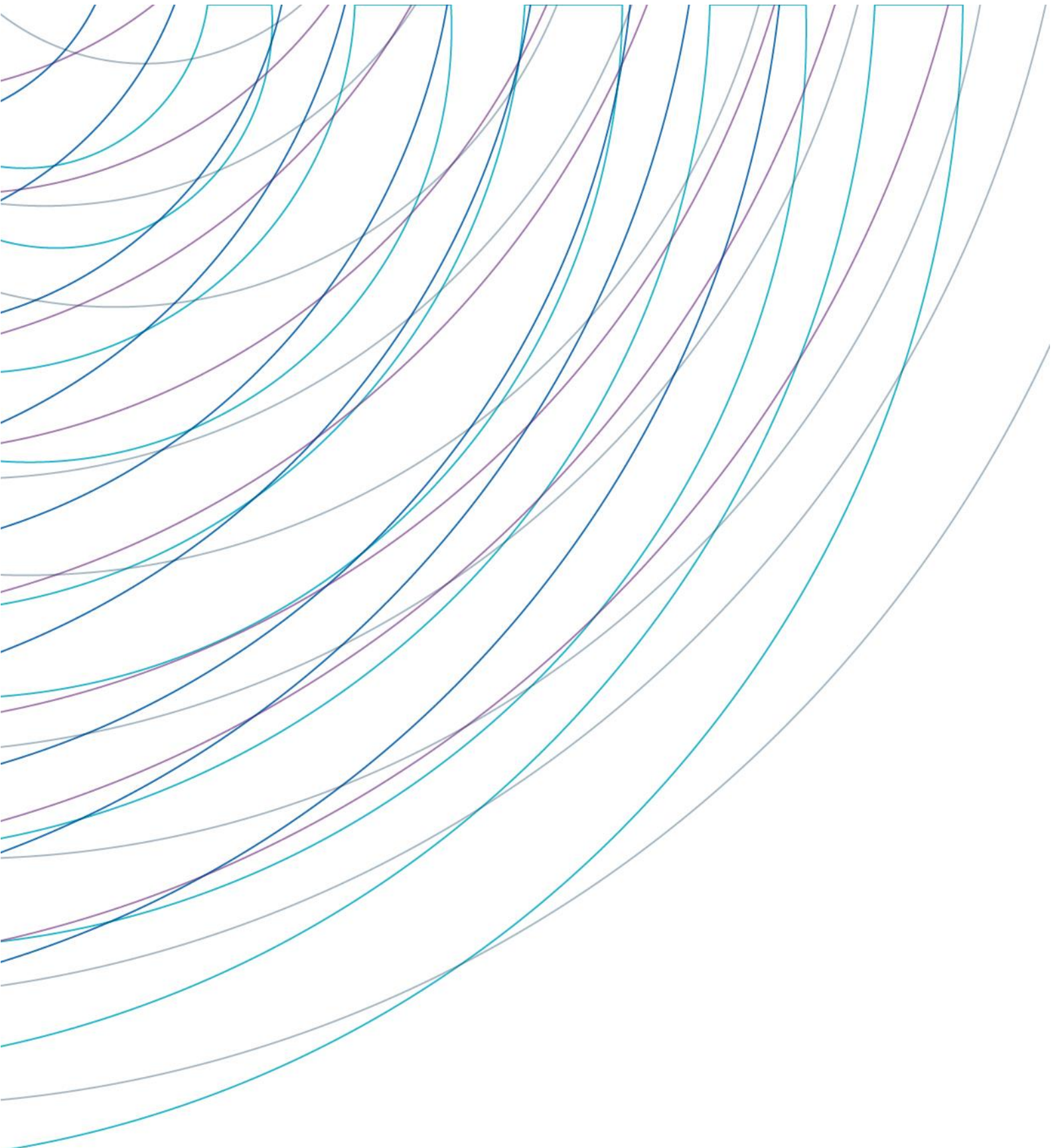




**Financial Statements and  
Directors' Report of Isabel II, S.A.**

2020





**Annual Financial Statements and Directors' Report  
31 December 2020**



## TABLE OF CONTENTS

	<u>Page</u>
<b>INDIVIDUAL FINANCIAL STATEMENTS</b>	
BALANCE SHEET AT 31 DECEMBER 2020 AND 2019.....	9
INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2020 AND 2019 .....	11
STATEMENTS OF CHANGES IN EQUITY FOR THE YEARS ENDED 31 DECEMBER 2020 AND 31 DECEMBER 2019 .....	12
STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED 31 DECEMBER 2020 AND 2019 .....	14
1. NATURE AND ACTIVITIES OF THE COMPANY AND COMPOSITION OF THE GROUP .....	19
2. PRESENTATION PRINCIPLES .....	21
3. NON-MONETARY CONTRIBUTION AND CONTRACT-PROGRAMME .....	23
4. DISTRIBUTION OF PROFIT/(LOSS) .....	27
5. STANDARDS OF ENTRY AND VALUATION .....	30
6. JOINT VENTURES .....	46
7. NON-CURRENT ASSETS HELD FOR SALE .....	47
8. INTANGIBLE FIXED ASSETS .....	47
9. PROPERTY, PLANT AND EQUIPMENT .....	61
10. INVESTMENT PROPERTY .....	62
11. FINANCIAL RISK MANAGEMENT POLICY .....	65
12. CLASSIFICATION OF FINANCIAL ASSETS BY CATEGORY AND INVESTMENTS IN EQUITY INSTRUMENTS OF GROUP COMPANIES AND ASSOCIATES .....	66
13. FINANCIAL INVESTMENTS AND TRADE RECEIVABLES .....	70
14. INVENTORIES .....	79
15. ASSET ACCRUALS.....	81
16. CASH AND CASH EQUIVALENTS .....	82
17. SHAREHOLDERS' EQUITY.....	82
18. SUBSIDIES, GIFTS AND BEQUESTS RECEIVED .....	83
19. PROVISIONS AND CONTINGENT LIABILITIES .....	86
20. FINANCIAL LIABILITIES BY CATEGORIES .....	91
21. FINANCIAL DEBTS AND TRADE DEBTORS .....	95
22. ACCRUALS OF LIABILITIES.....	102
23. TAX STATUS.....	103
24. ENVIRONMENTAL INFORMATION.....	109
25. RELATED PARTY BALANCES AND TRANSACTIONS.....	110
26. INCOME AND EXPENSES .....	116
27. INFORMATION ON EMPLOYEES .....	119
28. AUDIT FEES.....	121
29. INFORMATION ON AVERAGE TERM OF PAYMENT TO SUPPLIERS. THIRD ADDITIONAL PROVISION. <<RIGHT TO INFORMATION>> OF LAW 15/2010, OF 5 JULY. ....	121

30. EVENTS AFTER THE REPORTING DATE .....	122
APPENDIX I.- DETAILS OF JOINT VENTURES AT 31 DECEMBER 2020 AND 2019 .....	123
APPENDIX II (1). - INFORMATION RELATING TO GROUP COMPANIES AT 31 DECEMBER 2020 AND 2019 .....	124
APPENDIX II (2). - INFORMATION RELATING TO ASSOCIATES AT 31 DECEMBER 2020 AND 2019 .....	127
APPENDIX III.- DETAILS OF CHANGES IN RESERVES AND PROFIT/(LOSS) CORRESPONDING TO THE FINANCIAL YEARS ENDED 31 DECEMBER 2020 AND 2019.....	128
DIRECTORS' REPORT FOR 2020 .....	130
ANNUAL CORPORATE GOVERNANCE REPORT .....	154
<b>PREPARATION</b> .....	197



# 2020 Annual Financial Statements





**BALANCE SHEET AT 31 DECEMBER 2020 AND 2019**

BALANCE SHEET AT 31 DECEMBER 2020 AND 2019 (In thousands of euros) ASSETS	Note	2020	2019
<b>A) NON-CURRENT ASSET</b>		<b>4,470,962</b>	<b>4,530,398</b>
<b>I. Intangible fixed assets</b>	<b>8</b>	<b>4,033,599</b>	<b>4,098,467</b>
1. Concession arrangement, regulated assets		3,910,846	3,954,108
2. Concession agreement, financial capitalisation		59,765	62,901
3. Concession arrangements, regulated assets under construction		62,988	81,458
<b>II. Property, plant and equipment</b>	<b>9</b>	<b>7,212</b>	<b>7,248</b>
1. Land and construction works		7,212	7,248
<b>III. Investment property</b>	<b>10</b>	<b>9,594</b>	<b>9,859</b>
1. Lands		4,256	4,253
2. Construction works		5,338	5,606
<b>IV. Non-current investments in group companies and associates</b>	<b>12 and 13</b>	<b>282,591</b>	<b>273,312</b>
1. Equity instruments		134,489	137,303
2. Loans to companies		148,102	136,009
<b>V. Non-current financial investments</b>	<b>12 and 13</b>	<b>71,147</b>	<b>74,486</b>
1. Loans to third parties		61,108	63,974
2. Other financial assets		10,039	10,512
<b>VI. Deferred tax assets</b>	<b>23</b>	<b>72</b>	<b>90</b>
<b>VII. Non-current accruals</b>	<b>15</b>	<b>66,747</b>	<b>66,936</b>
<b>B) CURRENT ASSETS</b>		<b>633,057</b>	<b>513,296</b>
<b>I. Non-current assets held for sale</b>	<b>7</b>	<b>4,019</b>	<b>4,019</b>
1. Non-current assets held for sale		4,019	4,019
<b>II. Inventory</b>	<b>14</b>	<b>9,258</b>	<b>6,445</b>
1. Raw materials and other short-cycle supplies		7,695	6,445
2. Raw materials and other long-cycle supplies		1,563	-
<b>III. Trade and other receivables</b>	<b>12, 13 and 23</b>	<b>180,763</b>	<b>179,981</b>
1. Trade and service provision customers		132,356	131,236
2. Customers, group companies and associates		2,414	1,560
3. Sundry debtors		43,701	46,264
4. Other loans from Public Administrations	23	2,292	921
<b>IV. Short-term investments in group companies and associates</b>	<b>12 and 13</b>	<b>5,997</b>	<b>8,254</b>
1. Loans to companies		4,318	6,575
2. Other financial assets		1,679	1,679
<b>V. Short-term financial investments</b>	<b>12 and 13</b>	<b>7,953</b>	<b>8,036</b>
1. Loans to third parties		7,877	7,928
2. Other financial assets		76	108
<b>VI. Short-term accruals</b>	<b>15</b>	<b>4,236</b>	<b>4,278</b>
<b>VII. Cash and cash equivalents</b>	<b>16</b>	<b>420,831</b>	<b>302,283</b>
1. Cash		420,831	302,283
<b>TOTAL ASSETS (A+B)</b>		<b>5,104,019</b>	<b>5,043,694</b>

