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

2020

**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)

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Canal de Isabel II

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

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

# 2020 CONSOLIDATED FINANCIAL STATEMENTS

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

**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AT 31 December 2020 AND 2019**

**(In thousands of euros)**

| ASSETS | NOTES | 2020 | 2019 |
|---|---|---|---|
| Property, plant and equipment | 7 | 43,794 | 45,066 |
| Investment property | 8 | 9,746 | 10,051 |
| Goodwill | 9 | 12,905 | 12,942 |
| Other intangible assets | 10 | 4,074,715 | 4,135,688 |
| Investments accounted for using the equity method | 12 | 468 | 337 |
| Deferred tax assets | 27 | 14,774 | 14,905 |
| Other non-current financial assets | 14 | 158,579 | 164,838 |
| Other non-current non-financial assets | 17 | 66,747 | 66,936 |
| | | | |
| **Total non-current assets** | | **4,381,728** | **4,450,763** |
| | | | |
| Non-current assets held for sale | 6 | 4,276 | 4,278 |
| Inventory | 15 | 8,182 | 9,267 |
| Current income tax asset | | 527 | 1,775 |
| Trade and other receivables | 16 | 217,094 | 225,927 |
| Other current financial assets | 14 | 15,527 | 16,527 |
| Other current non-financial assets | 17 | 4,422 | 4,588 |
| Cash and cash equivalents | 18 | 433,347 | 321,146 |
| **Total current assets** | | **683,375** | **583,508** |
| | | | |
| **Total assets** | | **5,065,103** | **5,034,271** |

The accompanying Notes form an integral part of the Consolidated Financial Statements for the year ended 31 December 2020.



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

**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AT 31 December 2020 AND 2019**

**(In thousands of euros)**

| NET EQUITY AND LIABILITIES | NOTES | 2020 | 2019 |
|---|---|---|---|
| Share capital | 19 | 1,074,032 | 1,074,032 |
| Share premium | 19 | 1,074,032 | 1,074,032 |
| Other reserves | 19 | 173,279 | 149,088 |
| Accumulated gains | 19 | 463,709 | 464,663 |
| Translation differences | 19 | 3,604 | (2,028) |
| Interim dividend paid during the year | 19 | (95,450) | (133,694) |
| **Equity attributed to holders of equity instruments of the Parent** | | **2,693,206** | **2,626,093** |
| Non-controlling interest | 19 | (731) | 2,649 |
| **Total Net Equity** | | **2,692,475** | **2,628,742** |
| | | | |
| Financial liabilities with financial institutions | 20 | 478 | 520 |
| Other financial liabilities | 20 | 595,937 | 600,829 |
| Non-current official subsidies | 21 | 739,664 | 734,884 |
| Financial debts with Group companies | 20 | 211,685 | 240,734 |
| Deferred tax liabilities | 27 | 1,152 | 785 |
| Non-current provisions | 23 | 432,976 | 408,272 |
| Other non-current non-financial liabilities | 25 | 15,889 | 17,712 |
| **Total non-current liabilities** | | **1,997,781** | **2,003,736** |
| | | | |
| Financial liabilities from issuing bonds and other | 20 | 7,115 | 7,111 |
| Financial liabilities with financial institutions | 20 | 1,732 | 2,176 |
| Financial debt with related companies | 20 | 32,920 | 34,413 |
| Other current financial liabilities | 20 | 85,390 | 91,178 |
| Current official subsidies | 21 | 16,722 | 18,043 |
| Trade creditors and other accounts payable | 22 | 129,336 | 135,800 |
| Current income tax liability | 22 | 1,255 | 704 |
| Current provisions | 23 | 94,993 | 107,194 |
| Other current non-financial liabilities | 25 | 5,384 | 5,174 |
| **Total current liabilities** | | **374,847** | **401,793** |
| | | | |
| **Total liabilities and net equity** | | **5,065,103** | **5,034,271** |

The accompanying Notes form an integral part of the Consolidated Financial Statements for the year ended 31 December 2020.



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

| CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 December 2020 AND 2019<br>(In thousands of euros) | NOTES | 2020 | 2019 |
|---|---|---|---|
| Ordinary income | 26a | 916,733 | 984,685 |
| Other income | 26b | 57,133 | 53,642 |
| Non-current self-constructed assets | | 9,184 | 8,236 |
| Consumption of goods, raw materials and consumables | 26c | (234,986) | (237,464) |
| Employee benefits expense | 26d | (185,842) | (193,927) |
| Amortization expense | 26e | (130,715) | (128,765) |
| Losses / (Reversal of losses) for impairment of fixed assets | | (3,171) | (6,355) |
| Other expenses | 26f | (231,818) | (242,627) |
| Finance income | 26h | 5,138 | 8,404 |
| Finance expenses | 26h | (38,999) | (26,152) |
| Losses / (Reversal of losses) for investment impairment | 26h | 3,251 | 105 |
| Share of profits for the financial year of investments accounted for using the equity method | 12 | 102 | 113 |
| | | | |
| **Earnings before taxes from continuing operations** | | **166,010** | **219,895** |
| | | | |
| Income tax expense | 27 | 2,408 | 6,808 |
| | | | |
| **Continuing operations profit for the year** | | **168,418** | **226,703** |
| | | | |
| **Financial year profit** | | **168,418** | **226,703** |
| | | | |
| Profit for the year attributable to holders of equity instruments of the Parent | | 171,175 | 228,672 |
| Profit for the year attributable to non-controlling interest | | (2,757) | (1,969) |

The accompanying Notes form an integral part of the Consolidated Financial Statements for the year ended 31 December 2020.

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

| CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED 31 December 2020 AND 2019 (In thousands of euros) | Notes | 2020 | 2019 |
|---|---|---|---|
| **FINANCIAL YEAR PROFIT** | | **168,418** | **226,703** |
| Items to be reclassified as profit/(loss) | | | |
| Translation differences of overseas businesses financial statements | | 5,516 | 3,563 |
| **OTHER COMPREHENSIVE PROFIT/(LOSS) FOR THE YEAR, NET OF TAXES** | | **5,516** | **3,563** |
| **TOTAL COMPREHENSIVE PROFIT/(LOSS) ATTRIBUTABLE TO:** | | **173,934** | **230,266** |
| Holders of equity instruments of the Parent | | 176,808 | 231,920 |
| Non-controlling interest | | (2,874) | (1,694) |

The accompanying Notes form an integral part of the Consolidated Financial Statements for the year ended 31 December 2020.



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**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY FOR THE YEARS ENDED 31 December 2020 AND 2019**

**(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 01 January 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 | - | - | - | (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) |
| **B. BALANCE 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** |
| **Adjustment to the initial balance** | | | | | | | | | |
| **C. ADJUSTED BALANCE, BEGINNING OF YEAR 2020** | **1,074,032** | **1,074,032** | **149,088** | **464,663** | **(133,694)** | **(2,028)** | **2,626,093** | **2,649** | **2,628,742** |
| Profit | - | - | - | 171,175 | - | - | 171,175 | (2,757) | 168,418 |
| Other comprehensive profit/(loss) | - | - | - | - | - | 5,632 | 5,632 | (116) | 5,516 |
| **Total Statement of Comprehensive Profit/(Loss)** | **-** | **-** | **-** | **171,175** | **-** | **5,632** | **176,807** | **(2,873)** | **173,934** |
| Distribution of profit for the financial year | - | - | - | - | - | - | - | - | - |
| Reserves | - | - | 24,191 | (24,191) | - | - | - | - | - |
| Dividends (Note 19) | - | - | - | (147,357) | 133,694 | - | (13,663) | - | (13,663) |
| Dividends (Note 19) | - | - | - | - | (95,450) | - | (95,450) | - | (95,450) |
| Other movements | - | - | - | (581) | - | - | (581) | (507) | (1,088) |
| **E. AT 31 December 2020** | **1,074,032** | **1,074,032** | **173,279** | **463,709** | **(95,450)** | **3,604** | **2,693,206** | **(731)** | **2,692,475** |

The accompanying Notes form an integral part of the Consolidated Financial Statements for the year ended 31 December 2020.



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(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 2020 AND 2019. | | |
|---|---|---|
| **(In thousands of euros)** | **2020** | **2019** |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| **Profit/(loss) for the financial year** | **168,418** | **226,703** |
| **Adjustments due to:** | | |
| Amortization of fixed assets | 130,715 | 128,766 |
| Impairment adjustments | 4,303 | 9,456 |
| Variation in provisions | 94,815 | 105,588 |
| Allocation of subsidies | (19,010) | (16,726) |
| Gains/(losses) on disposals and derecognitions of fixed assets | 2,545 | 3,479 |
| Gains/(losses) on disposals and derecognitions of financial instruments | 27 | (34) |
| Finance income | (5,138) | (8,404) |
| Finance expenses | 19,859 | 20,660 |
| Translation differences | 19,140 | 5,492 |
| Income tax | (2,408) | (6,809) |
| Other income and expenses | (6,615) | (3,458) |
| Share in profit/loss of equity-accounted companies | (102) | (113) |
| **Variations of working capital excluding the effect of acquisitions and translation differences** | | |
| Inventory | (204) | (171) |
| Debtors and other receivables | (10,714) | (17,692) |
| Other current assets | 93 | (275) |
| Creditors and other accounts payable | (7,141) | (15,673) |
| Other current and non-current liabilities | (14) | (98) |
| Provisions | (80,830) | (76,821) |
| Exclusion from the consolidation scope | | - |
| **Effect caused by operating activities** | **307,739** | **353,870** |
| Interest paid | (17,113) | (17,304) |
| Interest received | 428 | 259 |
| Collections (payments) of tax on profit | 216 | 1,998 |
| **Cash flows from operating activities** | **291,270** | **338,823** |
| **INVESTMENT ACTIVITIES CASH FLOWS** | | |
| Payments for investments in Group Companies and Associates | - | - |
| Payments for the purchase of intangible assets | (66,414) | (80,749) |
| Payments for the purchase of property, plant and equipment | (488) | (656) |
| Payments for the purchase of investment property | (4) | (15) |
| Payments for the purchase of financial assets | (11,628) | (20,801) |
| Receivables from the sale of intangible assets | - | - |
| Receivables from the sale of property, plant and equipment | 142 | 83 |
| Receivables from the sale of investment property | 73 | 2 |
| Receivables from the sale of other financial assets | 17,775 | 16,005 |
| **Investment activities cash flow** | **(60,544)** | **(86,131)** |
| | | |
| **FINANCING ACTIVITIES CASH FLOWS** | | |
| Subsidies, gifts and bequests received | 22,601 | 27,771 |
| Receivables from debts with financial institutions | 2,843 | 1,176 |
| Receivables from other debts | 9,819 | 9,013 |
| Payments from debts with financial institutions | (2,952) | (7,642) |
| Payments from debts with Group companies and Associates | (29,048) | (29,048) |
| Payments from other debts | (18,583) | (14,401) |
| Dividends paid | (103,931) | (273,864) |
| **Financing activities cash flows** | **(119,251)** | **(286,995)** |
| **Effect of translation differences on cash** | **726** | **31** |
| **NET INCREASE/DECREASE OF CASH OR CASH EQUIVALENTS** | **112,201** | **(34,272)** |
| Cash or cash equivalents at beginning of the financial year | 321,146 | 355,418 |
| Cash or cash equivalents at close of the financial year | 433,347 | 321,146 |

The accompanying Notes form an integral part of the Consolidated Financial Statements for the year ended 31 December 2020.



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# NOTES TO THE 2020 CONSOLIDATED FINANCIAL STATEMENTS

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

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

Canal de Isabel II, S.A. (hereinafter "the Parent Company") was created in accordance with the provisions of 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" or "Canal") to create a limited company with the purpose of providing water supply, sanitation and other water-related services and works under the terms of Law 17/1984 of 20 December, regulating water supply and sanitation in the Region of Madrid, and other applicable legislation. The General Meeting of Shareholders of 5 July 2017 adopted the agreement for the change of the initial corporate name to Canal de Isabel II, S.A.

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 2020 and 2019 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) In the financial year ended 31 December 2020*

There were no changes in the consolidation scope.

### *(ii) In the 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



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were fully depreciated/amortised and there are no balances recognised in AAA Dominicana other than those previously recognised.

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)

## 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 2020 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 2020 and consolidated profit and losses, consolidated cash flows and changes in the consolidated net equity of the Group for the year then ended.

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

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

At 31 December 2020 and 2019, there were no significant changes in accounting estimates, and neither were any errors corrected.

At 31 December 2019, there were changes in the accounting policies adopted on 1 January 2019 following 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, and this was the Group's chosen option.

The application of amendments to IFRS in 2020 (see note f) did not have a material impact on these consolidated annual financial statements.

On 19 May 2020, the Board of Directors of Canal de Isabel II, S.A. agreed to call a General Meeting of Shareholders for 29 June 2020, at first call, and for 30 June 2020, at second call. Notification of the meeting was issued on the same day, 19 May 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 29 June 2020.

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The Directors of the Parent consider that the consolidated Financial Statements for 2020, authorised for issue on 29 March 2021, 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 2020 and 2019 have been as follows:

| | 31 December 2020 | | 31 December 2019 | |
|---|---|---|---|---|
| | Closing rate | Average accumulated rate | Closing rate | Average accumulated rate |
| United States Dollar (USD) | 1.23 | 1.14 | 1.12 | 1.12 |
| Colombian Peso (COP) | 4,212.02 | 4,215.04 | 3,681.54 | 3,673.78 |
| Dominican Peso (DOP) | 71.57 | 64.51 | 59.50 | 57.43 |
| Brazilian Real (BRL) | 6.38 | 5.89 | 4.53 | 4.42 |
| Uruguayan Peso (UYU) | 51.96 | 47.95 | 41.91 | 39.47 |

### 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

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-

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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 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.



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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 2020 include comparative figures for the year ended 31 December 2019 as approved at the Annual General Meeting of Shareholders on 29 June 2020.

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

### *(i) Mandatory standards, amendments and interpretations for all the financial years starting as from 1 January 2020:*

- IFRS 3 (Amendment): "Definition of a Business".
- IAS 1 (Amendment) and IAS 8 (Amendment): "Definition of material" (or relative importance).
- IFRS 9 (Amendment), IFRS 7 (Amendment) and IAS 39 (Amendment): "Interest rate benchmark reform".
- IFRS 16 (Amendment): "Covid-19-related rent concessions".

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

### *(ii) Standards , amendments and interpretations not yet in force but that allow for early adoption:*

- IFRS 16 (Amendment): "Covid-19-related rent concessions".
- IFRS 4 (Amendment): "Extension of the temporary exemption from applying IFRS 9".
- IFRS 9 (Amendment), IAS 39 (Amendment) IFRS 7 (Amendment), IFRS 4 (Amendment) and IFRS 16 (Amendment): "Interest rate benchmark reform: Phase 2".



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The Group did not adopt any of the aforementioned amendments early, since this would not have a material effect on these consolidated annual financial statements.

***(iii) Existing standards, amendments and interpretations that may not be adopted early or have not been adopted by the European Union:***

As of the date on which these consolidated Annual Financial Statements were authorised for issue, the IASB and IFRS Interpretations Committee had published the 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".
- IAS 16 (Amendment): "Property, plant and equipment – Proceeds before Intended Use".
- IAS 37 (Amendment): "Onerous Contracts — Cost of Fulfilling a Contract".
- IFRS 3 (Amendment): "Reference to the Conceptual Framework".
- IAS 1 (Amendment): "Classification of Liabilities as Current or Non-Current".
- IFRS 17: "Insurance contracts".
- IFRS 16 (Amendment): "Covid-19-related rent concessions".
- IAS 41 Annual Improvements to IFRS Standards: 2018-2020 cycle (May 2020).
- IFRS 1 Annual Improvements to IFRS Standards: 2018-2020 cycle (May 2020).
- IFRS 9 Annual Improvements to IFRS Standards: 2018-2020 cycle (May 2020).
- IFRS 16 Annual Improvements to IFRS Standards: 2018-2020 cycle (May 2020).

If any of the aforementioned standards were adopted by the European Union or might be adopted early, the Group would apply them with the relevant effects on the consolidated annual financial statements.

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

On another note, the Group 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 was 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.

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

Neither did the Group register the lease liability and the right-of-use asset for such leases whose term expires within the twelve months after the initial application date and it recognised 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 performs 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.

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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 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 analysed the possible uncertain tax treatments and the application of this interpretation has not had a material effect on the consolidated annual financial statements except for classification purposes.

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### g) Going concern

At 31 December 2019, the Parent Company reclassified the bond issue as long-term (see Note 20).

The consolidated Annual Financial Statements present a working capital amounting to 308,528 thousand euros at 31 December 2020 (181,713 thousand euros in positive working capital at 31 December 2019). The Parent Company's Directors prepared the 2020 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



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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 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.



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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 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.



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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 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,



*(cont.)*

including potential voting rights held by the Group or other entities, are considered when assessing whether an entity has significant influence.

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.



*(cont.)*

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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).

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".



*(cont.)*

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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.

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.

### d) Intangible assets

#### *(i) Goodwill*

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

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 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

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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.

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.



*(cont.)*

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 groups of elements held for sale, these must be available in their current conditions, for their immediate disposal exclusively subject to the standard terms for sale. It is also necessary to derecognise the assets which are 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) Right-of-use assets

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



*(cont.)*

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of the underlying asset. If a lease transfers the ownership of the underlying asset or the cost of the right-of-use asset reflects that the Group expects to exercise a purchase option, the asset linked to the right of use is depreciated over the useful life of the underlying asset. Depreciation commences on the lease inception date.

### i) 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.

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.



*(cont.)*

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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.

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.

## j) 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.



*(cont.)*

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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.

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

The Group applied the following policies, estimates and criteria:

- The Group chose to apply a modified retrospective method on which basis it has not restated any figures from prior years for comparison purposes and it recognised the impacts as at 1 January 2019.

- Likewise, it decided to measure the initial right-of-use asset for an amount equal to the lease liability on 1 January 2019 for all lease contracts.

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

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

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

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

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



*(cont.)*

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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 was 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** |

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, S.A.U. | (675) | (696) | (13) | (34) |
| Canal Gestión Lanzarote, S.A.U. | (743) | (707) | (77) | (41) |
| INASSA | (35) | (32) | (4) | (1) |
| Amerika Tecnología y Servicios, S.A.S. | (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 finance income decreased (higher finance expenses). Neither was cash generation altered by the adoption of IFRS 16, but its classification was, since cash flow from operating activities increased and from financing activities decreased to the same degree.

In 2020, detailed information concerning right-of-use assets is provided in Notes 7 and 10.



*(cont.)*

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## k) Financial instruments

### *(i) Classification of financial instruments*

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

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

**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

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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 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*

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



*(cont.)*

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### l) 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.

### m) 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.

### n) 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.



*(cont.)*

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## o) 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.

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. Government Council Decree 315/2019, of 27 December, regulates the application of the extension of the General Budget for the Region of Madrid for 2020. 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:**

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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.

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).

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. Government Council Decree 315/2019, of 27 December, regulates the application of the extension of the General Budget for the Region of Madrid for 2020. 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 companies to pension plans or collective insurance policies covering retirement.

**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 2020 the present value of the actuarial mathematical provision for employer-paid retirement plans is 353 thousand euros (330 thousand euros in 2019).

**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.



*(cont.)*

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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.

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; at 31 December 2018 it amounted to 2,219 thousand euros; and at 31 December 2019 it amounted to 2,103 thousand euros. At 2020 year end, the obligation amounts to 2,116 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.



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#### *(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))

### p) Provisions

#### *(i) General criteria*

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

The 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.

### q) 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



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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.

### r) 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.

### s) Income tax

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

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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.

### *(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

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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.

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.

### t) Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, whose operating 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.

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

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

Assets are classified as current if it can be expected that they will be realised or if they are intended to be sold or consumed within the normal cycle of operation of the 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.

### v) 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.



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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.

### w) Covid-19

Despite the considerable impact of the Covid-19 pandemic on the global economy and how challenging it has been for the Group and the Parent Company to continue providing the service in these conditions, the effect on the business has been very limited and much less than in other sectors, since the Group provides an essential service in integrated water management and demand is much more stable. In performing the necessary estimates and judgements to prepare the consolidated annual financial statements, these considerations were taken into account, as detailed in the relevant notes.

## 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

On 22 December 2020, the Directors of the Parent Company, along with the Sole Director of Hispanagua, S.A.U., drafted and signed the joint project for the Merger by Acquisition of Canal de Isabel II, S.A. (the Acquiring Company) and Hispanagua, S.A.U. (the Acquired Company), which will be presented to shareholders for approval at their Extraordinary Meeting in February 2021.

The merger balance sheet and explanatory notes at 31 October 2020 prepared by the Company's Director on 22 December 2020 serve as the basis for the joint merger project of Canal de Isabel II, S.A. (Acquiring Company) and Hispanagua, S.A.U. (Acquired Company), in compliance with the provisions of articles 30, 31, 36 et seq of Law 3/2009, dated 3 April, concerning structural changes to mercantile companies, in relation to the planned merger.

Pursuant to the merger, the Acquiring Company will absorb the Acquired Company, so that the latter will be extinguished and all of its assets, liabilities and remaining relations are transmitted, en bloc and via universal succession, to the Acquiring Company, so that the latter will be subrogated in the rights and obligations of the Acquired Company.



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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 2020)], 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 (1,891 thousand euros).
- Assign 138,753 shares held by SLASA in INASSA to Canal Extensia for an amount of 494 thousand dollars (403 thousand euros).

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 3 October 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) directly and indirectly owned in a proportion of 81.24% at 31 December 2018 (81.84% at 31 December 2020) 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 At 31 December 2020, there were no changes in the situations outlined above.

The investee, Acueducto y Alcantarillado Metropolitano de Santa Marta, S.A. E.S.P. (hereinafter, Metroagua, S.A. E.S.P.), was dissolved pursuant to the Shareholders' Agreement of 21 April 2017 and at 31 December 2020 it is still in the liquidation phase.

## 6. NON-CURRENT ASSETS HELD FOR SALE

The Company classified as non-current assets held for sale 45 properties that appeared as investment property, and which were divested via electronic public auction, on the basis of the agreements adopted by the Board of Directors on 19 September 2018. The sale transaction is expected to be effective once the necessary contracting proceedings have been completed and as the real estate market normalises over the course of 2021. 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 2021. (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 | | | | | | |
|---|---|---|---|---|---|---|---|
| | 2020 | | | | | | |
| | Land and buildings | Right-of-use Buildings and construction works | Technical installations and other property, plant and | Machinery, furniture and tools | Right-of-use Other assets | Fixed assets under constructio n and | TOTAL |
| **Cost:** | | | | | | | |
| **Balance at 31 December 2019** | **10,160** | **17,341** | **70,737** | **1,915** | **10,005** | **153** | **110,311** |
| Adjustment to the initial balance | - | 6,025 | - | - | 553 | - | 6,578 |
| **Initial balance at 1 January 2020** | **10,160** | 23,366 | **70,737** | **1,915** | 10,558 | 153 | **116,889** |
| Additions | 14 | 1,212 | 277 | 54 | 473 | 143 | 2,173 |
| Disposals | - | (288) | (755) | (113) | (116) | - | (1,272) |
| Transfers | - | - | 160 | - | - | (160) | - |
| Translation differences | (302) | (178) | (2,733) | (130) | (41) | (21) | (3,405) |
| **Cost at 31 December 2020** | **9,872** | **24,112** | **67,686** | **1,726** | **10,874** | **115** | **114,385** |
| **Accumulated depreciation:** | | | | | | | |
| **Balance at 31 December 2019** | **(1,546)** | **(3,529)** | **(55,359)** | **(1,457)** | **(3,354)** | **-** | **(65,245)** |
| Adjustment to the initial balance | - | 71 | - | - | (19) | - | 52 |
| **Initial balance at 1 January 2020** | **(1,546)** | **(3,458)** | **(55,359)** | **(1,457)** | **(3,373)** | **-** | **(65,193)** |
| Depreciation (Note 26) | (89) | (3,415) | (2,676) | (106) | (2,851) | - | (9,137) |
| Disposals | - | 264 | 726 | 105 | 105 | - | 1,200 |
| Translation differences | 182 | 63 | 2,188 | 82 | 24 | - | 2,539 |
| **Accumulated depreciation at 31 December 2020** | **(1,453)** | **(6,546)** | **(55,121)** | **(1,376)** | **(6,095)** | **-** | **(70,591)** |
| **NET CARRYING AMOUNT AT 31 December 2020** | **8,419** | **17,566** | **12,565** | **350** | **4,779** | **115** | **43,794** |



*(cont.)*

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

| | 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)** |
| Depreciation (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. reclassified 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).



*(cont.)*

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

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

| | Thousands of euros | | | |
|---|---|---|---|---|
| | 2020 | | | |
| | Right-of-use Buildings and construction works | Right-of-use Vehicles | Right-of-use Other assets | TOTAL |
| **Cost:** | | | | |
| Initial balance at 1 January 2020 | 17,341 | 7,897 | 2,109 | 27,347 |
| Adjustment to the initial balance | 6,025 | 553 | | 6,578 |
| Balance at 01 January 2020 | 23,366 | 8,450 | 2,109 | 33,925 |
| Additions | 1,212 | 419 | 54 | 1,685 |
| Disposals | (288) | (56) | (60) | (404) |
| Transfers | - | - | - | - |
| Translation differences | (178) | (19) | (22) | (219) |
| **Cost at 31 December 2020** | **24,112** | **8,794** | **2,081** | **34,987** |
| **Accumulated depreciation:** | | | | |
| Initial balance at 1 January 2020 | (3,529) | (3,038) | (316) | (6,883) |
| Adjustment to the initial balance | 71 | (19) | - | 52 |
| Balance at 01 January 2020 | (3,458) | (3,057) | (316) | (6,831) |
| Depreciation (Note 26) | (3,415) | (2,669) | (182) | (6,266) |
| Disposals | 264 | 50 | 54 | 368 |
| Transfers | - | - | - | - |
| Translation differences | 63 | 11 | 13 | 87 |
| **Accumulated depreciation at 31 December 2020** | **(6,546)** | **(5,665)** | **(431)** | **(12,642)** |
| **NET CARRYING AMOUNT AT 31 December 2020** | **17,566** | **3,129** | **1,650** | **22,345** |

| | 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 | - | - | - | - |
| Depreciation (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.



*(cont.)*

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

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 | | |
|---|---|---|---|
| | 2020 | | |
| Description of the asset | Depreciation | Accumulated depreciation | Net carrying amount |
| Mini power plants | (1,402) | (41,715) | 9,204 |
| **Total** | **(1,402)** | **(41,715)** | **9,204** |

| | 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** |

There are no individually relevant elements of property, plant and equipment among the Ibero-American States at 31 December 2020 and 2019.

### b) Fully amortised 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 | |
|---|---|---|
| | 2020 | 2019 |
| Construction works | 978 | 951 |
| Technical installations and machinery | 2,000 | 2,118 |
| Other installations, tools and furniture | 951 | 895 |
| Other fixed assets | 22,029 | 9,794 |
| **Total** | **25,958** | **13,758** |

### 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 2020 and 2019.

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

### e) Disposals

As a consequence of the disposals made during fiscal year 2020 under the heading of property, plant and equipment, a profit of 34 thousand euros was originated and recognised in the accompanying consolidated income statement (loss of 17 thousand euros in 2019).

## 8. INVESTMENT PROPERTY

### a) General

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

| | In thousands of euros | | |
|---|---|---|---|
| | 2020 | | |
| | Lands | Construction works | TOTAL |
| **Cost at 01 January 2020** | **4,253** | **13,313** | **17,566** |
| Additions | 4 | - | 4 |
| Disposals | (1) | (16) | (17) |
| Transfers | - | - | - |
| Translation differences | - | (24) | (24) |
| **Cost at 31 December 2020** | **4,256** | **13,273** | **17,529** |
| **Accumulated amortisation at 1 January 2020** | - | **(7,382)** | **(7,382)** |
| Depreciation (Note 26) | - | (268) | (268) |
| Translation differences | - | - | - |
| **Accumulated amortisation at 31 December 2020** | - | **(7,650)** | **(7,650)** |
| **Accumulated impairment at 1 January 2020** | - | **(133)** | **(133)** |
| Other movements | - | - | - |
| **Accumulated impairment at 31 December 2020** | - | **(133)** | **(133)** |
| **NET CARRYING AMOUNT AT 31 December 2020** | **4,256** | **5,490** | **9,746** |

| | In thousands of euros | | |
|---|---|---|---|
| | 2019 | | |
| | Lands | Construction works | TOTAL |
| **Cost at 01 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)** |
| Depreciation (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** |



*(cont.)*

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This heading mainly comprises the sports facilities located at the Third Deposit on Calle 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 fee in 2020 totalled 200 thousand euros (185 thousand euros in 2019).

At 31 December 2020, "Additions" include contributions made to cover urban development and management costs at the Compensation Board of the sectors SUS PP-B "Cristo de Rivas" (Rivas Vaciamadrid) plot RC 110-2, amounting to 4 thousand euros.

"Additions" in 2019 include contributions made 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.

The total net carrying amount of the Group's investments outside of Spain is 152 thousand euros (193 thousand euros in 2019). 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 | | |
|---|---|---|---|
| | 2020 | | |
| **Description** | **Cost** | **Accumulated depreciation** | **Net** |
| Lands | 4,257 | - | 4,257 |
| Patrimonial assets | 2,312 | (916) | 1,396 |
| **Total** | **6,569** | **(916)** | **5,653** |

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

## b) Income and expenses from investment property

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

| | In thousands of euros | |
|---|---|---|
| | **2020** | **2019** |
| Lease income | 287 | 424 |
| Operating expenses from income generating investments | (223) | (310) |
| Operating expenses from investments that do not generate income | (45) | (45) |
| **Total** | **19** | **69** |



*(cont.)*

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

### c) Value impairment

The Parent Company did not recognise any impairments in 2019 and 2020.

### 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 2020 and 2019 is as follows:

| Item | In thousands of euros | |
|---|---|---|
| | 2020 | 2019 |
| Construction works | 56,931 | 67,103 |

### f) Disposals

In 2020, disposals by the Group under this heading generated a profit of 56 thousand euros which was booked in the attached consolidated income statements. In 2019, no disposals were recognised under the heading "Investment property". See Note 26 (g).

In 2020, the Parent Company recognised a disposal for the sale of joint ownership of plot I-8 of AR-1 Nuevo Tres Cantos. 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.

## 9. GOODWILL

Movement during 2020 and 2019 is as follows:

| | In thousands of euros 2020 | | | |
|---|---|---|---|---|
| | Balance at 01 January 2020 | Impairment | Translation differences | Balance at 31 December 2020 |
| AAA Ecuador Agacase | 294 | - | (37) | 257 |
| Hidráulica Santillana, S.A.U. | 12,610 | - | - | 12,610 |
| AAA Dominicana, S.A. | 38 | - | - | 38 |
| Emissão, S.A. | - | - | - | - |
| **Total** | **12,942** | **-** | **(37)** | **12,905** |

| | In thousands of euros 2019 | | | |
|---|---|---|---|---|
| | Balance at 01 January 2019 | Impairment | Translation differences | Balance at 31 December 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** |



*(cont.)*

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

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:**

Although at 31 December 2019, goodwill of the CGU Emissão was fully impaired, the Group continues to analyse the situation of all the companies on an annual basis.

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 2020 by Management for the coming years.

The explicit period includes a time frame of 10 years since, at the end of 2020, the CGU has fiscal credits still to be offset for a significant amount and it is from 2030 that it would obtain the first normalised flow to calculate the terminal value.

