

Canal de Isabel II, S.A.

Fitch Ratings' affirmation of Canal de Isabel II, S.A., M.P.'s Long-Term Issuer Default Rating (IDR) in May 2023 reflects Canal's low-risk business and solid financial profile, despite sustained regulatory uncertainty. We expect Canal's lasting tariff freeze to have a larger negative impact in the current inflationary environment, with operating margins decreasing below 30% in 2023. However, its financial profile should remain strong, with ample rating headroom over the forecast horizon to 2027, despite increased investments and a larger workforce.

Key Rating Drivers

Sustained Tariff Uncertainty: Canal's tariffs have not increased since 2016, due to delays in deployment of capex and, more recently, overall economic uncertainty. We forecast tariffs to remain frozen until end-2024 despite Canal's ramp-up of investment activities. Inflationary cost pressures, expected higher headcount and capex acceleration should provide valid reasons for a tariff increase from 2025 but uncertainties remain over the next tariff revision.

Madrid's (Autonomous Community of Madrid; BBB+/Stable) record of tariff interventionism and the absence of an independent regulator or tariff-setting mechanisms remain a rating constraint.

Ample Leverage Headroom: We forecast Canal's funds from operations (FFO) dividend-adjusted net leverage to increase to 2.5x in 2027 from 0.5x in 2022. This is driven by pressure on the EBITDA margin due to the tariff freeze in an inflationary environment while the company is increasing capex. However, we see FFO net leverage comfortably remaining below our negative sensitivity of 4.3x until 2027.

Cost Inflation: We forecast the EBITDA margin to decrease to below 30% in 2023. The inflationary environment (particularly on energy, reagents and other raw materials) and an increase in costs linked to implementation of the strategic plan are hitting Canal's cost structure and profitability while also inflating capex versus our previous forecast.

Canal has some flexibility within its operations to mitigate part of the cost increases. However, we do not expect revised tariffs from 2025 to fully compensate for the cumulative inflation and we forecast EBITDA margins to rise only due to macroeconomic normalisation towards end-2026.

Investment Ramp-Up: Fitch expects Canal to accelerate its discretionary investment plan, with capex averaging EUR340 million over the forecast horizon compared with about EUR150 million in 2022. Its capex plan includes the modernisation of its sewage networks, the standardisation of materials in distribution, smart meter installation and the installation of photovoltaic plants to boost generation and self-consumption of clean energy. Capex deployment will be supported by a larger permanent workforce and modernisation-related subsidies.

Stronger Links to Madrid: We have updated the overall support score under our Government Related Entities (GRE) Rating Criteria to 15 from 10 based on a 'Very Strong' status, ownership and control (revised from 'Strong'), although with no final impact on the IDR.

The change follows the recently granted status of 'Medio Propio' (in-house provider) to Canal and the associated stringent legal and corporate requirements (i.e. total public ownership and decisive control over strategy and important decisions, for example). We expect this new legal status to facilitate contracting between Canal and Madrid.

Ratings

Foreign Currency

Long-Term IDR BBB+

Outlooks

Long-Term Foreign-Currency IDR Stable

Debt Ratings

Senior Unsecured Debt - Long-Term Rating BBB+

2035 Climate Vulnerability Signal: 14

[Click here for the full list of ratings](#)

Applicable Criteria

[Corporates Recovery Ratings and Instrument Ratings Criteria \(April 2021\)](#)

[Corporate Rating Criteria \(October 2022\)](#)

[Government-Related Entities Rating Criteria \(September 2020\)](#)

[Parent and Subsidiary Linkage Rating Criteria \(June 2023\)](#)

Related Research

[Global Corporates Macro and Sector Forecasts \(March 2023\)](#)

Analysts

Pierre Gaillac
+34 93 492 9520
pierre.gaillac@fitchratings.com

Manuel Meneses Pereira
+34 93 492 9511
manuel.menesespereira@fitchratings.com

Standalone Credit Profile: We rate Canal based on its Standalone Credit Profile (SCP), which is the same as Madrid's following the region's upgrade in April 2023. However, we continue to see parent-subsidiary linkage supporting a maximum one-notch differential between the entities. A change in Madrid's IDR does not necessarily translate into similar rating action on Canal's IDR if not coupled with a similar action on Canal's SCP.

Stable Underlying Business: Canal's creditworthiness is supported by its low-risk business profile. We forecast water management revenue under its 50-year concession contract covering Madrid region infrastructure to remain stable, in line with the region's underlying population growth and water consumption patterns. We therefore see volume risk as low. Canal continues to focus on its domestic regional activities and capex plan with minimal contribution from international activity

Financial Summary

(EUR 000)	2020	2021	2022	2023F	2024F	2025F
EBITDA before income from associates	392,591.0	348,181.0	293,590.0	257,337.5	322,231.3	334,650.1
EBITDA margin (%)	42.8	38.1	31.0	27.2	34.1	34.5
FFO margin (%)	29.7	21.5	23.3	22.2	26.1	25.9
FFO net leverage (x)	1.1	1.0	0.5	1.3	1.8	2.3
FFO interest coverage (x)	16.9	13.9	18.0	17.3	20.7	13.0

F = Forecast

Note: FFO metrics are dividend-adjusted.

Source: Fitch Ratings, Canal de Isabel II, S.A.