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

<b>BALANCE SHEET AT 31 DECEMBER 2020 AND 2019</b> (In thousands of euros)			
	Note	2020	2019
<b>NET EQUITY AND LIABILITIES</b>			
<b>A) NET EQUITY</b>		<b>3,538,136</b>	<b>3,449,031</b>
<b>A.1) Own funds</b>	<b>17</b>	<b>2,785,401</b>	<b>2,699,962</b>
<b>I. Share capital</b>		<b>1,074,032</b>	<b>1,074,032</b>
<b>II. Share premium</b>		<b>1,074,032</b>	<b>1,074,032</b>
<b>III. Reserves</b>		<b>538,234</b>	<b>443,680</b>
1. Legal reserve		173,524	149,333
2. Other reserves		364,710	294,347
<b>IV. Profit/loss for previous financial year</b>		-	-
<b>V. Profit/(loss) for the financial year</b>		<b>194,553</b>	<b>241,912</b>
<b>VI. (Interim dividend)</b>		<b>(95,450)</b>	<b>(133,694)</b>
<b>A.2) Subsidies, gifts and bequests received</b>	<b>18</b>	<b>752,735</b>	<b>749,069</b>
<b>B) NON-CURRENT LIABILITIES</b>		<b>1,226,348</b>	<b>1,243,243</b>
<b>I. Long-term provisions</b>	<b>19</b>	<b>417,974</b>	<b>404,861</b>
1. Provisions for infrastructure works		398,061	381,495
2. Other provisions		19,913	23,366
<b>II. Long-term debt</b>	<b>20 and 21</b>	<b>575,141</b>	<b>573,867</b>
1. Debentures and other marketable securities		499,157	498,955
2. Other financial liabilities		75,984	74,912
<b>III. Long-term debts with group companies and associates</b>	<b>20 and 21</b>	<b>211,667</b>	<b>240,714</b>
<b>IV. Deferred tax liabilities</b>	<b>23</b>	<b>1,887</b>	<b>1,877</b>
<b>V. Non-current accruals</b>	<b>22</b>	<b>19,679</b>	<b>21,924</b>
<b>C) CURRENT LIABILITIES</b>		<b>339,535</b>	<b>351,420</b>
<b>I. Short-term provisions</b>	<b>19</b>	<b>93,937</b>	<b>95,904</b>
1. Provisions for infrastructure works		88,039	89,993
2. Other provisions		5,898	5,911
<b>II. Short-term debt</b>	<b>20 and 21</b>	<b>85,539</b>	<b>91,003</b>
1. Debentures and other marketable securities		7,115	7,111
2. Other financial liabilities		78,424	83,892
<b>III. Short-term debts with group companies and associates</b>	<b>20 and 21</b>	<b>33,213</b>	<b>34,075</b>
<b>IV. Trade creditors and other accounts payable</b>	<b>20, 21 and 23</b>	<b>121,204</b>	<b>125,037</b>
1. Suppliers		4,675	5,601
2. Suppliers, group companies and associates		20,948	21,083
3. Sundry creditors		78,043	82,508
4. Personnel (remunerations payable)		12,303	10,914
5. Other payables to Public Administrations	23	5,235	4,931
<b>V. Short-term accruals</b>	<b>22</b>	<b>5,642</b>	<b>5,401</b>
<b>TOTAL, NET EQUITY AND LIABILITIES (A+B+C)</b>		<b>5,104,019</b>	<b>5,043,694</b>

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

**INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2020 AND 2019**

INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2020 AND 2019 (In thousands of euros)			
	Note	2020	2019
<b>A) CONTINUING OPERATIONS</b>			
<b>1. Net turnover</b>	26 (a)	853,076	887,013
a) Service provisions		853,076	887,013
<b>2. Work carried out by the company for its assets</b>		5,588	3,935
<b>3. Supplies</b>	26 (b)	(209,054)	(213,804)
a) Consumed raw materials and other consumables		(26,698)	(24,150)
b) Consumption of supplies for activity		(48,182)	(57,803)
c) Works carried out by other companies		(134,159)	(131,859)
d) Impairment of raw materials and other consumables	14	(15)	8
<b>4. Other operating income</b>		36,818	36,878
a) Casual income and other current operating income.	26 (f)	36,463	36,632
b) Operating subsidies included in the profit/(loss) of the financial year		355	246
<b>5. Personnel expenses</b>	26(d)	(149,084)	(141,056)
a) Wages, Salaries and similar payments		(111,388)	(105,356)
b) Social Security contributions		(37,293)	(35,315)
c) Provisions		(403)	(385)
<b>6. Other operating expenses</b>		(231,960)	(228,466)
a) External services		(88,931)	(82,620)
b) Taxes		(24,354)	(26,175)
c) Fees		(13,180)	(14,269)
d) Losses, impairment and variation in provisions for trade transactions	13(d)	(5,935)	(2,798)
e) Allocation to provisions for infrastructure replacement	19	(88,037)	(89,991)
f) Other current operating expenses		(11,523)	(12,613)
<b>7. Amortization of fixed assets</b>	8, 9 and 10	(117,472)	(114,944)
<b>8. Allocation of non-financial fixed assets subsidies and others</b>	18	18,926	16,642
<b>9. Excess of provisions</b>	19	5,612	1,930
<b>10. Impairment and profit/(loss) due to disposal of fixed assets</b>	8 and 26 (e)	(3,186)	(1,066)
a) Impairment and losses		(627)	2,356
b) Profit/(loss) due to disposals and others.		(2,559)	(3,422)
<b>A.1) OPERATING PROFIT/LOSS (1+2+3+4+5+6+7+8+9+10)</b>		209,264	247,062
<b>11. Finance income</b>		8,842	14,209
a) From shares in equity instruments		-	300
b) From marketable securities and other group companies and associates financial instruments	13(a)	3,859	5,982
c) From marketable securities and other third-party financial instruments		362	258
d) Other items	13 (b) and 15	4,621	7,669
<b>12. Finance expenses</b>		(20,080)	(19,759)
a) From debts with Group companies and associates	20 (a)	(5,518)	(6,357)
b) From debt with third parties	20 (a)	(12,095)	(10,552)
c) From adjustment of provisions	19	(2)	(2)
d) Other items	13 and 20	(2,465)	(2,848)
<b>13. Translation differences</b>		(1)	-
<b>14. Impairment and profit/(loss) due to disposal of financial instruments</b>	12 (b) and 13(b)	(2,942)	748
a) Impairment and losses		(2,942)	748
<b>A.2) FINANCIAL PROFIT/(LOSS) (11+12+13+14)</b>		(14,181)	(4,802)
<b>A.3) PROFIT/(LOSS) BEFORE TAXES (A.1 + A.2)</b>		195,083	242,260
<b>15. Tax on profit</b>	23	(530)	(348)
<b>A.4) PROFIT/(LOSS) OF THE FINANCIAL YEAR ARISING FROM CONTINUING OPERATIONS (A.3+14)</b>		194,553	241,912
<b>A.5) PROFIT/(LOSS) FOR FINANCIAL YEAR (A.4)</b>		194,553	241,912

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

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

A) STATEMENT OF RECOGNISED INCOME AND EXPENSE FOR THE YEARS ENDED 31 DECEMBER 2020 AND 31 DECEMBER 2019 (in thousands of euros)	Notes	2020	2019
<b>A) Profit/(loss) of the income statements</b>		<b>194,553</b>	<b>241,912</b>
<b>Income and expenses directly attributed to equity</b>	<b>18</b>		
I. Subsidies, gifts and bequests received.		22,601	27,771
II. Subsidies, gifts and bequests, other movements		-	19,701
III. Tax effect		(56)	(119)
<b>B) Total, income and expenses directly attributed to equity</b>		<b>22,545</b>	<b>47,353</b>
<b>Transfers to the income statement</b>	<b>18</b>		
I. Subsidies, gifts and bequests received		(18,926)	(16,642)
II. Tax effect		47	42
<b>C) Total, transfers to income statements</b>		<b>(18,879)</b>	<b>(16,600)</b>
<b>TOTAL RECOGNISED INCOME AND EXPENSES</b>		<b>198,219</b>	<b>272,665</b>

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

Financial Statements and Directors' Report of Canal de Isabel II, S.A.  
2020 Financial Statements