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

- To estimate turnover for 2020, contract achievement looking ahead to 2021 was considered once the situation in the country has stabilised, based on the history of tenders won by Emissâo; this is considered a reasonable estimate based on its experience and verified data.
- The Group established an operating margin based on experience acquired in the last few tenders won and the estimate of the market situation in 2021, taking into account the effects of the pandemic in Brazil.
- The compound annual growth rate (CAGR) of revenues and EBITDA used in the projections is as follows:

| | Business Plan 2020 | Business Plan 2019 |
|---|---|---|
| Income CAGR | 19.28 % | 1.16 % |
| EBIDTA CAGR | N/A | 12.04 % |

Given that Emissâo's EBITDA at 31 December 2020 was negative and for the following years it is expected to be positive, methodologically it is not possible to calculate CAGR for the projection period. Nevertheless, from the second half of 2021 onwards, Emissâo is expected to be able to resume its



(cont.)

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operations, and to achieve normalised annual results consistent with the activity of years prior to 2020, from 2022 onwards. In this regard, estimated EBITDA CAGR for the period from 2021 to 2030 is 25.71%.

The reasons for such a significant increase in CAGR in the 2020 business plan compared to that of 2019 are the unusual circumstances at Emissâo throughout 2020 as a result of the pandemic and the situation it has unleashed in Brazil, which has led to the non-renewal of contracts by state companies to which services were being provided due to cash tensions triggered by legal restrictions on payment collection procedures and supply cuts, as well as the impossibility of executing contracts awarded at the start of the year.

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 561% over the projected years. These expectations 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, over the course of various years, mainly in 2023 and 2024, and the effect of calculating the average collection period for current receivables in which, although estimated to persist based on customers' usual habits, calculation of the ratio in 2020 points to a longer period based on lower turnover as a result of the situation generated by the pandemic.

The discount rate applied (weighted average cost of capital or WACC) is 14% (12.3% in 2019). To calculate this the reference of interest rate of securities and bonds of the United States of America over 20 years (1.7%) is used, a market risk premium of 6.5%, a country risk of 2.9%, a size premium of 3.8% and capital structure of similar companies.

With regard to the terminal value, a perpetual growth rate of 3.3% has been estimated (3.5% in 2019), considering the average inflation projected for Brazil from 2021 to 2030 (source: The Economist intelligence Unit, Country Forecast Brazil).

The impairment test carried out on 31 December 2020 reflects a recoverable value of 25,895 thousand euros (24,650 thousand euros at 31 December 2019). This amount must be compared with the net value of the CGU's operating assets, standing at 16,612 thousand euros (including goodwill) at said date (30,716 thousand euros at 31 December 2019). Although at 2020 year end the recoverable value is higher than the value of the CGU's operating assets, goodwill was already fully impaired at the end of 2019 (5,232 thousand euros in 2019).

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:



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

| | | In thousands of euros |
|---|---|---|
| **Sensitivity** | **Hypothesis Variation** | **Recoverable Value Variation** |
| Turnover | + 5% | 6,279 |
| Turnover | - 5% | (4,316) |
| Average collection period | + 360 days | (6,680) |
| Average collection period | - 360 days | 1,857 |
| Discount rate (WACC) | + 100bp | (1,835) |
| Discount rate (WACC) | - 100 bp | 2,163 |
| Perpetual growth (g) | + 100bp | 693 |
| Perpetual growth (g) | - 100 bp | (577) |

**- CGU Hidráulica Santillana:**

The Group has determined the production of energy based on the historic average production volume, increasing over the projection period as a consequence of the estimated investments. Furthermore, the estimated sale price is in a range of between 42 euros/MWh and 45 euros/MWh during the 5 projected years.

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

| | Business Plan 2020 | Business Plan 2019 |
|---|---|---|
| Income CAGR | 2.37 % | 3.89 % |
| EBIDTA CAGR | 1.91 % | 4.64 % |

The discount rate applied (weighted average cost of capital or WACC) is 5.10% (4.70% in 2019), and a constant perpetual growth rate was estimated to calculate terminal value of 2%, linked mainly to the increase in the price of energy (2% in 2019).

The impairment test carried out at 31 December 2020 reflects a recoverable value of 48,045 thousand euros (78,431 thousand euros in 2019), with an excess over the carrying amount of the CGU's net operating assets of 19,639 thousand euros (including goodwill) (48,745 thousand euros in 2019). The reduction in recoverable value compared to 2019 is directly linked to the reduction in the estimated market sale price compared to the 2019 business plan.

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:

| | 2020 |
|---|---|
| Income decrease | 17.0 % |
| WACC increase (bp) | 240 |

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

This sensitivity analysis illustrates that this CGU does not have significant risks associated with variations in the key assumptions. During 2020 and 2019, 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.

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

## 10. INTANGIBLE FIXED ASSETS

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

| | In thousands of euros | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2020 | | | | | | | |
| | 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** | **564** | **3,551** | **1,948** | **109** | **6,858,184** | **89,208** | **635** | **6,954,199** |
| Additions | - | 1,897 | 54 | 2 | 32,704 | 29,992 | - | 64,649 |
| Disposals | - | - | (103) | - | (8,044) | - | - | (8,147) |
| Transfers | - | - | - | - | 48,326 | (48,326) | - | - |
| Translation differences | (93) | (215) | (233) | (14) | (1,935) | (14) | - | (2,504) |
| **Cost at 31 December** | **471** | **5,233** | **1,666** | **97** | **6,929,235** | **70,860** | **635** | **7,008,197** |
| **Accumulated amortisation at 1 January** | **(345)** | **(1,708)** | **(1,702)** | **(5)** | **(2,807,888)** | **-** | **-** | **(2,811,648)** |
| Depreciations | (172) | - | (71) | (16) | (121,052) | - | - | (121,311) |
| Disposals | - | - | 103 | - | 5,409 | - | - | 5,512 |
| Translation differences | 72 | 216 | 200 | 1 | 965 | - | - | 1,454 |
| Other movements | - | - | - | - | - | - | - | |
| **Accumulated amortisation at 31 December** | **(445)** | **(1,492)** | **(1,470)** | **(20)** | **(2,922,566)** | **-** | **-** | **(2,925,993)** |
| **Impairment at 1 January** | | | | | **(6,863)** | | | **(6,863)** |
| Impairment reversals | | | | | (626) | | | **(626)** |
| **Accumulated impairment loss at 31 December** | | | | | **(7,489)** | | | **(7,489)** |
| **Net carrying amount at 31 December** | **26** | **3,741** | **196** | **77** | **3,999,180** | **70,860** | **635** | **4,074,715** |



*(cont.)*

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

| | 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)** |
| Depreciations | (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 loss 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** |



*(cont.)*

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

In December 2020 the following are particularly noteworthy among the most significant additions to "Concession arrangements, regulated assets":

Work continues on the extension and renovation of the network 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.

With regard to water intake, note the works to equip and electrify the G-6 well and its connection to the intake artery in the Guadarrama well field. In treatment, note the measures at the DWTP in Colmenar Viejo to expand the plant's sludge treatment facilities.

To guarantee supply in the municipalities of Cadalso de los Vidrios, Cenicientos and Rozas de Puerto Real, the southwest corner reinforcement pipeline was connected to the Rozas de Puerto Real reservoir from the Pelayos de la Presa DWTP.

In supply, we highlight phase 1 of the strengthening of the eastern branch of the Torrelaguna system, the Torrelaguna-Valdeolmos-Alalpardo section, serving the Espartal del Vellón and Caraquiz de Uceda housing developments and the municipalities of Valdepiélagos, Talamanca and Valdetorres; as well as the connection of the Torrelaguna and Pinilla supply networks by means of a pipeline between the Valgallegos and La Silicona reservoirs to supply the municipalities of Valdemanco, Bustarviejo, Cabanillas de la Sierra and Navalafuente from the Pinilla network with water from the Torrelaguna network; and the installation of a power line to supply the new lift stations at La Silicona and its impulsion to the pumping station at Valdemanco and Bustarviejo.

With regard to treatment, in compliance with the National Treated Water Quality Plan and based on urban development growth forecasts, note the actions implemented primarily at the WWTPs in Aranjuez, Los Escoriales, Casaquemada and Soto Gutiérrez; a wet well plant for experimenting with efficient technologies at the Torrejón de Ardoz WWTP; as well as the new raw water pumping in the pre-treatment of the Velilla WWTP and an overflow treatment system at the Arroyo de la Vega WWTP.

In the network of sewerage collectors and outfall pipes in the Region of Madrid, note the measures implemented in section C2 of the Cuenca Baja system outfall pipe to prevent spillages and damage to the urban centre of Parla; the gallery collector in calle alcalde Sainz de Baranda in Madrid to eliminate the slope with the Abroñigales collector and prevent flooding; and the discharge pipe from the Ciempozuelos WWTP to the Soto Gutiérrez WWTP to guarantee pumping and prevent discharges into watercourses.

Among the actions with reclaimed water, for the treatment and reuse of water in the Madrid Region, work continued on the infrastructures for the irrigation of the main green areas in the municipality of Rivas Vaciamadrid and a tertiary filtration system to improve the operation and quality of the reclaimed water supplied to the Soto Gutiérrez WWTP.

With regard to energy generation, the Parent Company has installed various charging points for electric vehicles at its main facilities; and gas turbines were installed at the Arroyo Quiñones WWTP, for harnessing biogas from the plant, energy generation and thermal use.

The Parent Company continues its efforts to automate the operation, enhance the security of IT systems and assemble equipment and infrastructure in the telecommunications network. Of note is the installation of new telecontrol points in various locations for data collection and transfer via GPRS and digital trunking, and the continuation of phase 3 of process automation and integration of wastewater pumping stations (WWPS) in the telecontrol system.



*(cont.)*

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

In December 2019 the following were 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.

With regard to water intake, of note are 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 2$^{nd}$ 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 lines 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 on Calle de Altamira up to its junction with the collector on 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.

## a) Main Concession Arrangements and Administrative Concessions

Details of the most significant concession arrangements are as follows:

| | | | | In thousands of euros | | | |
|---|---|---|---|---|---|---|---|
| | | | | | | 2020 | |
| **Concession arrangements, regulated assets** | **Use** | **Expiration date** | **Depreciation period** | **Cost** | **Accumulated depreciation** | **Valuation adjustments** | **Net** |
| **In Spain** | | | | | | | |
| Region of Madrid Network Infrastructures | Operating activities | 2062 | 50 | 5,356,003 | (2,313,140) | - | 3,042,863 |
| Assignment of use of operating sanitation infrastructures of the Madrid City Council | Operating activities | 2036 | 31 | 926,000 | (446,000) | - | 480,000 |
| Recycling Infrastructures of Madrid City Council | Operating activities | 2061 | 50 | 192,269 | (36,156) | - | 156,113 |
| Infrastructures of the municipal sewerage networks | Operating activities | 2062 | 50 | 132,834 | (26,197) | - | 106,637 |
| Technical Facilities Aguas de las Cuencas de España | Operating activities | 2039 | 30 | 72,154 | (26,723) | - | 45,431 |
| Administrative Concession Lanzarote | Operating activities | 2043 | 30 | 96,906 | (17,462) | - | 79,444 |
| Additional investments "Granting of rights to use Madrid City Council sanitation infrastructures" | Operating activities | 2036 | 31 | 60,191 | (18,490) | - | 41,701 |
| Investments for the extension and upgrade of Alcalá de Henares concession | Operating activities | 2029 | 25 | 18,662 | (11,517) | - | 7,145 |
| Granting of rights to use Municipal Land in Guadarrama | Operating activities | 2039 | 30 | 10,752 | (4,271) | - | 6,481 |
| Administrative Concession Cáceres | Operating | 2039 | 24 | 39,259 | (8,703) | (7,489) | 23,067 |
| | | | | | | | |
| **In Ibero-America** | | | | | | | |
| Rights over contracts AAA Ecuador | Operating activities | 2051 | 50 | 14,056 | (5,615) | - | 8,441 |
| Other minicipalities concession Atlántico | Operating activities | Miscellaneous | Miscellaneous | - | (1,940) | - | (1,940) |
| Rights over contracts Fontes da Serra (Brazil) | Operating activities | 2030 | 30 | 844 | (394) | - | 450 |
| Rights over contracts AAA Dominicana, S.A. | Operating activities | 2015 | 11 | 1,493 | (1,493) | - | - |
| **Total** | | | | **6,921,423** | **(2,918,101)** | **(7,489)** | **3,995,833** |



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| | | | | In thousands of euros | | | |
|---|---|---|---|---|---|---|---|
| | | | | | 2019 | | |
| **Concession arrangements, regulated assets** | **Use** | **Expiration date** | **Depreciation period** | **Cost** | **Accumulated depreciation** | **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) | - | 510,000 |
| 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 municipalities 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** |

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



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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 2020 the Parent charged 71,600 thousand euros to the provision for infrastructure replacement relating to the Region of Madrid General Network (71,600 thousand euros in 2019) (see Note 23).

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

- The granting of the right to use Madrid City Council sanitation infrastructures is regulated by the Management Agreement Regarding Sanitation Services, signed between the Madrid City Council, the Regional Government of Madrid and Canal de Isabel II on 19 December 2005, by virtue of which, Canal 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 2020 the Parent Company charged 14,001 thousand euros to the provision for replacements (16,369 thousand euros in 2019) (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 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 rates from customers in the city of Madrid for sewerage and treatment services rendered, based on their use of these services. Rates and any amendments or updates thereto are authorised by the Regional Government of Madrid in accordance with the legislation in force.

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

- 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 rates. Rates 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 2020 the Parent Company charged 1,076 thousand euros to the provision for replacements (652 thousand euros in 2019) (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 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.

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

No new Sewerage Agreements were signed in 2020. At 31 December 2020, 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 2020:

| | | | In thousands of euros | |
|---|---|---|---|---|
| | | | 2020 | 2019 |
| **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 rates from customers, based on their use of the service rendered. Rates and any amendments thereto are authorised by the Regional Government of Madrid in accordance with the legislation in force. 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, 1,268 thousand euros are pending payment at 31 December 2020 and have been recognised under payables to suppliers of fixed assets (1,358 thousand euros in 2019) (see Note 20).

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

  The 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 2020 the Parent Company charged 1,360 thousand euros to the provision for replacements (1,360 thousand euros in 2019). (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.

  Additionally, the Parent Company pays Cáceres City Council a variable fee of 4% of total billings as from year five of the concession.

- 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 2020, totalled 57,665 thousand euros, including 7,686 thousand euros in the execution phase at year end.

  The consideration received by Canal Gestión Lanzarote, S.A. is the right to collect rates from customers for their use of the public services provided. Rates 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, 2019 and 2020. 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, of 2.4% (CPI increase 1.4% + 1%) from 1 June 2019 and of 1.4% (CPI increase 0.4% + 1%) from 1 June 2020, implying an income reduction of 5,401 thousand euros for Canal Gestión Lanzarote at 31 December 2020, 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 town of Samborondón and the company Aguas de Samborondón Amagua C.E.M. for the provision of drinking water and sewerage services in the urban development area of Samborondón canton", which was signed on 30 November 2001, the first addendum thereto signed on 14 December 2009, the second signed on 29 August 2014, the third signed on 31 January 2019, and the fourth signed on 31 January 2020, for a 50-year period from March 1998 onwards. Moreover, the service provided by Amagua is governed by the town charter approved by the government of the canton of Samborondón on 28 May 2010 and published in Official Record No. 47, of 21 June 2010.

    At present, in order to meet past commitments acquired and to afford Amagua a degree of independence and greater efficiencies, as well as to guarantee supply to users of the canton of Samborondón (as required by the high projected rates of population growth), work has been ongoing, in conjunction with the municipality, to design a project to build a drinking water treatment plant. In this regard, the relevant technical analyses have been conducted and the necessary financing sought with various financial institutions.

  - With respect to the operation in the canton of Daule, it is operated on the basis of an agreement signed with the municipal government of the canton on 10 February 2005; the first addendum thereto was signed on 22 July 2009, the second on 1 August 2012, and the third on 17 February de 2020, covering a period from 10 February 2005 until such time as a drinking water treatment plant is built. Provision of the service is governed by the town charter approved by the government of the canton of Daule on 24 July 2009, published in Official Record No. 4 of 26 August 2009.

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

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



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major investments or replacements. Although it is not bound to make any investments, where required for its particular needs, the subsidiary may carry out work on a self-financed basis or in collaboration with other parties.

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

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

  - Concession agreement signed on 30 June 2000, with the municipal government of Guapimirim, whose operating permit was recently issued and is valid until 23 December 2026. 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.

    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 would therefore expire on 30 November 2020.

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

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

    On 26 November 2020, the Riohacha District and the company ASAA S.A. E.S.P. signed contract addendum No. 3, governing the operation, refurbishment and maintenance of the public conduit and sewerage network infrastructure, extending the contract for one (1) year, from 1 December 2020 to 30 November 2021, and thereby guaranteeing the provision of conduit and sewerage

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services to the Riohacha District for another year. This was approved by the company's Board of Directors at its meeting of 29 October 2020.

## 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 | 2020 | 2019 |
| Region of Madrid General Network | 50 | 61,718 | 80,132 |
| **Total** | | **61,718** | **80,132** |

## c) Disposals

As a consequence of the disposals in 2020 under "Intangible assets", a loss of 2,635 thousand euros was generated, which has been recognised in the accompanying Consolidated Income Statement (a loss of 3,462 thousand euros under Intangible assets in 2019) (see Note 26).

Disposals in 2020 at the Parent Company emerge mainly as a result of the project to expand the Los Escoriales WWTP since the existing facilities were demolished and replaced by other more suitable installations in the amount of 325 thousand euros; revision and reconciliation of inventory at the DWTP, reservoirs and lifts in the amount of 202 thousand euros; meters and other global management items in the amount of 1,882 thousand euros; the replacement of technical equipment in the amount of 120 thousand euros; and the indefinite assignment of the Ciempozuelos switching centre to the distributing company in the amount of 103 thousand euros.

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.

## 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.

There was no progress or significant events in 2019 and 2020 with an impact on the concession's business plan. However, the increase in the discount rate (WACC), to 5.10% in 2020 compared with 4.70% in 2019, had a negative impact on the value of the concession business. The recoverable value of the concession totalled 18,398 thousand euros, lower than the net carrying amount of the net operating assets associated with the concession net of impairment, which was 19,024 thousand euros. As a result, the Parent Company booked an impairment of 626 thousand euros (reversal of 2,356 thousand euros in 2019 due to the decrease in WACC vs. 2018).



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Regardless of the 7,489 thousand euros of impairment recognised on the balance sheet at 31 December 2020, 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 2020 and 2019.

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.

### g) Investment Budget

The Parent Company's budget for the coming year includes investment amounting to 221 million euros. Replacements account for approximately 92 million euros of this balance (60 million euros in 2019).

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 2020, actions arising out of this commitment have been carried out for an amount of 216 million euros (196 million euros up to 2019), of which 148 million euros reflect the application of the replacement provision (130 million euros in 2019).

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 4,471 thousand euros in 2020 (4,261 thousand euros at 31 December 2019).

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### 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 | |
|---|---|---|
| | 2020 | 2019 |
| | Carrying amount | Carrying amount |
| Canals and general pipelines | 862,980 | 885,398 |
| Distribution network | 643,158 | 641,985 |
| WWTP | 356,216 | 359,912 |
| Deposits | 209,160 | 208,069 |
| Lands | 193,384 | 196,019 |
| General buildings | 148,101 | 149,440 |
| DWTP | 115,437 | 118,218 |
| Low voltage transformation and distribution | 106,732 | 103,599 |
| Reusage networks | 80,625 | 82,852 |
| Underground water catchment | 16,598 | 17,402 |
| **TOTAL** | **2,732,391** | **2,762,984** |

As of 31 December 2020 and 31 December 2019 there are no individually significant elements in Ibero-America.

### i) Fully amortised goods

The cost of fully amortised intangible assets at 31 December 2020 and 2019 is as follows:

| | In thousands of euros | |
|---|---|---|
| | 2020 | 2019 |
| Development | 14 | 14 |
| Applications | 1,108 | 985 |
| Concessions and Concession arrangements | 268,536 | 267,789 |
| **Total** | **269,658** | **268,788** |



*(cont.)*

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### j) Lease contracts under IFRS 16

At 31 December 2020, the breakdown and movements of leases subject to IFRS were as follows:

| | Thousands of euros | | | | |
|---|---|---|---|---|---|
| | 2020 | | | | |
| | 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 2019 | 17,341 | 7,897 | 2,109 | 109 | 27,456 |
| Adjustment to the initial balance | 6,025 | 553 | - | - | 6,578 |
| Initial balance at 1 January 2020 | 23,366 | 8,450 | 2,109 | 109 | 34,034 |
| Additions | 1,212 | 419 | 54 | 2 | 1,687 |
| Disposals | (288) | (56) | (60) | - | (404) |
| Translation differences | (178) | (20) | (22) | (14) | (234) |
| **Cost at 31 December 2020** | **24,112** | **8,793** | **2,081** | **97** | **35,083** |
| **Accumulated depreciation:** | | | | | |
| Balance at 31 December 2019 | (3,529) | (3,038) | (316) | (5) | (6,888) |
| Adjustment to the initial balance | 71 | (19) | - | - | 52 |
| Initial balance at 1 January 2020 | (3,458) | (3,057) | (316) | (5) | (6,836) |
| Depreciation (Note 26) | (3,415) | (2,669) | (182) | (16) | (6,282) |
| Disposals | 264 | 50 | 54 | - | 368 |
| Translation differences | 64 | 11 | 13 | 1 | 89 |
| **Accumulated depreciation at 31 December 2020** | **(6,545)** | **(5,665)** | **(431)** | **(20)** | **(12,661)** |
| **NET CARRYING AMOUNT AT 31 December 2020** | **17,567** | **3,128** | **1,650** | **77** | **22,422** |

At 31 December 2020, financial debt associated with right-of-use (lease) assets is as follows:

| | In thousands of euros | |
|---|---|---|
| | 2020 | |
| | Non-Current | Current |
| **Lease liabilities:** | | |
| Lease payables | 16,956 | 5,547 |
| **TOTAL** | **16,956** | **5,547** |



*(cont.)*

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## 11. LEASES

### a) Operating Leases (Lessee)

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

The amounts paid for right-of-use assets under lease arrangements at 31 December 2020 totalled 6,266 thousand euros (6,277 thousand euros at 31 December 2019).

At 31 December 2020, the financial debt associated with right-of-use assets under lease arrangements amounted to 22,503 thousand euros (20,803 thousand euros at 31 December 2019), and interest accrued in the income statement amounted to 558 thousand euros (511 thousand euros at 31 December 2019).

### 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 | |
|---|---|---|
| | **2020** | **2019** |
| Up to a year | 2,679 | 2,391 |
| One to five years | 2,286 | 1,946 |
| More than five years | 2,164 | 499 |
| **Total** | **7,129** | **4,836** |



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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 | | | | |
|---|---|---|---|---|---|
| | 2020 | | | | |
| | Balance at 01 January 2020 | Profit/(Loss) | Translation differences | Other | Balance at 31 December 2020 |
| GSS Venture, S.L. | 337 | 138 | - | (7) | 468 |
| Avanzadas Soluciones de Acueducto y Alcantarillado SA ESP | - | (36) | 36 | - | - |
| **Total** | **337** | **102** | **36** | **(7)** | **468** |

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

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-



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debatable. The judicial processes are ongoing for the other contingencies since most of these are still in the first instance.

In terms of receiving payment from Santa Marta District for improvements to the city's conduit and sewerage infrastructure, which do not go against the rate and which are recognised in the amount of 63,250 million Colombian pesos (15,017 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 2020 and 2019, 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 2020 and 2019, 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 2020 and 2019 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 2020, the equity interest balance is zero euros (zero euros at 31 December 2019). (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:

| | 2020 | | |
|---|---|---|---|
| | Thousands of euros | | |
| | UTE Aguas de Alcalá | Other | TOTAL |
| Non-current assets | 18,631 | - | 18,631 |
| Current assets | 5,171 | 1,010 | 6,181 |
| Net equity | (1,691) | - | 1,691 |
| Non-current liabilities | (1,060) | - | (1,060) |
| Current liabilities | (21,051) | (381) | (21,432) |
| Net turnover | 14,076 | 6,948 | 21,024 |
| Supplies | (5,273) | - | (5,273) |
| Other operating income | 16 | - | 16 |
| Personnel expenses | (2,408) | - | (2,408) |
| Other operating expenses | (2,279) | (5,114) | (7,393) |
| Depreciations | (1,648) | - | (1,648) |
| Finance expenses | (885) | - | (885) |



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| | 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) |
| Depreciations | (1,645) | - | (1,645) |
| Finance expenses | (989) | - | (989) |

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:

Consorcio Módulo – A consortium, the purpose of which was 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 has a 0.01% stake in the consortium.

The consortia active in 2019 were Consorcio Rio Resolve and Consorcio Módulo, which ended on 15 and 23 October 2019, respectively. At present, none of Emissâo's consortia are active.



*(cont.)*

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## 14. FINANCIAL ASSETS

### a) Other financial assets

Details of other financial assets are as follows:

| | In thousands of euros | | | |
|---|---|---|---|---|
| | 2020 | | 2019 | |
| | Non-Current | Current | Non-Current | Current |
| **Related** | | | | |
| Equity instruments | 100 | - | 115 | - |
| Loans to Group and related companies | 465 | 4,528 | - | 3,900 |
| **Unrelated** | | | | |
| Equity instruments | 67,210 | - | 67,877 | - |
| Loans to third parties | 89,443 | 10,650 | 98,137 | 10,697 |
| Deposits and guarantees | 10,438 | 287 | 10,618 | 858 |
| Impairment adjustments | (9,077) | (2,722) | (11,909) | (2,722) |
| Other financial assets | - | 2,784 | - | 3,794 |
| **Total** | **158,579** | **15,527** | **164,838** | **16,527** |

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

Equity instruments mainly includes, at 31 December 2020 and 2019, the Group's investment in Vale S.A. – Debêntures, amounting to 1,686 thousand euros (2,352 thousand euros in 2019) and which is impaired by an amount of 1,639 thousand euros (2,307 thousand euros in 2019). 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 | | | |
|---|---|---|---|---|
| | 2020 | | | |
| Type | Year of maturity | Nominal amount | Non-current | Current |
| For works performed for City Councils | 2050 | 96,114 | 62,624 | 7,487 |
| For derecognitions of fixed assets | 2009 | 2,722 | - | 2,722 |
| For regeneration works | 2040 | 215 | 129 | 20 |
| UTE Loan - Alcalá de Henares City Council | 2029 | 3,148 | 2,546 | 370 |
| Other loans Emissão | Miscellaneous | 24,037 | 24,037 | - |
| Other loans AAA Dominicana, S.A. | Miscellaneous | 51 | - | 51 |
| Loans to personnel | Miscellaneous | 107 | 107 | - |
| **Total** | | **126,394** | **89,443** | **10,650** |



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| | | 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 | 2029 | 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** |

At 31 December 2020, Emissão had non-current amounts receivable in the amount of 24,032 thousand euros (29,982 thousand euros at 31 December 2019), most of which have been claimed through legal proceedings over the course of 2020. 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 2020, 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 2020 amounted to 12,400 thousand euros (15,079 thousand euros in 2019). These balances are generally settled through customer bills, and a total amount of 14,484 thousand euros was received in 2020 (13,907 thousand euros in 2019).

Additionally, "non-current and current loans" include 2,546 and 370 thousand euros respectively (2,863 and 370 thousand euros non-current and current in 2019), 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 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 2020.



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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.

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

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

## 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 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 2020 corresponds to Emissão, S.A. and stands at 3,247 thousand euros (5,539 thousand euros in 2019).

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

The movements in impairment accounts are as follows:

| | In thousands of euros | |
|---|---|---|
| | **2020** | **2019** |
| **Balance at 1 January** | **(14,631)** | **(9,645)** |
| Allocations | - | - |
| Transfers (Note 16) | (2,662) | (5,245) |
| Translation differences | 2,216 | 189 |
| Impairment reversals | 3,492 | 70 |
| Impairment losses | (214) | - |
| **Balance at 31 December** | **(11,799)** | **(14,631)** |

## 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 | |
|---|---|---|
| | **2020** | **2019** |
| **Production and Distribution Business** | | |
| Trade | 1,134 | 786 |
| Materials | 1,434 | 1,159 |
| Chemical reagents | 954 | 842 |
| Other supplies | 4,910 | 6,730 |
| Impairment adjustments | (250) | (250) |
| **Total** | **8,182** | **9,267** |

Impairment adjustments are due to wastage, defects, deterioration, unauthorised or unregulated materials and prolonged storage of unused items. In 2020, impairment adjustments were unchanged with respect to the previous year (there was a variation of 179 thousand euros in 2019 with respect to 2018). Nevertheless, the Parent Company booked an increased impairment of 15 thousand euros (in 2019 it recognised a decreased impairment of 8 thousand euros) and, corresponding to Hispanagua, the Company recognised a decreased impairment of 15 thousand euros for stored materials for use in activities that were discontinued in prior years.

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



*(cont.)*

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

## 16. TRADE AND OTHER RECEIVABLES

Details are as follows:

| | In thousands of euros | |
|---|---|---|
| | Current | |
| | 2020 | 2019 |
| Customers | 204,126 | 211,108 |
| Sundry debtors | 57,946 | 60,652 |
| Personnel | 119 | 154 |
| Other loans from Public Administrations | 3,976 | 3,815 |
| Impairment adjustments | (49,073) | (49,802) |
| **Total** | **217,094** | **225,927** |

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 682 thousand euros receivable from the Aguas de Alcalá temporary joint venture for water treatment services (619 thousand euros in 2019); 296 thousand euros receivable from Canal de Isabel II (Public Entity) (238 thousand euros in 2019); and 738 thousand euros receivable from non-consolidated Group companies (1,252 thousand euros in 2019).

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.

The movements in impairment accounts are as follows:

| | In thousands of euros | |
|---|---|---|
| | 2020 | 2019 |
| **Balance at 1 January** | **(49,802)** | **(54,805)** |
| Allocations | - | (2,902) |
| Applications | 3,608 | 6,300 |
| Surplus | - | - |
| Impairment losses | (7,336) | (4,420) |
| Impairment reversals | 382 | 762 |
| Transfers (Note 14) | 2,737 | 5,245 |
| Translation differences | 1,338 | 18 |
| **Balance at 31 December** | **(49,073)** | **(49,802)** |



*(cont.)*

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Impairment adjustments include accounts receivable that various Group companies (INASSA and Amerika Tecnología y Servicios, S.A.S.) maintain with Metroagua (see Note 12).

## 17. OTHER NON-FINANCIAL ASSETS

Details of other assets at 31 December are as follows:

| | In thousands of euros | | | |
|---|---|---|---|---|
| | 2020 | | 2019 | |
| | Non-current | Current | Non-current | Current |
| Prepaid expenses | 66,747 | 4,422 | 66,936 | 4,588 |
| **Total** | **66,747** | **4,422** | **66,936** | **4,588** |

Details of "prepaid expenses" are as follows:

| | In thousands of euros | | | |
|---|---|---|---|---|
| | 2020 | | 2019 | |
| | Non-current | Current | Non-current | Current |
| Seniority asset prepaid expenses | 64,249 | 3,952 | 64,401 | 4,089 |
| Long-service bonus asset prepaid expenses | 2,498 | 113 | 2,535 | 165 |
| Prepaid expenses | - | 357 | - | 334 |
| **Total** | **66,747** | **4,422** | **66,936** | **4,588** |

"Current advances" includes payments made in the financial year, corresponding primarily to costs for taxes and insurance premiums in the year 2021.

"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 439 thousand euros was accrued in 2020 (502 thousand euros in 2019) (see Note 26 (d)). Additionally, in 2020 an amount of 323 thousand euros was recognised in relation to the financial update of this item (302 thousand euros in 2019).

"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



*(cont.)*

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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 2020, 3,966 thousand euros were paid in respect of this item to employees of Canal de Isabel II S.A. (3,393 thousand euros in 2019).

