

Canal de Isabel II Gestión, S.A.

Annual Accounts

31 December 2016

Directors' Report

2016

(With Independent Auditor's Report Thereon)

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



KPMG Auditores, S.L.
Paseo de la Castellana, 259 C
28046 Madrid

Independent Auditor's Report on the Annual Accounts

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

To the Shareholders of
Canal de Isabel II Gestión, S.A.

Report on the Annual Accounts

We have audited the accompanying annual accounts of Canal de Isabel II Gestión, S.A. (the "Company"), which comprise the balance sheet at 31 December 2016, the income statement, statement of changes in equity and statement of cash flows for the year then ended, and notes.

Directors' Responsibility for the Annual Accounts

The Directors are responsible for the preparation of the accompanying annual accounts in such a way that they give a true and fair view of the equity, financial position and financial performance of Canal de Isabel II Gestión, S.A. in accordance with the financial reporting framework applicable to the entity in Spain, specified in note 2 to the accompanying annual accounts, and for such internal control that they determine is necessary to enable the preparation of annual accounts that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these annual accounts based on our audit. We conducted our audit in accordance with prevailing legislation regulating the audit of accounts in Spain. This legislation requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the annual accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual accounts. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the annual accounts, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the annual accounts in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the annual accounts taken as a whole.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the accompanying annual accounts give a true and fair view, in all material respects, of the equity and financial position of Canal de Isabel II Gestión, S.A. at 31 December 2016, its financial performance and its cash flows for the year then ended in accordance with the applicable financial reporting framework and, in particular, with the accounting principles and criteria set forth therein.

Emphasis of Matter

We draw attention to note 29 to the accompanying annual accounts – “Events after the Reporting Period” – which makes reference to the potential risks that could arise from the matters under investigation in Preliminary Proceedings 91/2016 ongoing at Central Examining Court no. 6 of the Spanish National High Court, and to the assessment on the part of management and the directors of the Company of the possible impact of such Preliminary Proceedings, based on the information available to date. According to the aforementioned note, as the legal examination progresses, the possibility of additional information coming to light and giving rise to new operational and financial risks, which could in turn affect the Company's equity and financial position, cannot be ruled out. This matter does not modify our audit opinion.

Report on Other Legal and Regulatory Requirements

The accompanying directors' report for 2016 contains such explanations as the Directors consider relevant to the situation of the Company, its business performance and other matters, and is not an integral part of the annual accounts. We have verified that the accounting information contained therein is consistent with that disclosed in the annual accounts for 2016. Our work as auditors is limited to the verification of the directors' report within the scope described in this paragraph and does not include a review of information other than that obtained from the accounting records of the Company.

KPMG Auditores, S.L.

(Signed on original in Spanish)

Miguel Ángel Faura Borruey

8 June 2017