Rating Derivation Relative to Peers

Canal is a water and sewage network operator, but unlike most of its European peers it does not own its asset base. However, its investments are supported by its concession value. Canal's leverage, adjusted for dividends, is well below that of peers such as Acea SpA (BBB+/Negative), Holding d'infrastructures des Metiers de l'Environnement (SAUR; BBB-/Stable) and FCC Aqualia, S.A. (BBB-/Stable), although we give Canal's leverage a lower weight in the overall assessment compared with peers, given the specific features of its links with Madrid.

Canal operates in a more decentralised and less developed regulatory environment than some other European countries. In addition, as Canal does not own its assets, it does not benefit from the one-notch uplift to the senior unsecured rating typically afforded to regulated network utilities, which reflects above-average expected recoveries in a default. No Country Ceiling constraints affect Canal's rating.

Navigator Peer Comparison

	IDR/Outlook	Operating Environment	Management and Corporate Governance	Sector Positioning	Regulatory Environment	Asset Base	Operational Profile	Profitability and Cash Flow	Financial Structure	Financial Flexibility
Acea SpA	BBB+/Negative	a-	bbb+	bb+	bbb+	bbb+	bbb+	bbb	bbb+	a-
Aquanet S.A.	BBB+/Negative	bbb+	bbb	bbb+	bbb-	bbb	bbb+	bbb-	a	bbb
Canal de Isabel II, S.A.	BBB+/Stable	bbb+	bbb-	bbb+	bbb-	bbb	a-	bbb+	a	bbb
FCC Aqualia, S.A.	BBB-/Stable	bbb+	bbb-	bb+	bbb-	bbb	bbb+	bbb	bbb-	bbb-
Holding d'Infrastructures des Metiers de l'Environnement (SAUR)	BBB-/Stable	a+	bbb-	bb+	bb+	bbb-	bbb	bb+	bbb-	bbb
Miejskie Wodociągi i Kanalizacja w Bydgoszczy Sp. z o.o. (MWIK)	BBB/Stable	bbb+	bbb	bbb+	bbb-	bbb-	bbb+	bbb-	a	bbb-

Source: Fitch Ratings. Relative Importance of Factor: Higher (Red), Moderate (Blue), Lower (Light Blue)

Name	IDR/Outlook	Operating Environment	Management and Corporate Governance	Sector Positioning	Regulatory Environment	Asset Base	Operational Profile	Profitability and Cash Flow	Financial Structure	Financial Flexibility
Acea SpA	BBB+/Negative	+1	0	-3	0	0	0	-1	0	+1
Aquanet S.A.	BBB+/Negative	0	-1	0	-2	-1	0	-2	+2	-1
Canal de Isabel II, S.A.	BBB+/Stable	0	-2	0	-2	-1	+1	0	+2	-1
FCC Aqualia, S.A.	BBB-/Stable	+2	0	-1	0	+1	+2	+1	0	0
Holding d'Infrastructures des Metiers de l'Environnement (SAUR)	BBB-/Stable	+5	0	-1	-1	0	+1	-1	0	+1
Miejskie Wodociągi i Kanalizacja w Bydgoszczy Sp. z o.o. (MWIK)	BBB/Stable	+1	0	+1	-1	-1	+1	-1	+3	-1

Source: Fitch Ratings. Factor Score Relative to IDR: Worse positioned than IDR (Red), Within one notch of IDR (Blue), Better positioned than IDR (Light Blue)

Rating Sensitivities

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade:

- An upgrade of Madrid would only lead to an upgrade of Canal if accompanied by an upward revision of Canal's SCP, provided links to Madrid are unchanged
- The SCP may be revised higher on a growing record of independent application of the tariff- setting mechanism and a stronger regulatory framework

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade:

- A downgrade of Madrid by one notch would only lead to a downgrade of Canal if accompanied by a downward revision of Canal's SCP, provided links to Madrid are unchanged
- Weaker cash flow generation leading to FFO dividend-adjusted net leverage above 4.3x on a sustained basis. This may be due to a worse-than-expected operating environment, including regulatory changes, or higher dividends

Liquidity and Debt Structure

Comfortable Liquidity: Canal's cash balance reached EUR581 million at end-2022, excluding EUR2.6 million of cash in LatAm countries but including EUR351 million of short-term deposits that Fitch deems as cash. Along with a EUR104 million undrawn available overdraft maturing in December 2023, the company's liquidity reached EUR685 million at end-2022. We view liquidity as sufficient to cover negative free cash flow (FCF) and debt repayment until end-2024.

Fitch expects Canal to renew its overdraft on an annual basis. Canal may require Madrid's approval for long-term committed facilities as per Madrid's Budget Law.

ESG Considerations

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit <http://www.fitchratings.com/esg>.