These accruals are allocated to profit or loss as accrued. A sum of 3,966 thousand euros was accrued in 2020 (3,393 thousand euros in 2019) (see Note 26 (d)). Additionally, in 2020 an amount of 3,888 thousand euros was recognised in relation to the financial update of this item (3,912 thousand euros in 2019).

## 18. CASH AND CASH EQUIVALENTS

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

| | In thousands of euros | |
|---|---|---|
| | **2020** | **2019** |
| Cash and banks | 432,892 | 319,988 |
| Short-term deposits with financial institutions | 455 | 1,158 |
| **Total** | **433,347** | **321,146** |

"Cash and banks" reflects the aggregated of each of the companies forming the consolidated Group, with 420,831 thousand euros corresponding to Canal de Isabel II (302,283 thousand euros in 2019). The "Credit entity deposits" recognised mature within three months.

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.



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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 2020 and 2019 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 |

## 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 Parent Company's Legal Reserve in 2020 amounted to 24,191 thousand euros, corresponding to the allocation of profit in 2019, in accordance with Article 274 of the Corporate Enterprise Act, which establishes that, in any case, an amount equivalent to 10% of the profit for the financial year will be earmarked for the Legal Reserve until it reaches at least 20% of share capital.

This reserve 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 2020, the Parent has appropriated 173,524 thousand euros to this reserve (149,333 thousand euros at 31 December 2019), included under other reserves.

## d) Accumulated gains

At 31 December 2020, 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.



*(cont.)*

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

### e) Translation differences

Details of translation differences are as follows:

| | In thousands of euros | |
|---|---|---|
| **Company** | **2020** | **2019** |
| Interamericana de Aguas y Servicios S.A. | (6,954) | (7,141) |
| Gestus Gestión & Servicios S.A.S. | (1,154) | (1,004) |
| AAA Dominicana, S.A. | (905) | (585) |
| AAA Ecuador Agacase, S.A. | (252) | 110 |
| Amerika Tecnología y Servicios, S.A.S. | (224) | (149) |
| Soluciones Andinas de Aguas, S.R.L. | 16,836 | 9,950 |
| Emissão, S.A. | (3,743) | (3,209) |
| **Total** | **3,604** | **(2,028)** |

### 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 2019, approved by the shareholders at their Annual General Meeting held on 29 June 2020, was 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 |

The Board of Directors of the Parent Company, on 29 June 2020, agreed to distribute a first interim dividend of 47,796,825.00 euros for 2020, calculated as 0.04450 euros per share.



*(cont.)*

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

The provisional accounting statement formulated by the Board of Directors on 29 June 2020 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 2020:*** | |
| Forecast of net profit/(loss) from tax up to 31.12.2020 | 225,493 |
| Less required allocation to Legal Reserve | (22,549) |
| Estimated distributable profits for 2020 | 202,944 |
| Interim dividend distributed | 47,797 |
| ***Treasury forecast for the period 1 June 2020 to 31 May 2021:*** | |
| Cash balances at 1 June 2020 | 333,705 |
| Projected collections | 1,024,484 |
| Projected payments, including interim dividend | (1,084,002) |
| ***Treasury balances projected at 31 May 2021*** | **274,187** |

The Board of Directors of the Parent Company, on 22 December 2020, agreed to distribute a second interim dividend of 47,653,229.00 euros for 2020, calculated as 0.04437 euros per share.

The provisional accounting statement formulated by the Board of Directors on 22 December 2020 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 2020:*** | |
| Forecast of net profit/(loss) from tax up to 31.12.2020 | 202,349 |
| Less required allocation to Legal Reserve | (20,235) |
| Estimated distributable profits for 2020 | 182,114 |
| Interim dividend distributed | 47,653 |
| ***Treasury forecast for the period 1 December 2020 to 01 December 2021:*** | |
| Cash balances at 1 December 2020 | 450,645 |
| Projected collections | 969,082 |
| Projected payments, including interim dividend | (959,529) |
| ***Treasury balances projected at 01 December 2021*** | **460,198** |

In this connection, in meetings of the Board of Directors on 29 June and 22 December 2020, the Directors of the Parent Company compiled the relevant accounting statements which established that there was sufficient liquidity with which to distribute the agreed interim dividend.

Likewise, the aforementioned accounting statements establish that the first and second dividend payment amount agreed for 2020 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 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 2020 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 2020 are approved, the Parent 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 (2) working days, must proceed with the payment of the pending amount to said shareholder or shareholders.

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

The proposed distribution of the Parent Company's 2020 profit to be submitted to the shareholders for approval at their Annual General Meeting is as follows:

| | Euros |
|---|---|
| ***Base for distribution*** | |
| Financial year profit | **194,553,074.50** |
| ***Distribution*** | |
| Legal reserve | 19,455,307.45 |
| Voluntary reserve | 65,625,502.73 |
| Interim dividend | 95,450,054.00 |
| Complementary dividend | 14,022,210.32 |
| **Total** | **194,553,074.50** |

## g) Non-controlling interest

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

| | In thousands of euros | |
|---|---|---|
| **Company** | **2020** | **2019** |
| Sociedad Interamericana de Aguas y Servicios S.A. | (1,710) | (384) |
| Gestus Gestión & Servicios S.A.S. | 211 | 342 |
| AAA Dominicana S.A. | 1,441 | 1,606 |
| AAA Ecuador Agacase S.A. | 2,973 | 2,697 |
| Amerika Tecnología y Servicios, S.A.S. | 107 | 147 |
| Soluciones Andinas | (3,271) | (3,324) |
| Emissão, S.A. | (482) | 1,565 |
| **Total** | **(731)** | **2,649** |



*(cont.)*

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

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

| | In thousands of euros | |
|---|---|---|
| | 2020 | 2019 |
| **Balance at 1 January** | **2,649** | **4,675** |
| Adjustments to prior years' profit/loss | (287) | - |
| Share in profit/(loss) | (2,757) | (1,969) |
| Translation differences variation | (117) | 348 |
| Dividends paid | (219) | (196) |
| Increases and disposals | - | (223) |
| Other movements | - | 14 |
| **Balance at 31 December** | **(731)** | **2,649** |

## 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.

Ratios in 2020 and 2019 are calculated as follows:

| | In thousands of euros | |
|---|---|---|
| | 2020 | 2019 |
| Non-current debts with financial institutions (Note 20) | 478 | 520 |
| Current debts with financial institutions (Note 20) | 1,726 | 2,158 |
| Non-current debts with Group and related companies (Note 20) | 211,667 | 240,714 |
| Current debts with Group and related companies (Note 20) | 29,048 | 29,048 |
| No-current debts for issues of debentures and other marketable securities | 499,158 | 498,955 |
| Current debts for issues of debentures and other marketable securities (Note 20) | - | - |
| **Financial debt** | **742,077** | **771,395** |
| Less Cash and cash equivalents (Note 18) | (433,347) | (321,146) |
| **Net financial debt** | **308,730** | **450,249** |
| Plus interest for current debts with financial institutions (Note 20) | 6 | 19 |
| Plus other debts with Group and related companies (Note 20) | 3,891 | 5,386 |
| Plus interests for debentures and other marketable securities (Note 20) | 7,115 | 7,111 |
| **Net Debt (ND)** | **319,742** | **462,765** |
| **Net Equity** | **2,692,475** | **2,628,742** |
| **Adjusted debt/equity ratio** | **0.12** | **0.18** |



*(cont.)*

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## 20. FINANCIAL DEBT

Details of financial liabilities are as follows:

| | In thousands of euros | | | |
|---|---|---|---|---|
| | 2020 | | 2019 | |
| | Non-current | Current | Non-current | Current |
| Debts with financial institutions | 478 | 1,732 | 520 | 2,176 |
| Debts with Group and related companies (Note 28) | 211,685 | 32,920 | 240,734 | 34,413 |
| Other financial liabilities | 96,779 | 85,390 | 101,874 | 91,178 |
| Financial liabilities from issuing bonds and other marketable securities | 499,158 | 7,115 | 498,955 | 7,111 |
| | **808,100** | **127,157** | **842,083** | **134,878** |

At 31 December 2020 debts with financial institutions include the interest accrued and outstanding for an amount of 6 thousand euros (19 thousand euros in 2019). In 2020 and 2019 the Parent has repaid all loans and borrowings from financial institutions.



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

### a) Debts with financial institutions

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

| | | | | In thousands of euros | | | |
|---|---|---|---|---|---|---|---|
| | | | | 2020 | | | |
| COMPANY | ORIGINAL AMOUNT | TRANSACTION | MATURITY DATE | ANNUAL INTEREST RATE | CURRENT | NON-CURRENT | TOTAL |
| **SUBGROUP INASSA** | | | | | | | |
| Emissâo, S.A. | 4.5 m BRL | Ordinary | 21 January 2021 | 34.79 % | 785 | - | **785** |
| Amagua-CEM | 3,35 MM USD | Ordinary | Miscellaneous | Fixed (between 8.30% and 9.33%) | 921 | 478 | **1,399** |
| Fontes da Serra | 403 m BRL | Ordinary | 22 March 2021 | 29.84 % | 20 | - | **20** |
| | | | | **Total** | 1,726 | 478 | **2,204** |

| | | | | 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-CEM | 1,95 MM USD | Ordinary | Miscellaneous | Fixed (between 8.30 and 9.33%) | 881 | 520 | **1,401** |
| Fontes da Serra | 4.68 m BRL | Ordinary | 22 December 2020 | 29.84 % | 89 | - | **89** |
| | | | | **Total** | 2,158 | 520 | **2,678** |



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At 31 December 2020, INASSA had not arranged any credit facility. At 31 December 2019 it had a credit facility amounting to 1.3 million dollars (1.2 million euros).

At 31 December 2020, Emissão, S.A. had a credit facility arranged with Banco Santander of up to 4.5 million Brazilian reals (706 thousand euros). In 2020, this debt accrued interests for an amount of 273 thousand euros.

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

| | In thousands of euros | | | |
|---|---|---|---|---|
| | 2020 | | 2019 | |
| **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 | - |
| Bankia | 10,000 | - | 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 | - | 20,000 | - |
| Eurocaja Rural | 6,000 | - | 6,000 | - |
| Banco Caminos | 6,000 | - | - | - |
| BNP | 10,000 | - | 10,000 | - |
| **TOTAL** | **132,000** | - | **132,000** | **-** |

These credit facilities expire in December 2021, since they require annual authorisations from the Board of Directors and from the Department of Finance and Public Administration of the Region of Madrid.

### b) Debts with Group companies

The heading "Debts with Group companies" primarily reflects the Parent Company's obligation to repay to the Public Entity (mirror debt) the amount of 242,014 thousand euros (271,187 thousand euros in 2019) of the financing contracts arranged between the Parent Company and its lenders (see Note 2).

### c) Other financial liabilities

The heading "Other financial liabilities" includes 10,575 thousand euros 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 (12,969 thousand euros in 2019), of which a sum of 5,200 thousand euros has been recognised as current (5,073 thousand euros in 2019). These amounts correspond solely to the Parent Company.

Moreover, in 2020, under the heading "Other financial liabilities" a sum of 9,564 thousand euros was written off in respect of trade payables that expired in December 2020, in accordance with Law 42/2015 of 15 October 2015, which amends the statute of limitations for personal claims established in the Civil Code. (See Note 25 (b))



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In 2019, the Parent Company regularised amounts booked under the heading "Other payables" and amounting to 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 – Valmayor pipeline.

This heading also includes deposits and guarantees amounting to 73,628 thousand euros (69,573 thousand euros in 2019) 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 22,503 thousand euros (20,803 thousand euros in 2019).

This heading also includes payables to suppliers of fixed asset, which amount to 23,833 thousand euros at 31 December 2020 (25,717 thousand euros in 2019).

This heading also reflects a 42,664 thousand euros dividend payable by the Parent to certain shareholders at 31 December 2020 (37,262 thousand euros in 2019). (See Note 19)

"Other financial liabilities" mainly reflects the financed amounts including interest on payables to the Public Administration of Emissão, S.A., which, at 31 December 2020, amount to 5,297 thousand euros (11,380 thousand euros in 2019). At 31 December 2020, this debt has accrued interest for the amount of 439 thousand euros (813 thousand euros in 2019).

### d) Finance lease liabilities

Adoption of IFRS 16. (See Note 10)

### e) Financial liabilities from issuing bonds and other marketable securities

On 26 February 2015 the Parent Company successfully finalised the conditions of a 500 million euros issue of ordinary unsubordinated bonds maturing in the year 2025. The bonds will pay an annual coupon of 1.68%. 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 2020, accrued interest payable totalled 8,404 thousand euros, of which, 7,115 thousand euros is pending payment at 31 December 2020 (8,400 and 7,111 thousand euros respectively in 2019). The maturity of the interest is established for February 2021.

The arrangement fees for these bonds amounted to 2,025 thousand euros, of which 203 thousand euros (202 thousand euros in 2019) were charged to the consolidated income statement in 2020. These arrangement fees are recognised at 842 thousand euros under "Other non-current financial liabilities" (1,045 thousand euros in 2019).

The fair value of the bond at the reporting date was 538,994 thousand euros (528,180 thousand euros at the 2019 reporting date), based on the quoted price on the Spanish Fixed Income Market (AIAF).

On 12 December 2019 it was not possible to hold the General Meeting of Bondholders scheduled to take place at first call, due to a lack of quorum, 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. 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



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A de Barranquilla, S.A. 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 2020 and 2019, are as follows:

| | In thousands of euros | |
|---|---|---|
| | 2020 | 2019 |
| **Balance at 1 January** | **752,927** | **722,149** |
| Subsidies granted during the year | 22,601 | 27,771 |
| Transfer to the Consolidated Income Statement | (19,010) | (16,726) |
| Translation differences | (133) | 31 |
| Net tax effect | 1 | 1 |
| Other movements | - | 19,701 |
| **Balance at 31 December** | **756,386** | **752,927** |

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 6,746 thousand euros are pending recognition in profit and loss (7,022 thousand euros in 2019). 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 8,392 thousand euros are pending recognition in profit and loss (8,594 thousand euros in 2019). 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 25,567 thousand euros is pending release to profit and loss, was approved by the Commission of European Communities on 26 March 2002 (26,184 thousand euros in 2019).

The 12,338 thousand euros Cohesion Fund contribution to the project for the "Tagus Basin Clean-up 2002", of which 6,379 thousand euros are pending recognition in profit and loss (6,533 thousand euros in 2019).



*(cont.)*

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. 40,017 thousand euros of the total balance have yet to be taken to profit and loss (40,981 thousand euros in 2019).

The contributions from the European Regional Development Fund's CAM 2007-2013 Operational Programme amounting to 2,719 thousand euros are aimed at ongoing research and innovation or energy efficiency and savings projects. The ERDF's CAM 2007-2013 Operational Programme was approved on 14 December 2007. 1,380 thousand euros of this amount have yet to be taken to profit and loss (1,426 thousand euros in 2019).

The contributions from the European Regional Development Fund's CAM 2014-2020 Operational Programme amounting to 3,627 thousand euros, aimed at renewable energy and energy efficiency projects. The ERDF's CAM 2014-2020 Operational Programme was approved on 14 July 2015. 3,546 thousand euros have yet to be taken to profit and loss (3,623 thousand euros in 2019).

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. 21,254 thousand euros are pending transfer to profit and loss (21,767 thousand euros in 2019).

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. 10,645 thousand euros have yet to be taken to profit and loss (10,901 thousand euros in 2019).

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 2,852 thousand euros (2,971 thousand euros in 2019).

The value of 90,018 thousand euros attributed to facilities assigned to the Parent by various town councils. At 31 December 2019, 5,913 thousand euros are pending transfer to profit and loss (6,060 thousand euros in 2019).

The amounts received from new water utility customers for hook-up rights and pipeline adaptation and extension totalled 923,674 thousand euros (903,002 thousand euros in 2019). At 31 December 2020, 602,389 thousand euros are pending transfer to profit and loss (594,872 thousand euros in 2019).

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. At 31 December 2020, 19,237 thousand euros are pending transfer to profit and loss.



*(cont.)*

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

Details of the main subsidies received in 2020 and 2019 are as follows:

| | In thousands of euros | | |
|---|---|---|---|
| | 2020 | | |
| **Awarding organisation** | **Amount** | **Purpose** | **Award date** |
| European Office for Climate Change (Ministry for the Environment) | 1,907 | CO2 emission allowances | 18 April 2020 |
| Financing third party works | 20,694 | Supply, sanitation and sewerage works | Miscellaneous |
| **Total** | **22,601** | | |

| | 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 March 2019 |
| Financing third party works | 22,641 | Supply works | Miscellaneous |
| ERDF funds 2007-2013 | 1,857 | Supply works | 28 November 2019 |
| ERDF funds 2014-2020 | 3,155 | Supply works | 28 November 2019 |
| **Total** | **27,771** | | |

The breakdown of amounts recognised is the following:

| | In thousands of euros | |
|---|---|---|
| | 2020 | 2019 |
| Capital subsidies | 2,118 | 568 |
| ERDF and Cohesion Funds | 3,105 | 3,510 |
| Transfers from City or Town Councils | 610 | 146 |
| Financing third party works | 13,177 | 12,502 |
| **Total** | **19,010** | **16,726** |



*(cont.)*

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

## 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 | |
|---|---|---|
| | 2020 | 2019 |
| | Current | Current |
| **Related** | | |
| Suppliers, group and related companies (Note 28) | 1,973 | 2,445 |
| **Unrelated** | | |
| Suppliers | 14,070 | 15,848 |
| Creditors | 87,507 | 92,522 |
| Personnel | 15,810 | 13,449 |
| Other payables to Public Administrations (Note 27) | 9,895 | 11,148 |
| Customer advances | 81 | 388 |
| **Total** | **129,336** | **135,800** |
| Current income tax liability (Note 27) | 1,255 | 704 |
| **Total** | **130,591** | **136,504** |

The main contribution to the Accounts payable heading by the Parent Company is an amount of 78,043 thousand euros (82,461 thousand euros in 2019).

### 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 | |
|---|---|
| | 2020 |
| | Days |
| Average term of payment to suppliers (*). | 34 |
| Ratio of paid transactions | 32 |
| Ratio of transactions payable | 54 |
| | In thousands of euros |
| Total payments made | 371,361 |
| Total pending payments | 34,617 |

| 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 |



*(cont.)*

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

(*) 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 | | | |
|---|---|---|---|---|
| | 2020 | | 2019 | |
| | Non-current | Current | Non-current | Current |
| Provisions for long-term compensations to employees for defined benefits | 353 | - | 330 | - |
| Other benefits for employees | 2,267 | 262 | 2,280 | 312 |
| Provisions for taxes | 13,422 | 2,274 | 17,923 | 1,985 |
| Provisions for infrastructure works | 398,061 | 88,039 | 381,495 | 89,993 |
| Provisions for decommissioning, dismantling or restoration | 10 | - | 10 | - |
| Provisions for other liabilities | 18,863 | 4,418 | 6,234 | 14,904 |
| **Total** | **432,976** | **94,993** | **408,272** | **107,194** |

The movement under provisions for the years ended 31 December 2019 and 2020, is as follows:

| | In thousands of euros | | | | | |
|---|---|---|---|---|---|---|
| | 2020 | | | | | |
| | Provisions for taxes | Provisions for employees | Provisions for other liabilities | Other provisions | Provisions for infrastructure works | TOTAL |
| **At 1 January 2020** | **19,908** | **2,921** | **21,138** | **11** | **471,488** | **515,466** |
| Allocations | 4,450 | 261 | 7,777 | - | 88,037 | **100,525** |
| Provisions update | - | - | - | 1 | 2 | **3** |
| Applications | (3,269) | (171) | (3,965) | - | (73,427) | **(80,830)** |
| Excess of provisions | (5,393) | (98) | (219) | - | - | **(5,710)** |
| Translation differences | - | (30) | (1,451) | (2) | - | **(1,483)** |
| Transfers | - | (1) | 1 | - | - | **-** |
| **At 31 December 2020** | **15,696** | **2,882** | **23,281** | **10** | **486,100** | **527,969** |



*(cont.)*

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

| | 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** |

## 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 | | | | | |
|---|---|---|---|---|---|---|
| | 2020 | | | | | |
| | 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 2020** | **429,797** | **32,420** | **5,752** | **3,519** | **-** | **471,488** |
| Allocations (Note 26 (f)) | 71,600 | 14,001 | 1,076 | 1,360 | - | 88,037 |
| Provisions update (Note 26 (h)) | - | 2 | - | - | - | 2 |
| Applications | (55,275) | (17,760) | (182) | (210) | - | (73,427) |
| Translation differences | - | - | - | - | - | - |
| **At 31 December 2020** | **446,122** | **28,663** | **6,646** | **4,669** | **-** | **486,100** |

| | 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** |



*(cont.)*

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 (3,890 million euros in 2019).

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 2021 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 2020 and 2019. 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. (See Note 23 (f)).

The Parent Company booked a provision of 2,177 thousand euros for greenhouse gas emission expenses (2,392 thousand euros in 2019). 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.

Likewise, in 2019, the Parent Company reversed a sum of 226 thousand euros from the provision for demolition and dismantling costs set up in 2016 in the amount of 3,835 thousand euros. This provision was 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. 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.

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

With regard to the company INASSA, on 22 May 2018 the Colombian tax and customs authority – DIAN proposed the modification of the tax filing for the year 2015 on the basis of unknown technical costs amounting to 20,664 million Colombian pesos (4,906 thousand euros) and on 15 January 2019 it filed the official settlement, which determined that the final amount payable was 7,029 million Colombian pesos (1,669 thousand euros). On 17 May 2019, INASSA'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 1 August 2019, the DIAN issued INASSA with an official settlement of fairness tax (the so-called CREE, introduced in 2013 and applied until 2016) in connection with 2015. On 5 December 2019, INASSA and its attorneys presented the petition for dismissal and reinstatement of the right, which was accepted on 22 October 2020.

On 21 February 2020, INASSA presented a modification to the certiorari per saltum claim in the 2015 income tax proceedings, to underpin the defence by providing reports compiled by the independent expert firm. Likewise, it presented a modification to the certiorari per saltum claim for 2015 CREE fairness tax on 18 January 2021 based on the same defence arguments, and this was accepted on 3 March 2021. In 2018, INASSA decided to allocate a provision amounting to 24,014 million Colombian pesos (5,701 thousand euros), corresponding to the increased tax payable and potential fines due to the tax contingency in 2015.



*(cont.)*

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

On 17 December 2020, the DIAN proposed the modification of the CREE filing for the year 2016, and on 28 December 2020 it proposed the modification of the income tax filing for the year 2016. Neither of these claims include the technical assistance costs, amounting to 20,560 million Colombian pesos (4,881 thousand euros). INASSA recognised a provision of 15,657 million Colombian pesos (3,717 thousand euros) corresponding to the years 2016 and 2017 which were still open to inspection, and with regard to the years 2018, 2019 and 2020, it did not consider it necessary to set aside any provision.

At the DIAN's proposal, on 26 February 2021 INASSA was ordered to pay 4,864 million Colombian pesos (1,155 thousand euros) in CREE fairness tax (fine included) for the year 2015. In this respect, a judicial proceeding is currently underway to resolve the petition for dismissal and reinstatement of the certiorari per saltum right. The response to this new claim must be submitted by 19 March 2021 at the latest.

As the different investigations and/or proceedings progress, and contingencies arise that might affect the equity, the financial position and the profits and losses of the Company and its Group at 31 December 2020, as well as their cash flows, which are reflected in the individual and consolidated financial statements and in the corresponding notes and directors' reports, they shall be duly noted in the relevant accounting documents.

### c) Provisions for taxes

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

### d) Provisions for employees

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

### e) Other provisions

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

### f) Contingent liabilities, guarantees and other commitments

Details of guarantees deposited and received at 31 December 2020 and 2019 are as follows:

| | In thousands of euros | |
|---|---|---|
| | **2020** | **2019** |
| Guarantees received | (203,380) | (208,541) |
| Guarantees presented before Public Bodies | 33,659 | 32,339 |



(cont.)

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

The Parent Company has provided guarantees to Public Bodies in relation to the normal course of business amounting to 33,356 thousand euros (31,877 thousand euros in 2019). 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 163 thousand euros, which correspond to the administrative contract with Embasa (Itamaraju). 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 (3,562 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 2,320 thousand dollars (1,890 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; at 31 December 2020 a total of 2,500 thousand euros had been drawn down, and the remainder was pending drawing down.

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 2.2 million dollars, and 1.7 million dollars (1.4 million euros) was pending drawing down in 2021.

As a prerequisite for granting the intercompany loan, INASSA's minority shareholders were 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, 18.76% at 31 December 2020), and the pledge of INASSA's payables to SLASA and of its shares was 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.



*(cont.)*

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. At 31 December 2020, Soluciones Andinas had drawn down the new 7.16 million euro loan in its entirety.

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 (5.3 million euros).

On 6 September 2019, the Arbitration Award relative to Procedure 22/2017 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 (3,438 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.

Accordingly, Sebastião Cristovam must pay Soluciones Andinas the total sum of 23,914 thousand Brazilian reals (5,278 thousand euros) plus the national consumer price index (INPC-IBGE, the monetary correction parameter adopted by the Rio de Janeiro Court of Justice) as from 31 December 2012, plus late payment interest at a monthly rate of 1% from 2 January 2018. However, Sebastião Cristovam asked the Court to grant a second motion for clarification, which was accepted for a period of 15 days. On 23 January 2020, the Brazilian arbitration service (Câmara de Mediação e Arbitragem Empresarial - CAMARB) issued its decision concerning the second motion for clarification filed by Sebastião Cristovam, which was fully dismissed.

At 31 December 2020, 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 49,130 thousand Brazilian reals (7,703 thousand euros). Consequently, Soluciones Andinas will receive a total of 48,022 thousand Brazilian reals (7,529 thousand euros).

Moreover, 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 and 2020 year end, since the process to execute the Award 22/2017 has commenced and the pledge has not yet been executed. Furthermore, they consider that Sebastião Cristovam is unlikely to comply voluntarily with the obligations imposed on him by the Arbitration Award. Consequently, the award of the shares will be subject to a process of execution before the Brazilian Courts (already initiated) 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 award, 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.



*(cont.)*

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The award is executable 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. Finally, on 18 January 2021, the request to execute the Award was filed before the Brazilian courts.

Although Sebastião Cristovam was ordered to pay in the first arbitration, he launched an appeal to the Judicial Courts of Río de Janeiro on 20 May 2020, with a view to restricting the full execution of the arbitration award. Cristovam asked the judge to place a limit on the execution of the award: instead of paying Soluciones Andinas the full amount established by the court of arbitration, his aim was to assign his shares in Emissâo and be released from the rest of the decision. The defence was based on a number of preliminary arguments and alleged that it was not possible to place a limit on the execution of the award.

The judge issued a ruling on 26 January 2021 in which the proceedings were dismissed. The judge accepted one of our arguments, whereby the disputed matter had already acquired the force of res judicata (having been the subject of the arbitration award). The decision can be appealed and Sebastião Cristovam is likely to appeal.

**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. Together with the legal advisers it was concluded that there were no grounds for the claim based on articles 1,089 and 1,029 of the Brazilian Civil Code, the re-acquisition being 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 (Câmara de Mediação e Arbitragem Empresarial - 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.

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. The updated amount owed to Soluciones Andinas pursuant to the arbitration award is 913 thousand Brazilian reals (143 thousand euros) from February 2021 onwards.

**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.

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

**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 (2,692 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.

However, the tax statement of the Brazilian Federal Treasury as at 31 December 2020 still shows these debts and other duplications which, according to the tax specialists hired by the Company in the first case and the court-appointed expert in the second, do not generally correspond to accrued items and therefore should not be considered as owed by Emissão.

In view of the duplications, as part of the process undertaken by Emissâo to clarify this situation, the judge commissioned a judicial expert to draw up a report which concludes that there are duplicated taxes in the statement of the Federal Treasury amounting to 9,100 thousand Brazilian reals, which, updated to the present day, would amount to 18,200 thousand Brazilian reals (2,854 thousand euros).

On 23 February 2021, the Judicial Section of the Federal Court of Justice of Rio de Janeiro ruled on these matters, and found Emissâo's claim to be admissible, recognising the non-existence of tax credits registered against the Company in respect of import taxes and values collected in duplicity by the defendant, and ordered the Federal Union to pay costs and attorneys' fees.

This ruling is subject to appeal. However, based on the legal opinion of the tax attorneys and the ruling of 23 February 2021, future contrary rulings are not expected.

### *(i) Pre-Trial Proceedings 91/2016*

In 2020, Pre-Trial Proceedings 91/2016 continued to be processed before the Central Examining Magistrate's Court No. 6 of the Spanish National High Court, which is investigating, among others, the operations carried out for the purchase of the companies INASSA and Emissâo by Canal de Isabel II and its business group.

The Parent Company appeared in the proceedings as private plaintiff on 2 October 2017, pursuant to article 110 of the Criminal Procedure Act and was accepted by the Court as such.

On 5 March 2020, the Central Examining Magistrate's Court No. 6 issued two orders whereby, in accordance with the provisions of article 783 of the Criminal Procedure Act, it agreed to commence a trial against the persons identified as being those allegedly responsible for committing various crimes in the acquisitions of INASSA and Emissâo, and said orders were followed by the presentation of the relevant defence pleadings during the month of July 2020.

As no charges have been brought against Canal de Isabel II or its business group, the possibility that the Parent Company and/or subsidiaries could be held liable, criminally or civilly, for the events under investigation is excluded.



*(cont.)*

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By order dated 23 July 2020, the Court agreed to refer the case to the Criminal Division of the National High Court for trial, and by order dated 3 November 2020, the 2nd Section of the Criminal Division of the National High Court appointed a magistrate for the trial, in relation to the operations derived from the acquisition of Emissâo, and under Abbreviated Proceedings reference 10/20 (Emissâo Part).

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

Over the course of 2020, Pre-Trial Proceedings 51/2018 continued in the wake of the complaint filed in June 2018 against the former chairman of INASSA in connection with the additional criminal offences of unfair administration, accounting forgery and/or misappropriation, hitherto unknown and different from those already included in the investigation undertaken by the Central Examining Magistrate's Court No. 6 within the framework of Pre-Trial Proceedings 91/2016. 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. Lastly, by Order dated 7 September 2020, it was agreed to extend the periods of investigation by twelve months from 29 July 2020, so that the ordinary period of judicial investigation will be extended until at least 29 July 2021.

Hence, no negative financial impacts arising from the above procedures are foreseeable for the Parent Company.

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

#### *(iii) 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.

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 General's Office sent a communication to Triple A de Barranquilla, requesting its legal representative, the District of Barranquilla and the Superintendency of Residential Public Utilities to adopt measures to ensure the recovery of the stock control of the company Triple A de Barranquilla, intervene for the purpose of the termination of the Technical Consultancy contract

 *(cont.)*

between Triple A de Barranquilla and INASSA and alleged non-compliance with the Share Democratisation Procedure under Law 226 of 1995, which has 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. This included a series of claims such as rendering null and void the technical assistance contract signed between Triple A de Barranquilla and INASSA on 31 March 2000 and subsequently on 4 September 2000, as well as ordering the return by INASSA of the full amount paid under the contract, ordering Triple A de Barranquilla to take the necessary measures to reimburse the sums of money misappropriated by the officials currently under investigation, ordering Triple A de Barranquilla to take immediate measures for restitution of funds amounting to 237,837 million Colombian pesos (56,466 thousand euros) and order the Superintendency to adopt and implement immediate and effective measures for the exercise of effective supervision and control over the contracting, administration and accounting of Triple A de Barranquilla.

Precautionary measures were also requested, such as the immediate suspension of the execution and payment of the technical assistance contract, the implementation of an immediate reaction plan in which INASSA would proceed to return the sums of money that have been paid to it during the technical assistance contract, the seizure and sequestration of the shares owned by INASSA in Triple A de Barranquilla and in general, the seizure and sequestration of INASSA's shareholding, rights, income and assets in Colombia and abroad, as well as the seizure and sequestration of such profits as INASSA should receive from the development of the corporate activities in Triple A de Barranquilla.