<b>B) STATEMENTS OF TOTAL CHANGES IN EQUITY FOR YEARS ENDED 31 DECEMBER 2020 AND 2019</b> (In thousands of euros)								
	Share capital	Share premium	Reserves	Profit/(loss) for previous financial years	Profit/(loss) for the financial year	Interim dividend	Subsidies, gifts and bequests received	TOTAL
<b>A) BALANCE AT 1 JANUARY 2019</b>	<b>1,074,032</b>	<b>1,074,032</b>	<b>268,483</b>	<b>471,857</b>	-	<b>(123,750)</b>	<b>718,316</b>	<b>3,482,970</b>
<b>I. Total recognised income and expenses</b>	-	-	-	-	241,912	-	30,753	<b>272,665</b>
<b>II. Transactions with shareholders or owners</b>	-	-	-	-	-	-	-	-
Distribution of profit (Note 4)	-	-	-	-	-	-	-	-
Reserves	-	-	175,197	(175,197)	-	-	-	-
Dividends	-	-	-	(172,910)	-	-	-	<b>(172,910)</b>
Other movements	-	-	-	(123,750)	-	123,750	-	-
<b>III. Other variations in net equity (Note 4)</b>	-	-	-	-	-	<b>(133,694)</b>	-	<b>(133,694)</b>
<b>B) BALANCE AT 31 December 2019</b>	<b>1,074,032</b>	<b>1,074,032</b>	<b>443,680</b>	-	<b>241,912</b>	<b>(133,694)</b>	<b>749,069</b>	<b>3,449,031</b>
<b>C) BALANCE AT 01 January 2020</b>	<b>1,074,032</b>	<b>1,074,032</b>	<b>443,680</b>	<b>241,912</b>	-	<b>(133,694)</b>	<b>749,069</b>	<b>3,449,031</b>
<b>I. Total recognised income and expenses.</b>	-	-	-	-	194,553	-	3,666	<b>198,219</b>
<b>II. Transactions with shareholders or owners</b>	-	-	-	-	-	-	-	-
Distribution of profit (Note 4)	-	-	-	-	-	-	-	-
Reserves	-	-	94,554	(94,554)	-	-	-	-
Dividends	-	-	-	(13,664)	-	-	-	<b>(13,664)</b>
Other movements	-	-	-	(133,694)	-	133,694	-	-
<b>III. Other variations in net equity (Note 4)</b>	-	-	-	-	-	<b>(95,450)</b>	-	<b>(95,450)</b>
<b>D) BALANCE AS OF 31 December 2020</b>	<b>1,074,032</b>	<b>1,074,032</b>	<b>538,234</b>	-	<b>194,553</b>	<b>(95,450)</b>	<b>752,735</b>	<b>3,538,136</b>

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

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED 31 DECEMBER 2020 AND 2019

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED 31 DECEMBER 2020 AND 2019 (In thousands of euros)			2020	2019
<b>A) CASH FLOWS FROM OPERATING ACTIVITIES</b>				
<b>1.</b>	<b>Profit/(loss) for financial year before taxes</b>		<b>195,083</b>	<b>242,260</b>
<b>2.</b>	<b>Profit/(loss) adjustments.</b>		<b>206,054</b>	<b>203,993</b>
a)	Amortization of fixed assets		117,472	114,944
b)	Impairment adjustments		9,519	(314)
c)	Variation in provisions		91,520	100,925
d)	Allocation of subsidies		(18,926)	(16,642)
e)	Gains/(losses) on disposals and derecognitions of fixed assets		2,559	3,422
f)	Capitalisation of finance income		3,136	1,696
g)	Finance income		(8,842)	(14,209)
h)	Finance expenses		16,944	18,063
i)	Other income and expenses		(7,328)	(3,892)
<b>3.</b>	<b>Changes in current capital.</b>		<b>(95,737)</b>	<b>(99,307)</b>
a)	Inventory		(2,828)	(797)
b)	Debtors and other receivables		(6,895)	(16,408)
c)	Other current assets		(171)	(25)
d)	Creditors and other payables		(5,695)	(7,178)
e)	Provisions		(80,376)	(74,517)
f)	Other current liabilities		13	(104)
g)	Other non-current assets and liabilities		215	(278)
<b>4.</b>	<b>Other cash flows from operating activities</b>		<b>(13,991)</b>	<b>(12,171)</b>
a)	Interest paid		(14,359)	(15,145)
b)	Dividends received		-	300
c)	Interest received		368	259
d)	Collections (payments) of tax on profit		-	2,415
<b>5.</b>	<b>Operating cash flows (1+2+3+4)</b>		<b>291,409</b>	<b>334,775</b>

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED 31 DECEMBER 2020 AND 2019 (In thousands of euros)		
	2020	2019
<b>B) INVESTMENT ACTIVITIES CASH FLOWS</b>	.	
<b>6. Investment payments</b>	<b>(80,252)</b>	<b>(114,573)</b>
a) Group companies and associates	(7,994)	(19,176)
b) Intangible fixed assets	(61,537)	(76,343)
c) Property, plant and equipment	-	.
d) Investment property	(4)	(15)
e) Other financial assets	(10,717)	(19,039)
<b>7. Proceeds from divestment</b>	<b>17,602</b>	<b>15,608</b>
a) Group companies and associates	2,010	14.
b) Intangible fixed assets	-	-
c) Property, plant and equipment	-	.
d) Investment property	73	2
e) Other financial assets	15,519	15,592
<b>8. Investment activities cash flows (6+7)</b>	<b>(62,650)</b>	<b>(98,965)</b>
<b>C) FINANCING ACTIVITIES CASH FLOWS</b>		
<b>9. Proceeds and payments for equity instruments</b>	<b>22,601</b>	<b>27,771</b>
a) Subsidies, gifts and bequests received.	22,601	27,771
b) Repayment subsidies, gifts and bequests	-	.
<b>10. Proceeds and payments for financial liability instruments.</b>	<b>(29,101)</b>	<b>(26,991)</b>
a) Issue	8,706	8,262
1. Debts with Group companies and associates	41	3
2. Other payables	8,665	8,259
b) Repayment and amortisation of	(37,807)	(35,253)
1. Debts with Group companies and associates	(29,048)	(29,048)
2. Other payables	(8,759)	(6,205)
<b>11. Proceeds from dividends and other financial instruments</b>	<b>(103,711)</b>	<b>(273,665)</b>
a) Dividends	(103,711)	(273,668)
<b>12. Financing activities cash flows (9+10+11)</b>	<b>(110,211)</b>	<b>(272,888)</b>
<b>D) NET INCREASE/DECREASE OF CASH OR CASH EQUIVALENTS (5+8+12)</b>	<b>118,548</b>	<b>(37,078)</b>
Cash or cash equivalents at beginning of the financial year	302,283	339,361
Cash or cash equivalents at close of the financial year	420,831	302,283

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





# Notes to the 2020 Financial Statements



## 1. NATURE AND ACTIVITIES OF THE COMPANY AND COMPOSITION OF THE GROUP

Canal de Isabel II, S.A. (hereinafter "the 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 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 Article 2 (Corporate Purpose) of its Articles of Association, the Company'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.

The Company's principal activity consists of the integral water cycle management throughout the Region of Madrid.

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 those specified in Article 2 of its Articles of Association.

The Company carries out over 80% of its activity in the exercise of the tasks assigned by the awarding authorities upon which it depends.

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

Pursuant to Article 4 of its Articles of Association, the Company began operating on 1 July 2012.

The Company participates in a joint venture along with other participants, which have been included in the Financial Statements using the criteria explained in Note 6. The information relating to temporary joint ventures is presented in Appendix I.

As described in Note 12 b) the Company holds interests in subsidiaries and associates. Consequently, in accordance with the legislation in force, the Company is the parent of a group of companies. The Company presents consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS-EU) to give a true and fair view of the financial position of the Group, the results of operations and changes in its equity and cash flows. Information on stakes in group companies and associates can be found in Appendix II.

On 19 May 2020 the Directors authorised for issue the consolidated financial statements of Canal de Isabel II, S.A. and its subsidiaries for the financial year ending 31 December 2019, which presented a consolidated profit of 226,703 thousand euros and a consolidated net equity of 2,628,742 thousand euros (201,763 thousand euros and 2,705,935 thousand euros in 2018, respectively).

The individual and consolidated annual financial statements of the Company were approved by shareholders at the Company's Ordinary General Meeting on 29 June 2020.

On 29 March 2021 the Directors authorised for issue the consolidated financial statements of Canal de Isabel II, S.A. and its subsidiaries for the financial year ending 31 December 2020, which present a consolidated profit of 168,419 thousand euros and consolidated net equity of 2,692,475 thousand euros (226,703 thousand euros and 2,628,742 thousand euros in 2019 respectively).

The individual and consolidated financial statements will be filed with the Commercial Registry of Madrid after approval by the Annual General Meeting of Shareholders.

The Company forms part of the Canal de Isabel II Group and its direct parent is the Public Entity Canal de Isabel II (see Note 17). The Public Entity's registered office is located at Calle Santa Engracia, 125, Madrid (Spain).

As described in Note 3, 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.

## 2. PRESENTATION PRINCIPLES

### a) True and fair view

The accompanying financial statements have been prepared on the basis of the accounting records of the Company (and its temporary joint ventures). The 2020 financial statements have been prepared in accordance with the legislation in force and the Standards established by the Spanish General Accounting Plan and the Ministry of Economy and Finance Order EHA/3362/2010 of 23 December 2010, which approved the Standards of adaptation of the Spanish General Accounting Plan for public infrastructure concessionaire companies, to give a true and fair view of the equity and financial position at 31 December 2020 and the results of operations, changes in net equity and cash flows for the year then ended.

