audit Committee was held on 22 January 2019, and the last on 16 December 2019.

To fulfil its role the Audit Committee relies on the information and documentation provided by the Finance and Business Development Department, the Internal Audit, Risk and Control Sub-Directorate, the Compliance Sub-Directorate 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. Whether a 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 Financial Statements or any other processes assigned to them. If the entity has an action plan to correct or mitigate the weaknesses found it must also be notified.

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 the 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.

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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 nine times during 2019.

F OTHER INFORMATION OF INTEREST

Briefly explain any significant aspect of corporate governance in the entity or group companies that is not contained in the other sections of this report, but which should be included to provide more complete and reasoned information on the structure and governance practices of the entity or its group.

This section may also include any other information, clarification or details related to previous sections of the report insofar as they are relevant and not repeated.

N/A

The entity may also indicate any voluntary adherence to other codes of ethics or principles or best practices, at an international, sector or other level. Where appropriate, the entity should identify the code in question and the date of adherence.

N/A

This annual corporate governance report was approved by the entity's Board of Directors in its meeting held on 30 March 2020.

Indicate the directors or members of the governing body who voted against or abstained with respect to the approval of this report.

No directors present or represented voted against or abstained.

(Free translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails)

ADDENDUM: External Auditor report referred to the "Information regarding the Internal Control over Financial Reporting" (ICOFR) of the Canal de Isabel II, S.A. corresponding to financial year 2019.

CANAL DE ISABEL II, S.A.

Informe de auditoría referido a la información relativa al Sistema de Control Interno sobre la Información Financiera del ejercicio 2019

INFORME DE AUDITORÍA REFERIDO A LA "INFORMACIÓN RELATIVA AL SISTEMA DE CONTROL INTERNO SOBRE LA INFORMACIÓN FINANCIERA (SCIIF)" DE CANAL DE ISABEL II S.A. CORRESPONDIENTE AL EJERCICIO 2019 EMITIDO POR UN AUDITOR INDEPENDIENTE

A los accionistas de CANAL DE ISABEL II, S.A.:

Opinión

De acuerdo con la solicitud del Consejo de Administración de CANAL DE ISABEL, II S.A. (la Entidad) y con nuestra carta de encargo, hemos aplicado determinados procedimientos sobre la "información relativa al SCIIF" adjunta de CANAL DE ISABEL II, S.A. correspondientes al ejercicio 2019, en el que se resumen los procedimientos de control interno de la Entidad en relación a la información financiera anual.

Los Administradores son responsables de adoptar las medidas oportunas para garantizar razonablemente la implantación, mantenimiento y supervisión de un adecuado sistema de control interno, así como del desarrollo de mejoras de dicho sistema y de la preparación y establecimiento del contenido de la Información relativa al SCIIF adjunta.

En este sentido, hay que tener en cuenta que, con independencia de la calidad del diseño y operatividad del sistema de control interno adoptado por la Entidad en relación a la información financiera anual, éste sólo puede permitir una seguridad razonable, pero no absoluta, en relación con los objetivos que persigue, debido a las limitaciones inherentes a todo sistema de control interno.

En el curso de nuestro trabajo de auditoría de las cuentas anuales y conforme a las Normas Técnicas de Auditoría, nuestra evaluación del control interno de la entidad ha tenido como único propósito el permitirnos establecer el alcance, la naturaleza y el momento de realización de los procedimientos de auditoría de las cuentas anuales de la Entidad. Por consiguiente, nuestra evaluación del control interno, realizada a efectos de dicha auditoría de cuentas, no ha tenido la extensión suficiente para permitirnos emitir una opinión específica sobre la eficacia de dicho control interno sobre la información financiera anual regulada.

A los efectos de la emisión de este informe, hemos aplicado exclusivamente los procedimientos específicos descritos a continuación e indicados en la Guía de Actuación sobre el Informe del Auditor referido a la información relativa al Sistema de Control Interno sobre la información financiera, publicada por la Comisión Nacional de Mercado de Valores en su página web donde se, establece el trabajo a realizar, el alcance mínimo del mismo, así como el contenido de este informe. Como el trabajo resultante de dichos procedimientos tiene, en cualquier caso, un alcance reducido y sustancialmente menor que el de una auditoría o una revisión sobre el sistema de Control Interno, no expresamos una opinión sobre la efectividad del mismo ni sobre su diseño y su eficacia operativa, en relación a la información financiera anual de la Entidad correspondiente al ejercicio 2019 que se describe en la información relativa al SCIIF adjunto. En consecuencia, si hubiéramos aplicado procedimientos adicionales a los determinados por la citada Guía, o realizado una auditoría o una previsión sobre el sistema de control interno en relación a la información financiera anual regulada, se podrían haber puesto de manifiesto otros hechos o aspectos sobre los que les habríamos informado. Asimismo, dado que este trabajo especial no constituye una auditoría de cuentas ni se encuentra sometido a la normativa reguladora de la actividad de auditoría de cuentas vigente en España, no expresamos una opinión de auditoría en los términos previstos en la citada normativa.