On 29 June 2018 a written opposition to the interim measures was presented. On 9 July 2018, the case was defended. Legal, procedural and substantive arguments were presented. 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.

The Procurator General's Office filed a request for interim measures, which were denied on 14 August 2020 by the Administrative Court of Cundinamarca, based on the following grounds:

- While the charges brought by the Procurator General's Office against INASSA and Triple A are based on allegedly unlawful conduct, the Court finds no irregularity in the execution of the technical assistance contract.

- With regard to the suspension of the technical assistance contract, it points out that the payments are already suspended and that ordering the full suspension of the contract would cause greater harm to the collective right and interest, due to the fact that one of the main elements of the technical assistance is the Amerika software, which makes it possible to carry out the integral management of the service provision in an optimal manner.

- The Procurator General's Office rejects each of the requests for interim measures, stating that there is insufficient evidence to order such measures.

- The District of Barranquilla filed a writ of revocation against the previous decision, but the Administrative Court of Cundinamarca confirmed the decision to deny the interim measures on 30 October 2020.

Based on the opinions issued by their legal advisers, considering the available information and the fact that the evidentiary stage has not yet been completed, the company's directors consider that it is not possible to foresee whether or not the court will order one or more interim measures or what the

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outcome of any ruling might be. Therefore, they consider that at this time it is not necessary to recognise any provisions or impairment in the company's equity.

**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.

The ruling was appealed and confirmed by the Procurator General's Office, and on 8 September 2020 the former manager of Triple A de Barranquilla S.A. was sentenced to prison and ordered to guarantee the reimbursement of funds of 43,890 million Colombian pesos (10,420 thousand euros).

On 22 October 2020, the High Court of the Judicial District of Barranquilla amended the previous decision, sentencing him to 190 months of imprisonment and a fine of 50,000 current legal minimum monthly wages.

Since the ruling and disciplinary sanctions in Colombia are of a personal nature and do not compromise the institution or entity to which the public servant or individual administrator of public funds belongs, the company considers that no accounting or financial provision of any kind is appropriate, as the factual or legal circumstances that could affect INASSA's assets are not fulfilled.

**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 (142 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 (52,648 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 (142 thousand euros).
- In connection with the underwriting and alleged non-execution of the Technical Assistance Agreement, the likelihood of a Fiscal Liability Judgement against 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 were to be suspended until such time as there is a final decision on the criminal proceedings currently underway in this connection.

Subject to what has been exposed above, and at the date of issuance of the Financial Statements on 31 December 2020, 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 2020.


*(cont.)*

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**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 2020, 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**

**Extinction of 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*"

- *"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".*

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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.

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 extinction of ownership actions.

On the day the injunction expired, the Prosecutor General of Colombia filed an extinction of 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 (11.4 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.

According to our external legal advisers, this practically amounts to the entire proceedings being declared null and void.

On the basis of the decision by Prosecutor's Office 42 of the Delegated Unit before the High Court of the Judicial District of Bogotá D.C., on 24 January 2020 a motion for dismissal was filed due to supervening transcendent undermining of due process. 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 injunction suspending rights of alienation, sequestration and embargo of INASSA's shares in Triple A be lifted, since the proceedings are vitiated by the lack of competency of the prosecutor commencing the proceedings.

This motion is submitted to the aforementioned Court, due to the fact that to date it has been aware of the appeal against the ruling on the legality of the interim injunction, which was confirmed on 3 December 2020. The law firm engaged is currently examining the possibility of requesting a protective injunction against the decision of the High Court of Bogotá, since it considers that the decision breaches fundamental rights such as due process, the right to a hearing and defence, among others, due to the prejudgement of the court in its decision.

Moreover, as a result of the proceedings (Law 600) on Technical Assistance being declared null and void, on 24 January 2020, another writ was filed, this time at the Criminal Court Specialising in Extinction of Ownership in Barranquilla, also due to significant undermining of the due process. The writ requests i) revocation of leave to hear the extinction of 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. On the date of issuing this report, no ruling has been issued in connection with the petition for dismissal.



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On 23 January 2020, Triple A de Barranquilla was accepted as the third party affected as part of the extinction of ownership proceedings.

The Court of Extinction of Ownership published an edict on 18 August 2020, citing and summoning "undetermined third parties" with rights over the assets subject to extinction of ownership (INASSA's shareholding in Triple A). Based on the foregoing, Canal Extensia presented a writ of relation and opposition on 27 August 2020, requesting dismissal of the extinction of ownership action and the defence of the interests of INASSA, its shareholders and the shareholders of Triple A, so as to preserve their economic and property rights.

The Company's attorneys are in the process of proving to the judge that there is no legal basis for accepting the extinction of ownership claim and they are seeking that the proceedings be restored to their initial phase.

With regard to the information above, the Company will 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. plans to appear before the Guarantee Control Judge, through its representatives in Triple A and INASSA, to defend the interests of INASSA, its shareholders and the shareholders of Triple A, in order to preserve its economic and property rights.

**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.**

**Impact on the Annual Financial Statements of the sequestration and embargo of the stake in Triple A de Barranquilla**

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 asset. The Directors of the Parent Company, based on the available information at that time and given the uncertainty in connection with the various proceedings underway with the various supervisory authorities in Colombia, recognised the consolidated net carrying amount of the shareholding in Triple A de Barranquilla at 31 August 2018. Regardless, as the procedural situation becomes clearer, the impact thereof will be recognised in the Groups accounting records. The Board of Directors, prior to the Directors' resignation, submitted the Financial Statements on 30 September 2018, which were used in order to determine the fair value of Triple A de Barranquilla.

At 31 December 2018, the net assets of liabilities corresponding to Triple A de Barranquilla amounted to 85,643 thousand euros, the non-controlling interest amounted to 20,118 thousand euros and the negative translation differences accumulated in equity amounted to 17,745 thousand euros.

Accordingly, pursuant to the legal annulment decision on 19 December 2019 within the framework of proceedings 2528 (Law 600), and the petition to dismiss the interim measures and the extinction of 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



*(cont.)*

provisions to cover the potential risk of non-payment of the technical assistance owed by Triple A to INASSA.

**Delegate Prosecutor’s Office 38 (Law 906)**

On 20 March 2018, the Office of the Prosecutor General of Colombia issued a statement on the arrest of a former manager of Triple A de Barranquilla, accused of embezzling 27,880 million Colombian pesos (6,619 thousand euros) from operations allegedly not carried out in Triple A de Barranquilla.

On 18 October 2019, the High Court of the District of Barranquilla ruled to accept Triple A de Barranquilla as a victim.

On 22 October 2020, the High Court of the Judicial District of Barranquilla sentenced the former manager to 190 months of imprisonment and a fine of 50,000 legal minimum monthly wages.

**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.

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***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.<br>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. On 30 September 2020 a ruling was issued in the second instance ordering the payment of 508 million Colombian pesos (120 thousand euros) for contract termination. An extraordinary cassation appeal was filed, and is expected to be accepted in the next few months. The decision by the first instance court has been provisioned. | 120 |
| From the former manager of INASSA | 2018 | 1. Severance compensation.<br>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 ruling was issued on 20 November 2020 in INASSA's favour, and the former employee filed an extraordinary cassation appeal. | 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 2020, applying the prudence principle, the Company booked a provision covering the full litigation amount of 695 thousand euros. | 247 |
| **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 appealed the second instance ruling to the High Court, which again ruled in favour of the plaintiff on 29 July 2020. Following this decision, on 10 August 2020 a cassation appeal was filed, which was accepted on 23 October 2020, and the company therefore decided to allocate a provision for the amount claimed: 467 million Colombian pesos (127 thousand euros). | 127 |

(*) Amount to be determined.



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### *(v) Other cases:*

**Class Action Lawsuit, Víctor Díaz**

The plaintiff argued 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:

- The first, filed on 18 July 2019 against the former managers, which was accepted, notified and contested by the defendants, includes cumulative claims for more than 5,000 thousand dollars (4,075 thousand euros).

- The second, filed on 4 December 2019 against the former chairman of INASSA, entails amounts exceeding 6,000 thousand dollars (4,890 thousand 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 (2) 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 (5) 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 (Arbitration Award Concerning Contract No. 115-2010)**

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 (9.7 million euros), 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 Panamá Metro, Colón, Arraiján and Panamá 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 (12.22 million euros).



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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 7,234 thousand euros, for damages.

On 14 April 2019 the lawsuit was filed to commence 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 14 November 2019, INASSA's legal representatives filed a motion for reconsideration 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. However, this motion was denied as informed in writing by the Attorneys' Office on 15 July 2020, by edict of 22 June 2020.

On 10 December 2020, Panama Circuit Court Fifteen issued a communication to the Managing Director of the IDAAN instructing it to comply with payment of the arbitration award, which was delivered by the CCJ in the IDAAN on 12 December of the same year.

Compliance with the Arbitration Award expired on 9 February 2021. If, on that date, the IDAAN had failed to comply the Court would be asked to issue an injunction to the IDAAN and to take appropriate measures to ensure that the award be fulfilled.

**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.

On 28 January 2020, a communication was issued to the IDAAN requesting settlement of the contract, reconciliation of all the amounts owed and an agreed payment schedule. No response has so far been received from the IDAAN.

At 2020 year end, the receivables in connection with this contract amounted to 4,778 thousand dollars (3,894 thousand euros), and in 2020 an amount of 1,712 thousand dollars (1,395 thousand euros) had been collected, and the outstanding debt from the branch was cancelled. The entity is negotiating with the IDAAN a payment schedule for collection of the outstanding debt.

**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) and with the Corporación de Acueducto y Alcantarillado de Puerto Plata (CORAAPLATA), the company has bonds established with local banks for 5% for CAASD and 4% for CORAAPLATA, of the total of the contracts, which are updated annually pursuant to the works carried out in each project.

At 31 December 2020, 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



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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.

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 December 2020, this case remains pending hearing in the new chamber assigned of the SCJ. If the ruling were not favourable and based on the arguments used by the SCJ in its verdict, there is an option to exhaust another phase of discussion before the Constitutional Court.

In 2020, it was in the Opposition or Appeal phase the ruling that sentenced AAA Dominicana to pay INASSA the arrears on the loan amounting to 5 million dollars. Cancellation of the sentence was sought because the payment of the amounts in arrears had been performed prior to the issuance of the court ruling (INASSA had asked the Attorney's Office to dismiss the case but the proceedings continued and AAA Dominicana was notified in December 2019).

AAA Dominicana appealed against the sentence and the final hearing was held on 5 February 2020, and this instance concluded with sentence No.026-02-2020-SCIV-00633, of 4 August 2020 (in favour of AAA), whose ruling ratified the defect pronounced in the hearing against INASSA for failure to appear. In this order, the court reversed the judgement under appeal (No. 037-2019-SSEN-00242),

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declaring the inadmissibility of the lawsuit filed by INASSA, which was ordered to pay the costs of the proceedings.

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 million Dominican pesos (279 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 2020 amounted to 38.7 million Dominican pesos (540 thousand euros).

**Agreement on early termination of the contract with CAASD (to be finalised)**

Since 2001, AAA Dominicana has been operating the "Service Contract for the Commercial Management and Supply and Installation of Meters" with the Santo Domingo Water and Sewerage Corporation in the territorial area corresponding to the National District and the municipalities of the Province of Santo Domingo: Santo Domingo Oeste, Los Alcarrizos and Pedro Brand.

Although the contract expires in February 2022, following the change of government in the Dominican Republic on 16 August 2020, the incoming government has made it clear that it intends to internalise certain services, including those provided by AAA Dominicana with the CAASD in Santo Domingo.

In this regard, the Group's management has been working jointly with the new CAASD management on an agreement that satisfies the claims of both parties, which, as far as AAA Dominicana is concerned, can be summarised as the recovery of all the amounts owed for the services rendered up to the moment of cancellation of the service, the transfer of the assets associated with the concession and the receipt by CAASD of an amount in compensation, all of which have already been reconciled and agreed by both parties.

Accordingly, to complete the negotiation process, the conclusions of the Group's advisors are pending. Once these have been finalised, the authorisations required by both the CAASD, from the Government of the Dominican Republic, and the Canal Group, from the Governing Council of the Region of Madrid, will still have to be obtained.

**Gestus Gestión & Servicios S.A.S.**

**Claim or means of control of contractual disputes and direct reparation against the District of Santa Marta.**

In March 2018, Gestus filed a claim or means of control of contractual disputes and direct reparation against the District of Santa Marta with the Third Administrative Court of Santa Marta, in order to declare the termination of contract 092 of 2002 null and void or failing that, the judicial liquidation of the same to be ordered. In any case, the amounts owed for services rendered during the period February-May 2015 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).



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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 (2,834 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 (628 thousand euros) and a provision for the legal costs of 450 million Colombian pesos (106 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.

On 30 January 2020, the initial hearing was held, and evidence was ordered ex officio; the Court is currently awaiting the transfer of the case to be heard and the corresponding ruling to be handed down.

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.

**Nullity proceeding and claim for reconversion against the District of Santa Marta**

The District of Santa Marta sued Gestus Gestión y Servicios S.A.S. requesting a declaration of the absolute nullity of contract 092 of 2002, two addenda and two administrative acts of 2002 in which the contract was awarded to Gestus Gestión y Servicios S.A.S. for having won the respective public tender.

Gestus Gestión y Servicios S.A.S., in defence of its contractual rights, filed a counterclaim against the District in which it requests: a) that the contract be declared valid, b) that, in case of a declaration of



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nullity, Gestus Gestión y Servicios S.A. S should receive compensation for damages, based on the loss of profit (approximately 26,000 million Colombian pesos which amounts to approximately 6,173 thousand euros) for the income that Gestus Gestión y Servicios S.A.S will cease to receive for the remaining years of the contract.

On 14 November 2018, a ruling was issued declaring the absolute nullity of contract 092 of 2002 and the Company's claims were denied.

As a result, the Company filed an appeal against the decision, which the court agreed to hear on 31 May 2019.

On 20 August 2019, the parties filed their conclusions and the corresponding second instance ruling is pending.

The attorneys for the Company and Management consider that an unfavourable ruling, based on the law, is quite unlikely and specify that, in accordance with the basic approach of the appeal, it is understood that the favourable ruling for Gestus is one that declares the validity of contract 092 of 2002, since that is what the opposition to the claim for absolute nullity of the contract presented by the District of Santa Marta in the lawsuit of April 2014 consisted of. The main aim of the counterclaim is also the declaration of validity of the contract.

According to the lawyers and the Company's management, the unfavourable ruling does not imply that Gestus has to reimburse the payments received for its services, especially since there is no specific request in the initial claim that orders Gestus to reimburse the amounts received in payment for them. Only in the response to one of the facts of the counterclaim does the District argue that "restitution of the profit should be ordered". In this case it is an issue that has not been discussed, nor is there a specific request for proof to demonstrate the profit.

At the date of preparation of these consolidated financial statements, there has been no progress in these proceedings.

**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 2020).

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-



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debatable. The judicial processes are ongoing for the other contingencies since most of these are still in the first instance.

With regard to collection of the debt with the Santa Marta District for improvements to the city's conduit and sewerage infrastructure, and which were not charged at rate and which are recognised in the report in the amount of 63,250 million Colombian pesos (15,016 thousand euros), the liquidating company has commenced proceedings for collection thereof by arbitration claim. However, on 8 November 2019, the Conciliation and Arbitration Centre of the Chamber of Commerce of Santa Marta issued Order No. 9 stating that the arbitration process was terminated because the company Metroagua decided not to continue with the process, refraining from paying the arbitrators in the process they had convened, so the arbitration court ordered the filing and ruling of the conciliation process of Metroagua against the District of Santa Marta for the sum of 32,000 million Colombian pesos (7,597 thousand euros). 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.

**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.

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*"



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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 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 2020 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 that request and rejected the appeal in respect of the annulment of the award 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,



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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 award, so that neither Party incurs harm or obtains a benefit due to the award 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 award 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:**

At 31 December 2020, 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 award of the Contract might be declared null and void.

In the event the contract award 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 award 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 19 June 2020, a request for financial readjustment was filed for the rate reviews to be carried out in compliance with the concession contract since June 2017, as well as a request for financial readjustment due to Covid-19 in accordance with the provisions of Royal Decree 463/2020 on the Alarm Situation.

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



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that it will not affect the approval of the 2020 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.

On 10 February 2021, the Canary Islands Contentious-Administrative Court No. 3 issued a ruling in relation to the lawsuit filed on 19 June 2020 declaring the nullity of the presumed rejection of the rate review requests for the 2017, 2018 and 2019 financial years and recognising the right to receive, as remuneration for the contract and from the fourth year of its duration, the review of the rate request for the aforementioned financial years; the updated rates, in accordance with the CPI+1 formula, which corresponds to the payment of 3,304 thousand euros for the years 2017, 2018 and 2019, pending final judgement. This would leave an estimated amount of 2,100 thousand euros pending for 2020, giving a total amount to be collected for the revision of 5.4 million euros.

## ASAA

**ASAA processes open:**

**Verification of the subsidy invoicing process. Audit of the operating contract with the District of Riohacha - ASAA:**

On 20 August 2019, the Secretariat of Infrastructure and Public Services of the District Mayor's Office notified the company that due to recommendations made by the auditors of the operating contract between the District and ASAA, it had decided to refrain from certifying the invoices payable for the deficit between subsidies and contributions.

In order to overcome the impasse, working groups were convened for 9 September 2019, with the support of the Mayor's Office, the Contract Auditor's Office, the Ministry of Housing and the Superintendency of Public Services (SSPD) to define an action plan to clarify and resolve the conceptual differences applied in the methodology for the review of subsidies and contributions invoiced.

As a result of the review of this procedure, it was found that, due to changes in population and the outdated surveys of the city, there were 844 policies that should have been cancelled for reasons of non-existence, double invoicing, lots, and so on; therefore, the amount invoiced for subsidies for each one of them was deducted from the value of subsidies pending payment by the District Mayor's Office.

The process was also able to establish 1,487 registration applications that represent potential new subscribers for the company.

As a result of this process, the Company is pending formalisation with the District of Rioacha of the conciliation reached by the parties as a result of the process of survey updating and compensation of the values charged for subsidies.

**Suspension of bidding process/partner selection for new water and sewerage utilities operating company:**

On 18 September 2019, the District Mayor's Office published a notice of call for public tender No. LP-008-2019 which aims to select a strategic partner that will constitute with the District of Riohacha a mixed economy company for the provision of public conduit and sewerage services for households.

On 4 October 2019, the Procurator General's Office revealed a set of substantive flaws in the powers granted by the councillors to the Mayor of Riohacha, through agreement 024 of 16 August 2019, by which they authorised him to constitute a mixed economy company for the provision of public utilities for water and sewerage services; a situation that led to the suspension of this process.



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It was agreed to sign an initial one (1) year extension of the operation contract, so the new termination date of the contract is 30 November 2021.

**Recognition of projects as a contribution to CMI commitment:**

On 1 November 2019, the District of Riohacha recognised, in its capacity as contractor, owner of the water and sewerage infrastructure where the projects developed will impact, and beneficiary of the works to be executed through P. A. A. ASAA S.A. E.S.P. – Operation Contract - No. 3-1-4605, as contributions made by the company ASAA S. A. E.S.P. for the expansion of the water and sewerage systems in the District of Riohacha, the sum of 1,307 million Colombian pesos (310 thousand euros); value that was compensated with the commitment to transfer resources from the Average Investment Cost (CMI) collected by ASAA, as an investment contribution. In this regard, the outstanding balance at the end of 2019 amounts to 227 million Colombian pesos (54 thousand euros).

**Class Action Lawsuit Procurator General's Office – ASAA:**

On 29 April 2019, ASAA was notified of the lawsuit filed by the Office of the Procurator General 91 Judicial I against the District of Riohacha - District Council of Riohacha, ASAA S.A. E.S.P., Fiduciaria La Previsora, Fiduciaria de Occidente, whose purpose is to suspend the transfer of public resources from the General System of Participations to the autonomous capital that manages the resources of the contract for Operation, Maintenance and Refurbishment between the District of Riohacha and ASAA.

On 25 July 2019, the suspension of the transfers was ordered as an interim measure. ASAA filed an appeal. At the date of preparation of these consolidated annual financial statements, the company is awaiting a summons for an evidentiary hearing.

**Amerika software:**

**Denounces fraudulent use of intellectual property by Triple A**

On 4 September 2000, INASSA and Triple A signed a Technical Assistance contract to regulate the aspects concerning the provision of Technical Assistance and consultancy services to Triple A by INASSA in commercial, operational, administrative, technical and other areas of the company, for which Triple A must pay INASSA 4.5% of the revenues. The aforementioned contract includes the delivery of a specialised software licence (in this case Amerika Software) as part of the Technical Assistance. In order to comply with the aforementioned contract, on 8 September 2000, INASSA and Triple A signed a Software Use Licence Agreement, the purpose of which is to regulate the conditions for the provision by INASSA to Triple A of the Technical Assistance required by Triple A in the commercial, operational, administrative and technical areas for the supply of the residential public utilities of water, sewerage and sanitation services for which it is responsible.

Consequently, the software licence agreement granted Triple A the Amerika Software licence free of charge, definitively and permanently, for as long as the Technical Assistance remained in force for the duration of Triple A's concession.

Since 3 October 2017 (when INASSA ceased to collect payment for Technical Assistance (TA) and therefore the free-of-charge provision of the sub-licence for the Amerika software granted by INASSA to Triple A dependent upon collection of the TA payment also ceased), Triple A has been using the Amerika software owned by Canal Extensia, S.A.U. without permission and without payment of any royalty or consideration for the licence, the value of which, according to market research, is 8,947 million Colombian pesos (2,124 thousand euros). 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. However, to date the Parties have not been able to reach an agreement, so it is



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believed that legal proceedings (civil and criminal) will be required to safeguard Canal Extensia, S.A.U.'s intellectual property rights over the Amerika software.

On 5 October 2020, a civil lawsuit was filed against Triple A for fraudulent use of the software licence. A criminal lawsuit was also filed against Triple A on 25 June 2020.

## 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 | | |
|---|---|---|---|
| | 2020 | | |
| | Cost | Accumulated depreciation | Net |
| Construction and installation in WWTP | 623,524 | (239,568) | 383,956 |
| Sewerage network | 27,863 | (9,682) | 18,181 |
| Reuse network | 96,245 | (15,620) | 80,625 |
| **Total** | 747,632 | (264,870) | 482,762 |

| | 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** |

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

| | In thousands of euros | |
|---|---|---|
| | 2020 | 2019 |
| **Description** | | |
| Water treatment | 5,521 | 8,253 |
| Sewerage | 129 | 1,056 |
| Reuse | 2,202 | 2,396 |
| **Total** | **7,852** | **11,705** |



*(cont.)*

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

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

| | In thousands of euros | |
|---|---|---|
| | **2020** | **2019** |
| **Description** | | |
| Water treatment | 152,663 | 158,682 |
| Sewerage | 68,289 | 71,687 |
| Reuse | 8,524 | 8,381 |
| Others (green areas, environmental expenses, etc.) | 7,144 | 2,334 |
| **Total** | **236,620** | **241,084** |

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 2020, 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.

In this regard, in 2020 the Parent Company has 28 proceedings open for breaches of environmental legislation (48 in 2019), so there is a significant variation both in the number of proceedings initiated and in the total initial amount of penalties and compensation. These cases are in various phases of processing and appeals have already been filed in a number of them through administrative proceedings. To date, none of them has been appealed in the contentious-administrative courts. 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.

The Group had no environmental projects in Latin America in 2020. In 2019 it pursued the following lines of action:

- 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.



*(cont.)*

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

## 25. OTHER LIABILITIES

Other current and non-current liabilities include the following:

| | In thousands of euros | | | |
|---|---|---|---|---|
| | 2020 | | 2019 | |
| | Non-current | Current | Non-current | Current |
| Advance income for consumption advances | 15,889 | 5,220 | 17,712 | 4,980 |
| Other | - | 164 | - | 194 |
| **Total** | **15,889** | **5,384** | **17,712** | **5,174** |

"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 2020 (18 years in 2019). As this change in the estimate is due to the more precise information obtained it has not been considered a change in accounting criteria and is applied prospectively.

## 26. INCOME AND EXPENSES

### a) Ordinary income

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 | |
| | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 |
| Income from the provision of operations services of Infrastructure | 869,457 | 908,720 | 22,773 | 32,553 | 892,230 | 941,273 |
| Income from the provision of services | 12,262 | 13,507 | 9,685 | 27,050 | 21,947 | 40,557 |
| Income from electricity sale | 2,552 | 2,840 | - | - | 2,552 | 2,840 |
| Income arising from the sale of goods | 1 | 2 | 3 | 13 | 4 | 15 |
| **Total** | **884,272** | **925,069** | **32,461** | **59,616** | **916,733** | **984,685** |

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.



*(cont.)*

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

In 2020, the Parent Company has recognised 9,564 thousand euros corresponding to trade receivables that expired in December 2020. (See Note 20(c)).

### c) Cost of supplies by nature and geographical area

The breakdown of supplies is the following:

| | In thousands of euros | | | | | |
|---|---|---|---|---|---|---|
| | National | | Ibero-America | | TOTAL | |
| | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 |
| Electricity consumption | 58,298 | 68,000 | 727 | 628 | 59,025 | 68,828 |
| Consumption of raw materials | 27,154 | 25,391 | 1,474 | 2,191 | 28,628 | 27,582 |
| Consumption of goods | 1,282 | 1,410 | 4,142 | 3,866 | 5,424 | 5,276 |
| Inventory variation | 688 | 688 | (690) | (690) | (2) | (2) |
| **Total consumption** | **87,422** | **95,489** | **5,653** | **5,995** | **93,075** | **101,484** |
| Works carried out by other companies | 135,106 | 127,113 | 6,805 | 8,867 | 141,911 | 135,980 |
| **Total** | **222,528** | **222,602** | **12,458** | **14,862** | **234,986** | **237,464** |

### d) Employee benefits expense

The breakdown of personnel expenses is the following:

| | In thousands of euros | |
|---|---|---|
| | 2020 | 2019 |
| Wages, Salaries and similar payments | 138,775 | 141,595 |
| Social security contributions | 46,729 | 51,985 |
| *Social security at the expense of the Company* | 38,975 | 38,956 |
| *Contributions to defined contribution plans (payout)* | 279 | 317 |
| *Long-service bonus (Note 17)* | 439 | 502 |
| *Seniority (Note 17)* | 3,967 | 3,393 |
| *Other social contributions* | 3,069 | 8,817 |
| **Total** | **185,504** | **193,580** |
| Provisions | 338 | 347 |
| **Total** | **185,842** | **193,927** |

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

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

Details of amortisation and depreciation are as follows:

| | In thousands of euros | |
|---|---|---|
| | **2020** | **2019** |
| Intangible assets amortisation expense (Note 10) | 121,311 | 118,531 |
| Property, plant and equipment and investment property depreciation expense (Notes 7 and 8). | 9,404 | 10,234 |
| **Total depreciation and amortisation expenses** | **130,715** | **128,765** |
| Intangible asset impairment expense (Note 10) | 626 | - |
| Investment property impairment expense (Note 8) | - | - |
| Impairment reversal related to investment property | - | (2,356) |
| **Total impairment expenses** | **626** | **(2,356)** |

### f) Other expenses

Details of other expenses are as follows:

| | In thousands of euros | |
|---|---|---|
| | **2020** | **2019** |
| Research expenses | 2,996 | 997 |
| Leases and fees | 18,080 | 20,901 |
| Repairs and maintenance | 47,285 | 44,787 |
| Outsourced professional services | 19,325 | 19,834 |
| Transport | 480 | 572 |
| Insurance premiums | 4,469 | 4,122 |
| Advertising and publicity | 2,388 | 1,906 |
| Supplies | 5,440 | 6,341 |
| Other external services | 1,562 | 2,209 |
| Taxes | 27,205 | 29,879 |
| Value impairment losses and non-payment of trade and other receivables (Notes 14 and 16) | 1,409 | 4,454 |
| Provision for restoration and major repairs actions (Note 23) | 88,037 | 89,992 |
| Other expenses | 13,142 | 16,633 |
| **Total** | **231,818** | **242,627** |



*(cont.)*

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

## 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 | |
|---|---|---|
| | **2020** | **2019** |
| **Profit** | | |
| Property, plant and equipment | 70 | 52 |
| Intangible fixed assets | - | - |
| Investment property | 73 | - |
| | **143** | **52** |
| **Loss** | | |
| Property, plant and equipment | (37) | (69) |
| Intangible fixed assets | (2,635) | (3,462) |
| Property fixed assets | (16) | - |
| | **(2,688)** | **(3,531)** |
| **Total** | **(2,545)** | **(3,479)** |

## h) Finance income and expenses

Details of finance income and expenses are as follows:

| | Thousands of euros | |
|---|---|---|
| | **2020** | **2019** |
| From shares in equity instruments | - | 210 |
| Finance income from investments held to maturity | 282 | 505 |
| Other finance income | 4,856 | 7,689 |
| Translation differences | - | - |
| **Other finance income** | **5,138** | **8,404** |
| Finance expenses of debts with third parties | (5,730) | (5,460) |
| Finance expenses with regard to provisions (Note 23) | (3) | (23) |
| Other finance expenses | (14,124) | (15,178) |
| Translation differences | (19,142) | (5,492) |
| Investment impairment and losses | 3278 | 70 |
| Profit/(Loss) due to disposal and other investments | (27) | 34 |
| **Total finance expenses** | **(35,748)** | **(26,047)** |



*(cont.)*

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

## 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 2020 and 2019 is the following:

| | In thousands of euros | | | | | |
|---|---|---|---|---|---|---|
| | Assets | | Liabilities | | Net | |
| | **2020** | **2019** | **2020** | **2019** | **2020** | **2019** |
| Concessions | - | - | - | - | - | - |
| Depreciation | 255 | 294 | - | - | 255 | 294 |
| Provisions | 1,880 | 4,045 | - | - | 1,880 | 4,045 |
| Other items | 12,639 | 10,566 | (1,152) | (785) | 11,487 | 9,781 |
| Industry and Trade | - | - | - | - | - | - |
| **Net assets and liabilities** | **14,774** | **14,905** | **(1,152)** | **(785)** | **13,622** | **14,120** |



*(cont.)*

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

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 | |
|---|---|---|
| | **2020** | **2019** |
| **Assets** | **10,391** | **10,086** |
| Depreciations | 254 | 281 |
| Other | 10,137 | 9,805 |
| **Liabilities** | **(1,144)** | **(834)** |
| Concessions | - | - |
| Other | (1,144) | (834) |
| **TOTAL** | **9,247** | **9,252** |

The breakdown of tax on profit expense is the following:

| | In thousands of euros | |
|---|---|---|
| | **2020** | **2019** |
| Current tax | 381 | (1,667) |
| Deferred tax | (2,600) | (3,938) |
| Adjustments in final tax returns of prior financial years | (189) | (1,204) |
| Positive adjustments on income tax | - | - |
| **Total** | (2,408) | (6,809) |

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

| | In thousands of euros | |
|---|---|---|
| | **2020** | **2019** |
| **Income and expenses balance for the year** | **166,010** | **219,895** |
| Tax rate at 25% | (41,503) | (54,974) |
| Tax effect rates other than 25% | 1,324 | 863 |
| Presumptive income tax effect | (108) | (133) |
| Other non-deductible expenses | (2,766) | 926 |
| Other adjustments | 2,771 | 1,174 |
| Corporate tax adjustments in previous years | 189 | 1,204 |
| Consolidation adjustments | 354 | (421) |
| Deductions and credits for the financial year | 42,147 | 58,170 |
| **Expense for consolidated tax on profit** | **2,408** | **6,809** |

The effective average tax rate in 2020 is 1.45% (3.10% in 2019).