The Directors consider that the Financial Statements for the year ended 31 December 2020, authorised for issue on 29 March 2021, will be approved without significant changes at the Annual General Meeting of Shareholders.

### b) Information comparison

The Financial Statements show, for the purposes of comparison, with each entry into the balance sheet, income statements, statement of changes in equity, the statement of cash flows and the notes to the financial statements, in addition to the figures for 2020, comparative figures for 2019, which formed part of the 2019 Financial Statements approved at the Annual General Meeting of Shareholders held on 29 June 2020.

### c) Operating currency and presentation currency

The financial statements are presented in euros, which is the Company's operating and presentation currency, rounded to the nearest thousand.

### d) Critical aspects of assessing and estimating uncertainty and relevant judgements in the application of accounting policies

#### (i) Relevant account estimates and hypotheses

The preparation of financial statements implies the application of relevant accounting estimates and stating conclusions, estimates and hypotheses on the process of applying the accounting policies of the Company. To this end, the aspects with a higher degree of judgement, complexity or where hypotheses and estimates are significant to the preparation of the financial statements are summarised below.

The Company 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 period (see Note 19 (iii)).

The Company tests investments in Group companies (see Note 12 (b)), investment property (see Note 10(c) and intangible assets (see note 8 (e) for potential impairment at least annually, irrespective of whether there is any indication that the assets may be impaired, to determine whether the carrying amount of these assets exceeds their recoverable value. Management and the Company must use

estimates to calculate the recoverable value, which is generally determined using cash flow discounting methods. Discounted cash flow calculations are based on the projections of the budgets approved by Management. The cash flows take into consideration past experience and represent the best estimate of future market performance. The key assumptions employed when determining fair value (less costs to sell, where applicable) and value in use include growth rates, the weighted average cost of capital and tax rates. Estimates, including the methodology applied, may have a significant impact on value and on value impairment losses.

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 Company's financial statements for each reporting period include an estimate of the water supplied but not yet billed at 31 December of each year (approximately one month's supply). Due to the meter-reading procedure, this supply is billed the following year. The estimate is based on the water use invoiced on each contract in the two preceding similar periods according to the estimated consumption method that is included in the Regulations for the Distribution Service of Waters of Canal Isabel II (see Notes 13 (d) and 26 (a)).

The Company is subject to regulatory and legal processes and inspections by government bodies in various jurisdictions. It recognises a provision for liabilities (see Note 19) if it is probable that an obligation will exist at year end that will give rise to an outflow of resources and this outflow can be measured reliably. Legal processes usually involve complex issues and are subject to substantial uncertainties. As a result, Management uses significant judgement when determining whether it is probable that the process will result in an outflow of resources embodying economic benefits and estimating the amount.

The Company has receivables from certain town and city councils for work carried out and work on infrastructures used in the water distribution services and sewerage system. These receivables are recognised at amortised cost considering recovery periods. These periods are estimated by Management based on past experience, representing the best estimate of the balance to be recovered in the future (see Note 13).

The Company 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 21 (b)).

#### (ii) Estimation Changes

Although estimates are calculated based on the best information available at 31 December 2020, future events may require changes to these estimates in subsequent years. The effect of modifications on the financial statements arising from adjustments to be applied during the following financial years shall be accounted prospectively.

#### e) Going concern basis

As a result of the Company's activities and the investments it has made, its working capital amounted to 293,522 thousand euros at 31 December 2020 (161,876 thousand euros at 31 December 2019).

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



### 3. NON-MONETARY CONTRIBUTION AND CONTRACT-PROGRAMME

#### a) 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 Company.

In accordance with Article 16. 2.3 of Law 3/2008 on Tax and Administration Measures, the Public Entity also transferred the ownership of all assets that do not form part of the 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.

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

Assets	In thousands of euros 2012
<b>A) Non-current assets</b>	<b>4,284,518</b>
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>B) Current assets</b>	<b>293,122</b>
I. Inventory	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
<b>Total, Assets (A+B)</b>	<b>4,577,640</b>

Net equity and liabilities	In thousands of euros 2012
<b>A) Net equity</b>	<b>2,809,044</b>
A.1) Own funds	2,148,064
I. Share capital	1,074,032
II. Share premium	1,074,032
A.2) Subsidies, gifts and bequests received	660,980
<b>B) Non-current liabilities</b>	<b>1,271,636</b>
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
<b>C) Current liabilities</b>	<b>496,960</b>
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
<b>Total, net equity and liabilities (A+B+C)</b>	<b>4,577,640</b>

Additional points: (i) Within 90 days from the date of the contribution, the difference between the values estimated for the assets and liabilities following the established valuation criteria (and stated in the valuation report) and the net worth of the assets and liabilities actually transferred on the date of the contribution and commencement of activities by the Company was adjusted by establishing a debit/credit between the Public Entity and the Company; (ii) similarly, given the complexity and diversity of the elements and relationships that make up this activity, the Company and the Public Entity adjusted the different advances, receipts or payments that could not be settled on the activity transfer date due to their nature, frequency, established payment terms or for any other reason; (iii) if any event that occurred prior to the incorporation of the Company leads to an agreement to release any public domain assets assigned to the Company and which, as a result, become part of the assets of the Public Entity, the latter 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
<b>A) Non-current assets</b>	<b>4,364,082</b>
I. Intangible fixed assets	4,074,343
II. Investment property	24,017
III. Non-current investments in group companies and associates	144,779
1. Equity instruments	142,936
2. Loans to companies	1,843
IV. Non-current financial investments	37,018
V. Non-current accruals	83,925
<b>B) Current assets</b>	<b>206,096</b>
I. Inventory	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
<b>TOTAL, ASSETS (A+B)</b>	<b>4,570,178</b>

Net equity and liabilities	Thousands of euros
<b>A) Net equity</b>	<b>2,820,614</b>
A.1) Own funds	2,148,064
I. Share capital	1,074,032
II. Share premium	1,074,032
A.2) Subsidies, gifts and bequests received	672,550
<b>B) Non-current liabilities</b>	<b>1,262,618</b>
I. Long-term provisions	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
<b>C) Current liabilities</b>	<b>486,946</b>
I. Short-term provisions	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
<b>TOTAL, EQUITY AND LIABILITIES (A+B+C)</b>	<b>4,570,178</b>

Own funds (Share capital and Share premium) contributed to the Company totalled a sum of 2,148,064 thousand euros (see Note 17).

## **b) Contract-Programme**

The Contract-Programme regulating the relationship between the Public Entity and the Company in running the comprehensive water service was approved by the Government Council 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 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 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 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 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 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 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 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.

## **4. DISTRIBUTION OF PROFIT/(LOSS)**

The distribution of the Company'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
<b>Base for distribution</b>	
Financial year profit	<b>241,912,006.46</b>
<b>Distribution:</b>	
Legal reserve	24,191,200.65
Voluntary reserve	70,363,657.79
Interim dividend	133,694,097.00
Complementary dividend	13,663,051.02
<b>TOTAL</b>	<b>241,912,006.46</b>

The Company's Board of Directors, 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.

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:

	In thousands of euros 2020
<b>Forecast of distributable profits for 2020</b>	
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
<b>Cash forecast for the period 1 June 2020 to 31 May 2021</b>	
Expected cash balance at 1 June 2020	333,705
Projected collections	1,024,484
Projected payments, including interim dividend	1,084,002
Cash balances projected at 31 May 2021	274,187

The Company's Board of Directors, 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:

	In thousands of euros 2020
<b>Forecast of distributable profits for 2020</b>	
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
<b>Cash forecast for the period 1 December 2020 to 1 December 2021</b>	
Expected cash balance at 1 December 2020	450,645
Projected collections	969,082
Projected payments, including interim dividend	959,529
Cash balances projected at 01 December 2021	460,198

In this regard, in meetings of the Board of Directors on 29 June and 22 December 2020, the Directors prepared 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 Company in writing of their wish to receive the payment of all or part of the amount to which they are entitled. The 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 Company had not received any communication from any shareholder requesting the payment of the corresponding amounts for the dividends, the 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 Company's 2020 profit to be submitted to the shareholders for approval at their Annual General Meeting is as follows:

	Euros
<b>Financial year profit</b>	<b>194,553,074.50</b>
<b>Distribution</b>	
Legal reserve	19,455,307.45
Voluntary reserve	65,625,502.73
Interim dividends	95,450,054.00
Complementary dividend	14,022,210.32
<b>TOTAL</b>	<b>194,553,074.50</b>



At 31 December, non-distributable reserves are as follows:

	In thousands of euros	
	2020	2019
<b>Non-distributable reserves</b>		
Legal reserve	173,524	149,333
<b>TOTAL</b>	<b>173,524</b>	<b>149,333</b>

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

## 5. STANDARDS OF ENTRY AND VALUATION

### a) Jointly controlled operations and assets

Joint ventures are those in which there is a statutory or contractual agreement to share the control over an economic activity, in such a way that strategic financial and operating decisions relating to the activity require the unanimous consent of the Company and the remaining venturers.

In jointly controlled operations, the Company recognises, in the financial statements, assets controlled and liabilities incurred in respect of jointly controlled operations, and the proportional part based on the percentage of the participation of the assets controlled jointly and the liabilities incurred jointly, and the part of income obtained from the sale of assets or provision of services and costs incurred in the joint venture. The statement of changes in equity and the statement of cash flows also include the proportional part corresponding to the Company by virtue of the agreements reached. Reciprocal transactions, balances, income, expenses and cash flows have been eliminated in proportion to the interest held by the Company in joint ventures. The Company has made the necessary valuation and timing harmonisation adjustments to incorporate its joint ventures in the financial statements.