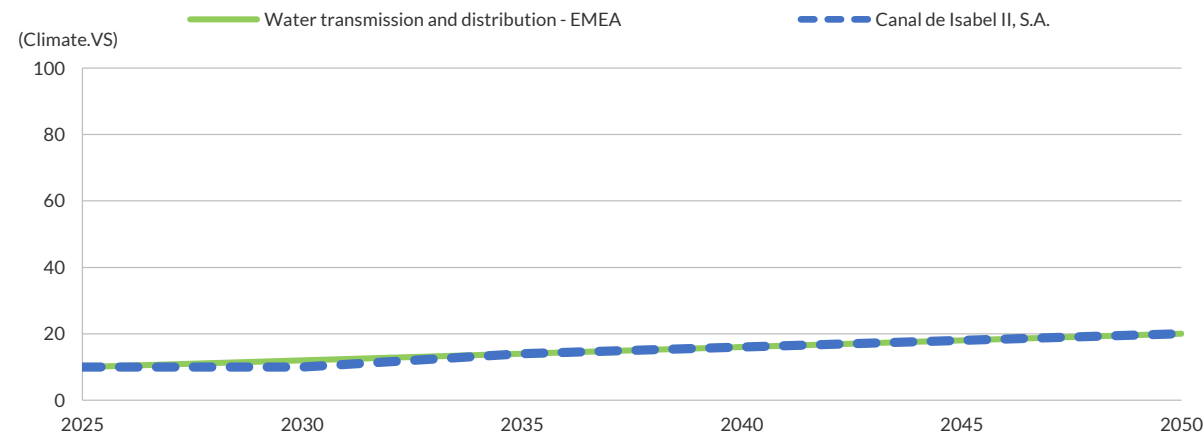
Climate Vulnerability Considerations

Fitch Ratings has published a Criteria Exposure Draft describing its approach to assessing Climate Vulnerability for Corporates. In this report, we describe our proposal to use Climate Vulnerability Signals (Climate.VS) as a screening tool to identify sectors and Fitch-rated issuers that are potentially most exposed to credit-relevant climate transition risks and, therefore, require additional consideration of these risks in rating reviews. [Click here for the Criteria Exposure Draft.](#)

The FY22 revenue weighted Climate.VS for Canal de Isabel II for 2035 is 14 out of 100, suggesting low exposure to climate related-risks in that year. Climate.VS can range from 0 (lowest risk) to 100 (highest risk). For further information on how Fitch perceives climate-related risks in the utilities sector, see [Utilities - Long-Term Climate Vulnerability Signals Update.](#)

Climate.VS Evolution

As of Dec. 31, 2022



Source: Fitch Ratings

Liquidity and Debt Maturities

Canal de Isabel II, S.A.

Liquidity Analysis (EUR 000)	2023F	2024F	2025F
Available liquidity			
Beginning cash balance	580,622	450,416	238,806
Rating case FCF after acquisitions and divestitures	-114,495	-196,684	-153,504
Total available liquidity (A)	466,128	253,653	85,302
Liquidity uses			
Debt maturities	-15,790	-14,847	-514,762
Total liquidity uses (B)	-15,790	-14,847	-514,762
Liquidity calculation			
Ending cash balance (A+B)	450,338	238,806	-429,460
Revolver availability	0	0	0
Ending liquidity	450,338	238,806	-429,460
Liquidity score (x)	29.5	17.1	0.2

F – Forecast
Source: Fitch Ratings, Fitch Solutions, Canal de Isabel II, S.A.

Scheduled debt maturities (EUR 000)	2022
2023	15,790
2024	14,847
2025	514,762
2026	14,762
2027	14,762
Thereafter	123,095
Total	698,018

Source: Fitch Ratings, Fitch Solutions, Canal de Isabel II, S.A.

Key Assumptions

Fitch's Key Assumptions Within Our Rating Case for the Issuer:

- Madrid's water tariffs frozen until end-2024 and annually revised from 2025, closely tracking CPI.
- Stable water billed volumes until 2027.
- Annual capex on average at about EUR310 million for 2022-2027.
- About 80% dividend payout based on consolidated accounts for Canal.