*(cont.)*

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

Movement in deferred tax assets and liabilities in 2020 and 2019 is as follows:

| | In thousands of euros | | | | | | |
|---|---|---|---|---|---|---|---|
| | 2020 | | | | | | |
| | Net balance at 1 January | Recognised in Profit and Loss | Other | Translation differences | Net | Deferred tax assets | Deferred tax liabilities |
| Concessions | - | - | - | - | - | - | - |
| Accelerated Depreciation and Amortisation | 294 | (39) | - | - | 255 | 255 | - |
| Provisions | 4,045 | 2,451 | (3,534) | (1,083) | 1,880 | 1,880 | - |
| Other items | 9,781 | 187 | 2,716 | (1,198) | 11,487 | 12,639 | (1,152) |
| Industry and Trade | - | - | - | - | - | - | - |
| **Net assets and liabilities** | **14,120** | **2,600** | **(818)** | **(2,280)** | **13,622** | **14,774** | **(1,152)** |

| | In thousands of euros | | | | | | |
|---|---|---|---|---|---|---|---|
| | 2019 | | | | | | |
| | Net balance at 1 January | Recognised in Profit and Loss | Other | Translation differences | Net | Deferred tax assets | Deferred tax liabilities |
| Concessions | - | - | - | - | - | - | - |
| Accelerated Depreciation and Amortisation | 351 | (57) | - | - | 294 | 294 | - |
| Provisions | 3,331 | 790 | - | (76) | 4,045 | 4,045 | - |
| Other items | 5,559 | 3,206 | 1,080 | (64) | 9,781 | 10,566 | (785) |
| Industry and Trade | - | - | - | - | - | - | - |
| **Net assets and liabilities** | **9,243** | **3,938** | **1,080** | **(141)** | **14,120** | **14,905** | **(785)** |

At 31 December 2020 there are tax loss carryforwards for an amount of 21,302 thousand euros (13,673 thousand euros at 31 December 2019) registered under the heading "Other items" corresponding to the following companies:

| | In thousands of euros | | | |
|---|---|---|---|---|
| | 2020 | | 2019 | |
| **Company** | **Accounted for** | **Not accounted for** | **Accounted for** | **Not accounted for** |
| INASSA | 5,783 | 764 | 6,957 | - |
| Gestus Gestión & Servicios S.A.S. | - | 390 | 156 | - |
| AAA Dominicana, S.A. | 224 | - | 269 | - |
| Emissão, S.A. | 15,295 | - | 6,291 | - |
| **TOTAL** | **21,302** | **1,154** | **13,673** | **-** |

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, 3,851 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. (4,131 thousand euros in 2019).



*(cont.)*

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

Likewise, at 31 December 2020 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 2019). 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.

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 | 2017 and later |
| Non-residents | 2017 and later |

In 2020 permanent differences primarily included as increases the amount of 3,998 thousand euros (3,649 thousand euros in 2019) 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.

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 2020, reductions in temporary differences originating in prior years include an amount of 5,998 thousand euros (5,998 thousand euros in 2019) in respect of the reversal of part of the amortisation/depreciation not considered as tax deductible in 2014 and 2015. 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 2020 for this item to 72 thousand euros.



*(cont.)*

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

Subject to current tax legislation, the Colombian Companies are subject to income taxes and complementary taxes. Applicable rates are as follows: 32% in 2020, 31% in 2021 and 30% from 2022 onwards. The base to establish the income tax cannot be less than 0.5% of its net equity on the last day of the immediately preceding taxable year (presumptive income tax) for fiscal year 2020, 0.5% for 2020 and 0% from taxable year 2021.

In Ecuador, in 2020 and 2019 the company declared as final corporate income tax the amount resulting from application of a 17.5% rate on taxable profits, since this was higher than the minimum advanced payment of the relevant corporate income tax.

According to the tax code of the Dominican Republic, corporate income tax is either the result of applying a 27% rate to taxable income or 1% of taxable assets, whichever is higher.

In Brazil, the applicable tax rate is 34% on taxable profits. However, Emissâo did not record any corporate income tax for the years 2020 and 2019 due to the company's loss.

### a) 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.



*(cont.)*

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

## 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 | | | |
|---|---|---|---|---|
| | 2020 | | 2019 | |
| | 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) | 4,825 | (246,235) | 4,055 | (276,845) |
| Aguas de Alcalá, UTE | 682 | - | 619 | - |
| Other | 5 | - | 149 | - |
| ***Associates*** | | | | |
| Compañía de Acueducto y Alcantarillado Metropolitano de Santa Marta, S.A. E.S.P. | - | (18) | - | (20) |
| Avanzadas Soluciones de Acueducto y Alcantarillado S.A. | 1,202 | - | 1,223 | - |
| GSS Venture, S.L. | - | (280) | - | (663) |
| Other | 1 | (45) | 114 | (66) |
| **Total** | **6,715** | **(246,578)** | **6,160** | **(277,594)** |

In accordance with the Contract-Programme, the debt with the Public Entity for the sum of 242,014 thousand euros (271,187 thousand euros in 2019) for the item "Mirror Debt" corresponds to the Parent Company's obligation, as per financing to pay the Public Entity the amounts 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 2020 the weighted average interest rate of the mirror debt was 2.14%. (2.22% in 2019).

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 2020 and 2019 for an amount of 307 thousand euros (352 thousand euros in 2019). No transactions were carried out with Acueducto y Alcantarillado Metropolitano de Santa Marta, S.A. E.S.P during 2020 and 2019. The company is undergoing liquidation.



*(cont.)*

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

Details of the Public Entity's balances with financial institutions at 31 December 2020 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 |
| - EIB (2) | 100,000 | Loan | 15-oct-35 | Fixed (3.268%) | 4,762 | 66,667 | 71,429 |
| - EIB (3) | 200,000 | Loan | 21-feb-36 | Fixed (1.342%) | 10,000 | 145,000 | 155 |
| | | | | **TOTAL** | **29,048** | **211,667** | **240,715** |

(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 2019, 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 | 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

Interests accrued and not paid at 31 December 2020 arising from mirror debt is 1,299 thousand euros (1,425 thousand euros in 2019).

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 2020, other financial assets, other assets and trade and other receivables include 66,174 thousand euros, 86,442 thousand euros and 47,904 thousand euros, respectively, receivable from shareholders that are town or city councils (69,349 thousand euros, 96,688 thousand euros and 65,518 thousand euros, respectively, in 2019). Dividends payable include 42,664 thousand euros payable to these same shareholders (37,262 thousand euros in 2019).

Transactions between the Group and Canal de Isabel II (Public Entity) at 31 December 2020 for finance expenses arising out of the mirror debt, operating expenses and other operating income amount to 5,518 thousand euros (6,358 thousand euros in 2019), 3,599 thousand euros (3,676 thousand euros in 2019) and 197 thousand euros (252 thousand euros in 2019), respectively.

Transactions carried out by the Group with GSS Venture amount to 4,492 thousand euros (4,069 thousand euros in 2019) and primarily relate to telemarketing activities.

As a result of town councils gaining stakes in its share capital, at 31 December 2020 the Parent Company has carried out transactions with shareholders, primarily in the form of services and tax settlements totalling 39,905 thousand euros and 22,877 thousand euros, respectively (47,082 thousand euros and 22,474 thousand euros, respectively, in 2019).



*(cont.)*

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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 2020 the members of the Board of Directors received only expenses for attendance at meetings of the Board of Directors for a sum of 73,2 thousand euros, not having received any remuneration for other items (47.4 thousand euros at 31 December 2019), nor do they have any advances or loans or any outstanding balances at 31 December 2020 and 2019. The Parent Company has not assumed any obligations on behalf of the Directors as a guarantee. The Parent Company has a civil liability insurance policy in place for damages caused by acts or omissions while carrying out their functions, with a premium of 988 thousand euros. In 2020 and 2019, the Parent Company 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 2020, the Parent Company's senior management received total remuneration of 1,023 thousand euros (945 thousand euros in 2019). 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 2020 amounted to 188 thousand euros (179 thousand euros at 31 December 2019). The Parent Company has pension plans and life insurance obligations with respect to the senior management personnel (see Note 3(n)). Furthermore, in 2020 they received 12 thousand euros (10 thousand euros in 2019) for the seniority policy.

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

At 31 December 2020 and 2019, 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 2020 and 2019, the Parent's Directors did not carry out any transactions unrelated to normal business or under different market conditions with the Company or with Group companies.

## 29. RISK MANAGEMENT AND FAIR VALUE

### a) 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.

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### *(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 2020 and 2019 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 | | | | | |
|---|---|---|---|---|---|---|
| | | | 2020 | | | |
| | Colombian pesos | Dominican pesos | Dollars (Ecuador) | Uruguayan pesos | Brazilian reals | Total |
| ASSETS | | | | | | |
| Equity instruments | 100 | - | - | - | 48 | 148 |
| Loans to third parties | 465 | 5 | - | - | 20,785 | 21,255 |
| Other financial assets | - | 31 | - | - | 343 | 374 |
| **Total non-current financial assets** | **565** | **36** | **-** | **-** | **21,176** | **21,777** |
| Trade and other receivables | 20,725 | 4,954 | 2,387 | - | 2,481 | 30,547 |
| Short-term financial investments | 807 | 58 | - | - | 68 | 933 |
| **Total current financial assets** | **21,532** | **5,012** | **2,387** | **-** | **2,549** | **31,480** |
| **Total financial assets** | **22,097** | **5,048** | **2,387** | **-** | **23,725** | **53,257** |
| LIABILITIES | | | | | | |
| Debts with financial institutions | - | - | 478 | - | - | 478 |
| Other financial liabilities | 138 | 159 | | - | 3,588 | 3,885 |
| Financial debts with Group companies | 18 | - | | - | - | 18 |
| **Total non-current liabilities** | **156** | **159** | **478** | **-** | **3,588** | **4,381** |
| Debts with financial institutions | - | - | 927 | - | 805 | 1,732 |
| Other financial liabilities | 4,218 | 1,709 | 2,078 | - | 1,070 | 9,075 |
| Trade creditors and other accounts payable | 1,471 | 72 | 554 | - | 1,983 | 4,080 |
| **Total current liabilities** | **5,689** | **1,781** | **3,559** | **-** | **3,858** | **14,887** |
| **Total financial liabilities** | **5,845** | **1,940** | **4,037** | **-** | **7,446** | **19,268** |
| **Gross exposure of the balance sheet** | **16,252** | **3,108** | **(1,650)** | **-** | **16,279** | **33,989** |

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| | 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** |

### *(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 2.17% of the Group's total revenues (2.50% in 2019).

The following tables show an ageing analysis of financial assets that are past-due but not impaired at 31 December 2020 and 2019:

| | 2020 | 2019 |
|---|---|---|
| 0 - 30 days | 2,047 | 3,937 |
| 31 - 60 days | 3,425 | 3,299 |
| 61 - 90 days | 6,869 | 6,813 |
| 91 - 180 days | 23,737 | 24,018 |
| 181 - 360 days | 17,581 | 12,439 |
| More than 361 days | 97,204 | 129,196 |
| **Total** | **150,863** | **179,702** |

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 2020 represent 100% of total fixed-rate borrowings; hence there is no interest rate risk (100% in 2019).

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 2020 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 | - |
| Libor | ± 10 bp | - |

Details at 31 December 2019 are as follows:

| | Increase of interest rate | Impact on financial profit or loss |
|---|---|---|
| Euribor | ± 10 bp | - |
| FTD | ± 10 bp | 12 |
| Libor | ± 10 bp | - |

### *(vi) 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


*(cont.)*

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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 2020 and 2019 is shown below. These tables reflect the analysis of financial liabilities by remaining contractual maturity dates:

| | In thousands of euros | | | | | |
|---|---|---|---|---|---|---|
| | 2020 | | | | | |
| | 2021 | 2022 | 2023 | 2024 | 2025 | Subsequent years |
| Debentures and other marketable securities | 7,114 | - | - | - | 499,157 | - |
| Debts with financial institutions | 1,732 | 478 | - | - | - | - |
| Other financial liabilities | 85,390 | 15,677 | 9,082 | 8,239 | 6,905 | 56,876 |
| Debts with Group companies and associates | 32,920 | 14,762 | 14,762 | 14,762 | 14,780 | 152,619 |
| Suppliers | 14,070 | - | - | - | - | - |
| Suppliers group companies and associates | 1,973 | - | - | - | - | - |
| Sundry creditors | 87,507 | - | - | - | - | - |
| Customer advances | 81 | - | - | - | - | - |
| Personnel | 15,810 | - | - | - | - | - |
| **Total** | **246,598** | **30,918** | **23,844** | **23,001** | **520,842** | **209,495** |

| | In thousands of euros | | | | | |
|---|---|---|---|---|---|---|
| | 2019 | | | | | |
| | 2020 | 2021 | 2022 | 2023 | 2024 | 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** |

Additionally, at 31 December 2020 the Parent Company has credit facilities with an outstanding amount of 132,000 thousand euros (132,000 thousand euros in 2019).

### *(vii) Risk as a result of Covid-19*

Despite the considerable impact of the Covid-19 pandemic on the global economy and how challenging it has been for the company to continue providing the service in these conditions, the effect on the company's business has been very limited and much less than in other sectors, since Canal provides an essential service in integrated water management and demand is much more stable.



*(cont.)*

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The limitations on mobility and other restrictions on economic activity resulting from the pandemic have led to a significant drop in industrial and commercial consumption, which has been partly offset by an increase in domestic consumption. Compared to 2019, the company's turnover has decreased by 3.8%, including the potential impact of weather conditions.

The company's robust financial position and the limited impact on its business have enabled it to implement social measures to mitigate the impact of Covid-19 while keeping its rates frozen in 2020, without this affecting its strategy and goals. In fact, the company has approved an ongoing rates freeze for 2021.

With regard to the other companies located in Spain, Canal Gestión Lanzarote S.AU is notable due to the potential operational and business risk resulting from the weighting of tourism and commercial activity in its total turnover, with a 70% slump in tourism in 2020, while the income associated with the company's activity declined by 30.5% in 2020.

In relation to the activities of Sociedad Ocio y Deporte, the government is considering possible measures to facilitate the performance of sporting activities by citizens during convalescence, which could boost the assumptions used. The total impact of the decrease in revenue as a result of Covid-19 amounts to 371 thousand euros.

With regard to the Group's investees with registered offices abroad, Canal Extensia, the holding company that heads the Latin American group, is dependent on the situation of its subsidiaries as a result of the effects of Covid-19 in each country. In this respect, its cash flows have been affected in relation to the collection of invoice payments for technical assistance.

However, Canal Extensia's liquidity has not been affected since on 31 March 2020 an addendum was signed to extend the maturity of the loan granted by Canal de Isabel II, and to defer payment of the interest accrued on said loan, until 2025. To date, Canal Extensia has an undrawn amount of 1,500 thousand euros in relation to said loan.

In the case of the Colombian companies, the technical assistance charges have been reduced to the extent that the collections from Amagua and AAA Dominicana have temporarily decreased during the lockdown periods in both countries. However, thanks to the measures implemented throughout 2020, the companies have been able to close the 2020 financial year without major cash stresses.

The main impact of the pandemic on Emissâo, S.A. was the suspension by Embasa (Bahia State water company) of the renewal of all contracts due to expire between April and May, with the exception of the Itamarú contract, which continued to operate until September 2020. For Emissão, this also implied the termination of all the employment contracts of the employees hired to provide the service in the State of Bahia, which, in terms of turnover, has led to a reduction of 24,000 thousand Brazilian reals (3,763 thousand euros).

In Ecuador, Amagua CEM recorded an improvement of 480 thousand euros, despite the pandemic, due to higher domestic consumption, the company's main source of income, as a result of the lockdowns. In relation to collection of revenue, although there was a significant drop in April and May, it improved over the course the year, particularly since October, when collection procedures were allowed to resume. At the close of the 2020 fiscal year, Amagua's current collection stands at around 70% (81% being the usual figure for a normal year) while total collection has reached levels of up to 96%.

Lastly, in the Dominican Republic, AAA Dominicana experienced a temporary reduction in collection activities (payment of the water bill there is predominantly in cash due to the low level of banking penetration in the country), temporarily reducing revenue in the second quarter, with revenue starting to improve progressively from June until the end of the year. The total impact on revenue was 1,400 thousand euros (around 18%), and this was partly offset by a reduction in expenses of 700 thousand euros (around 15%).



*(cont.)*

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

### 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 2020 and 2019 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 | | |
|---|---|---|---|
| | | 2020 | |
| | Loans and receivables | Debits and payables | Total |
| ***Financial assets not valued at fair value*** | | | |
| Loans to group companies | 4,994 | - | 4,994 |
| Equity instruments | 65,672 | - | 65,672 |
| Loans to third parties | 90,823 | - | 90,823 |
| Deposits and guarantees | 12,618 | - | 12,618 |
| Trade and service provision customers | 163,516 | - | 163,516 |
| Other receivables | 49,602 | - | 49,602 |
| **Financial liabilities not valued at fair value** | | | |
| Debts with Group companies and associates | - | 244,605 | 244,605 |
| Debts with financial institutions | - | 2,210 | 2,210 |
| Other financial liabilities | - | 102,346 | 102,346 |
| Government subsidies | - | 756,386 | 756,386 |
| Suppliers | - | 14,070 | 14,070 |
| Suppliers Group companies and associates | - | 1,973 | 1,973 |
| Sundry creditors | - | 87,507 | 87,507 |
| Other payables | - | 81 | 81 |
| Personnel | - | 15,810 | 15,810 |
| **Total** | **387,225** | **1,224,988** | **1,612,213** |



*(cont.)*

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

| | 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** |

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 | |
| | 2020 | 2019 |
| Finance income applying the amortised cost method | 350 | 3,388 |
| Finance expenses applying the amortised cost method | (357) | (651) |
| Finance income applying the amortised cost method – Alcalá joint venture | 53 | - |
| Finance income applying the amortised cost method Other loans | 8 | 67 |
| **Net Earnings/(Losses) on the income statement** | **54** | **(2,804)** |

The amount of finance 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.

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

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

| | In thousands of euros | |
|---|---|---|
| | Debits and payables | |
| | 2020 | 2019 |
| Finance expenses applying the amortised cost method | (2,107) | (2,193) |
| Interests corresponding to obligations and bonds | (8,607) | (8,602) |
| Interest from debt with Group companies | (5,518) | (6,358) |
| Interest from debt with third parties | (898) | (1,080) |
| **Net Earnings/(Losses) on the income statement** | **(17,130)** | **(18,233)** |

Finance 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:

| | 2020 | 2019 |
|---|---|---|
| Management | 46 | 54 |
| Technical personnel | 1,559 | 1,505 |
| Administrative | 1,761 | 1,981 |
| Workers and auxiliary personnel | 1,000 | 2,770 |
| **Total** | **4,366** | **6,310** |
| Partially retired | 108 | 137 |

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

| | 2020 | 2019 |
|---|---|---|
| Management | 12 | 13 |
| Technical personnel | 38 | 53 |
| Administrative | 32 | 30 |
| Workers and auxiliary personnel | 192 | 189 |
| **Total** | **274** | **285** |



*(cont.)*

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

At the 2020 and 2019 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:

| | 2020 | | 2019 | |
|---|---|---|---|---|
| | **Women** | **Men** | **Women** | **Men** |
| Members of the Board of Directors | 3 | 8 | 2 | 7 |
| Management | 18 | 22 | 21 | 30 |
| Technical personnel | 579 | 964 | 582 | 1,035 |
| Administrative | 571 | 1,146 | 672 | 1,196 |
| Workers and auxiliary personnel | 35 | 518 | 166 | 1,382 |
| **Total** | **1,206** | **2,658** | **1,443** | **3,650** |
| Partially retired | 19 | 78 | 30 | 94 |

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:

| | 2020 | | 2019 | |
|---|---|---|---|---|
| | **Women** | **Men** | **Women** | **Men** |
| Members of the Board of Directors | - | - | - | - |
| Management | 4 | 8 | 4 | 9 |
| Technical personnel | 22 | 16 | 23 | 17 |
| Administrative | 18 | 14 | 18 | 14 |
| Workers and auxiliary personnel | 123 | 63 | 126 | 68 |
| **Total** | **167** | **101** | **171** | **108** |

The average number of Group employees in Spain with a disability equal to or higher than 33% in 2020 and 2019, detailed by category, is as follows:

| | In thousands of euros | |
|---|---|---|
| | **2020** | **2019** |
| Technical personnel | 13 | 14 |
| Administrative | 57 | 54 |
| Workers and auxiliary personnel | 16 | 17 |
| **Total** | **86** | **85** |



*(cont.)*

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

## 31. AUDIT FEES

AUREN AUDITORES SP, S.L.P., the auditors of the Group's consolidated annual financial statements, have invoiced the following fees for professional services in the periods ended on 31 December 2020 and 2019:

| | In thousands of euros | |
|---|---|---|
| | **2020** | **2019** |
| For auditing services | 464 | 316 |
| Other audit-related services | 87 | 104 |
| **Total** | **551** | **420** |

"Audit services" in 2020 includes fees for auditing the Parent Company's balance sheet at 31 October 2020 in the amount of 136 thousand euros.

"Other services" in 2020 include the following amounts from the Parent Company: limited review of the Aguas de Alcalá temporary joint venture for the sum of 3 thousand euros, the agreed "Ecoembes" procedures report for 3 thousand euros, the review of the information from the internal controls over financial reporting (ICOFR) for 11 thousand euros, and the review of the non-financial information in the Annual Report for the sum of 65 thousand euros. The amounts include the total fees for services rendered in 2020 and 2019, irrespective of the date of invoice.

Other AUREN International affiliates have invoiced the Group the following fees and expenses for professional services during the year ending 31 December 2020 and 2019:

| | In thousands of euros | |
|---|---|---|
| | **2020** | **2019** |
| For auditing services | 77 | 67 |
| **Total** | **77** | **67** |

The amounts detailed in the above tables include the total fees for services rendered in 2020 and 2019, irrespective of the date of invoice.



*(cont.)*

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

## 32. EVENTS AFTER THE REPORTING DATE

**Merger by absorption**

On 17 February 2021, the Shareholders of Canal de Isabel II, S.A. held an Extraordinary General Meeting and approved the following resolution at the behest of the Board of Directors:

*"In accordance with the provisions of article 40 of the Law concerning structural modifications of corporations (LME), the General Meeting resolves to approve the merger by absorption between Canal de Isabel II, S.A., as the absorbing company, and Hispanagua, S.A.U., as the absorbed company, in accordance with the contents of the common merger project drafted and signed jointly by the management bodies of the companies participating in the merger by absorption on 22 December 2020. The approval of the merger is in any event subject to obtaining the authorisation of the Governing Council of the Region of Madrid, in accordance with the provisions of article 64.1 of Act 1/1984, of 19 January 1984, regulating the Institutional Administration of the Region of Madrid."*

On 17 February 2021 the Governing Council of the Region of Madrid agreed to authorise the merger by absorption of Canal de Isabel II, S.A., as the absorbing company, and Hispanagua S.A.U., as the absorbed company. (See Note 5)

**Amagua:**

***Samborondón DWTP project***

At present, in order to meet past commitments acquired and to afford Amagua a degree of independence and greater efficiencies, as well as to guarantee supply to users of the canton of Samborondón (as required by the high projected rates of population growth), work has been ongoing, in conjunction with the municipality, to design a project to build a drinking water treatment plant. In this regard, the relevant technical analyses have been conducted and the necessary financing sought with various financial institutions.

(See Note 23 (f)).

**Emissão S.A.:**

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

On 18 January 2021, a request to execute the Award was filed before the Brazilian courts of Río de Janeiro.

The judge issued a ruling on 26 January 2021 in which the proceedings were dismissed. The decision can be appealed and Sebastião Cristovam is likely to appeal.

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

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.

The updated amount owed to Soluciones Andinas pursuant to the arbitration award is 913 thousand Brazilian reals (143 thousand euros) from February 2021 onwards. No shareholder has so far appealed the ruling.



(cont.)

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

***Financial liabilities***

On 23 February 2021, the Judicial Section of the Federal Court of Justice of Rio de Janeiro ruled on these matters, and found Emissâo's claim to be admissible, recognising the non-existence of tax credits registered against the Company in respect of import taxes and values collected in duplicity by the defendant, and ordered the Federal Union to pay costs and attorneys' fees. This ruling is subject to appeal within a period of 15 days. However, considering the Legal Opinion of the tax attorneys and the sentence of 23 February 2021, future contrary rulings are not expected.

**Pre-Trial Proceedings:**

**New complaint lodged by Canal de Isabel II, S.A. and Canal Extensia within the frame of the Pre-Trial Proceedings 51/2018:**

By Order dated 7 September 2020, it was agreed to extend the periods of investigation by twelve months from 29 July 2020, so that the ordinary period of judicial investigation would be extended until at least 29 July 2021.

**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, INASSA presented a modification to the certiorari per saltum claim in the 2015 income proceedings, to underpin the defence by providing reports compiled by the independent expert firm. Likewise, it presented a modification to the certiorari per saltum claim for 2015 CREE fairness tax on 18 January 2021 based on the same defence arguments, and this was accepted on 3 March 2021.

At the DIAN's proposal, on 26 February 2021 INASSA received a payment order for 4,864 million Colombian pesos (1,500 thousand euros) in CREE fairness tax (fine included) for the year 2015. By 19 March at the latest, a letter will be filed with the DIAN, indicating that INASSA should not face the official liquidation, as the administrative act that contains it is being sued (before the contentious justice system), and only when the justice system decides, in first and second instance, will it be defined whether INASSA is obliged to pay.

***Office of the Prosecutor General of Colombia:***

Extinction of ownership proceedings

The Company's attorneys are in the process of proving to the judge that there is no legal basis for accepting the extinction of ownership claim and they are seeking that the proceedings be restored to their initial phase.

With regard to the information above, the Company will 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. plans to appear before the Guarantee Control Judge, through its representatives in Triple A and INASSA, to defend the interests of INASSA, its shareholders and the shareholders of Triple A, in order to preserve its economic and property rights.



*(cont.)*

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

***Corporate liability lawsuits***

On 24 February 2021, the statute of limitations was declared on the events related to the irregular payments made to external companies, which occurred in the years 2012-2013; also regarding the granting of an extra-legal payment to the former manager in Panama in 2012; and the commissions received for the sale and purchase of Emissão in 2013. An appeal will be lodged on 2 March 2021 and according to our external advisors, the statute of limitations should begin at the time of being apprised of the unlawful act and not before.

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

**Other cases:**

***INASSA Panamá:***

Arbitration Award Concerning Contract No. 115-2010 "Commercial management contract and reinstatement of service"

The deadline for compliance with the Arbitration Award is 9 February 2021. If by that date the IDAAN has not complied, the Court will be requested to send an official letter to the IDAAN and to take the appropriate measures to ensure that the award is complied with.

Meter reading and invoice distribution service

At 2020 year end, the receivables in connection with this contract amounted to 4,788 thousand dollars (3,894 thousand euros). The entity is negotiating with the IDAAN a payment schedule for collection of the outstanding debt.

Consequently, the relevant collection efforts are continuing. In this regard, on 2 February 2021, a new collection letter was sent to IDAAN requesting a payment schedule. If no response is received, the external attorneys are analysing the possibility of drafting a letter in which they inform IDAAN of the configuration of negative administrative silence, with a view to initiating the corresponding contractual actions requesting not only the judicial settlement of the contract and payment of the outstanding invoices, but also all damages caused by IDAAN during the execution of contract No. 19-2016.

Accordingly, INASSA continues to pursue the aforementioned actions and, if it fails to secure collection by administrative means in the established period, it will immediately commence the relevant legal actions.

***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.

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

***Dominicana:***

ITBIS CAASD:

In December 2020, this case remains pending hearing in the new chamber assigned of the SCJ. If the ruling were not favourable and based on the arguments used by the SCJ in its verdict, there is an option to exhaust another phase of discussion before the Constitutional Court.

Early termination agreement of the contract with CAASD

Corporación del Acueducto y el Alcantarillado de Santo Domingo (hereinafter CAASD) issued a resolution on 15 October 2020 to cancel contract number PS 003/2001 for the provision of services to the Company as it considered addenda IV, V and VI to be detrimental to the public interest.

In the opinion of the company's external advisor, according to the Dominican Republic's procurement and contracting law, if a contract is entered into in breach of one of the requirements, it can be null and void without this having any unlawful effect for the contracting company. What happened with Addendum VI is that, in the opinion of the Procurements and Recruitments Department, there should have been a tender, which is why it asked CASSD's board of directors to terminate the contract but observing all the guarantees of the contractual obligations and guaranteeing legal certainty. For this reason, they conclude that AAA Dominicana will not be held responsible for any civil liability, nor any other type of liability.

Note also that the Group's management has been working jointly with the new CAASD management on an agreement that satisfies the claims of both parties, which, as far as AAA Dominicana is concerned, can be summarised as the recovery of all the amounts owed for the services rendered up to the moment of cancellation of the service, the transfer of the assets associated with the concession and the receipt by CAASD of an amount in compensation, all of which have already been reconciled and agreed by both parties.

Accordingly, to complete the negotiation process, the conclusions of the Group's advisors are pending. Once these have been finalised, the authorisations required by both the CAASD, from the Government of the Dominican Republic, and the Canal Group, from the Governing Council of the Region of Madrid, will still have to be obtained.

***ASAA***

ASAA extension negotiation.

On 26 November 2020 an extension of the concession for 1 year was signed with the district of Riohacha. The new contract completion date is 30 November 2021. INASSA's management is working on a proposal to renew the concession, and it is expected that during 2021 the conditions for a long-term extension will be defined.

***Lanzarote:***

On 10 February 2021, the Canary Islands Contentious-Administrative Court No. 3 issued a ruling in relation to the lawsuit filed on 19 June 2020 declaring the nullity of the presumed rejection of the rate review requests for the 2017, 2018 and 2019 financial years and recognising the right to receive, as remuneration for the contract and from the fourth year of its duration, the review of the rate request for the aforementioned financial years; the updated rates, in accordance with the CPI+1 formula, which corresponds to the payment of 3,304 thousand euros for the years 2017, 2018 and 2019, pending final judgement. This would leave an estimated amount of 2,100 thousand euros pending for 2020, giving a total amount to be collected in relation to the review of 5.4 miles euros.



*(cont.)*

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

***Canal Extensia S.A.U.:***

Lawsuit against Triple A de Barranquilla for fraudulent use of intellectual property in connection with the Amerika software

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. However, to date the Parties have not been able to reach an agreement, so it is believed that legal proceedings (civil and criminal) will be required to safeguard Canal Extensia, S.A.U.’s intellectual property rights over the Amerika software.

***Hispanagua, S.A.U:***

On 22 December 2020, the Directors of the Parent Company, together with the Sole Administrator of Hispanagua, S.A.U., drafted and signed the joint plan for the Merger by Absorption of Canal de Isabel II, S.A. (the Absorbing Company) and Hispanagua, S.A.U. (the Absorbed Company), and the Merger Agreement was approved at the Extraordinary General Meeting of Shareholders on 17 February 2021. (See Note 5)



*(cont.)*

# APPENDICES

APPENDICES

**Appendix I (1) SEGMENT REPORTING 2020**

**(In thousands of euros)**

| | SEGMENTS | | TOTAL |
|---|---|---|---|
| | National | International | |
| **Ordinary income** | **884,273** | **32,460** | **916,733** |
| - Services to external customers | 884,273 | 32,216 | 916,489 |
| - Inter-segment services | - | 244 | 244 |
| **Segments earnings before taxes** | **188,473** | **(22,463)** | **166.10** |
| **Finance income** | **4,983** | **155** | **5,138** |
| **Finance expenses** | **(17,492)** | **(21,507)** | **(38,999)** |
| **Amortisation and depreciation** | **(128,503)** | **(2,212)** | **(130,715)** |
| **Share of profits for the financial year of associates accounted for using the equity method** | **138** | **(36)** | **102** |
| **Losses, impairment and variation in provisions** | **(3,317)** | **3,397** | **80** |
| - Losses / (Reversals of losses) for impairment of fixed assets | (3,189) | 18 | (3,171) |
| - Losses / (Reversal of losses) for investment impairment | (128) | 3,379 | 3,251 |
| **Income tax expense** | **1,238** | **1,170** | **2,408** |
| **Segment assets** | **5,030,297** | **34,806** | **5,065,103** |
| **Segment liabilities** | **2,332,484** | **40,144** | **2,372,628** |
| **Net cash flows related to** | **107,528** | **3,947** | **111,475** |
| - Operating activities | 280,956 | 10,314 | 291,270 |
| - Investment activities | (58,400) | (2,144) | (60,544) |
| - Financing activities | (115,028) | (4,223) | (119,251) |
| **Acquisition of non-current assets during the financial year** | **66,114** | **712** | **66,826** |

This Appendix forms an integral part of Note 4 to the Consolidated Financial Statements, in conjunction with which it should be read.