The information relating to jointly controlled economic activities, which is a Temporary Joint Venture, is included in Appendix I.

### b) Capitalisation of finance expenses

Finance expenses relating to specific funding (directly attributable to acquisition or construction) are included by the Company in the cost of intangible fixed assets, property, plant and equipment, investment property and inventories that will not be available for use, sale or capable of operating for more than one year. To the extent that funds are borrowed for a specific purpose, the amount of finance expenses eligible for capitalisation is determined as the actual finance expenses incurred. Capitalised finance expenses are recognised in the income statements under "Capitalised finance expenses".

### c) Intangible fixed assets

Intangible fixed assets are measured at cost. Intangible fixed assets are reported on the balance sheet at cost value less any corresponding amortisation and accumulated impairment adjustments.

Expenditure on activities that contribute to increasing the value of the Company's business as a whole, such as trademarks and other similar items generated internally, as well as establishment costs, are recognised as expenses when incurred in the income statements.

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

(i) **Research and Development**

Expenditure on research and development is recognised as an expense when incurred in the income statements.

Where applicable, the Company capitalises research and development expenses incurred by specific projects for each activity that meets the following conditions:

- The cost is clearly established so that it can be distributed over time.
- An exact relationship can be established between the research project and the objectives set and met. The assessment of this requirement is carried out generically for each set of activities that are inter-related because they share a common goal.

(ii) **Concessions**

As a consequence of the Ministry of Economy and Finance Order EHA/3362/2010, the use of the Standards of Entry and Valuation described in section (e) of this note, "Assets under concessions" is required.

(iii) **Computer software**

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

(iv) **Subsequent expenses**

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

(v) **Useful life and amortisation rates**

Intangible fixed assets are amortised by distributing the depreciable amount systematically throughout its useful life.

Development expenses and computer software are amortised on a straight-line basis over periods of five and four years, respectively, 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 Company considers the residual value of the assets to be null unless:

- a) There is a commitment by a third party to purchase the asset at the end of its useful life.
- b) There is an active market for the intangible asset and, moreover:
  - i. The residual value with reference to that market may be established; and
  - ii. It is likely that this market will continue at the end of the useful life of said asset.

The Company 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.

(vi) **Impairment of fixed assets**

The Company 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".

**d) Property, plant and equipment**

(i) Initial recognition

The assets included under Property, plant and equipment are recorded at the acquisition price or production cost following the same principles as established when determining the inventory production cost.

Property, plant and equipment are reported on the balance sheet at the cost value less the sum of depreciation and accumulated impairment adjustments.

(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 Company 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.

The depreciation of Property, plant and equipment in 2020 and 2019 is determined by the application of the following criteria:

	Depreciation percentage	
	Minimum	Maximum
Construction works and civil works of activity	2.0 %	3.3 %

The Company 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 their 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.

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.

(iv) Impairment of assets

The Company measures and determines impairment adjustments to be recognised and reversed in connection with impairments in property, plant and equipment based on the criteria set forth in section h) "Impairment".

**e) Assets subject to concession**

The Company assesses the contractual and legal characteristics of concession arrangements to determine whether they fall within the scope of Ministry of Economy and Finance Order EHA/3362/2010 of 23 December 2010, which approved the Standards of adaptation of the Spanish General Accounting Plan for public infrastructure concessionaire companies.

For concession contracts covered by this legislation, services rendered are recognised using the accounting policies described in section (s). The Company's concession arrangements are operating contracts, as it has no construction contracts.

The Company accounts for the right of access to the infrastructure for the purposes of providing the operating service assigned by the grantor as an intangible fixed asset, in accordance with the valuation standard applicable to intangible fixed assets.

If the concession is remunerated, the right of use is recognised at the present value of the consideration paid or payable, without taking into account any contingent payments associated with the transaction. Consideration is deemed to exist and is measured at the fair value of the aforementioned right when the transfer of the infrastructure is included in the terms of a tender in which the concession holder undertakes to make an investment or deliver another type of consideration in exchange for the right to operate either only the pre-existing infrastructure or the aforementioned infrastructure together with the newly constructed infrastructure.

If the Company is granted the right of access to the infrastructure in order to render the operating service for no consideration, or for a consideration lower than the fair value of the right, the right of use is recognised using the criteria applicable to subsidies, gifts and bequests, as detailed in section (n).

The intangible asset is amortised on a straight-line basis over the concession period.

Finance expenses accrued during the construction or upgrade period are capitalised under intangible fixed assets. If the infrastructure is acquired from third parties, the finance expenses are capitalised using the criteria set out in section (b). In both cases the finance expenses are capitalised under "Capitalised finance expenses", forming part of the financial margin.

If the infrastructure comprises items that can be used separately and the date on which they will be ready for use is different for each one, the Company considers this circumstance and ceases to capitalise the portion of the finance expenses related to the intangible asset corresponding to the aforementioned infrastructure that is available for use.

If the remuneration is in the form of an intangible asset, the Company capitalises the finance expenses accrued when the infrastructure enters operation provided that:

- They can be identified separately and reliably measured.
- There is reasonable evidence and it is likely that the capitalised costs will be offset against future revenues.

The Company considers that there is reasonable evidence that the aforementioned costs will be recovered through the rates for future years provided that, in addition to being included in the Economic-Financial Plan, the following two conditions are met:

- The Company could obtain future revenues in an amount at least equal to the finance expenses capitalised through their inclusion as permitted costs for the purposes of determining the rates.
- There is evidence that future revenues will enable the recovery of the costs incurred previously.

The following amounts are determined for the purpose of calculating the finance expenses to be included under intangible assets, based on the indicators presented in the Economic-Financial Plan:

- Total projected revenues for the concession period and the revenues forecast for each year.
- Total finance expenses expected to be incurred during the period of the concession and that of each year.

Operating revenues as a percentage of total revenues are calculated for each year forecast. Said percentage is applied to the total of finance expenses foreseen for the concession period, in order to

determine the amount thereof to be included under each financial year as finance expenses. If the actual revenues generated during a year exceed forecast revenues, the aforementioned percentage is determined for that year based on the ratio of actual revenues to total forecast revenues, which generally requires an adjustment to the amount recognised for the prior year.

For each year, the positive difference between forecast finance expenses and the amount calculated as described in the previous paragraph is reflected under assets and is taken to the income statement as finance expenses for the year, for the resulting amount, from the year in which the aforementioned difference is negative.

If finance expenses incurred during a year differ from the balance forecast in the Economic-Financial Plan, the difference is treated as an increase or decrease in the finance expenses to be taken to profit and loss for the year.

The effects of any changes to forecast revenue are recognised without adjusting the borrowing costs already taken to the income statements in prior years, and applying the criteria specified in the preceding paragraphs for the residual concession period, taking into account that the capitalised amount not yet recognised in the income statements must form part of the total finance expenses forecast for the rest of the concession period.

Capitalised finance expenses are recognised in "Concession arrangements, financial capitalisation" under "Intangible assets" in the balance sheet.

The contractual obligations assumed by the Company 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 in section (q) of this note, to the extent that such activity does not generate revenue.

Maintenance works are recognised as an expense when incurred. Replacements, major repairs and any other work required to restore the infrastructure to its original state entail the systematic recognition of an allocation to the provision. However, if the obligation is similar to a decommissioning obligation it is recognised as such.

Work undertaken to improve or increase the capacity of assets should be considered as a new concession. Nonetheless, if in view of the terms of the arrangement the Company considers that these initiatives will not be offset by the possibility of obtaining higher revenues from the date on which they are carried out, a provision for dismantling or removal is recognised. This provision is equal to the best estimate of the present value of the disbursement required to settle the obligation associated with the aforementioned initiatives that will not be offset. The balancing entry is an increase in the acquisition cost of intangible asset.

In the event that the rights to use assets under a concession are transferred to third parties, this transaction is recognised using the criteria described in section (i) on Leases. When all the risks and rewards inherent to ownership of the asset are substantially transferred, the transaction is recognised as a finance lease. Assets acquired or constructed for subsequent sale in the ordinary course of business are recognised as inventories.

Assets under concession received as a non-monetary capital contribution are measured at cost on the date of contribution.

#### **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 Company's activity or for administrative purposes.

Investment property is measured at acquisition or production cost less the sum of depreciation and accumulated impairment adjustments.

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.

Investment property received as a non-monetary capital contribution is measured at cost on the date of contribution.

(i) **Depreciation**

Investment property 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 Company 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.

Investment property is depreciated on a straight-line basis applying the following depreciation rates:

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

The Company reviews the residual value, useful life and depreciation method at each financial year end. Amendments in initially established criteria are recognised as estimation changes.

(ii) **Subsequent expenses**

Following initial recognition of assets, only those costs incurred that mean an increase in their capacity, productivity or extension of their useful life are capitalised, and the carrying amount of the elements replaced shall be written off.

(iii) **Impairment of assets**

The Company measures and determines impairment adjustments to be recognised or reversed based on the criteria in section (h) "Impairment".

**g) Non-current assets held for sale and discontinued operations**

(i) **Non-current assets held for sale**

Under this heading, the Company recognises non-current assets or groups of items that are not subject to disposal, the carrying amount of which will essentially be recovered via a sales transaction instead of ongoing 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.