Financial Data

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

(EUR 000)	Historical			Forecast		
	2020	2021	2022	2023	2024	2025
Summary income statement						
Gross revenue	916,733.0	915,024.0	947,727.0	946,300.0	946,300.0	970,373.1
Revenue growth (%)	-6.9	-0.2	3.6	-0.2	0.0	2.5
EBITDA before income from associates	392,591.0	348,181.0	293,590.0	257,337.5	322,231.3	334,650.1
EBITDA margin (%)	42.8	38.1	31.0	27.2	34.1	34.5
EBITDAR	399,431.0	348,181.0	293,590.0	257,337.5	322,231.3	334,650.1
EBITDAR margin (%)	43.6	38.1	31.0	27.2	34.1	34.5
EBIT	199,131.0	165,190.0	113,422.0	77,213.8	135,625.5	140,508.2
EBIT margin (%)	21.7	18.1	12.0	8.2	14.3	14.5
Gross interest expense	-19,296.0	-19,048.0	-22,439.0	-12,755.6	-12,465.8	-20,886.1
Pre-tax income including associate income/loss	166,010.0	166,207.0	109,961.0	69,435.3	113,281.0	105,695.2
Summary balance sheet						
Readily available cash and equivalents	430,386.4	523,370.4	580,622.2	416,650.3	204,942.1	21,466.2
Debt	753,088.0	726,585.0	698,018.0	695,474.1	680,712.2	650,950.3
Lease-adjusted debt	807,808.0	726,585.0	698,018.0	695,474.1	680,712.2	650,950.3
Net debt	322,701.6	203,214.6	117,395.8	278,823.8	475,770.1	629,484.1
Summary cash flow statement						
EBITDA	392,591.0	348,181.0	293,590.0	257,337.5	322,231.3	334,650.1
Cash interest paid	-17,113.0	-15,243.0	-12,952.0	-12,755.6	-12,465.8	-20,886.1
Cash tax	216.0	-1,993.0	443.0	-3,235.2	-1,506.1	-1,390.4
Dividends received less dividends paid to minorities (inflow/outflow)	-219.0	-155.0	-192.0	-192.0	-192.0	-192.0
Other items before funds from operations (FFO)	-103,918.0	-134,373.0	-60,847.0	-32,661.1	-61,952.5	-61,655.9
FFO	271,985.0	197,009.0	221,108.0	210,168.1	247,316.5	251,116.7
FFO margin (%)	29.7	21.5	23.3	22.2	26.1	25.9
Change in working capital	-18,059.0	31,513.0	-1,327.0	-8,761.4	-27,817.4	-23,886.4
Cash flow from operations (Fitch-defined)	253,926.0	228,522.0	219,781.0	201,406.8	219,499.1	227,230.3
Total non-operating/nonrecurring cash flow	-	-	-	-	-	-
Capex	-111,585.0	-121,739.0	-149,179.0	-	-	-
Capital intensity (capex/revenue) (%)	12.2	13.3	15.7	-	-	-
Common dividends	0.0	0.0	0.0	-	-	-
Free cash flow	142,341.0	106,783.0	70,602.0	-	-	-
Net acquisitions and divestitures	-	288.0	3,788.0	-	-	-
Other investing and financing cash flow items	2,635.2	98.0	-2,005.2	-	-	-
Net debt proceeds	-31,081.0	-27,961.0	-15,004.0	-14,761.9	-14,761.9	-29,761.9
Net equity proceeds	-	-	-	0.0	0.0	0.0
Total change in cash	114,110.2	92,984.0	57,380.8	-163,971.9	-211,708.2	-183,475.9
Leverage ratios (x)						
EBITDA leverage	1.9	2.1	2.4	2.7	2.1	1.9
EBITDA net leverage	0.8	0.6	0.4	1.1	1.5	1.9
EBITDAR leverage	2.0	2.1	2.4	2.7	2.1	1.9
EBITDAR net leverage	0.9	0.6	0.4	1.1	1.5	1.9
EBITDAR net fixed-charge coverage	17.0	23.8	24.7	23.2	28.6	16.5
FFO-adjusted leverage	2.7	3.4	3.0	3.1	2.6	2.4
FFO-adjusted net leverage	1.3	1.0	0.5	1.3	1.8	2.3
FFO leverage	2.6	3.4	3.0	3.1	2.6	2.4
FFO net leverage	1.1	1.0	0.5	1.3	1.8	2.3
Calculations for forecast publication						
Capex, dividends, acquisitions and other items before FCF	-111,585.0	-121,451.0	-145,391.0	-315,901.4	-416,183.4	-380,734.7
FCF after acquisitions and divestitures	142,341.0	107,071.0	74,390.0	-114,494.6	-196,684.3	-153,504.4
FCF margin after net acquisitions (%)	15.5	11.7	7.8	-12.1	-20.8	-15.8

(EUR 000)	Historical			Forecast		
	2020	2021	2022	2023	2024	2025
Coverage ratios (x)						
FFO interest coverage	16.9	13.9	18.0	17.3	20.7	13.0
FFO fixed-charge coverage	12.3	13.9	18.0	17.3	20.7	13.0
EBITDAR fixed-charge coverage	16.7	22.8	22.7	20.2	25.8	16.0
EBITDA interest coverage	22.9	22.8	22.7	20.2	25.8	16.0
Additional metrics						
CFO-capex/debt (%)	18.9	14.7	9.9	-18.6	-28.9	-23.6
CFO-capex/net debt (%)	44.1	52.5	54.5	-46.4	-41.3	-24.4
CFO/capex (%)	227.6	187.7	147.3	60.9	52.7	59.7

Source: Fitch Ratings, Canal de Isabel II, S.A.

How to Interpret the Forecast Presented

The forecast presented above is based on Fitch Ratings' internally produced, conservative rating case forecast. It does not represent the forecast of the rated issuer. The forecast set out above is only one component used by Fitch Ratings to assign a rating or determine a rating outlook, and the information in the forecast reflects material but not exhaustive elements of Fitch Ratings' rating assumptions for the issuer's financial performance. As such, it cannot be used to establish a rating, and it should not be relied on for that purpose. Fitch Ratings' forecasts are constructed using a proprietary internal forecasting tool, which employs Fitch Ratings' own assumptions on operating and financial performance that may not reflect the assumptions that you would make. Fitch Ratings' own definitions of financial terms such as EBITDA, debt or free cash flow may differ from your own such definitions. Fitch Ratings may be granted access, from time to time, to confidential information on certain elements of the issuer's forward planning. Certain elements of such information may be omitted from this forecast, even where they are included in Fitch Ratings' own internal deliberations, where Fitch Ratings, at its sole discretion, considers the data may be potentially sensitive in a commercial, legal or regulatory context. The forecast (as with the entirety of this report) is produced strictly subject to the disclaimers set out at the end of this report. Fitch Ratings may update the forecast in future reports but assumes no responsibility to do so. Original financial statement data for historical periods is processed by Fitch Solutions on behalf of Fitch Ratings. Key financial adjustments and all financial forecasts credited to Fitch Ratings are generated by rating agency staff.