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Se relacionan a continuación los procedimientos aplicados:

1. Lectura y entendimiento de la información preparada por la entidad en relación con el SCIIF – información de desglose incluida en el Informe de Gestión – y evaluación de si dicha información aborda la totalidad de la información requerida que seguirá el contenido mínimo descrito en el apartado que corresponda, relativo a la descripción del SCIIF, del modelo de IAGC según se establece en la Circular nº 5/2013 de 12 de junio de 2013 de la Comisión Nacional del Mercado de Valores (CNMV), posteriormente modificada por la Circular nº7/2015 de 22 de diciembre de 2015 de la CNMV y la Circular 2/2018 de 12 de junio de la CNMV (en adelante, las Circulares de la CNMV).

2. Preguntas al personal encargado de la elaboración de la información detallada en el punto 1 anterior con el fin de: (i) obtener un entendimiento del proceso seguido en su elaboración; (ii) obtener información que permita evaluar si la terminología utilizada se ajusta a las definiciones del marco de referencia; (iii) obtener información sobre si los procedimientos de control descritos están implantados y en funcionamiento de la Entidad.

3. Revisión de la documentación explicativa soporte de la información detallada en el punto 1 anterior, y que comprenderá, principalmente, aquella directamente puesta a disposición de los responsables de formular la información descriptiva del SCIIF. En este sentido, dicha documentación incluye informes preparados por la función de auditoría interna, alta dirección y otros especialistas internos o externos en sus funciones de soporte a la comisión de auditoría.

4. Comparación de la información detallada en el punto 1 anterior con el conocimiento del SCIIF de la entidad obtenido como resultado de la aplicación de los procedimientos realizados en el marco de los trabajos de la auditoría de cuentas anuales.

5. Lectura de actas de reuniones de consejo de administración, comisión de auditoría y otras comisiones de la entidad a los efectos de avaluar la consistencia entre los asuntos en ellas abordados en relación con el SCIIF y la información detallada en el punto 1 anterior.

6. Obtención de la carta de manifestaciones relativa al trabajo realizado adecuadamente firmada por los responsables de la preparación y formulación de la información detallada en el punto 1 anterior.

Como resultado de los procedimientos aplicados sobre la información relativa al SCIIF no se han puesto de manifiesto inconsistencias o incidencias que puedan afectar a la misma.

Este informe ha sido preparado exclusivamente en el contexto de los requerimientos establecidos por el artículo 540 del texto refundido de la Ley de Sociedades de Capital y por la Circular nº 7/2015, del 22 de diciembre, de la Comisión Nacional del Mercado de Valores a los efectos de la descripción del SCIIF en los Informes Anuales de Gobierno Corporativo.

AUREN AUDITORES SP, S.L.P.

Julio López Vázquez

26 de mayo de 2020

INSTITUTO DE CENSORES JURADOS DE CUENTAS DE ESPAÑA

AUREN AUDITORES SP, S.L.P.

2020 Núm. 01/20/05759

30,00 EUR

SELLO CORPORATIVO:

Informe sobre trabajos distintos a la auditoría de cuentas

Member of Antea Alliance of independent firms

CANAL DE ISABEL II, S.A. 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 2019.

(Free translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails)

The Board of Directors of Canal de Isabel II, S.A. on 19 March 2020 and in compliance with the requirements established in Article 253.2 of the Revised Text of the Spanish Companies Act and in Article 37 of the Commercial Code, have authorised for issue the Consolidated Financial Statements and the Directors' Report, prepared in accordance with International Financial Reporting Standards adopted by the European Union (IFRS-EU) for the period comprising 1 January 2019 and 31 December 2019.

Signed by:

Signed: Ms Paloma Martín **Chairperson of Canal de Isabel II, S.A.**	
Signed: Mr Rafael Prieto Martín **Executive Vice-Chairperson of Canal de Isabel II, S.A.**	**Signed:** Mr Mariano González Sáez **Director**
Signed: Mr Pascual Fernández Martínez **Director**	**Signed:** Mr Francisco Muñoz García **Director**
Signed: Mr Guillermo Hita Téllez **Director**	**Signed:** Mr Jacobo Martínez Pérez de Espinosa **Director**
Signed: Ms María Antonia Otero Quintas **Director**	**Signed:** Mr Antonio Javier Cordero Ferrero **Director**

(*Signed on original in Spanish*)

Canal de Isabel II

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