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 Company 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 Company records non-current assets which are no longer classified as held for sale or which are no longer part of the non-disposable group of items at the lesser of the carrying amount before classification less any amortisation or depreciation that would have been recognised if they had not been classified as such and the recoverable value at the reclassification date. Value adjustments arising from such reclassification are recognised in profit or loss of continuing operations.

#### **h) Value impairment of non-financial assets subject to amortisation or depreciation**

The Company tests non-financial assets subject to amortisation or depreciation for potential impairment at least annually, irrespective of whether there is any indication that the assets may be impaired, to determine whether the carrying amount of these assets exceeds their recoverable value. The recoverable value is the higher of the fair value less costs to sell and the value in use.

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

Impairment losses are recognised in the income statements.

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 to which the asset belongs.

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 value 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 Company 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 the impairment loss is recognised as income in the 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.

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 loss shall be directly recognized in "Losses from fixed assets" in the income statement.



**i) Leases**

(i) Lessor accounting

As mentioned in Notes 10 and 22, the Company has granted the right to use of certain assets through lease contracts.

Leases in which the Company 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.

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 are recognised as an expense over the lease term using the same criteria as those used for income recognition.

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

**j) Financial instruments**

(i) Classification and separation of financial instruments

Financial instruments are classified from the moment they are initially recognised as a financial asset, a financial liability or an equity instrument, pursuant to the financial terms of the agreement and the definitions of financial asset, a financial liability or equity instrument.

The Company classifies financial instruments under the different categories considering the characteristics and the intentions of the Company at the time of initial recognition.

(ii) Compensation principles

Financial assets and financial liabilities are only compensated if the Company has the enforceable right of compensating the recognised amounts and it intends to settle the amounts by means of the net balance or to realise the asset and write-off the liability simultaneously.

(iii) Loans and receivables

“Loans and receivables” include loans arising from trading operations and credits arising from non-trading operations with fixed or determinable collections, which are not listed in an active market, other than those classified in other categories of financial assets. These assets are initially recorded at their fair value, including any transaction costs incurred and they are subsequently value at the depreciated cost using the effective interest rate method.

However, those financial assets 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.

Receivables include non-trade balances receivable from certain town and city councils as a result of infrastructure work carried out for water distribution and sewerage services in these towns or cities. These receivables are collected through the bills issued to customers. The difference between the amount receivable for the work carried out and its amortised cost is recognised in the income statement as a prepayment over the estimated period of recovery.

(iv) [Investments in Group companies and associates](#)

Group companies shall be considered those over which the Cooperative directly or indirectly exercises control through subsidiaries, as provided for in Article 42 of the Spanish Commercial Code, or when companies are controlled in any way by one or more private individuals or legal entities acting jointly or under single management through agreements or by-laws.

Control is the power to govern the financial and operating policies of an entity or company so as to obtain benefits from its activities. In assessing control, potential voting rights held by the Company or other entities that are exercisable or convertible at the end of each reporting period are considered.

Associates are companies 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 a company, but is not control or joint control over those policies. The existence of potential voting rights that are exercisable or convertible at the end of each reporting period, including potential voting rights held by the Company or other entity, are considered when assessing whether an entity has significant influence.

Investments in Group companies and associates are initially recognised at cost, which is equivalent to the fair value of the consideration given, including transaction costs in the case of investments in associates, and are subsequently measured at cost net of any accumulated impairment.

Following the 21st Recognition and Valuation Standard of the Spanish General Accounting Plan, investments in Group companies and associates have been recognised at the amounts at which they appeared in the Public Entity's consolidated financial statements at the contribution date. The effect of applying these criteria, rather than using the Public Entity's individual financial statements, was a 37,502 thousand euros increase in assets and a 26,252 thousand euros increase in net equity in 2012, net of the tax effect.

(v) [Interest and dividends](#)

Interest is recognized using the effective interest rate method.

Dividends from investments in equity instruments are recognised when the Company is entitled to receive them. If the dividends are clearly derived from profits/losses generated prior to the acquisition date because amounts higher than the profits generated by the investee since acquisition have been distributed, the carrying amount of the investment is reduced.

(vi) [Disposal of Financial Assets](#)

Financial assets or a part thereof are written off from books when the right to receive cash flows related to them have expired or have been transferred and the Company has substantially transferred all risks and benefits arising from their ownership.

Transactions registering the full disposal of a financial asset, the obtained financial assets or financial liabilities, including liabilities corresponding to the incurred administration services, are registered at a fair value.

The full disposal of a financial asset involves recognition of profit/loss by the difference between the carrying amount and the sum of the compensation received, net any transaction expenses including assets obtained or liabilities assumed and any deferred profit or loss under revenue and expenses recognised in the net equity.

Transactions in which the Company substantially retains all risks and benefits inherent to ownership of a financial asset assigned are recorded in liability accounts for the compensation received. Transaction expenses are recognised as profit/(loss) using the effective interest rate method.

(vii) [Value impairment of financial assets.](#)

A financial asset or a group of financial assets is impaired and an impairment loss has occurred if there is objective evidence of the impairment as a result of one or more events occurred after the initial recognition of the asset and if said event or events causing the loss to have an impact on the future estimated cash flows of the asset or group of financial assets, which can be reliably estimated.

The Company has the policy of registering the appropriate impairment adjustments of loans and receivable accounts and debt instruments, when a reduction or delay on estimated future cash flows has occurred, which may be caused by the debtor's insolvency.

[Financial assets measured at amortised cost](#)

Regarding financial assets accounted for at amortised cost, the amount of the value impairment loss is the difference between the carrying amount of the financial asset and the current value of the estimated future cash flows, excluding any future credit losses not incurred, discounted at the real interest rate of the asset.

Impairment corrections and the reversal thereof when the amount of the impairment decreases for reasons relating to a subsequent event are recognised as an expense or income, respectively, in the income statement. Impairment reversals are limited to the carrying amount of the asset recognised on the date of reversal had no impairment been recorded.

[Investments in group companies, associates and jointly controlled entities.](#)

At least every year-end, the Company performs the necessary valuation adjustments whenever there is objective evidence that the carrying value of an investment is not recoverable.

The amount of the valuation adjustment will be the difference between its carrying amount and the recoverable amount, the latter being the higher of its fair value less costs to sell and the present value of the future cash flows from the investment, calculated either by estimating those expected to be received as a result of the distribution of dividends by the investee and the disposal or derecognition of the investment in the investee, or by estimating its share of the cash flows expected to be generated by the investee from its ordinary activities and from the disposal or derecognition of the investment.

Value impairment reversals are recognised in subsequent years to the extent there is an increase in the recoverable value limited to the carrying amount that the investment would have had if no value impairment had been recognised.

The recognition or reversal of an impairment loss is disclosed in the income statement unless it should be recognised in net equity.

(viii) **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 Company 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 of liabilities", which is adjusted based on the estimated average reimbursement period.

(ix) **Disposals and amendments of financial liabilities**

The Company 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.

**k) Inventory**

(i) **General**

Inventories are measured at their average acquisition cost. 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 consumable or saleable condition and other costs directly attributable to the acquisition, as well as finance expenses (see note 5 (b)) and indirect taxes not recoverable from the Spanish taxation authorities.

Discounts granted by suppliers are recognised at the time when it is likely that the conditions that establish their concession as a reduction of the cost of inventories that caused them are fulfilled and the surplus, where appropriate, as a reduction of the heading "Supplies" on the income statement.

Purchase returns are recognised as a reduction in the carrying amount of inventories returned.

The cost value of the inventories is subject to adjustments in those cases when its cost exceeds its net realisable value. This is understood to be their replacement cost.

The valuation correction previously recognised is reverted against results if the circumstances that caused the value reduction ceased existing or when there is clear evidence of an increase in the realisable net value as a result of a change in the economic circumstances. The reversion of the valuation correction is limited to the lower value of cost and the new realisable net value of inventories.

Adjustments and reversals of losses for impairment of value of inventories are recognised under the item "Impairment of raw materials and other consumables".

(ii) Emission allowances

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

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

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

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

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

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

The Company classifies and values emission allowances as inventories (Note 14(b)).

The Company recognises the sale of emission allowances applying the criteria indicated in section r) (Income arising from the sale of goods).

**l) Cash and cash equivalents**

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

The Company 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 Company's cash management are included as a component of cash and cash equivalents.

**m) Net equity**

The share capital is represented by ordinary shares. The cost of incorporating the Company has been recognised directly in net equity by reducing reserves (see Note 17).

**n) Subsidies, gifts and bequests received**

Subsidies, gifts and bequests received are recorded in recognised income and expense when, where applicable, they have been officially awarded and the conditions attached to them have been met or there is reasonable assurance that they will be received. The Company considers that the conditions of capital subsidies from European Funds have been met when these subsidies are actually received.

Subsidies received reflect the fair value attributed to certain assigned assets, which are taken to the income statement on a straight-line basis in proportion with the depreciation charge on these assets.

Subsidies also include the amounts received by the Company from new water utility customers for hook-up rights and pipeline adaptation and extension work. As per Decree 2922/1975 of 31 December, which enacted the Regulations for water services and distribution of Canal de Isabel II, any work carried out by the Company to be able to supply water is the Company's property.

Subsidies are taken to the income statement for the year under "Allocation of non-financial fixed assets subsidies and others", in proportion with the depreciation charge on the assets they are used to finance.

**o) Defined Contribution Plan**

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 Company 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 (d)).

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.

**p) Defined Contribution Plan and other long-term employee benefits**

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% at 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 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 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 "Asset accruals" (see Note 15) and the financial effect on updating the amortised cost in the heading of "Financial profit/(loss)".