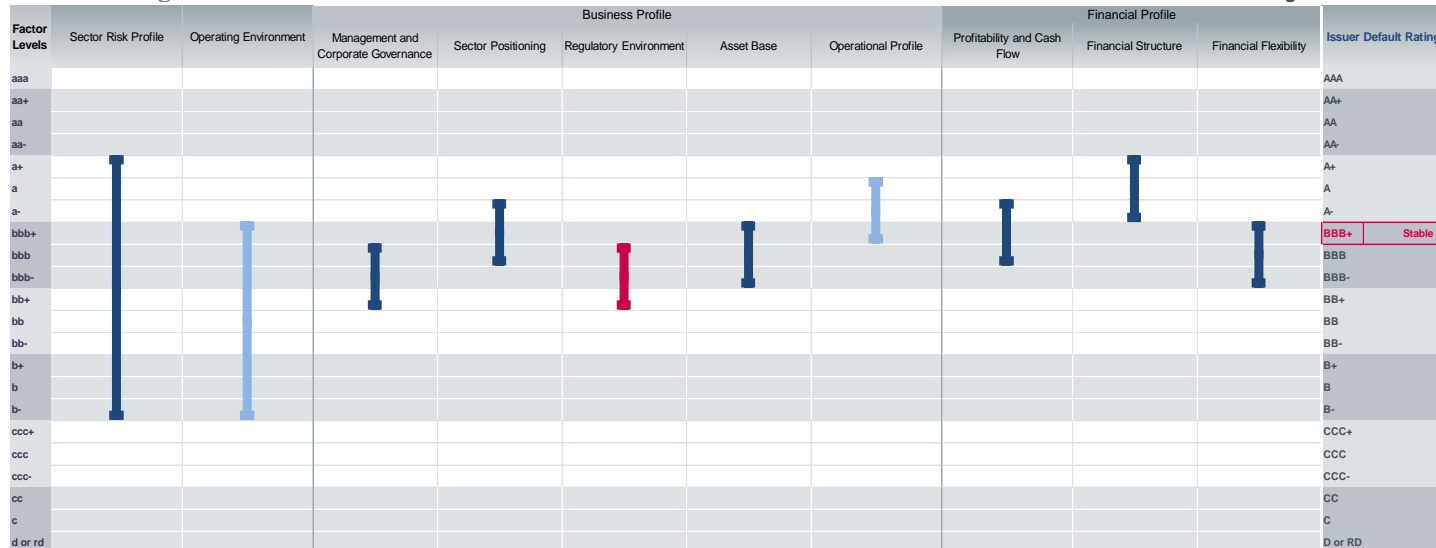
Ratings Navigator

FitchRatings

Canal de Isabel II, S.A.

ESG Relevance:

Corporates Ratings Navigator
EMEA Regulated Networks



Bar Chart Legend:	
Vertical Bars = Range of Rating Factor	Bar Arrows = Rating Factor Outlook
Bar Colors = Relative Importance	↑ Positive
■ Higher Importance	↓ Negative
■ Average Importance	↕ Evolving
■ Lower Importance	□ Stable

Operating Environment

a-	Economic Environment	bbb	Average combination of countries where economic value is created and where assets are located.
bbb+	Financial Access	bbb	Average combination of issuer-specific funding characteristics and the strength of the relevant local financial market.
	Systemic Governance	a	Systemic governance (eg rule of law, corruption, government effectiveness) of the issuer's country of incorporation consistent with 'a'.
b-			
ccc+			

Sector Positioning

a	Operation Type	bbb	Local or regional monopoly asset owners, regional monopoly asset operators.
a-	Non-Regulated Earnings (% of Total Earnings)	a	up to 10%
bbb+			
bbb			
bbb-			

Asset Base

a-	Diversification	bbb	Limited diversification by geography without regulatory diversification; regional utility.
bbb+	Critical Mass	a	Critical mass in one regulated asset; does not affect efficiency of operations (cost base, customer base, key personnel).
bbb	Asset Quality and Residual Life	bbb	Mid-range asset quality not affecting opex and capex requirements compared with peers. The residual life of regulatory assets is average.
bbb-			
bb+			

Profitability and Cash Flow

a	Return on Capital	bbb	Return on capital comparable with the regulatory benchmark.
a-	Volatility of Profitability	bbb	Stability and predictability of profit in line with utility peers.
bbb+	Investment Cycle	a	Investment cycle position and dividend policy leading to broadly neutral free cash flow. High flexibility in smoothing capex plans.
bbb			
bbb-			

Financial Flexibility

a-	Financial Discipline	bbb	Financial policies less conservative than peers but generally applied consistently.
bbb+	Liquidity	bbb	One-year liquidity ratio above 1.25x. Well spread debt maturity schedule but funding may be less diversified.
bbb	FFO Interest Coverage	a	4.5x
bbb-	FX Exposure	bbb	Some FX exposure on profitability and/or debt/cash flow match. Effective hedging.
bb+	Dividend Cover		n.a.

How to Read This Page: The left column shows the three-notch band assessment for the overall Factor, illustrated by a bar. The right column breaks down the Factor into Sub-Factors, with a description appropriate for each Sub-Factor and its corresponding category.

Management and Corporate Governance

bbb+	Management Strategy	bb	Strategy generally coherent but some evidence of weak implementation.
bbb	Governance Structure	bb	Board effectiveness questionable, with few independent directors. "Key person" risk from dominant CEO or shareholder.
bbb-	Group Structure	bbb	Some group complexity leading to somewhat less transparent accounting statements. No significant related-party transactions.
bb+	Financial Transparency	bb	Financial reporting is appropriate but with some failings (eg lack of interim or segment analysis).
bb			

Regulatory Environment

bbb+	Independence, Transparency, Predictability	bbb	Less transparent frameworks, with emerging track record and multi-year tariffs; exposed to political risk. Medium-term predictability.
bbb	Licensing, Ring-Fencing, Concessioning	bbb	Less demanding licensing and ring-fencing provisions; moderate concession renewal risk.
bbb-	Cost and Investment Recovery	bb	Inadequate tariff-setting mechanism for recovery of costs and investments, significant regulatory lag.
bb+	Volume and Price Risk	bbb	Moderate insulation from price and volume risk and revenue under-recovery.
bb			