*(cont.)*

**Appendix I (2) SEGMENT REPORTING 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** |
| **Finance income** | **8,365** | **39** | **8,404** |
| **Finance 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.



*(cont.)*

APPENDICES

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

## Appendix II (1) DETAILS OF SUBSIDIARIES AT 31 December 2020

| 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 Tecnología y Servicios, S.A.S. | Barranquilla (Colombia) | Design, maintenance, development, support and management of information technology projects | AUREN | - | 81.84 % | 81.84 % |
| Soluciones Andinas de Aguas, S.R.L. | Montevideo (Uruguay) | Investment and asset holding | AUREN | - | 90.92 % | 90.92 % |
| Interamericanas de Aguas de México, S.A. | Mexico | Comprehensive water cycle | - | - | 80.20 % | 80.20 % |
| Mexaqua, S.A. | 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.



(cont.)

APPENDICES

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

## Appendix II (2) DETAILS OF SUBSIDIARIES AT 31 December 2019

| 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 Tecnología y Servicios, S.A.S. | Barranquilla (Colombia) | Design, maintenance, development, support and management of information technology projects | AUREN | - | 81.84 % | 81.84 % |
| Soluciones Andinas de Aguas, S.R.L. | Montevideo (Uruguay) | Investment and asset holding | AUREN | - | 90.92 % | 90.92 % |
| Interamericanas de Aguas de México, S.A. | Mexico | Comprehensive water cycle | - | - | 80.20 % | 80.20 % |
| Mexaqua, S.A. | 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.



(cont.)

APPENDICES

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

**Appendix III (1) DETAILS OF EQUITY-ACCOUNTED INVESTMENTS AT 31 DECEMBER 2020**

| | | | | % 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 | (851) | 554 | 1,869 | 1,869 |
| 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 % | 475 | 602 | (1,693) | 16 | (600) | (600) |

**Appendix III (2) DETAILS OF EQUITY-ACCOUNTED INVESTMENTS AT 31 December 2019**

| | | | | % 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) |

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. Company in liquidation.*



*(cont.)*

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

## Appendix IV (1) DETAILS OF JOINT OPERATIONS AT 31 December 2020

| 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 % | 14,076 |
| 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 % | 37 |
| 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 % | 79 |
| 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 % | - |
| | | | | | | | **14,192** |

Figures converted using the exchange rate at the closing date, and presented under IFRS.

*[(1)] No information available. Metroagua in liquidation.*



*(cont.)*

APPENDICES

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

**Appendix IV (2) DETAILS OF JOINT OPERATIONS AT 31 December 2019**

| 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. Metroagua in liquidation.*



*(cont.)*

# CONSOLIDATED DIRECTORS' REPORT FOR FINANCIAL YEAR 2020

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

# CONSOLIDATED DIRECTORS' REPORT FOR FINANCIAL YEAR 2020

## 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 Parent 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 rate in all municipalities, regardless of their size.

| Services provided in the Region of Madrid (2020) | Supply | Sewerage | Treatment |
|---|---|---|---|
| Number of municipalities served | 174 | 135 | 179 |
| Population served | 6,556,593 | 5,785,475 | 6,771,172 |
| Coverage in the Region of Madrid | 96.71 % | 85.33 % | 99.87 % |

**The indicators do not include information on the Cáceres Concession or the Alcalá de Henares temporary joint venture.*

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 and 1 municipality in Castilla y León, adjacent to the Region of Madrid, and treatment facilities in 1 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 Parent Company, form the Canal de Isabel II Group (hereinafter, "the Group"). Canal is the Group's main company, providing 94.2% of all the assets and 93.1% of ordinary consolidated income at the close of 2020.



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

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 7.54 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 Parent 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). While SDG 6 "Clean water and sanitation for all" is, by default, the one that applies directly to the company since it belongs to the water sector, the rest of the activities it performs also enable the Parent Company to contribute to the remaining sustainable development goals.

In this regard, in 2020 the Parent Company updated its materiality matrix in accordance with the SDGs, analysing and assessing with its stakeholders which of the SDGs are a priority for the company and which it has the biggest impact on. Moreover, targets were established for each of them, choosing for tracking purposes the appropriate indicators that are part of Canal's 2018-2030 Strategic Plan, into which the SDGs are fully integrated.

## 2. The Canal Group and Covid-19

On 11 March 2020, the World Health Organization declared the coronavirus outbreak (COVID-19) to be a pandemic, due to its rapid global spread, having affected more than 190 countries. Most governments have taken 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.

This situation is having a significant impact on the global economy, due to the disruption or slowing of supply chains and the sizeable increase in economic uncertainty, evidenced by an increase in the volatility of asset prices, exchange rates and cuts in long-term interest rates.

The various countries in which the Group operates have approved legal instruments that enable them to maintain the measures to restrict mobility, in place at the end of 2020, and which will likely continue for the duration of the pandemic. Furthermore, the various governments introduced a range of measures to tackle the economic and social impact of Covid-19 which the Group implemented immediately, as well as a set of voluntary measures.

**Measures adopted by the Canal Group**

Companies belonging to the Canal Group set up a Covid-19 Monitoring Committee with a view to implementing the necessary measures to guarantee continuity of the services they provide and to avoid spreading the virus, thereby protecting their employees, customers and society at large, all consistent with the measures introduced by the Authorities.

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The Covid-19 Monitoring Committee was set up by the Parent Company and Canal Extensia, with the involvement and coordination of the heads of all the Group's subsidiaries who provided updated information on the situation in each company and country, and the latest rules in place.

Consequently, the aim of the Covid-19 Monitoring Committee is to prepare and plan preventive and organisational measures for implementing during the exceptional period as a means of tackling coronavirus at the Canal Group.

Below are the main measures implemented by the Group in 2020 to mitigate the effects of the pandemic on its activity and on its stakeholders:

1) Guaranteeing supply

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.

One of the main goals was to adjust the operation and maintenance of infrastructure to the new situation, adapting the protocols applied to thousands of workers and reducing the number of staff in the field as far as possible.

In this context, the Parent Company and Canal Gestión Lanzarote executed the following actions to guarantee supply: they established various working groups to limit contact between workers in the field and ensured the presence of reserve teams at home and ready to replace other workers in the event of a case being detected; they stockpiled reagents so as to ensure the operation of all plants and approved and updated action protocols to tackle the coronavirus, among other measures, all aimed at ensuring continuity of the service in line with the maximum quality standards.

Moreover, the Parent Company transferred the Control Centre to the homes of more than 50 employees, from where they have remained ready to deal with any incident 24 hours a day.

One of the main goals was to adjust the operation and maintenance of infrastructure to the new situation, adapting the protocols applied to thousands of workers and reducing the number of staff in the field as far as possible. In this context, the Parent Company decided to transfer the Control Centre to the homes of more than 50 employees, from where they have remained ready to deal with any incident 24 hours a day.

2) Protecting workers' health

In order to protect the health of all Canal's employees as they worked, from the outset of the pandemic they were provided with daily information and the necessary measures for their protection were put in place.

Accordingly, both the Parent Company and the rest of the Group's subsidiaries had to implement teleworking to continue performing many of their activities, and a significant effort was made to strengthen communications networks, all the while respecting people's work-life balance. Evidence of this is that the Parent Company set up some 1,500 remote work stations in just ten days.

During the state of emergency, events and meetings were cancelled; essential personnel were organised into groups; supply cut-offs and meter-readings were halted; only breakdowns were attended to and commercial offices were closed, replacing face-to-face service with telematic and telephone contact.

Since the onset of the pandemic, the Canal Group has been taking the necessary measures to protect the health of all its employees: it has boosted cleaning and disinfection in workplaces; employees have been provided with personal protective equipment; face masks and sanitiser have been distributed; tests and body temperature controls were performed on employees re-joining the various work centres; protective


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screens have been placed in offices that serve customers and receive people from outside the company; the number of people allowed in offices and communal areas has been reduced; staggered entrance and exit times have been arranged for the various teams; the use of changing rooms and other communal areas has been reorganised and the use of individual vehicles has been encouraged, among other measures.

3) Living up to our customers' expectations

As we have mentioned, during the state of emergency all customer services staff at the Canal Group had to work remotely by phone, e-mail and through virtual offices to continue to serve our customers. The Parent Company also reinforced its commercial staff to maintain the quality of non-face-to-face services.

Moreover, considering the social and economic impact of the crisis, as a socially-responsible company, on 8 April 2020 Canal decided to approve extraordinary and temporary rebates on the rates for water intake, sewerage, treatment and reuse services for commercial, industrial and individual customers affected by a significant reduction in economic activity and/or furloughed by temporary layoff schemes (ERTEs), as a result of the crisis unleashed by the pandemic.

The rebates were disseminated through the "Cuenta con tu agua" (Count on Water) campaign to reach all potential beneficiaries. In 2020, these extraordinary rebates amounted to more than 4.5 million euros and benefited around 29,000 companies, self-employed and individuals in the Madrid Region and, in the case of the industrial and commercial contracts affected, will continue to apply until mid-2021.

Furthermore, the various companies belonging to the Canal Group stopped cutting off water supply during lockdown, so that no one would be left without water at a time when it was more necessary than ever. This suspension of supply cut-offs was maintained throughout 2020 by the Parent Company and Canal Gestión Lanzarote.

4) Commitment to society

The Parent Company is conducting the broadest known study in the European Union to detect traces of the virus in the sewerage network, a task commissioned by the Regional Health Department and the Regional Department for the Environment, Planning and Sustainability. The 'Vigía' (Sentinel) project is an epidemiological tracking system that takes wastewater samples from almost 300 locations in the region and analyses them for traces of Covid-19. Its tracking capacity, which covers all 179 municipalities in the region, would be equivalent to performing tens of thousands of PCR tests to the inhabitants, since it identifies those areas where Covid-19 is most prevalent. Samples are taken every 7 days and are analysed in specialist laboratories. The process is quick, with health authorities receiving the results in just 24 hours through an app created specifically for the consultation and management of these parameters.

Thanks to these advanced techniques of epidemiological surveillance, Canal provides tools to enable health specialists to detect the presence of the virus in the region of Madrid, which has a population of 6.8 million people, and to delimit the areas, neighbourhoods or districts in which an increase in cases is detected. Accordingly, the analysis of Madrid wastewater allows a map to be drawn with the traces of the virus in the region and which since February 2021 has been published on the Group's website, updated weekly for anyone interested in consulting it.

The Parent Company is therefore helping to control the pandemic and it is hopeful that this monitoring will become a standard part of its activities. The long-term goal is to broaden the knowledge about the sanitary characterisation of wastewater and to establish a permanent monitoring system.

Likewise, Canal decided to use its bottling plant at the DWTP in Colmenar Viejo to produce and supply 137,500 litres of water in carafes and bottles that have been distributed to hospitals, medical centres or other institutions such as the Army during the initial state of emergency.



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The Group has also conducted awareness campaigns to mitigate the spread of the virus, such as the one launched by the Parent Company in March in coordination with Canal Cáceres and Canal Gestión Lanzarote regarding the importance of frequent handwashing. For its part, Amagua designed the "Protegidos 2021" calendar for distribution among its users, which aimed to encourage the use of bio-security measures amid the spread of Covid-19.

Moreover, the Parent Company reduced its average supplier payment period by 14% compared with December 2019, going from 34 days to 29 (the legal period is 60 days). Canal decided to speed up its payments to facilitate liquidity and thereby help foster the viability of the companies which supply it with goods and services.

All of its commitments and preventive measures to help contain the pandemic made Canal the first Spanish company to receive Covid-19 Safe Protocol certification. The independent company TÜV Rheinland has verified that the Parent Company has detailed protocols for action and has adapted its facilities to fulfil the strictest standards to preserve the health of its employees and customers.

**Impact on the Canal Group**

Despite the considerable impact of Covid-19 on the global economy, and how challenging it has been for the various Group companies to continue providing their services in these conditions, the effect on the Group's business has been very limited and much less than in other sectors, since its main business is an essential service in integrated water cycle management and demand is much more stable. Consolidated turnover is down 6.9% on the 2019 figure, and not only due to the effect of Covid-19. The impact has varied among the various Group subsidiaries depending on their activity and the country in which they operate.

Spain:

The Spanish economy has been among the hardest hit by the pandemic in the European Union, with an estimated reduction of 11.0% in GDP compared with 2019, while EU GDP has shrunk by an estimated 6.4%. The decline has been greater in Spain because of the higher weighting in its economy of the services sector and tourism, severely affected by the restrictions imposed to tackle the pandemic. However, as mentioned previously, the Group's business was less affected as it provides an essential service. Turnover in subsidiaries operating in Spain fell by 40.8 million euros with respect to 2019, i.e., a 4.4% reduction, due mainly to the impact of Covid-19 on the businesses of the Parent Company and Canal Gestión Lanzarote.

The effect on the Parent Company's business was very significant, since the service it provides, namely integrated water cycle management, is essential. The reduction in the Parent Company's turnover compared with 2019, which also includes the potential effect of weather conditions, was 3.8%.

However, in 2020, there were impacts on turnover at Canal linked to the health situation. The limitations on mobility and other restrictions on economic activity resulting from the pandemic have led to a significant drop of almost 20% in industrial and commercial consumption, which has been partly offset by an increase in domestic consumption (+2.88%), with total invoiced volume, in net terms, 2.77% below that of 2019

In addition, the measures outlined above, many of which were voluntary, implied extraordinary costs for the Parent Company of approximately 1% of turnover. There were also cost savings, mainly linked to the consumption of energy and other supplies, which largely offset the increased expenses.

The Parent Company's robust financial position and the limited impact on its business have enabled it to implement social measures to mitigate the impact of Covid-19 while keeping its rates frozen in 2020, without this affecting its strategy and goals. In fact, the company has approved an ongoing rates freeze for 2021.


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Covid-19 had a greater impact on the activity of Canal Gestión Lanzarote than on the Parent Company, as Lanzarote's economy is dependent on tourism and there were 86% fewer tourists from March to December as compared with the same period the previous year. As a result, tourism and industrial consumption fell by 30%, somewhat offset by the increase in household consumption, with invoiced volume down 8.5% year-on-year.

Colombia: In the Colombian subsidiaries, the pandemic outbreak in the country, with the ensuing economic paralysis due to lockdowns and restrictions imposed over the course of 2020, resulted in: the suspension of payment collection negotiations with public bodies; difficulties in continuing to perform the necessary work to onboard new customers as intended for the year and reduced and delayed customer payments received as water is an essential service.

Brazil: The pandemic severely worsened what was already a difficult macroeconomic situation in Brazil, which is one of the world's worst hit countries, having recorded the second-highest death toll after the United States. Brazil was already facing political instability as a result of the government lacking a clear parliamentary majority and the country's sluggish economic activity.

Since the company's customers are public entities, both the company's activities and its payment collection capacity were hampered, as they were impacted by the measures implemented in the State of Bahía in connection with revenues from water services within the framework of Covid-19. In this regard, Embasa, Emissão's main customer, was legally prevented from collecting payments from the start of the pandemic and for much of 2020 and, accordingly, its contracts were limited and restricted, especially those considered non-essential (cut-off and reconnection, collection management, maintenance of sewerage networks, commercial services, and so on), services covered by the contracts provided by Emissão. As a result, during 2020, the contracts could not be renewed when they expired.

Ecuador: As was the case in the Parent Company, since Amagua provides an essential service, namely sanitation and water treatment, the impact on its business has not been significant. In 2020 the company recorded an increase in the $m^3$ volume of water invoiced due to higher household consumption as a result of the lockdown and this having a greater impact since most of its users are residential customers. Furthermore, the winter of 2020 was dry and had less precipitation than in previous years.

Dominican Republic. Like in other countries, as a result of the pandemic and the measures imposed by the government, AAA Dominicana was not able to implement its commercial management activity during the various states of emergency. In the case of CORAAPLATA, more specifically, since this is a predominantly tourist area, the decline in activity in this sector during the year had a very severe impact. Consequently, at 2020 year end, the company's revenues were down 21% on the 2019 figure.

## 3. 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 2018, 2019 and 2020 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.



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### Supply

| Business indicators: Supply | 2020 | 2019 | 2018 |
|---|---|---|---|
| **Number of customers (thousands)** | **1,783.64** | **1,759.49** | **1,735.30** |
| Canal de Isabel II | 1,524.88 | 1,504.79 | 1,484.56 |
| Lanzarote | 73.05 | 72.44 | 71.58 |
| Others* | 185.71 | 182.26 | 179.16 |
| **Population supplied (thousands)** | **7,543.22** | **7,462.69** | **7,085.25** |
| Canal de Isabel II (Madrid Region) | 6,556.59 | 6,442.55 | 6,357.98 |
| Lanzarote | 164.29 | 207.36 | 204.19 |
| Others* | 822.34 | 812.78 | 523.08 |
| **Water for consumption (Hm3)** | **583.55** | **591.79** | **567.93** |
| Canal de Isabel II | 488.27 | 501.08 | 479.87 |
| Lanzarote | 26.56 | 26.14 | 24.70 |
| Others* | 68.72 | 64.57 | 63.36 |
| **Reused reclaimed water (Hm3)** | **20.53** | **24.12** | **20.23** |
| Canal de Isabel II | 13.14 | 15.88 | 12.10 |
| Lanzarote | 2.34 | 3.04 | 2.93 |
| Amagua | 5.06 | 5.20 | 5.20 |
| **Other business indicators** | | | |
| Breakage index per 1000km of distribution network Canal de Isabel II | 96.22 | 108.55 | 110.50 |
| Breakage index per 1000km of distribution network Lanzarote | 7,546.00 | 8,421.54 | 6,882.58 |

**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 2020, 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 94.2% of all the assets and 93.1% of ordinary consolidated income at the close of 2020. 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.

In this respect, 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, and this year by the pandemic. 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.



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

In 2020, water for consumption in the Parent Company amounted to 488.27 $hm^3$, down 2.6% on 2019 as a result, firstly, of the impact of Covid-19 on the business and, secondly, of the increased precipitation (natural contributions up 40% compared to 2019 and 12% compared with the average of the last 15 years).

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 Canal is working on long-term sustainability. The consolidated result of all the optimisation actions and measures carried out by the Parent Company is evidenced by the 5.4% reduction in the volume of water for consumption compared with the average of the last 15 years, despite a 14% increase in the population during the period.

Water reserves stored in reservoirs managed by Canal stood at 79.8% of their total capacity at the end of 2020, or 753 $hm^3$, a figure 18 percentage points higher than the year-end average in the last 30 years. This volume of reserves is almost 14 points higher than the volume stored at the end of the previous year, when reservoirs stood at 66% of their maximum capacity.

To ensure the supply of water resources in the Madrid region, Canal manages 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 (SWDP) distributed between two production centres with a maximum annual production capacity of desalinated water of 35 $hm^3$. At 2020 year end, 26.6 $hm^3$ of drinking water was produced (26.1 $hm^3$ in 2019). The slight increase of 1.6% in production contrasted with the 8.5% reduction in invoicing, due mainly to the health crisis and its impact on tourism and the Island's ageing supply network.

With a view to raising users' awareness of the need for efficient and responsible water consumption, Canal ran a summer campaign called "El poder está en tu mano. ¡Cuida el agua!" (It's up to you. Take care of water!), with tips about how to save water, its availability and efficient water use through digital channels, printed press, social media and the website. This campaign featured superheroes with whom the company's aim is to convey how a small gesture can have a big impact and, in that regard, we all have the superpower to look after water.

Among all the actions carried out by the Parent Company relating to the area of Supply, of note especially are 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. The percentage of unrecorded water in 2020 (13.7%) was similar to that of 2019 (13.6%), which represented a considerable challenge because these values are already below the European average. Amagua continued operations to locate leaks, and as part of its action plan it enhanced accessories and provided training to contractors so as to improve the installation of meters with a view to avoid meter leaks.

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. In the last 10 years, Canal has managed to halve the number of pipeline breakages per kilometre of network. In Canal Gestión Lanzarote the rate of breakages per 1,000 km of network is of 7,546 in 2020 (8,421 in 2019), high levels due to the age of the network and the Island's mountainous terrain.

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.


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

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. In 2020, the number of irrigable hectares increased by 58 (up 2%), to a total of 2,915, and the number of municipalities with a reuse network rose to 25.

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 2020, the Parent Company channelled 13.1 $hm^3$ for the irrigation of parks and gardens and for street cleaning, which are the main uses in the Region of Madrid, a 17% decrease on the figure for 2019 (15.9 $hm^3$). This reduction is due mainly to the weather conditions as 2019 was especially dry in the middle of the year, and more irrigation water was supplied. Moreover, the restrictions implemented as a result of the pandemic triggered a decline in demand in 2020.

Canal Gestión Lanzarote and Amagua earmark part of the treated water for agricultural use and for watering gardens and golf courses, for which it undergoes additional treatment. In 2020, Canal Gestión Lanzarote and Amagua respectively processed 2.3 $hm^3$ and 5.2 $hm^3$ of reclaimed water (3.0 $hm^3$ and 5.2 $hm^3$ respectively in 2019). In Canal Gestión Lanzarote the volume of reclaimed water fell by 23% with respect to the previous year, also hampered by the decline in tourism occupancy.

## Water Quality

Since 2014, Canal has been implementing its Sanitary Water Plan (SWP), an integrated system for risk assessment and management via the different phases of the supply system, so as to guarantee the quality of water for consumption. This system is aimed at reducing contamination of water at source to a minimum, reducing or eliminating pollutants, preventing contamination during water storage, distribution and handling; all with the goal of preventing the appearance of analytical non-compliances in water for consumption.

In 2020, in compliance with applicable legislation concerning water for consumption, the Parent Company continued to implement its own Water Sanitary Plan. A proprietary electronic platform was set up in the year to enable, among other functionalities, fast calculation of the risks of parametric non-conformities associated with the analytical control points, recording, notifying and analysing non-conformities and efficiently, transversally and simultaneously managing the information generated by the Plan, facilitating the consultation and issuance of reports for the Units.

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 (92.05%) was in line with those of 2019 (93.81%). 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 in treatment plants, causing an increase in the number of non-conformities in treated waters leaving the plant and, in parallel, a reduction in non-conformities in the control points across the network, ensuring water that is suitable for human consumption.

At Canal Gestión Lanzarote and Amagua, respectively, 98.0% and 98.6% of samples met the regulatory requirements in 2020, compared with 94.6% and 100% in 2019. The higher sample percentages compliant with regulatory requirements in Canal Gestión Lanzarote was a consequence of the steady progress in refurbishing the Lanzarote III desalination plant.

The Parent Company has a network of 65 automatic surveillance stations for consumer water quality, installed in DWTP outlets, large storage deposits and the main supply intersections. All are equipped with

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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 2020, this network was expanded to include chlorine measurements at a total of 12 locations in the supply network, including them in the sampling stations.

In 2020, a spectroscopic footprint continuous monitoring system was added to analyse the water at 36 monitoring stations which, essentially, enables the detection of changes in the usual characteristics of the water and which, accordingly, warns of potential 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 21 water quality laboratories (17 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.

At the end of 2020, Canal began its activity at 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.

On the one hand, progress continues in the study of the behaviour of water quality in the reservoirs of the Madrid region and in 2020 their calibration and modelling continued.

At the same time, work was ongoing in the construction and improvement of the intake towers at reservoirs and in the monitoring and characterisation of sewerage network overflow channels. In addition, the inventory was completed of discharges to reservoirs and the quality of the tributary channels of some of these reservoirs is being analysed; all with the aim of continuing to foster the necessary measures to improve water quality at source. Three automatic reservoir water quality profiling measurement systems were assessed.

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 2020, having established the criteria, costs and deadlines for the new technologies to be implemented, Canal began studying the tools to select technologies (MOISES Project to select membranes). Ageing studies were conducted in relation to the technologies already in place, and progress was made on the analysis and knowledge of the best maintenance of new technologies.

Considerable progress was also made to checking the laboratory methods at DWTPs to conform to new regulations. In this connection, it will be necessary to implement new methods, modify equipment and refurbish laboratories. Further headway was also made in the research and findings 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.

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 | 2020 | 2019 | 2018 |
|---|---|---|---|
| **Treated water (Hm3)** | **511.12** | **493.22** | **532.16** |
| Canal de Isabel II | 478.83 | 460.13 | 501.44 |
| Lanzarote | 4.94 | 7.87 | 7.89 |
| Others* | 27.35 | 25.22 | 22.83 |
| **Reclaimed water discharged to waterways (Hm3)** | **113.19** | **106.99** | **114.16** |
| Canal de Isabel II | 112.79 | 105.77 | 112.62 |
| Lanzarote | 0.40 | 1.22 | 1.54 |

**In addition to that of the rest of companies, information is included on the Cáceres Concession*

In terms of Sanitation, in 2020, the Parent 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. The main projects executed in 2020 include the expansion of the Casaquemada WWTP and the start of work to expand the Arroyo de la Vega DWTP.

Over the course of the year, 157 plants managed by Canal treated a total of 478.83 $hm^3$ of waste water, of which 465.69 $hm^3$ was discharged into watercourses and 13.14 $hm^3$ was subjected to tertiary treatment for re-use in the paper industry or to water parks, gardens, golf courses or to sluice streets. This year, in accordance with our commitment dating back to 2018, 26% of all the water treated at our plants, i.e., 125.92 hm3, was subject to tertiary treatment for reclaiming, with a view to improving the quality of the water discharged to waterways in Madrid.

The volumes treated by Canal in the year were higher than in the previous year (460.13$hm^3$), since in 2020 the spring and autumn were rainy.

The Region of Madrid is one of the regions that treats all the urban wastewater of which it is in charge.

In 2020, the Parent Company launched its "Plan Incorpora", the purpose of which is to include all the municipalities in the Region of Madrid in Canal's sewerage network management. Ten municipal governments (Aranjuez, Fresno de Torote, Guadalix de la Sierra, Hoyo de Manzanares, Los Molinos, Majadahonda, Mejorada del Campo, Pezuela de las Torres, Valdeavero and Villaconejos) signed the Preliminary Action Protocol in 2020, enabling Canal to conduct a study of the status of the sewerage network as a preliminary step prior to potentially signing a sewerage network services provision agreement. The population of these municipalities, in addition to that of the 135 municipalities in whose sewerage networks are already managed, would bring total coverage of the population of the Madrid Region to 88.0%.

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 municipal sewerage networks, with a view to achieving the most efficient sanitation network in Spain, launched in 2019. Canal has identified improvements which the 92 municipalities with which it has sewerage management contracts must undertake to optimise their sanitation networks, amounting to 1,500 million euros. As owners of the networks, the municipal governments must decide which of the proposed investments to execute. The Parent Company will advance the initial investment under this plan and bear the finance costs from the operation. In 2020, 9 municipal governments signed up for the plan, bringing the total to 19 municipal governments, for a total of 200 million euros in projects for execution over the next few years.

Lastly, the awareness campaigns conducted by Canal do not focus solely on saving water, but also on sustainability and care for the environment. Accordingly, in November 2020, Canal ran a new campaign


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to raise awareness about the importance of properly managing domestic waste, using an explanatory infograph called "Wet Wipe Journey" to help people understand that the toilet should not be used as a waste paper bin. 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 2020 year end, the Company had treated a total water volume of 4.94 hm3, of which 2.60 hm3 were discharged to waterways and 2.34 hm3 reclaimed. As in the case of the Parent Company, 55.7% of the water processed at the treatment plants, i.e., 2.73 hm3, 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 now manages 100 water treatment plants, 2 more than in 2019, which treated a combined total of 17 $hm^3$ of wastewater in 2020 (16.79 $hm^3$ in 2019).

### Telecontrol and metrology

To preserve its benchmark strategic position in the comprehensive water cycle, throughout 2020 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.

Lastly, with a view to maintaining its leadership in Spain, consolidated in 2019 with the designation of Laboratorio de Contadores in Canal's partnership with the Spanish Metrology Centre (Centro Español de Metrología), in 2020 Canal commenced work to expand its laboratory to be able to test and calibrate flow meters of up to 1000 mm, making it one of the few labs in the world with that capacity.

### Energy production and consumption

| Business indicators: Energy production and consumption | 2020 | 2019 | 2018 |
|---|---|---|---|
| Energy consumption (GWh) | 663.89 | 619.75 | 603.08 |
| Electricity production (GWh) | 378.80 | 363.96 | 312.22 |
| Production/Consumption (%) | 57.06 % | 58.73 % | 51.77 % |

**Data referring to the end of 2020 are estimates.*


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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 net consumption, in recent years initiatives have been conducted to improve efficiency in processes and generate clean energy.

In 2020, the Parent Company's energy consumption (510.79 GWh) increased by 8.55% year-on-year (470.57 GWh in 2019). This year-on-year increase was due mainly to the energy consumption of lifting equipment for pumping from the Alberche river to optimise supply management.

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 (117.20 GWh in 2020), 17.65% of Group consumption. Electricity consumption increased by 1.48% year-on-year, with desalinated water increasing by 1.62%, while the gradual refurbishment of its facilities is completed.

The Group generates renewable electricity from the processes related to the management of the comprehensive water cycle: through the 8 hydroelectric plants, the production of biogas in 13 treatment plants and, to a lesser extent, in three wastewater water falls in the Sur and La Gavia treatment plants, in 9 microturbines in various locations of the supply network and in the photovoltaic panels installed in several treatment plants. Furthermore, the Company relies on high-efficiency cogeneration from two thermal sludge-drying plants. At present, the Group has an installed capacity for the production of electric power of 107.64 MW.

One of the goals of Canal's strategic plan is sustainable development. With regard to clean energy, the Parent Company has launched the Solar Plan, focusing mainly on the creation of new photovoltaic plants in Canal's infrastructure. In the more immediate term, phase I of the Solar Plan provides for the installation of 12 new photovoltaic plants with an installed capacity of 17 MW. An additional 2.5 MW in renewable capacity is planned at another 4 hydroelectric and biogas cogeneration plants, which are scheduled to come on stream in 2024.

In 2020, the Group produced 378.8 GWh, a 4.08% increase on 2019 (364.0 GWh), due to the increase in hydraulic output on the back of the higher natural contributions from reservoirs and from cogeneration (where thermal drying of sludge has increased). In 2020, the equivalent of 57.06% of the electricity consumed was generated by the Group, a slight decrease on the previous year's figure (58.7% in 2019).

**Customer-oriented**

The Group has always been distinguished by its commitment to its users. Accordingly, Line 6 of the Strategic Plan of Canal 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 rates is that, in 2020, Canal's rates remained frozen, as indeed they will continue in 2021 for the sixth consecutive year, making Canal's rates among the most accessible in Europe.

Furthermore, since they provide an essential service, Group companies' rates structures include social rebates aimed at especially vulnerable groups. Notably among these, in 2020 the Parent Company earmarked a total of 8.2 million euros (an increase of 137% on the 3.5 million euros in 2019) to the application of social rebates, and increased the number of people included compared with the previous year to encompass Covid-19 rebates for the companies, self-employed and individuals hardest hit by the



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pandemic. Moreover, at the end of 2020, the Parent Company extended its social rebates to those receiving the Guaranteed Minimum Income.