**q) Provisions**

**(i) General criteria**

Provisions are recognised when the Company 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 on the balance sheet correspond to the best estimate of the expenditure required to settle the present obligation at the end of the reporting period, taking into account all risks and uncertainties surrounding the amount to be recognised as a provision and, 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 the provisions is included within the finance expense of the income statement. The tax effect and gains on the expected disposal of assets are not taken into account in measuring a provision.

In cases where the Company 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.

**r) Income arising from the sale of goods**

The Company recognises income from its ordinary activity when the transfer of control of the goods and services committed to the customer takes place. At that time, the Company will measure the income in the amount reflected by the consideration to which it expects to be entitled in exchange for said goods or services. Income arising from the sale of goods are recorded at the fair value of the consideration received or to be received in exchange for those goods. However, the Company 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 Company has rendered the corresponding service, irrespective of the date of collection.

**s) Service provision**

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. Income arising from services rendered is measured at the fair value of the consideration received or to be received. 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.

**t) Tax on profit**

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

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.

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

The cost accrued for the Corporate Income Tax of companies that file a consolidated tax return, is determined considering – besides the parameters to be taken into account for individual taxation above – the following parameters:

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

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

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



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

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

(i) [Recognition of deferred tax liabilities](#)

The Company 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 Company 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 Company 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 Company recognises the exchange of a deferred tax assets for government securities, when ownership thereof is acquired.

The Company 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 Corporate 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 Company 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 Company expects to recover the assets or settle the liabilities have been considered. For these purposes, the Company has considered the reversion deduction of temporary measures implemented by the thirty-seventh transitional provision of Law 27/2014, of 27 November, on Corporate Income Tax, as an adjustment of the tax rate applicable to the deductible temporary difference linked to non-deductibility of amortisations carried out in 2013 and 2014.

(iv) [Compensation and classification](#)

Deferred tax assets and liabilities are recognised on the balance sheet under non-current assets or liabilities, irrespective of the expected date of recovery or settlement.

The Company only offsets tax on profit assets or 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.

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

The Company classifies assets and liabilities in the balance sheet as current and non-current. For these purposes, current assets or liabilities are those meeting the following criteria:

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

#### v) Environment

The Company 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 income statement in the period in which they are incurred.

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

#### w) Transactions with related parties

Transactions between group companies and related parties, except those associated with mergers, spinoffs and non-monetary contributions, are recognised at the fair value of the consideration given or received. The difference between this value and the amount agreed is recorded in accordance with the underlying economic substance.

In mergers, spin-offs or non-monetary contributions, the items comprising the acquired business are measured at the amount at which they would be recognised in the consolidated financial statements of the Group or subgroup after the transaction.

## 6. JOINT VENTURES

Information on temporary joint ventures is presented in Appendix I.

Details of the most significant items in the balance sheet and income statement in 2020 and 2019 of the Aguas de Alcalá temporary joint venture, in which the Company holds a 50% stake, are as follows:

	In thousands of euros	
	2020	2019
Non-current assets	17,643	19,483
Current assets	5,171	4,408
Net equity	(1,728)	(2,041)
Current liabilities	(21,085)	(21,850)
Net turnover	14,076	14,586
Supplies	(5,273)	(5,183)
Personnel expenses	(2,408)	(2,492)
Other operating expenses	(2,459)	(2,618)
Depreciations	(1,478)	(1,456)
Finance expenses	(859)	(957)

## 7. 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 will be disposed 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.

Details of the assets held for sale are as follows:

	In thousands of euros	
	2020	2019
<b>Assets held for sale</b>		
Lands	3,376	3,376
Construction works	643	643
<b>Total assets</b>	<b>4,019</b>	<b>4,019</b>

## 8. INTANGIBLE FIXED ASSETS

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

Financial Statements and Directors' Report of Canal de Isabel II, S.A.  
2020 Financial Statements

					In thousands of euros
					2020
	Development	Concession arrangement, regulated assets	Concession arrangements, financial capitalisation	Concession arrangements, regulated assets under construction	TOTAL
<b>Cost</b>					
<b>Cost at 01 January 2020</b>	<b>14</b>	<b>6,745,110</b>	<b>62,901</b>	<b>81,458</b>	<b>6,889,483</b>
Additions	-	32,380	-	26,315	58,695
Disposals	-	(8,041)	-	-	(8,041)
Transfers	-	44,785	-	(44,785)	-
Transfer to the income statement	-	-	(3,136)	-	(3,136)
<b>Cost at 31 December 2020</b>	<b>14</b>	<b>6,814,234</b>	<b>59,765</b>	<b>62,988</b>	<b>6,937,001</b>
<b>Depreciation</b>					
Accumulated amortisation at 1 January 2020	(14)	(2,784,139)	-	-	(2,784,153)
Additions	-	(117,168)	-	-	(117,168)
Disposals	-	5,408	-	-	5,408
<b>Accumulated amortisation at 31 December 2020</b>	<b>(14)</b>	<b>(2,895,899)</b>	<b>-</b>	<b>-</b>	<b>(2,895,913)</b>
<b>Impairment</b>					
Accumulated impairment at 1 January 2020	-	(6,863)	-	-	(6,863)
Impairment reversals	-	(626)	-	-	(626)
<b>Accumulated impairment at 31 December 2020</b>	<b>-</b>	<b>(7,489)</b>	<b>-</b>	<b>-</b>	<b>(7,489)</b>
<b>NET CARRYING AMOUNT AT 31 December 2020</b>	<b>-</b>	<b>3,910,846</b>	<b>59,765</b>	<b>62,988</b>	<b>4,033,599</b>

Financial Statements and Directors' Report of Canal de Isabel II, S.A.  
2020 Financial Statements

In thousands of euros					
2019					
	Development	Concession arrangement, regulated assets	Concession arrangements, financial capitalisation	Concession arrangements, regulated assets under construction	TOTAL
<b>Cost</b>					
Cost at 01 January 2019	14	6,612,082	64,597	158,943	6,835,636
Additions	-	31,730	1,275	30,765	63,770
Disposals	-	(5,713)	-	(1,269)	(6,982)
Transfers	-	107,011	-	(106,981)	30
Transfer to the income statement	-	-	(2,971)	-	(2,971)
<b>Cost at 31 December 2019</b>	<b>14</b>	<b>6,745,110</b>	<b>62,901</b>	<b>81,458</b>	<b>6,889,483</b>
<b>Depreciation</b>					
Accumulated amortisation at 1 January 2019	(14)	(2,673,147)	-	.	(2,673,161)
Additions	-	(114,553)	-	.	(114,553)
Disposals	-	3,561	-	.	3,561
<b>Accumulated amortisation at 31 December 2019</b>	<b>(14)</b>	<b>(2,784,139)</b>	<b>-</b>	<b>.</b>	<b>(2,784,153)</b>
<b>Impairment</b>					
Accumulated impairment at 1 January 2019	-	(9,219)	-	.	(9,219)
Impairment losses	-	2,356	-	.	2,356
<b>Accumulated impairment at 31 December 2019</b>	<b>-</b>	<b>(6,863)</b>	<b>-</b>	<b>.</b>	<b>(6,863)</b>
<b>NET CARRYING AMOUNT AT 31 December 2019</b>	<b>-</b>	<b>3,954,108</b>	<b>62,901</b>	<b>81,458</b>	<b>4,098,467</b>

In 2020 the following are particularly noteworthy among the most significant additions to "Concession arrangement, regulated asset":

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, of note are the works to equip and electrify the G-6 well and its connection to the intake artery in the Guadarrama well field. In treatment, of note are 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, of note are 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 sewage collectors and outfall pipes in the Region of Madrid, of note are 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.

In 2019, the Company continued its efforts to automate the operation, enhance the security of IT systems and assemble equipment and infrastructure in the telecommunications network. Of note are 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.

In 2019, the following were particularly noteworthy among the most significant additions to "Concession arrangement, regulated asset":

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

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

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

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

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

In the network of sewerage collectors and 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.

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) Concession arrangements, regulated asset**

The most significant concession arrangements are the following:

							In thousands of euros
							2020
Concession arrangements, regulated assets	Use	Maturity date	Depreciation period	Cost	Accumulated amortisation /depreciation	Valuation adjustments	Net
Region of Madrid Network Infrastructures	Operating activities	2062	50	5,356,003	(2,313,140)	-	3,042,863
Sanitation Infrastructures of Madrid City Council	Operating activities	2036	31	985,765	(446,000)	-	539,765
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
Additional investments "Granting of rights to use Madrid City Council sanitation infrastructures"	Operating activities	2036	31	60,191	(18,490)	-	41,701
Concession Cáceres City Council	Operating activities	2039	24	39,259	(8,703)	(7,489)	23,067
Investments for the extension and upgrade of Alcalá de Henares concession	Operating activities	2029	25	18,662	(11,517)	-	7,145
Granting of Use of Municipal Land in Guadarrama	Operating activities	2039	30	10,752	(4,271)	-	6,481
<b>TOTAL</b>				<b>6,867,889</b>	<b>(2,891,197)</b>	<b>(7,489)</b>	<b>3,969,203</b>

							In thousands of euros
							2019
Concession arrangements, regulated assets	Use	Date Maturity	Depreciation period	Cost	Accumulated amortisation/ depreciation	Valuation adjustments	Net
Region of Madrid Network Infrastructures	Operating activities	2062	50	5,292,256	(2,245,509)	-	3,046,747
Sanitation Infrastructures of Madrid City Council	Operating activities	2036	31	988,901	(416,000)	-	572,901
Recycling Infrastructures of Madrid City Council	Operating activities	2061	50	191,986	(32,305)	-	159,681
Infrastructures of the municipal sewerage networks	Operating activities	2062	50	132,834	(23,629)	-	109,205
Technical Facilities Aguas de las Cuencas de España	Operating activities	2039	30	69,781	(23,951)	-	45,830
Additional investments "Granting of rights to use Madrid City Council sanitation infrastructures"	Operating activities	2036	31	57,644	(16,153)	-	41,491
Concession Cáceres City Council	Operating activities	2039	24	39,259	(7,406)	(6,863)	24,990
Investments for the extension and upgrade of Alcalá de Henares concession	Operating activities	2029	25	18,488	(10,679)	-	7,809
Granting of Use of Municipal Land in Guadarrama	Operating activities	2039	30	10,752	(3,912)	-	6,840
<b>TOTAL</b>				<b>6,801,901</b>	<b>(2,779,544)</b>	<b>(6,863)</b>	<b>4,015,494</b>



Details of the concession arrangements and the most significant terms and conditions thereof 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 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 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 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 Company's use and management of energy resources currently operated by the Public Entity, as well as any such activities that may be carried out in the future. Moreover, the Company is entitled to provide any other services entrusted to the Public Entity by the Regional Government of Madrid, particularly Closed User Group mobile communications services. All of these infrastructures are public property as they are used for public services provided by the 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.