Operational Profile

a+	Performance Measures	a	Key performance measures in line with or above sector average and/or regulatory target.
a	Counterparty Risk	a	Low counterparty risk; high collection rates for water suppliers. Economy of area served provides structurally stable background.
a-			
bbb+			
bbb			

Financial Structure

aa-	FFO Leverage	a	4.5x
a+	FFO Net Leverage	a	4.0x
a	Adjusted Net Debt/Asset Base (or Regulated Asset Base)	a	60%
a-	Cash PMCR		
bbb+	Nominal PMCR		

Credit-Relevant ESG Derivation

				Overall ESG			
Canal de Isabel II, S.A. has 12 ESG potential rating drivers				key driver	0	issues	5
➡	Energy and fuel use in operations; entities' financial targets for losses/shrinkage			driver	0	issues	4
➡	Water usage in operations; water utilities' financial targets for water quality, leakage and usage			potential driver	12	issues	3
➡	Impact of waste including pollution incidents; discharge compliance; sludge disposal						
➡	Exposure to extreme weather events - negative (e.g. risk of drought and flooding) or positive (e.g. additional return on capex for network weather-resilience)			not a rating driver	1	issues	2
➡	Product affordability and access						
➡	Quality and safety of products and services; data security				1	issues	1

Showing top 6 issues

For further details on Credit-Relevant ESG scoring, see page 3.

Credit-Relevant ESG Derivation

Canal de Isabel II, S.A. has 12 ESG potential rating drivers

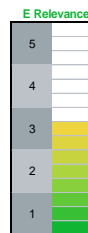
- ➔ Canal de Isabel II, S.A. has exposure to energy regulatory risk but this has very low impact on the rating.
- ➔ Canal de Isabel II, S.A. has exposure to water management risk but this has very low impact on the rating.
- ➔ Canal de Isabel II, S.A. has exposure to waste & impact management risk but this has very low impact on the rating.
- ➔ Canal de Isabel II, S.A. has exposure to extreme weather events but this has very low impact on the rating.
- ➔ Canal de Isabel II, S.A. has exposure to access/affordability risk but this has very low impact on the rating.
- ➔ Canal de Isabel II, S.A. has exposure to customer accountability risk but this has very low impact on the rating.

Showing top 6 issues

			ESG Relevance to Credit Rating	
key driver	0	issues	5	
driver	0	issues	4	
potential driver	12	issues	3	
not a rating driver	1	issues	2	
	1	issues	1	

Environmental (E) Relevance Scores

General Issues	E Score	Sector-Specific Issues	Reference
GHG Emissions & Air Quality	1	Emissions from operations	Profitability and Cash Flow
Energy Management	3	Energy and fuel use in operations; entities' financial targets for losses/shrinkage	Profitability and Cash Flow
Water & Wastewater Management	3	Water usage in operations; water utilities' financial targets for water quality, leakage and usage	Operations; Profitability and Cash Flow; Financial Structure; Financial Flexibility
Waste & Hazardous Materials Management; Ecological Impacts	3	Impact of waste including pollution incidents; discharge compliance; sludge disposal	Operations; Profitability and Cash Flow; Financial Flexibility
Exposure to Environmental Impacts	3	Exposure to extreme weather events - negative (e.g. risk of drought and flooding) or positive (e.g. additional return on capex for network weather-resilience)	Operations; Profitability and Cash Flow; Financial Flexibility



How to Read This Page

ESG relevance scores range from 1 to 5 based on a 15-level color gradation. Red (5) is most relevant to the credit rating and green (1) is least relevant.

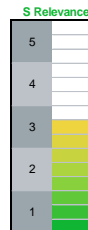
The Environmental (E), Social (S) and Governance (G) tables break out the ESG general issues and the sector-specific issues that are most relevant to each industry group. Relevance scores are assigned to each sector-specific issue, signaling the credit-relevance of the sector-specific issues to the issuer's overall credit rating. The Criteria Reference column highlights the factor(s) within which the corresponding ESG issues are captured in Fitch's credit analysis. The vertical color bars are visualizations of the frequency of occurrence of the highest constituent relevance scores. They do not represent an aggregate of the relevance scores or aggregate ESG credit relevance.

The Credit-Relevant ESG Derivation table's far right column is a visualization of the frequency of occurrence of the highest ESG relevance scores across the combined E, S and G categories. The three columns to the left of ESG Relevance to Credit Rating summarize rating relevance and impact to credit from ESG issues. The box on the far left identifies any ESG Relevance Sub-factor issues that are drivers or potential drivers of the issuer's credit rating (corresponding with scores of 3, 4 or 5) and provides a brief explanation for the relevance score. All scores of '4' and '5' are assumed to result in a negative impact unless indicated with a '+' sign for positive impact.

Classification of ESG issues has been developed from Fitch's sector ratings criteria. The General Issues and Sector-Specific Issues draw on the classification standards published by the United Nations Principles for Responsible Investing (PRI), the Sustainability Accounting Standards Board (SASB), and the World Bank.