Also, at the end of 2019 Canal updated its Commitment Charter to include 10 specific points aimed at clearly and transparently providing solutions for its users' needs and thereby improving the quality of its service. In 2020 its average level of compliance reached 95%.

The degree of satisfaction of the people of Madrid with the service provided by Canal is very high. In the latest survey by the Parent Company, customers gave it a score of 8.63, an improvement of 1.3% on the average score at the end of 2019 (8.53). Canal is the best rated utility and scores higher than gas, electricity or telephone companies. In addition, according to the ISCX, an index compiled by an independent consultant, Canal is the top-rated water company in Spain.

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.

## Other key aspects in relation to the Group's business

Hispanagua: The Board of Directors of Canal de Isabel II on 21 October 2020 approved the start of the merger by absorption of its investee Hispanagua to simplify the Group's organisational structure and because it was not legally possible to further extend the Management Agreements for the provision of services to Canal. The merger is aimed at streamlining and simplifying operating, administrative and structural costs, thereby enhancing the results currently obtained separately by Canal de Isabel II and Hispanagua. On 17 February 2021, the Meeting of Shareholders of Canal de Isabel II approved the merger, which will be effective retroactively from 1 January 2021 and which will imply the incorporation of Hispanagua's staff and the insourcing of the activities hitherto outsourced to Hispanagua.

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 2020 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 operation by Canal Gestión Lanzarote, since there is a possibility that the contract award might be declared null and void.

There were no developments on this front in 2020. 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 award 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, in 2020 the company filed a legal claim for the approval of said price review or compensation for the same amount.

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On 10 February 2021 a ruling was issued accepting the company's request for a price review. More details of this claim are provided in Note 23 to the Consolidated Annual Financial Statements.

Canal Extensia Group: Due to the 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. Additional information is provided in Note 23 to the Consolidated Annual Financial Statements.

Emissão: This company focuses on providing services to public companies that manage water supply and sewerage networks. In 2020 its activity consisted almost entirely of providing services to Embasa (Bahía).

During the year, Emissão continued to pursue its goal of diversifying its customer portfolio in various Brazilian states, strengthening its ties with Embasa (Bahía) and seeking to add new customers like Sanepar (Paraná state), which awarded the company 4 contracts worth 17 million euros. However, due to the improper inclusion of the company by CEDAE in the Registry of Ineligible and Suspended Companies (CEIS), the contracts awarded could not be executed. This entirely anomalous situation led the company to file a legal request in Brazil to be removed from the CEIS, and it reserves the right to undertake legal action against CEDAE for the damages incurred.

Moreover, the pandemic outbreak led to the temporary suspension of commercial activity for Emissão in 2020 due to the lockdown ordered within the framework of the state of emergency and in the context of a widespread ceasing of activities.

The impossibility of obtaining new contracts and as mentioned above, the termination of various services contracts provided to Embasa from March to September 2020 as a result of the measures implemented to tackle the pandemic and its effects, made the company's activity residual from then on, as it only provided services to Caesb (Brasilia), concluding in January 2021. This had a significant impact on the company's volume of business, and its turnover fell by 85% compared with 2019.

As previously mentioned, Emissão has undertaken legal measures to be removed from the CEIS and, in the opinion of its attorneys, the legal ruling is expected to be issued between April and July, enabling the company to resume bidding for tenders and to return to its usual activities.

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 24.96 million Brazilian reals (3.9 million euros), plus interest in accordance with Brazilian inflation since the acquisition date, giving a total of 49.13 million reals (7.70 million euros). This award is executable from 28 February 2020. Over the course of the year, the Group conducted the relevant proceedings, within the pandemic restrictions, to execute its collection rights based on the decision of the Arbitration Court.

AAA Dominicana: The company's activity (which focuses on two customers: CAASD, in Santo Domingo, which accounts for 87% of its business, and CORAAPLATA in Puerto Plata, which accounts for the remaining 13%) consists of managing payment collection for the conduit and sewerage services provided by said companies. Negotiations are currently underway to terminate the contract, the company having been informed that CAASD plans to insource the operations hitherto provided by AAA Dominicana.

Gestus: The company's activity comprises entirely the commercial management services, meter reading and installation and connections provided to Triple A de Barranquilla. Completion in 2020 of the commercial management contract, the company's last contract with the former (the other two ended in 2019) resulted in the discontinuation of the company's activities. Although, since early 2020, Gestus had commenced operations to onboard new customers, eventually, given the situation unleashed by the pandemic over the course of the year, these efforts did not come to fruition. This scenario, in the context of the measures ordered by the government in connection with collecting payments from customers for



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an essential service, namely water supply, further significantly reduced Gestus' activity compared with a normal period. Consequently, in comparison with 2019, turnover in Gestus fell by 85%.

Amerika T.I: This company specialises in the integrated software solution called Amerika and provides technological support services. Moreover, the company also offers cloud computing, consultancy, hardware and licences. Most of the services are provided to INASSA Group companies, with a notable weighting for those provided to Triple A de Barranquilla (approximately 45%), which were, however, suspended in May until the lawsuit filed by Canal Extensia for the fraudulent use of management software by Triple A is resolved. Moreover, services to other companies in 2020 accounted for approximately 32% of the total.

The company has continued to implement its expansion and customer diversification strategy to the extent possible. As a result, despite the pandemic, in 2020 it managed to secure new customers like Seapal (Mexico) and Cojardín.

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. The branch's activity in 2020 was mainly to manage collection of the sums owed by this customer. Payments amounting to 1.4 million euros were received and work is ongoing to establish a schedule for payment of the remaining amounts owed to the company.

### Structure of the workforce

| Business indicators: Workforce | 2020 | 2019 | 2018 |
|---|---|---|---|
| Canal de Isabel II | 2,924 | 2,879 | 2,808 |
| Emissão | 93 | 1,043 | 2,938 |
| Others | 1,114 | 1,435 | 1,515 |
| **TOTAL** | **4,131** | **5,396** | **7,300** |

**Including workforce data for ASAA and the Alcalá joint venture*

At close of 2020, the headcount at the Parent Company constituted 70.8% of the total staff of the Canal Group. The staff of Emissão represented just 3.2%.

As the table above shows, the total number of Group employees significantly decreased in 2020 (23%). Completion of the main services contracts provided to the subsidiary of the Emissão Group in the last two years (in 2019 with CEDAE and in 2020 with Embasa) entailed an adaptation of the structure of its workforce. The subsidiary's activity is labour-intensive and, as a consequence, when its activity decreased, Emissão's staff went from 2,938 in December 2018 to 93 at the end of 2020 (of whom only 12 were active, the remaining employees being workers on leave who continue to receive social security benefits and whose contracts, according to Brazilian legislation, cannot be terminated).

Moreover, until the merger by absorption of Hispanagua by Canal, the services provided by Hispanagua whose commissions gradually expire will temporarily be performed by the public company Tragsa. Hispanagua employees associated with the various commissions will be temporarily subrogated to said company, with their employment rights guaranteed. At the end of 2020, 114 employees had been subrogated to Tragsa, and the subsidiary's headcount therefore decreased.

Lastly, since the main contract of INASSA's branch in Panama concluded in December 2019, there are no longer any employees contracted to the branch, thereby reducing INASSA's headcount by 122.

Likewise, in the last few years, regulatory restrictions have limited the capacity for open-ended contracts at companies located in Spain, significantly increasing staff turnover.


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Aware of the major importance of reducing the percentage of temporary contracts in Canal's 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 2020, Canal has implemented 57 selection processes, through which it has recruited 630 people, reducing the proportion of temporary contracts to 27% at the end of 2020, a reduction that will continue in 2021 as the approved recruitment processes are completed.

## 4. Economic figures

| Turnover (millions of euros) | 2020 | 2019 | 2018 |
|---|---|---|---|
| Ordinary income | 916.73 | 984.68 | 1,076.45 |
| EBITDA | 311.39 | 355.82 | 384.87 |
| Depreciation | (130.71) | (128.77) | (128.50) |
| Operating Profit/(Loss) | 196.52 | 237.42 | 258.39 |
| Financial Profit/(Loss) | (30.61) | (17.64) | (44.53) |
| Consolidated net profit/(loss) | 168.42 | 226.70 | 201.76 |

| Other financial indicators | 2020 | 2019 | 2018 |
|---|---|---|---|
| EBITDA/Turnover | 33.97 % | 36.14 % | 35.75 % |
| Average collection period Canal de Isabel II (days) | 50.48 | 49.28 | 52.65 |
| Average term of payment Canal de Isabel II (days) | 29.19 | 33.88 | 39.52 |

The Group ceased consolidating Triple A de Barranquilla in 2018 when it lost control of the subsidiary. 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 statements for 2019 and 2020 do 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.

Moreover, the euro has, on average, appreciated against the foreign currencies in which the Group operates as compared to 2019, with the exception of the US dollar, against which it remained at similar levels. This reduced the value of the operating income and expenses from activities performed in foreign currencies. Due to the scant weighting of these activities in the Group, the impact on the consolidated figures was not material. However, the devaluation at year end of the Colombian peso (-13%) and the Brazilian real (-29%) against the euro had a significant impact on the Group's finances as this caused sizeable exchange losses. Companies belonging to the Canal Extensia Group have liabilities linked to borrowings from group companies in dollars and euros, leading to exchange losses when the currency in which the liabilities were denominated appreciated against their operating currency.



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

The **consolidated ordinary income** of the Group fell by 6.9% as a result of the decline in revenues of the Parent Company (-33.9 million euros) and the subsidiaries Canal Gestión Lanzarote (-6.2 million euros) and Emissão (-19.9 million euros), due mainly to the impact of Covid-19 on these companies' businesses.

Revenues contributed by the Parent Company, which account for 93.1% of consolidated revenues, fell as a result of the 2.77% reduction in water invoiced, mainly owing to the effect on consumption of the state of emergency in March as a result of the Covid-19 crisis and to the impact of weather conditions, since natural contributions increased by 40% with respect to 2019, having an inverse relationship with demand.

Restrictions on mobility and other limitations on economic activity as a result of the pandemic led to a decrease in commercial and industrial consumption of around 20% compared to 2019 and, although this was partially offset by the 2.88% increase in household consumption, it led to a reduction in invoicing in blocks 2 and 3, those with the highest unit price. Consequently, the decline in turnover exceeded that of consumption, since the average rate per $m^3$ invoiced fell.

Note that 2019 saw a record turnover in the Parent Company, since it was very dry until November, and rates remained frozen in 2020 for the fifth consecutive year. Furthermore, Canal applied temporary rebates to its rates to mitigate the impact of the pandemic, amounting to 4.5 million euros, with total rebates in the year reaching 8.2 million euros, compared with 3.5 million euros in 2019.

With regard to the reduction in revenues at Canal Gestión Lanzarote, the sharp downturn in tourism in Lanzarote as a result of the pandemic curbed both tourism and industrial activity on the island, reducing consumption from these customer categories by 30% year-on-year. Accordingly, the volume of water invoiced fell by 8.5% (having been partly offset by the increase in household consumption) and the average rate decreased as tourism and industrial consumption, with the highest rates, declined the most.

Lastly, in 2020, as a result of the aforementioned measures to mitigate the impact of Covid-19 in Brazil, Emissão was unable to renew the contracts that expired over the course of the year, and, as a result of its improper inclusion by CEDAE in the Registry of Ineligible and Suspended Companies (CEIS) – currently in the process of legal appeal – combined with the effects of the pandemic, it was unable to continue its commercial activity, with only residual business in the last few months of the year. This had a significant impact on the company's volume of business, and its turnover fell by 85% year-on-year, from 22.9 million euros in 2019 to 3.5 million euros in 2020.

**Operating expenses** included in EBITDA fell by 3.7%, a smaller reduction than that of turnover. Since the Group's main activity is integrated water cycle management, which requires the operation and maintenance of a large volume of infrastructure and facilities, its fixed cost structure has a higher weighting than that of other sectors and, accordingly, its operating costs are less sensitive to fluctuations in the volume of business. Moreover, note that the rates applied by Canal and Canal Gestión Lanzarote were not increased in 2020, whereas the companies did incur increased costs of their own and subcontracted personnel, as well as of adapting to the new and increasingly stringent regulations.

In addition, the Group has had to make an exceptional effort to guarantee provision of an essential service, namely integrated water cycle management, while at the same time ensuring its employees' safety during the pandemic. The various measures implemented by the Group companies, such as strengthening its own and subcontracted personnel, the acquisition of personal protective equipment, the launch of Proyecto Vigía (the Sentinel Project), enhanced cleaning and disinfection, and the reinforcement of IT systems, among others, resulted in an increase in operating expenses compared to previous years.

**EBITDA** fell by 67.9 million euros, down 12.5% on 2019, as a result of the decreased activity, with operating profitability going from 36.14% to 33.97% as income fell by a higher percentage than operating expenses.



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As for **finance income**, it fell significantly compared to the previous year due to the impact of translation differences outlined above, and was negative in both years. In 2020 the net impact was of -19.1 million euros (-5.5 million in 2019) as a result of the devaluation in the year-end exchange rate of the Brazilian real (-29%) and Colombian peso (-13%) against the euro.

At the end of 2020, the Group recognised income tax revenue of 2.4 million euros (6.8 million euros in 2019) following the recording of deductions and the capitalisation of tax loss carryforwards. The reduction compared to the previous year was a result of the lower deductions obtained in the Canary Islands for investment in fixed assets and the lower capitalisation of tax loss carryforwards in Canal Extensia Group in 2020.

As a result of the foregoing, **Consolidated net profit** decreased by 58.3 million euros compared to 2019.

**Segmented financial reporting**

| (in millions of euros) | 2020 | | | 2019 | | |
|---|---|---|---|---|---|---|
| | Canal de Isabel II | Spanish investees | Canal Extensia Group | Canal de Isabel II | Spanish investees | Canal Extensia Group |
| Ordinary income | 853.07 | 31.20 | 32.46 | 887.01 | 38.06 | 59.62 |
| EBITDA | 315.04 | (2.37) | (1.27) | 350.22 | 5.93 | (0.33) |
| Consolidated profit/(loss) | 199.71 | (10.00) | (21.29) | 241.31 | (1.36) | (13.25) |

Canal's contribution represents 93.1% of total consolidated revenue, 101.2% of EBITDA and 118.6% of profit. As mentioned previously, the Parent Company's contribution to consolidated profit fell with respect to 2019 as a result of the decline in water invoiced.

The contribution by Spanish investees to consolidated profit fell, and recorded a significant negative amount in 2020, mainly due to Covid-19's impact on the business in Lanzarote and the losses incurred by the subsidiary as a result.

Lastly, Canal Extensia Group contributed a loss to the bottom line, affected by the decline in its business in recent years and the loss of control of Triple A de Barranquilla in 2018. The contribution to the Extensia Group's consolidated result was more negative than in 2019 due to the net exchange losses totalling 19.1 million euros in 2020, with a 13.6 million euros higher negative variation than that recorded in 2019, as a result of the greater depreciation of the currencies in which the Group operates.

**Net financial debt**

| Turnover (millions of euros) | 2020 | 2019 | 2018 |
|---|---|---|---|
| Net financial debt (millions of euros) | 309.57 | 451.29 | 452.43 |
| Net financial debt/EBITDA | 0.99 | 1.27 | 1.18 |

In 2020, net financial debt continued to decrease in accordance with its programme of maturities, from 772 million euros in 2019 to 743 million euros at the end of 2020.


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Note that 99.7% of financial debt corresponds to the Parent Company (the same percentage as in 2019). In addition to the issuance of bonds amounting to 500 million euros, in 2020 the Parent Company's average borrowings from lenders by means of "mirror debt" with the public entity Canal de Isabel II amounted to 257 million euros, a decrease of more than 10% compared with the 286 million euros of 2019.

No new indebtedness was taken on by the Parent Company in 2020, but rather total debt was reduced in the amount due for repayment in the year, 29 million euros (same amount as in 2019).

With regard to cash, the 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, to reduce the average payment period of the Parent Company to provide liquidity to its suppliers, and to distribute dividends amounting to 109.1 million euros, ending the year with a balance of 433.3 million euros, bringing Net Financial Debt to 309.6 million euros.

## 5. Investments

The cash flow generated in operating activities were mainly used to address the volume of investment carried out in 2020, which amounts to 136.2 million euros in construction works and projects (compared with 136.1 million euros in 2019).

It is worth noting that this figure includes investments considered replacement investments, in accordance with international financial reporting standards (IFRS), and that pursuant to these standards they have not been capitalised by the Parent Company as a greater value of Fixed Assets. Canal executed investments of this kind amounting to 73.0 million euros (68.9 million euros in 2019). Conversely, said investment figure does not include accounting additions recognised in the Group's fixed assets associated with the application of IFRS 16, since they are linked to leases undertaken by the Group, and neither does it include the acquisition of $CO_2$ emission allowances.

### Canal de Isabel II

The Parent Company made investments amounting to 131.7 million euros, i.e., 96.7% of total investment at the Group (compared with 131.5 million in 2019). In the second quarter of 2020, as a result of the greater restrictions enacted, the pace of investment fell sharply compared to previous years. However, total investment volume in the year was broadly in line with that of 2019 thanks to the Company's efforts in the second half.

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 2020, projects of this kind amounted to 11.92 million euros (15.91 million euros in 2019).

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 storage capacity, the upgrading and modernisation of the sewerage treatment system and the expansion of recycling infrastructures.

The following table illustrates the volume of investment for each of the different categories:


*(cont.)*

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

| Investment by category Canal (millions of euros) | 2020 | 2019 | 2018 |
|---|---|---|---|
| Guarantee of supply | 55.56 | 52.20 | 47.85 |
| Quality assurance | 3.09 | 3.59 | 5.52 |
| Commitment to the environment | 37.19 | 40.17 | 45.80 |
| Technological innovation | 14.77 | 13.44 | 10.65 |
| Adaptation of Canal de Isabel II general services | 6.51 | 6.50 | 4.83 |
| Other investments | 14.53 | 15.60 | 13.38 |
| **TOTAL** | **131.66** | **131.50** | **128.03** |
| Works in distribution and sewerage networks owned by third parties | 11.92 | 15.91 | 18.55 |
| **TOTAL INVESTMENTS AND PROJECTS OWNED BY THIRD PARTIES** | **143.58** | **147.41** | **146.58** |

The total amount of investments made in the last three years was below the Parent Company's historical average. From 9 March 2018, it began to apply the new Public Procurement Act, which increased the average contract award periods, having a significant impact on the execution of investments. In addition, in 2020, Covid-19 had an impact on both project execution and the award of contracts, it not being possible to achieve the investment volume planned for the year. At last, 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 award periods are being tendered. In the next few years, the volume of projects and investments executed by the Parent Company is expected to increase significantly, with investment estimated to amount to around 1,750 million 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, and the "Plan Solar", which focuses primarily on creating new photovoltaic plants at the company's infrastructure to foster the generation and auto-consumption of clean energy.

Within the investments made in 2020 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.

**Completed investments**

Among the most significant investments recognised in December 2020, 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.

With regard to water intake, note the works to equip and electrify the G-6 well and its connection to the intake artery in the Guadarrama well field. And in treatment, note the measures at the DWTP in Colmenar Viejo to expand the plant's sludge treatment facilities.

To guarantee supply in the municipalities of Cadalso de los Vidrios, Cenicientos and Rozas de Puerto Real, the southwest corner reinforcement pipeline was connected to the Rozas de Puerto Real reservoir from the Pelayos de la Presa DWTP.



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

In supply, we highlight phase 1 of the strengthening of the eastern branch of the Torrelaguna system, the Torrelaguna-Valdeolmos-Alalpardo section, serving the Espartal del Vellón and Caraquiz de Uceda housing developments and the municipalities of Valdepiélagos, Talamanca and Valdetorres; as well as the connection of the Torrelaguna and Pinilla supply networks by means of a pipeline between the Valgallegos and La Silicona reservoirs to supply the municipalities of Valdemanco, Bustarviejo, Cabanillas de la Sierra and Navalafuente from the Pinilla network with water from the Torrelaguna network; and the installation of a power line to supply the new lift stations at La Silicona and its impulsion to the pumping station at Valdemanco and Bustarviejo.

With regard to treatment, in compliance with the National Treated Water Quality Plan and based on urban development growth forecasts, note the actions implemented primarily at the WWTPs in Aranjuez, Los Escoriales, Casaquemada and Soto Gutiérrez; a wet well plant for experimenting with efficient technologies at the Torrejón de Ardoz WWTP; as well as the new raw water pumping in the pre-treatment of the Velilla WWTP and an overflow treatment system at the Arroyo de la Vega WWTP.

In the network of sewerage collectors and outfall pipes in the Region of Madrid, note the measures implemented in section C2 of the Cuenca Baja system outfall pipe to prevent spillages and damage to the urban centre of Parla; the gallery collector in calle alcalde Sainz de Baranda in Madrid to eliminate the slope with the Abroñigales collector and prevent flooding; and the discharge pipe from the Ciempozuelos WWTP to the Soto Gutiérrez WWTP to guarantee pumping and prevent discharges into watercourses.

Among the actions with reclaimed water, for the treatment and reuse of water in the Madrid Region, work continued on the infrastructures for the irrigation of the main green areas in the municipality of Rivas Vaciamadrid and a tertiary filtration system to improve the operation and quality of the reclaimed water supplied to the Soto Gutiérrez WWTP.

With regard to energy generation, the Parent Company has installed various charging points for electric vehicles at its main facilities; and the gas turbines were installed at the Arroyo Quiñones WWTP, for harnessing biogas from the plant, energy generation and thermal use.

The Parent Company continues its efforts to automate the operation, enhance the security of IT systems and assemble equipment and infrastructure in the telecommunications network. Note the installation of new telecontrol points in various locations for data collection and transfer via GPRS and digital trunking and the continuation of phase 3 of process automation and integration of wastewater pumping stations (WWPS) in the telecontrol system.

**Current investments**

The most significant actions under execution at the end of 2020 are as follows: works to improve the supply to Redueña and Torrelaguna, works to improve the supply to Sevilla la Nueva, works to renovate the wash and automation pipeline for filters 33 to 64 in the DWTP in Colmenar Viejo, strengthening of the Eastern Branch of Torrelaguna Phase 2, wastewater impulsion in the municipality of Navacerrada, improvements at the WWTS and WWPS 4 in Boadilla del Monte and the works to expand the WWTS in Sevilla la Nueva.

**Lanzarote**

Meanwhile, Canal Gestión Lanzarote undertook to execute investments for expansions or improvements amounting to 54.5 million euros. At 2020 year end, a total of 57.7 million euros were invested, including 7.7 million euros of projects underway.


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In 2020, Canal Gestión Lanzarote made investments amounting to 3.7 million euros (3.5 million euros in 2019), 2.7% of the total group investments, most notably the completion of the new Zonzamas and Janubio pumping stations and the construction of the water system for the Lomo de Tesa reservoir to the Uga reservoir. Among the investments underway, of note is the renovation of the Lanzarote III reverse osmosis desalination plant and the implementation of the telecontrol in the integrated water cycle.

**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 that, in 2020, Amagua executed the expansion of the pipeline with Interagua to increase the supply capacity and it is expected to be completed in 2021. It also plans to build 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.

Canal's innovation efforts in the last few years are evidenced by its portfolio of 32 RDI projects launched, underway or completed over the course of 2020. Note "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. This plan will position the company at the cutting edge of our sector in Europe in capturing information on water consumption.

In 2020, considering the exceptional circumstances due to Covid-19 which have prevented significant progress on the deployment of new equipment, the remote meter reading focused on maintaining the existing equipment, replacing items of equipment that are found to be faulty or repairing them, enabling it to acquire know-how in an activity that will be essential in the future when the system is fully deployed.

Investment by Canal in 2020 amounted to 4.8 million euros, i.e., 0.54% of its turnover. All active RDI projects in 2020 are detailed in the section *"SDG 9 (industry, innovation and infrastructure): towards water management 4.0"* in the Group's "Statement of Non-Financial Information (SNFI) – Sustainability Report 2020".

The dissemination of know-how gleaned and the results of the main research projects led to the publication of the collection Cuadernos de I+D+i (RDI Notebooks), bringing the total number of notebooks published to 28. All the RDI notebooks published by Canal are available on its website.

Canal also established the Canal Innovation Community, comprising a large number of company employees interested in innovation. Any company employee interested in innovation can join this Community and have the opportunity to share, debate, inspire and collaborate to identify innovative initiatives and projects that arise within the Community.

Over the course of 2020, due to the circumstances caused by the coronavirus, Canal has played an active and notable role in the main international fora (in online format due to the pandemic) concerning water management, research, development and innovation in the sector and new technologies applied to the various phases of the integrated water cycle.



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These include Canal's presence at the AEAS micromeetings, European Benchmarking Co-operation 2020 workshops on best practices, the 1st International Congress on Water and Energy - ENERMADRID 2020, the Spanish section of the International Association for Hydro-Environment Engineering and Research (IAHR), the UN Energy and Water Platform, the webinar 'Economic Growth and Sustainable Development' organised by El Mundo and Expansión and the Water Forum hosted by ABC.

## 6. 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).

### - 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 Parent Company manages 13 reservoirs with a capacity for 943.5 hm3 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 Group periodically performs preventive maintenance and has taken out various insurance policies. These policies are reasonably sufficient to cover the net carrying amounts of the Parent Company'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 Canal Group pursues transparency and efficiency in all its actions. To achieve this, the Group has developed various Policies and adopted measures to enable it to comply, not only with the legal obligations binding upon it, but also with best practices in corporate governance and internal controls, thereby strengthening its commitment to ethics and integrity.

In 2020, the Board of Directors reviewed the Parent Company's Compliance Policy. Likewise, the main companies located in Spain worked on the diagnosis of their analyses of criminal risks, in order to


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implement the crime prevention model, under the coordination and benefiting from the experience acquired by Canal, in line with the commitment undertaken by the Audit Committee.

**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 2020 Annual Corporate Governance Report.

- **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 100% at the end of 2020, which reduces the Group's exposure to interest rate risk to zero.

**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 Company also has credit facilities for the sum of 132 million euros maturing in December 2021, from which no amount was drawn down at year end. At 2020 year-end, the Group's cash amounted to 433.3 million euros.


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At the close of 2020, Canal de Isabel II Group’s credit was rated by the agencies Fitch (BBB+, with stable outlook) and Moody’s (Baa1, with stable outlook), both agencies having changed the company’s rating in 2020. While Moody’s upgraded the rating by one notch (in the wake of the agreement to exclude Triple A de Barranquilla as a relevant company by the meeting of bondholders, the “default event” in relation to the bonds issued ceased), Fitch downgraded it by one notch (as a result of its decision to downgrade the rating of the Madrid Region, which is the company’s main shareholder) although it held the Group’s standalone rating unchanged at BBB+.

Furthermore, in the last few years, the Group’s Latin American companies have had trouble renewing their borrowings from financial institutions and have experienced some payment collection difficulties, generating a degree of liquidity stress in some of the Group's companies. As a result, subsidiaries’ debts with financial institutions have fallen and intergroup financing has been extended using cash flow surpluses of Canal Extensia, in an initial phase, and providing financing by Canal, through Canal Extensia, once exhausted.

**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 rates programmed in the services provided by the Parent Company since 2016, and so it will continue in 2021.

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 and AAA Dominicana, whose sales are concentrated among a small number of major customers. In these companies, 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 (Panama branch, where activity has been discontinued), 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**

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.


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Moreover, the aforementioned change in the indebtedness policy of Group companies, increasing the financing between companies belonging to the Group, led to an increase in exposure to foreign exchange risk. From the individual standpoint, the subsidiaries incur debt in a currency other than their operating currency, and from the Group standpoint its investment in foreign currency increased. However, the amount of the Group's assets denominated in foreign currency is not material.

### - 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 2020 the processes covered by this tool continued to be increased at Emissão and the process to implement ICFR at AAA Dominicana was completed.

Moreover, in 2021 it will be implemented in Amagua, ASAA and Amerika.

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 2020 Sustainability Report.

## 6. Non-financial information

The Non-Financial Information Statement (NFIS), in the 2020 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 2020 the Group has not acquired any own shares.

## 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.



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## 10. Annual Corporate Governance Report

This report includes, as an integral part thereof, the Annual Corporate Governance Report for 2020, as required by article 538 of the Spanish Companies Act.



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# Annual Corporate Governance Report

## Canal de Isabel II, S.A.

*The contents of this of the Management Report coincides with the Annual Corporate Governance Report filed, as a separate document, with the National Securities Market Commission (CNMV) for publication on the website www.cnmv.es*

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# 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 December 2020

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:

    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

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catchment of surface water subject to the correct licences 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.

 *(cont.)*

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

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.



*(cont.)*

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

# 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 presents in person or by proxy. The affirmative vote of more than fifty (50) percent of the share capital present in person or by proxy shall be sufficient to adopt the resolutions referred to in Article 194 of the Act. However, the affirmative vote of two thirds of the share capital present in person or by proxy at the Meeting of 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 twelve.

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.



*(cont.)*

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

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.

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.


*(cont.)*

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

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.

## 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 |
| Mr Jaime Sánchez Gallego | Board Member | Other external directors |
| Mr Jaime García-Legaz Ponce | Board Member | Independent |

| | |
|---|---|
| % of proprietary directors | - |
| % of independent directors | 75 % |
| % of other external members | 25 % |
| Number of meetings | 12 |

The director appointed, taking into account their knowledge and experience in accountancy, audit or both is Mr Antonio Javier Cordero Ferrero.

Members who left the Audit Committee in 2020:

| Name | Position | Category |
|---|---|---|
| Ms María Antonia Otero Quintas (until 20/10/2020) | Board Member | Independent |
| Mr. Pascual Fernández Martínez (from 19/05/2020 to 30/09/2020) | Board Member | During the period in which he served on this Committee he served as a proprietary director. |



*(cont.)*

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

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.

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:

   i. Financial reporting that must be made public periodically by the Company;

   ii. The creation or acquisition of shares in entities with a special purpose or domiciled in countries or territories considered to be tax havens; and



*(cont.)*

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

iii. 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 2020 the Audit Committee rigorously discharged the duties entrusted to it by law and the Articles of Association. In this connection, note the preliminary analysis prior to the authorisation for issue by the Board of Directors, of the Annual Financial Statements of the Company and its Group, the approval by the Board of Directors of the Company's Annual Corporate Governance Report for 2019, the Company's Budget for 2021, the Company's Risk Management Policy and the Data Protection Policy. The Annual Report on the Functioning of the Audit Committee for the year ended 31 December 2019 was also approved.

**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.



*(cont.)*

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

The composition is the following:

| Name | Position | Category |
|---|---|---|
| Mr Jacobo Martínez Pérez de Espinosa | Chairperson | Independent |
| Mr Antonio Javier Cordero Ferrero | Board Member | Independent |
| Ms Alicia Muñoz Lombardía | Board Member | Independent |
| Ms Lourdes Vega Fernández | Board Member | Independent |
| Mr Jaime Sánchez Gallego | Board Member | Other external directors |

| | |
|---|---|
| % of proprietary directors | - |
| % of independent directors | 80% |
| % of other external members | 20% |
| Number of meetings | 8 |

Members who left the Appointments and Remuneration Committee in 2020:

| Name | Position | Category |
|---|---|---|
| Ms María Antonia Otero Quintas (until 20/10/2020) | Chairperson | Independent |
| Mr. Pascual Fernández Martínez (from 19/05/2020 to 30/09/2020) | Board Member | During the period in which he served on this Committee he served as a proprietary director. |

The duties of the Appointments and Remuneration Committee as per the Articles of Association in force at 31 December 2020 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 for submission to the decision of the Annual General Meeting of Shareholders, and proposals for the re-election or separation at the Annual General Meeting.
e) To report on proposals for senior officer appointments and removals and the standard terms of their contracts.