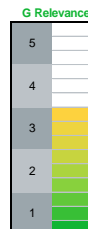
Social (S) Relevance Scores

General Issues	S Score	Sector-Specific Issues	Reference
Human Rights, Community Relations, Access & Affordability	3	Product affordability and access	Profitability and Cash Flow; Regulatory Environment
Customer Welfare - Fair Messaging, Privacy & Data Security	3	Quality and safety of products and services; data security	Profitability and Cash Flow
Labor Relations & Practices	3	Impact of labor negotiations and employee (dis)satisfaction	Profitability and Cash Flow; Financial Structure; Financial Flexibility
Employee Wellbeing	2	Worker safety and accident prevention	Financial Structure; Financial Flexibility
Exposure to Social Impacts	3	Social resistance to major projects that leads to delays and cost increases	Operations; Profitability and Cash Flow



Governance (G) Relevance Scores

General Issues	G Score	Sector-Specific Issues	Reference
Management Strategy	3	Strategy development and implementation	Management and Corporate Governance
Governance Structure	3	Board independence and effectiveness; ownership concentration	Management and Corporate Governance
Group Structure	3	Complexity, transparency and related-party transactions	Management and Corporate Governance
Financial Transparency	3	Quality and timing of financial disclosure	Management and Corporate Governance

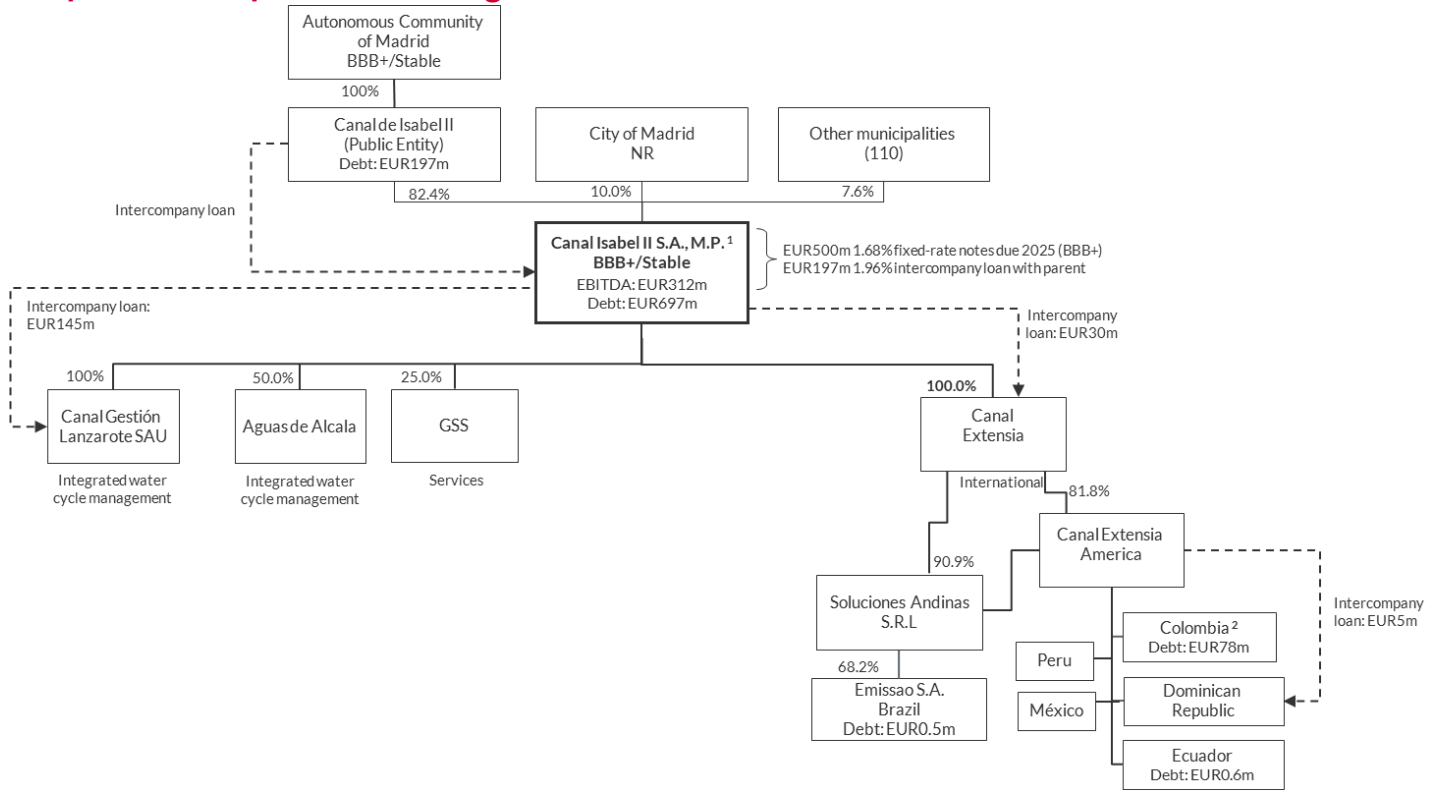


CREDIT-RELEVANT ESG SCALE

How relevant are E, S and G issues to the overall credit rating?

5	Highly relevant, a key rating driver that has a significant impact on the rating on an individual basis. Equivalent to "higher" relative importance within Navigator.
4	Relevant to rating, not a key rating driver but has an impact on the rating in combination with other factors. Equivalent to "moderate" relative importance within Navigator.
3	Minimally relevant to rating, either very low impact or actively managed in a way that results in no impact on the entity rating. Equivalent to "lower" relative importance within Navigator.
2	Inrelevant to the entity rating but relevant to the sector.
1	Inrelevant to the entity rating and irrelevant to the sector.

Simplified Group Structure Diagram



^a During 2021 and 2022, Canal absorbed Canal de Comunicaciones Unidas, Hidraulica Santillana, Ocio y Deporte and Hispanagua to simplify the group structure.

^b Refers to Triple A, control of which has been seized by the Colombian authorities.

Source: Fitch Ratings, Fitch Solutions, Canal de Isabel II, S.A, M.P., debt as of December 2022, loans as of March 2022, excluding equity method consolidated stakes.

Peer Financial Summary

Company	Issuer Default Rating	Financial statement date	EBITDA (EURm)	EBITDA margin (%)	FFO margin (%)	FFO net leverage (x)	FFO interest coverage (x)
Canal de Isabel II, S.A., M.P.	BBB+						
	BBB+	2022	293,590	31	23	0.5	18.0
	BBB+	2021	348,181	38	22	1.0	13.9
FCC Aqualia, S.A.	BBB	2020	392,591	43	30	1.1	16.9
	BBB-						
	BBB-	2021	217,880	21	18	4.8	6.9
Aquanet S.A.	BB+	2020	192,130	18	18	5.2	7.4
	BB+	2019	204,390	19	17	5.4	7.3
	BBB+						
Holding d'Infrastructures des Metiers de l'Environnement	BBB+	2021	34,525	25	26	1.9	50.6
	BBB+	2020	34,665	25	25	2.0	22.1
	BBB+	2019	41,246	30	30	1.6	15.7
Miejskie Wodociągi i Kanalizacja w Bydgoszczy Sp. z o.o. (MWiK)	BBB-						
	BBB-	2021	180,881	11	8	4.8	6.6
		2020	143,996	10	6	8.1	5.1
		2019	149,129	10	7	-0.9	6.2
Miejskie Wodociągi i Kanalizacja w Bydgoszczy Sp. z o.o. (MWiK)	BBB						
	BBB	2021	14,488	29	28	-1.3	14.6
	BBB	2020	17,076	34	35	0.2	11.0
	BBB	2019	18,235	35	24	0.6	6.3

Note: FFO metrics are dividend adjusted for Canal.
Source: Fitch Ratings, Fitch Solutions

Financial Adjustments

(EUR 000) 31 Dec 22	Notes and formulas	Reported values	Sum of adjustments	CORP - lease treatment	Other adjustments	Adjusted values
Income statement summary						
Revenue		947,727				947,727
EBITDAR		300,413	-6,823	-6,823		293,590
EBITDAR after associates and minorities	(a)	300,413	-7,015	-6,823	-192	293,398
Lease expense	(b)	0				0
EBITDA	(c)	300,413	-6,823	-6,823		293,590
EBITDA after associates and minorities	(d) = (a-b)	300,413	-7,015	-6,823	-192	293,398
EBIT	(e)	113,875	-453	-453		113,422
Debt and cash summary						
Other off balance sheet debt	(f)	0				0
Debt ^b	(g)	698,018				698,018
Lease-equivalent debt	(h)	0				0
Lease-adjusted debt	(i) = (g+h)	698,018				698,018
Readily available cash and equivalents	(j)	232,172	348,450		348,450	580,622
Not readily available cash and equivalents		0	2,643		2,643	2,643
Cash flow summary						
EBITDA after associates and minorities	(d) = (a-b)	300,413	-7,015	-6,823	-192	293,398
Preferred dividends (paid)	(k)	0				0
Interest received	(l)	1,066				1,066
Interest (paid)	(m)	-12,952				-12,952
Cash Tax (paid)		443				443
Other items before funds from operations (FFO)		-71,926	11,079		11,079	-60,847
FFO	(n)	217,044	4,064	-6,823	10,887	221,108
Change in working capital (Fitch-defined)		-1,327				-1,327
Cash flow from operations (CFO)	(o)	215,717	4,064	-6,823	10,887	219,781
Non-operating/non-recurring cash flow		0				0
Capex	(p)	-87,669	-61,510		-61,510	-149,179
Common dividends (paid)		-76,674	76,674		76,674	0
FCF		51,374	19,228	-6,823	26,051	70,602
Gross leverage (x)						
EBITDAR leverage ^a	(i/a)	2.4				2.4
FFO-adjusted leverage	(i)/(n-m-l-k+b)	3.1				3.0
FFO leverage	(i-h)/(n-m-l-k)	3.1				3.0
EBITDA leverage ^a	(i-h)/d	2.4				2.4
(CFO-capex)/debt (%)	(o+p)/(i-h)	18.0				9.9
Net leverage (x)						
EBITDAR net leverage ^a	(i-j)/a	1.6				0.4
FFO-adjusted net leverage	(i-j)/(n-m-l-k+b)	2.0				0.5
FFO net leverage	(i-h-j)/(n-m-l-k)	2.0				0.5
EBITDA net leverage ^a	(i-h-j)/d	1.6				0.4
(CFO-capex)/net debt (%)	(o+p)/(i-h-j)	26.8				54.5
Coverage (x)						
EBITDAR fixed-charge coverage ^a	a/(-m+b)	23.2				22.7
EBITDA interest coverage ^a	d/(-m)	23.2				22.7
FFO fixed-charge coverage	(n-l-m-k+b)/(-m-k+b)	17.7				18.0
FFO interest coverage	(n-l-m-k)/(-m-k)	17.7				18.0

^aEBITDA/R after dividends to associates and minorities

^bIncludes other off balance sheet debt

Source: Fitch Ratings, Fitch Solutions, Canal de Isabel II, S.A., M.P.

For information on the solicitation status of the ratings included within this report, please refer to the solicitation status shown in the relevant entity's summary page of the Fitch Ratings website.

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