*(cont.)*

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

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 2020 the Appointments and Remuneration Committee rigorously discharged the duties entrusted to it by law and the Articles of Association. In this regard, foremost is the preparation of the proposals for appointment of non-independent or proprietary directors, presentation to the Board of Directors of the proposed appointment of independent directors and the issuance of reports regarding the proposals for removal and appointment of directors of the Company. The Annual Report on the Functioning of the Appointments and Remuneration Committee for the year ended 31 December 2019 was 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 December 2019 |
| | Mr Pascual Fernández Martínez | | 18 December 2019 |
| | Mr Mariano González Sáez | | 18 December 2019 |
| | Mr Jaime Sánchez Gallego | | 29 June 2020 |
| | Mr Jacobo Martínez Pérez de Espinosa | | 09 September 2015 |
| | Mr Antonio Javier Cordero Ferrero | | 13 November 2017 |



*(cont.)*

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

| | | | |
|---|---|---|---|
| | Mr Francisco Muñoz García | | 18 December 2019 |
| | Mr Guillermo Hita Téllez | | 27 April 2016 |
| | Ms Alicia Muñoz Lombardía | | 25 November 2020 |
| | Ms Lourdes Vega Fernández | | 25 November 2020 |
| | Mr Jaime García-Legaz Ponce | | 25 November 2020 |

As outlined above, the Company's General Meeting of Shareholders established the number of Board members at twelve, but there are currently only eleven, so there is a vacant seat on the Board.

In 2020, other directors included:

- Mr Rafael Prieto Martín, who was appointed on 27 April 2016 and resigned on 20 November 2020.
- Ms María Antonia Otero Quintas, who was appointed on 13 November 2017 and resigned on 20 October 2020.

In addition, on 30 September 2020, the Company's Board of Directors agreed to remove Mr. Manuel Beltrán Pedreira from his post as Secretary (non-director) of the Board of Directors. On the same date, the Board agreed to appoint Ms. María del Carmen Tejera Gimeno as its Secretary (non-director).

## 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 2020, 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.



(cont.)

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

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 | 107.7 | - |
| Variable remuneration | 25.6 | - |
| Expenses | 73.2 | - |
| Other remunerations | - | - |
| TOTAL | 206.5 | - |

### Directors with executive functions

Fixed and variable remuneration corresponds to that of Mr. Rafael Prieto Martín, Executive Deputy Chairperson of Canal de Isabel II, S.A. until 30 September 2020, and that of Mr. Pascual Fernández Martínez, Chief Executive Officer of the company from that date onwards.

## 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 2020 | | Financial year 2019 | | Financial year 2018 | | Financial year 2017 | |
| | Number | % | Number | % | Number | % | Number | % |
| Board of Directors | 3 | 27.27% | 2 | 22.22% | 4 | 40.00% | 4 | 40.00% |
| Audit Committee | - | 0.00% | 1 | 33.33% | 1 | 33.33% | 1 | 33.33% |
| Appointments and Remuneration Committee | 2 | 40.00% | 1 | 33.33% | 2 | 50.00% | 1 | 25.00% |

## 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 ☒



*(cont.)*

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

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.

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 in the last year. Notwithstanding the foregoing, in 2020 the presence of women diminished exceptionally in the Audit Committee as a result of the voluntary resignation of one 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, in the section "Shareholders" and sub-section "Disclosures to the CNMV" there is a link to the website of the Spanish National Securities Market Commission, (URL: https://www.cnmv.es/portal/Otra-Informacion-Relevante/Consulta-OIR.aspx, which contains "Relevant Information" (regulatory disclosures) pertaining to Canal de Isabel II Gestión, S.A. Moreover, the Extraordinary General Meeting of Shareholders of 23 November 2018 approved the aforementioned Corporate Website, http://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.



*(cont.)*

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

In accordance with the definition of "related party" provided for in the Ministry of Economy and Finance Order EHA/3050/2004, of 15 September 2004, Canal de Isabel II (Public Entity) and Madrid City Council have been deemed related parties with stakes of 82.40% and 10.00%, respectively.

The relationship between the Company and the Public Entity is established under the Contract-Programme, which describes in detail the reciprocal undertakings and consideration during the term thereof, quantifying and specifying the services to be rendered by the Company and guaranteeing the sufficiency and balance of the financial resources assigned to managing the water supply.

Details of transactions with the Public Entity in 2020 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 | 4,131 |
| Contract-Programme | Distributed dividends | 89,909 |
| Contract-Programme | Amortisation of debts – mirror debt- | 29,048 |
| Contract-Programme | Financial debt expenses -mirror debt- and others | 5,518 |
| Contract-Programme | Tax obligations - VAT Self-supply Theatre assignment - | 774 |
| Contract-Programme | Other provisions of services | 194 |

(1) Sums accrued in 2020

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 2020 are as follows:

| Nature of the relationship | Type of transaction | Sums excluding VAT (thousands of euros) (1) |
|---|---|---|
| Contract | Service provision - comprehensive water cycle - | 19,416 |
| Tax | Municipal taxes | 10,310 |
| Collective Bargaining Agreement | Discharge fees | 4,226 |
| Company dividends | Distribution dividends | 10,911 |

(1) Sums accrued in 2020



*(cont.)*

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

Each year the Company draws up a Transfer Pricing Report in the Canal de Isabel II Group with the aim of complying with obligations in terms of reporting and documentation regarding entities and related transactions established by the Corporate Income Tax Law and the relevant Regulations on Corporate Income Tax.

The amounts of the Company's transactions with Group companies, associates and joint ventures in 2020 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.** | **Canal Gestión Lanzarote, S.A.U.** | **GSS Venture. S.L.** | **Canal Extensia, S.A.U.** | **Ocio y Deporte S.L.U.** | **Joint Ventures** |
| **INCOME** | | | | | | | | | |
| Dividends | - | - | - | - | - | - | - | - | - |
| Materials sales | 3 | - | - | - | - | - | - | - | - |
| Service provision | - | - | - | 3 | - | - | - | 3 | - |
| Compensation for faults | - | - | - | 2 | - | - | - | - | - |
| Concession fee | - | 428 | - | - | - | - | - | 200 | - |
| Finance income | - | - | - | 23 | 2,803 | - | 1,033 | - | 429 |
| Other Operating Income | 194 | 519 | 130 | 589 | 677 | - | 24 | - | 551 |
| **EXPENSES** | | | | | | | | | |
| Purchase of water | - | - | - | - | - | - | - | - | (2) |
| Supplies | | | | - | | | | | |
| Energy | - | (1,438) | - | - | - | - | - | - | - |
| Telephone helpline | - | - | - | | | (3,645) | - | - | - |
| WWTP operations | - | - | - | (2,944) | - | - | - | - | - |
| Sales offices | - | - | - | - | - | (847) | - | - | - |
| Other operating works | - | - | (49) | (1,150) | - | - | - | - | - |
| Repair technical facilities | - | - | (3,926) | (1,051) | - | - | - | - | - |
| Technical assistance | (2,825) | - | - | (1,077) | - | - | - | - | - |
| Advertising | | | | | | | | - | |
| Other current operating expenses | (774) | - | - | (883) | | - | - | - | - |
| Finance expenses | (5,518) | | | | | | | | |
| | | | | | | | | | |
| **INVESTMENT** | **-** | **-** | **(362)** | **(3,175)** | **-** | **-** | **-** | **-** | **-** |



*(cont.)*

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

In 2020, 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** |
| Canal de Comunicaciones Unidas, S.A.U. | 43 | | |
| Hidráulica Santillana, S.A.U. | | 7 | Communications services |
| Hispanagua, S.A.U. | | 36 | Communications services |
| Canal Extensia. S.A.U. | 1,204 | | |
| INASSA | | 1,076 | Technical assistance |
| Amerika Tecnología y Servicios, S.A.S. | | 128 | Technical assistance |
| INASSA | 1,977 | | |
| AAA Dominicana, S.A. | | 404 | Technical assistance |
| Amagua, CEM | | 1,531 | Technical assistance |
| Amerika Tecnología y Servicios, S.A.S. | | 34 | Back office lease |
| Gestus Gestión & Servicios, S.A.S. | | 8 | Technical assistance |
| Amerika Tecnología y Servicios, S.A.S. | 562 | | |
| INASSA | | 37 | Software services |
| AAA Dominicana, S.A. | | 255 | Software services |
| Amagua, CEM | | 245 | Software services |
| Gestus Gestión & Servicios, S.A.S. | | 25 | Software services |
| Canal Extensia, S.A. | 3,387 | | |
| INASSA | | 2,135 | Interest on loans |
| Soluciones Andinas de Aguas, S.R.L. | | 1,252 | Interest on loans |
| INASSA | 1,051 | | |
| AAA Dominicana, S.A. | | 188 | Interest on loans |
| Soluciones Andinas del Agua, S.R.L. | | 642 | Interest on loans |
| Emissâo, S.A. | | 164 | Interest on loans |
| Gestus Gestión & Servicios, S.A.S. | | 57 | Interest on loans |
| Amerika Tecnología y Servicios, S.A.S. | 5 | | |
| INASSA | | 4 | |
| Gestus Gestión & Servicios, S.A.S. | | 1 | Interest on loans |
| AAA Dominicana, S.A. | 103 | | |
| INASSA | | 103 | Interest on loans |
| Soluciones Andinas del Agua, S.R.L. | 627 | | |
| Emissâo, S.A. | | 627 | Interest on loans |

With regard to related transactions with financing agreements:

### Intercompany loan:

### Canal Extensia, S.A.U. – INASSA

- Reunification of INASSA's existing borrowings in a single intercompany loan arrangement between Canal Extensia, S.A.U and INASSA, amounting to 37.4 million dollars was approved on 23 November 2018 by the Board of Directors of Canal de Isabel II, S.A. and by the Board of Directors of Canal Extensia, S.A.U. on 25 March 2019.

- On 6 February 2019, an additional loan contract was arranged between Canal Extensia, S.A.U. and INASSA, amounting to 2.3 million dollars to finance their cash requirements. Subsequently, on 3 May 2019, Canal Extensia, S.A.U. granted another loan to INASSA, in the



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amount of 3 million dollars, which was added to the rest of outstanding borrowings in a single loan for a total of 42.7 million dollars.

- On 25 November 2019, Canal Extensia granted INASSA a loan of up to 49.3 million US dollars in order to unify all the loans already granted (42.7 million dollars) plus the interest accrued on that date, amounting to 2.7 million dollars. This contract included a new facility to be drawn down in the outstanding debt amounting to 3.9 million dollars to be broken down as follows: 1.8 million dollars in 2019 and 2.1 million dollars in 2020.

- At 31 December 2020, INASSA had only drawn down 2.2 million dollars of the total of 3.9 million dollars, with 1.736 million dollars pending for 2021.

- As a prerequisite for granting this 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 2020), by means of the pledge of INASSA's payables to Sociedad Latinoamericana de Aguas, S.A. and of its shares.

- Accordingly, for the Parent Company to be able to provide INASSA with the approved amounts, on 6 February 2019 a loan agreement was arranged between Canal de Isabel II, S.A. and Canal Extensia, S.A.U. (which is a direct shareholder in INASSA) in the amount of 2 million euros.

- On 3 May 2019, a first addendum to the aforementioned contract was signed whereby Canal de Isabel II, S.A. grants Canal Extensia, S.A.U. an additional 2.7 million euros, making a total of 4.7 million euros.

- On 25 November 2019 a second addendum was signed to combine the interest accrued hitherto in the amount of 133 thousand euros and in the same contract another loan was granted for 3.5 million euros, giving a total of 8.3 million euros.

- At 31 December 2020, Canal Extensia, S.A.U. had only drawn down 6.8 million euros, with 1.5 million euros pending for 2021, equivalent to 1.736 million dollars (see above).

### Intercompany loan:

### Canal Extensia, S.A.U. – Soluciones Andinas del Agua, S.R.L. – Emissâo, S.A.

- On 30 January 2019, Canal Extensia, S.A.U. granted Soluciones Andinas de Aguas, S.R.L. a loan of 2.9 million euros to cover one-off liquidity requirements at its Brazilian subsidiary Emissão, S.A.

- On 3 May 2019, another addendum to the aforementioned loan contract was approved, increasing the loan amount by 2.9 million euros to give total borrowings of 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. This contract also granted another loan in the amount of 7.1 million euros, bringing total borrowings to 13.1 million euros.

- At 31 December 2020, Soluciones Andinas del Agua, S.R.L. had drawn down the entire facility.

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- To conduct this financing operation between Canal Extensia, S.A.U. and Soluciones Andinas del Agua, S.R.L. (which owns the shareholding in Emissâo), on 29 January 2019 a loan contract was arranged between Canal de Isabel II, S.A. and Canal Extensia, S.A.U. amounting to 2.9 million euros.

- On 3 May 2019, the first addendum to the aforementioned contract was signed whereby Canal de Isabel II, S.A. granted Canal Extensia, S.A.U. an additional 2.9 million euros, bringing the total amount to 5.8 million euros.

- On 25 November 2019 a second addendum was signed to combine the interest accrued hitherto, amounting to 173 thousand euros, and in the same contract another loan was granted for 7.1 million euros, giving a total of 13.1 million euros.

- At 31 December 2020, Canal Extensia, S.A.U. had drawn down the entire loan.

Loan from Canal Extensia, S.A.U. to Soluciones Andinas del Agua, S.R.L. to finance the acquisition of Emissâo, S.A.

- On 20 November 2013, Canal Extensia, S.A.U. granted a loan to Soluciones Andinas del Agua, S.R.L. in order to finance the acquisition of a 75% stake in the Brazilian company Emissâo, S.A. in the amount of 14.5 million dollars.

- On 22 November 2019 a new addendum was signed in relation to the aforementioned contract, extending the forbearance period to seven years, both principal and interest, so that the first and only loan payment for the shareholding in Emissâo will be paid in November 2021.

Loan Contract between Canal de Isabel II, S.A. and Canal Extensia, S.A.U.

- At meetings of the Board of Directors of Canal de Isabel II, S.A. on 23 November 2018 and of the Board of Directors of Canal Extensia, S.A.U. on 25 March 2019, an intercompany loan operation was approved between Canal de Isabel II, S.A. and Canal Extensia, S.A.U. amounting to 4 million US dollars to meet the working capital requirements of the latter company.

- At 31 December 2020, a total of 2.5 million euros had been drawn down, with another 1.5 million euros pending drawing down.

Related-party transactions with guarantees at 31 December 2020 in which INASSA is the guarantor are as follows:

| | Company | In thousands of euros |
|---|---|---|
| **INASSA sureties and guarantees** | | |
| Banco de OCCIDENTE | ASAA (1) | 3 |
| Chubb Seguros Colombia | AMERIKA TI | 29 |

(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.



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Pursuant to the provisions of Article 229 of the revised Spanish Companies Act, the members of the Board of Directors and the Company's executives must notify the Board of Directors of the existence of any situation of conflict, whether direct or indirect, they may have with the Company's interests. The Board members and Company executives have informed the Board of Directors that neither they nor the related parties referred to in Article 231 have any conflict of interest or hold any direct or indirect stake in the capital of any company pursuing the same or an analogous or supplementary type of activity as that comprising the Company's 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 the Managing Director and the functional supervision of the Audit Committee. Its duties include Internal Audit, Risk Management and Internal Control, from the perspective of the COSO framework.

The Internal Audit, Risk Management and Control Sub-Directorate conducts its activities in line with the International Standards for the Professional Practice of Internal Auditing and has on its in-house audit staff a Certified Internal Auditor (CIA) and Certified in Control Self-Assessment (CCSA) Auditor who can attest to the excellence of the internal audit services provided, along with Certification in Risk Management Assurance (CRMA) and COSO ERM 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.

The Risk Management Policy of Canal de Isabel II was revised and approved by the Board of Directors on 30 January 2020 and all the Company's personnel are responsible for its correct application. Canal de Isabel II conducts its risk management based on the internationally recognised COSO (Committee of Sponsoring Organization of the Treadway Commission) methodology, adapted to suit the organisation's characteristics.

It is based on the following principles:

I. Understanding risk to mean any threat that an event, action or omission might prevent Canal de Isabel II, S.A. from achieving its objectives, successfully implementing its strategies or correctly conducting its operations, or lead to lost opportunities. Considering the different types of risks, financial and non-financial (including operating, technological, legal, social, environmental, political and reputational) facing the Company.

II. Setting in place the mechanisms for proper risk management, having regard to the identification, evaluation, response to, analysis of mitigation measures, monitoring and reporting of such risks.

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III. Promoting and implementing the strategy, culture, resources and processes comprising integrated risk management, to be reviewed periodically in order to adapt it to the situation of the organisation and its environment.

IV. Assigning responsibility for identifying, analysing, evaluating and supervising the Risk Management System to the various levels of the organisation.

V. Encouraging the creation and implementation of guidelines, limits and mechanisms that help to ensure that risk management is performed in line with the risk level accepted by the organisation.

VI. Fostering, encouraging and disseminating, by means of training and communication, the Risk Management System, guaranteeing awareness of this Policy, along with the documentation in which it is developed, and the information and internal control systems to be used to control and manage the aforementioned risks.

All of the Risk Management activity is managed via the SAP-GRC application, which adds value by offering management characteristics such as:

• Global overview

• Traceability

• Historical records

• Possibility of joint risk management by various areas

• Monitoring automatic controls and conducting tests

• Common repository

• Integrated workflow (notification and monitoring of events)

• Scorecards

• Information security

The application enables to gather information from other management applications used at the Company and applies them in line with risk and control measuring needs. Capitalising on the advantages yielded by the tool, Canal de Isabel II is currently making considerable progress in automating indicators and controls.

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 transversal breakdown of risks. This year, due to the health crisis, it has been necessary to include new risks with considerable additional detail. Accordingly, a Covid-19 Risk Map was drawn up, with specific risks and more frequent updating of its indicators.

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.

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## 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"*.
- Chief Executive Officer. The Executive Vice-Chairperson is responsible for the Risk Management Model and is in charge of promoting and implementing it.
- Global Risk Manager. The Internal Audit, Risk Management and Control Sub-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.
- 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 2020, 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.

In addition, there is a category of Strategy Risks 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 28 (20%)
- Operations 64 (47%)
- Senior Management 11 (8%)



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### 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 (in 2020, the Operational Risk Map and High-level Risk Maps were updated and three assessments made of the Covid-19 Risk Map).
- 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.
- 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.
- This year, due to the health crisis, it has been necessary to include new risks with considerable additional detail. Accordingly, a Covid-19 Risk Map was drawn up, with specific risks and more frequent updating of its indicators.
- 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, 97% have indicators, 73% have controls that periodically evaluate their design and effectiveness, and 11% have measures (occasional controls that do not need to be maintained over time).

### Internal Control

According to the international COSO framework, internal control is a process conducted by a company's management and the rest of its staff, designed in order to provide a reasonable degree of certainty in connection with the achievement of goals.

In this regard, and connected with Risk Management, Canal de Isabel II uses controls and/or measures to mitigate or maintain said risks, the design and effectiveness of which are assessed with the frequency established by the party responsible.

In 2020, 83 design tests and 177 effectiveness tests were performed.

During the year, Internal Control, along with the senior management involved and again in accordance with the COSO framework, identified transversal controls affecting the model's 3 goals and applicable to the entire company. This work resulted in 25 transversal controls, classified into



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a matrix by components and principles, affecting the entire organisation and in connection with which the design and effectiveness tests have been submitted through the SAP-GRC tool.

Likewise, areas with specific (non-transversal) controls in the COSO model have been encouraged to perform analyses within the specific goals.

# 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.

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.B 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 Managing Director and the rest of Directors and determines the organisational structure of the Company, on the basis of a report by the Appointments and Remuneration Committee.



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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.

### Code of conduct, approval body, level of distribution and instruction, principles and values included (indicating any specific mention of the recognition of transactions and the preparation of financial information), and the body responsible for analysing breaches and proposing corrective measures or penalties.

To provide guidance and foster ethical professional practices, having assumed the new legislation on integrity and transparency, senior management has prepared a mandatory Code of Conduct, applicable to all personnel of Canal de Isabel II, which states the Company's values and principles.

This Code of Conduct was approved by the Board of Directors at its meeting held on 8 January 2015 and, since February 2017, it has been published on the Canal website and intranet.

The Code of Conduct includes the principles and values applicable to the entire organisation, which include, most notably, the following:

- Mandatory for all Company personnel
- Commitment to an ethical and compliance culture. Conduct guidelines.
- Acceptance of and compliance with the Code of Conduct.
- Integrity and professional responsibility are the general criteria that govern the conduct of Canal de Isabel II.
- Several principles, which to a greater or lesser extent are related to the reliability of the financial information and compliance with applicable legislation, are established, in particular:
- The obligation to know and comply with the standards, as well as internal procedures and processes.
- Decisions must be traceable.
- Monitoring that all the information, including financial information, is prepared rigorously and is reliable.

The declaration of knowledge and acceptance of the Code of Conduct is 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. This will also be a prerequisite for bidders in smaller contracts.


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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 Persons created in 2015. In 2020 a general update was made to the Registry of Liable Persons, without prejudice to the specific updates when any of the persons included in the scope of said Regulation are incorporated or replaced.

- Whistle-blowing channel, which allows the Audit Committee to be informed of any financial and accounting irregularities, in addition to any breaches of the Code of Conduct and irregular activities within the organisation, stating whether this channel is confidential in nature.

As indicated in the Code of Conduct, Canal 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.

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 2020, the Ethics and Compliance Committee met on four occasions.

The Ethics and Compliance Committee is responsible for processing notifications and queries received via the ethical line, pursuant to the Response Protocol, and may use the help of the persons and units within the Company as required in order to resolve each communication. This Response Protocol establishes codes of conduct that must be followed in relation to responding to complaints, or concerns relating to irregular activities in view of the Code of Conduct.

In 2020, 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.



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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 2020 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 2020, personnel from the Finance and Business Development Department that take part in preparing and reviewing the financial information, received a total of 1,649.71 hours of training.

24 courses were held, which were taught by consulting agencies or external entities, and attended by 90 employees. Most of the courses were on taxation, accounting and code of conduct.

Furthermore, in November 2020, 7 participants from subsidiaries in Latin America were trained, in sessions imparted by the Finance and Business Development Department, on ICFR management and the accounting close and reporting process.

Also, at the Parent Company Canal de Isabel II, S.A., the Finance and Business Development Department provided a training session to one person in 2020.

## 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



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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.

In the first half of 2020 the persons responsible for controls (of the processes 09 "Payrolls" and 11 "Tenders") at Emissâo received training in ICFR. The first test was subsequently launched on key controls via SAP-GRC in those processes indicated for said company. Also, during the first half, preparation was completed of the documentation pertaining to significant ICFR processes at AAA Dominicana, more specifically processes 01 "Accounting close and reporting", 08 "Contracting, procurements and payments" and 11 "Tenders".

In the second half of 2020, process 01 "Accounting close" was documented at the companies Canal de Comunicaciones Unidas CCU and Ocio y Deporte, as well as the controls in place at each of them. Before the end of the year, the documentation was completed for the new ICFR process in Canal de Isabel II, S.A. concerning the preparation of the "Non-financial Information Statement (NFIS)".

In accordance with all of the foregoing, the commitment was fulfilled to extend this control system to the rest of group companies and to introduce new processes in accordance with the methodology described in the "ICFR Management and Evaluation Manual".

Lastly, note that, throughout 2020, the Finance and Business Development Department completed the monthly monitoring reports concerning frequent assessment of the functioning of internal control over financial reporting.

Whether a specific process is in place to define the consolidated group, taking into account among other aspects, the possible existence of complex corporate structures, special purpose entities, etc.

The Finance and Business Development Department of Canal 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.



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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.

## 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 2020 in each of the Canal Group companies with ICOFR implemented:



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

- At Canal's "Business", 494 tests have been launched (120 design tests and 374 effectiveness tests for 120 key controls). In addition, there are 108 non-key controls.
- At Canal's "IT", 169 tests have been launched (75 design tests and 94 effectiveness tests for 75 key controls).
- In Hispanagua, S.A.U, 347 tests have been launched (95 design tests and 252 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).
- At INASSA, 147 tests were launched (37 design tests and 110 effectiveness tests).
- At Emissâo, 150 tests were launched (34 design tests and 116 effectiveness tests).

| Company | No. of key controls | No. of design tests | No. of effectiveness tests |
|---|---|---|---|
| CANAL | 120 | 120 | 374 |
| IT | 75 | 75 | 94 |
| HISPANAGUA | 95 | 95 | 252 |
| LANZAROTE | 118 | 118 | 336 |
| HS | 13 | 13 | 34 |
| EMISSÃO | 34 | 34 | 116 |
| INASSA | 37 | 37 | 110 |
| | | | |
| **TOTAL** | **492** | **492** | **1,316** |

The total number of tests in 2020 at the aforementioned companies amounted to 1,749.

Moreover, at Canal's senior management there are 17 COSO controls specifically referring to ICFR.

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, since 2019, Canal, along with other leading companies, is taking part in the collaborative space for the internal control over financial reporting (ICOFR) system to pool experiences, know-how and best practices in connection with ICOFR.



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With regard to the implementation of the compliance department at Canal de Isabel II, S.A., and as part of the Policies developed by said department, at its meeting on 30 January 2020 the Board of Directors reviewed the organisation's Compliance Policy without introducing any changes by unanimous agreement of all Board members.

### 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
- Security in contracting and use of cloud services
- 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 CISO and has representatives from all of the areas of Canal involved in information security.

Furthermore, for raising awareness among employees and for these to put this into practice regarding cyber-security, security recommendations have been issued, together with information alerts during well-known campaign periods for distributing harmful programmes.

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 a campaign aimed at various user segments, and the subsequent preparation of information content and providing access to a self-assessment test based on the results obtained.

Note that the Operating Technology Security Master Plan (OTSMP) launched in 2019 was further developed in 2020, identifying the information security risks for the various types of facilities for



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integrated 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 various software manufacturers issue notifications that periodic software patches and security updates are available. Likewise, weaknesses reported by these manufacturers or official or non-official lists are taken into account.

In 2019, Canal de Isabel II S.A. was designated an essential operator in accordance with Royal Decree-Law 12/2018, of 7 September, concerning the security of information networks and systems, and reports security incidents to the Information Security Incident Response unit of the National Cryptological Centre (CCN-CERT), as indicated in the National Guide for the Notification and Management of Cyber-incidents. In 2019, the SAT-INET probe was installed to enable the CCN to monitor the systems exposed to Internet. The monitoring stipulated in the collaboration agreement signed in 2014 with INCIBE and CNPIC to manage cyber-incidents remains in operation.

In 2019, two cyber-incidents were reported to CCN-CERT which did not have an impact on the information systems of Canal de Isabel II S.A. and which were resolved using the Company's own resources.

Furthermore, Canal de Isabel II S.A. has outsourced an information security operating centre (SOC) which analyses all events from the integrated sources in order to detect and identify potential threats and launch 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 and remedial measures.

In 2020 the General Security Procedure PGS-0005 was established and approved, defining the complete cycle of integrated management of security-related cyber-incidents.

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, which was fully implemented in 2020.



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Over the course of 2020, a Technical Instruction (IT-0578) was developed and approved which defines the risks associated with contracting and using cloud services and the necessary security controls for their management.

In 2020, a standard for access to the information system was reviewed and established, defining the functions and responsibilities of the various parties intervening in the process and which is to include the periodic review process by the persons responsible for the business of the applications of users having access to them. The IDENTITY project was also launched to develop in the system for managing information requests a process for approval of the new access standard and the periodic certification of the users of the applications.

### Separation of functions

Prior authorisations and periodic reviews are used to monitor super users by means of ICFR TI.02.02.03. The implementation of the identity management project will also make these aspects more robust.

In 2020, a tool was developed which, on the basis of the analysis of transactions performed by users in the previous 12 months, will enable the business managers of the financial applications to review the suitability of the existing user profiles and/or redefine new profiles in accordance with the segregation of functions.

### Management of software and infrastructure modifications

Canal, as part of the project to introduce a Service Desk system, defined a procedure for the Management of Modifications, implemented in the tool, to minimise risks that could have a negative impact on the stability or integrity of the production environment.

### Project management

With the objective of ensuring the value and quality of project deliverables and correctly assigning Project priorities and coordination of all the projects, Canal has developed and introduced a Project management methodology and a project portfolio management methodology. Likewise, it was provided with a programme and project management office.

In light of the lack of capacity of the IT team to field all the requests to the information systems, a filter has been established to orient IT resources to projects of the systems necessary for compliance with Canal's Strategic Plan, those deriving from regulatory obligations and those requested by the Management Committee.

### Secure software development

Within the framework of the Information Security Management System, a General Security Procedure for the Secure Development of Applications (PGS-0002) was compiled, containing a full set of best practices in regard to secure coding and development, as well as a list of Technical Guides associated with said General Security Procedure as reference documentation, with the aim of it all being integrated into the development life cycle of software as a coding requirement and whose implementation will help mitigate the most common vulnerabilities of software in all the software development and implementation projects carried out by Canal. Said procedure



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contemplates performing security assessments in all phases of development and implementation, as well as the mandatory security audits and assessments in each of the phases. Likewise, a Continuous Integration system is in place based on standards to control the quality of software that is to be delivered to production.

For the systems, particularly those accessible from the Internet, security software audits are implemented as a preliminary step prior to their entry into service.

In 2020, implementation was consolidated of a continuous security audit system for the permanent assessment of the security of the corporate websites and applications posted online.

### 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.

### Operating continuity

Canal's Business Continuity Plan (BCP), dependent upon the Sub-Department of Information Systems, focuses mainly on the information systems underpinning the business processes. However, Canal's activity in connection with the integrated water cycle entails essential infrastructure and operations and the availability of the resource for providing the service that are not covered by the BCP. Accordingly, in 2020 it was determined that the BCP should be dependent upon the Operations Department with a view to including in it the necessary elements in connection with the water cycle and to evolve it into a more global plan for the continuity of Canal's activity and its main mission.

With regard to information systems, Canal configures its systems for high availability underpinned by the virtualisation of servers in network storage, thereby reducing unavailability due to equipment failures. Likewise, all the information is replicated between its two data processing centres and is protected at various storage levels on disks and tapes that are kept in a security bunker outsourced to a third party. Information system recovery is tested during the continuity tests.

## 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.



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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 3/2020, 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 repealing 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.

## 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



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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.

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 2020, 12 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 2020, the first meeting of the Audit Committee was held on 27 January 2020, and the last on 22 December 2020.

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



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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.

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 six times during 2020.

## 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.



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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 Board of Directors of Canal de Isabel II, S.A. in its meeting held on 29 March 2021.

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.

# PREPARATION OF THE 2020 CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

**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 2020.**

(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 29 March 2021 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 2020 and 31 December 2020.

Signed by:

| | |
|---|---|
| **Signed:** Ms Paloma Martín<br>**Chairperson of the Board of Directors** | |
| **Signed:** Mr Pascual Fernández Martínez<br>**Deputy Chairperson of the Board of Directors and Chief Executive Officer** | **Signed:** Mr Guillermo Hita Téllez<br>**Director** |
| **Signed:** Mr Mariano González Sáez<br>**Director** | **Signed:** Mr Jacobo Martínez Pérez de Espinosa<br>**Director** |
| **Signed:** Mr Antonio Javier Cordero Ferrero<br>**Director** | **Signed:** Mr Francisco Muñoz García<br>**Director** |
| **Signed:** Mr Jaime Sánchez Gallego<br>**Director** | **Signed:** Mr Jaime García-Legaz Ponce<br>**Director** |
| **Signed:** Ms Alicia Muñoz Lombardía<br>**Director** | **Signed:** Ms Lourdes Vega Fernández<br>**Director** |

(*Signed on original in Spanish*)



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