On expiry of the Contract-Programme, the Company is required to return the assets and rights that make up the 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.

Once this period has elapsed and the Contract-Programme expires, the Public Entity is required to compensate the 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.

In 2020 the Company 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 19(iii)).

The consideration received by the Company 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 Company charged 14,001 thousand euros to the provision for replacements (16,379 thousand euros in 2019) (see Note 19 (iii)).

Once this Agreement has expired, the rights to use the sewerage and treatment infrastructures will revert from the Company to the 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 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 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.

- 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 the 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 Company 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 Company, 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 Company 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 Company any amortisation/depreciation pending on the new investments made. By way of consideration, the 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 period ended 31 December 2020 the

Company charged 1,076 thousand euros to the provision for replacements (652 thousand euros in 2019)) (see Note 19 (iii)).

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 Region of Madrid Network and are assigned to Canal. 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 Company.

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

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 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 Company any amortisation/depreciation pending on the new investments made.

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 "Suppliers of fixed assets" (1,358 thousand euros in 2019) (see Note 21 (b)).

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

The Agreement includes a commitment to carry out any maintenance work required on the sanitation infrastructure and any new work required by the annual schedule in place, as well as upgrading existing infrastructure. The work carried out by the end of the contractual period totals 21,681 thousand euros and has been treated as investment in replacements. During 2020 the Company charged 1,360 thousand euros to the provision for replacements (1,360 thousand euros in 2019). (See Note 19(iii)).

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 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 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.

#### b) Concession arrangements, regulated assets under construction

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

Description	Years	In thousands of euros	
		2020	2019
Region of Madrid Network	50	61,718	80,132
<b>TOTAL</b>		<b>61,718</b>	<b>80,132</b>

**c) Capitalised Finance Expenses**

The Company has recognised finance expenses of 59,765 thousand euros (62,901 thousand euros in 2019) for the financing of sanitation and recycling agreements entered into with Madrid City Council under "Concession arrangements, financial capitalisation", in accordance with the standards adapting to the Spanish General Accounting Plan for public infrastructure concessionaire companies (see Note 5 (e) and 20 (a) (i)).

**d) Disposals**

Disposals of intangible assets in 2020 generated a loss of 2,632 thousand euros, which have been recognised in the attached income statement (a loss of 3,422 thousand euros in 2019) (see Note 26 (e)).

Disposals in 2020 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 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, amounting to 509 thousand euros and the automatic control systems and telecommunications equipment, amounting to 500 thousand euros.

**e) 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, 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 Company booked an impairment of 626 thousand euros (reversal of 2,356 thousand euros in 2019 due to the decrease in WACC vs. 2018).

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

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

**f) Insurances**

The Company has taken out insurance policies to cover the risk of damage to its assets. These policies are reasonably sufficient to cover the net carrying amount of the intangible fixed assets of the Company.

**g) Intangible fixed assets related to reversion**

The breakdown of items of intangible fixed assets for which the Company has acquired operating rights, that will revert in the future, is detailed in section (a) of this note.

**h) Investment Budget**

The Company's budget for 2021 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 Agreement for the Management of Sanitation Services entered into by Madrid City Council, the Regional Government of Madrid and Canal de Isabel II, the Company is contractually bound to carry out any work necessary to maintain the sanitation infrastructure, as well as to comply with the annual new work schedule and upgrade existing infrastructure. 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. At 31 December 2020, actions arising out of this commitment have been carried out for an accumulated 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 Company 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 scheduled term. At 31 December 2020 the result of this commitment totalled 4,471 thousand euros (4,261 thousand euros at 31 December 2019).

**i) Individually significant items**

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

	In thousands of euros	
	Net carrying amount	
	2020	2019
Canals and general pipelines	862,980	885,398
Distribution network	643,158	641,985
WWTPs	356,216	359,912
Deposits	209,160	208,069
Lands	193,384	196,019
General buildings	148,101	149,440
DWTPs	115,437	118,218
Low voltage transformation and distribution	106,732	103,599
Reuse networks	80,625	82,852
Underground water catchment	16,598	17,402
<b>TOTAL</b>	<b>2,732,391</b>	<b>2,762,984</b>

**j) Fully amortised goods**

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

	In thousands of euros	
	2020	2019
Development	14	14
Concessions	262,786	263,861
<b>TOTAL</b>	<b>262,800</b>	<b>263,875</b>



## 9. PROPERTY, PLANT AND EQUIPMENT

### a) General

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

In thousands of euros			
2020			
	Land and construction works	Property, plant and equipment under construction	TOTAL
<b>Cost</b>			
Initial balance at 1 January 2020	7,357	-	7,357
Additions	-	-	-
Disposals	-	-	-
Transfers	-	-	-
<b>Cost at 31 December 2020</b>	<b>7,357</b>	<b>-</b>	<b>7,357</b>
<b>Accumulated amortisation/depreciation</b>			
Initial balance at 1 January 2020	(109)	-	(109)
Additions	(36)	-	(36)
Disposals	-	-	-
<b>Accumulated depreciation at 31 December 2020</b>	<b>(145)</b>	<b>-</b>	<b>(145)</b>
<b>NET CARRYING AMOUNT AT 31 December 2020</b>	<b>7,212</b>	<b>-</b>	<b>7,212</b>

In thousands of euros			
2019			
	Land and construction works	Property, plant and equipment under construction	TOTAL
<b>Cost</b>			
Initial balance at 1 January 2019	7,357	-	7,357
Additions	-	-	-
Disposals	-	-	-
Transfers	-	-	-
<b>Cost at 31 December 2019</b>	<b>7,357</b>	<b>-</b>	<b>7,357</b>
<b>Accumulated amortisation/depreciation</b>			
Initial balance at 1 January 2019	(73)	-	(73)
Additions	(36)	-	(36)
Disposals	-	-	-
<b>Accumulated amortisation at 31 December 2019</b>	<b>(109)</b>	<b>-</b>	<b>(109)</b>
<b>NET CARRYING AMOUNT AT 31 December 2019</b>	<b>7,248</b>	<b>-</b>	<b>7,248</b>

**b) Insurances**

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

**c) Disposals**

There were no disposals in 2020 and 2019.

**10. INVESTMENT PROPERTY**

**a) General**

Details of investment property and movement during the year are as follows:

	In thousands of euros		
	2020		
	Lands	Construction works	TOTAL
<b>Cost</b>			
Initial balance at 1 January 2020	4,253	13,121	17,374
Additions	4	-	4
Disposals	(1)	-	(1)
Transfers	-	-	-
Other movements	-	-	-
<b>Cost at 31 December 2020</b>	<b>4,256</b>	<b>13,121</b>	<b>17,377</b>
<b>Accumulated amortisation/depreciation</b>			
Initial balance at 1 January 2020	-	(7,382)	(7,382)
Additions	-	(268)	(268)
Disposals	-	-	-
Transfers	-	-	-
Other movements	-	-	-
<b>Accumulated depreciation at 31 December 2020</b>	<b>-</b>	<b>(7,650)</b>	<b>(7,650)</b>
<b>Impairment</b>			
Initial balance at 1 January 2020	-	(133)	(133)
Application of impairment	-	-	-
<b>Accumulated value impairment at 31 December 2020</b>	<b>-</b>	<b>(133)</b>	<b>(133)</b>
<b>NET CARRYING AMOUNT AT 31 December 2020</b>	<b>4,256</b>	<b>5,338</b>	<b>9,594</b>

			In thousands of euros
			2019
	Lands	Construction works	TOTAL
<b>Cost</b>			
Initial balance at 1 January 2019	4,270	13,121	17,391
Additions	15	-	15
Disposals	(2)	-	(2)
Transfers	(30)	-	(30)
Other movements	-	-	-
<b>Cost at 31 December 2019</b>	<b>4,253</b>	<b>13,121</b>	<b>17,374</b>
<b>Accumulated amortisation/depreciation</b>			
Initial balance at 1 January 2019	-	(7,027)	(7,027)
Additions	-	(355)	(355)
Disposals	-	-	-
Transfers	-	-	-
Other movements	-	-	-
<b>Accumulated depreciation at 31 December 2019</b>	<b>-</b>	<b>(7,382)</b>	<b>(7,382)</b>
<b>Impairment</b>			
Initial balance at 1 January 2019	-	(133)	(133)
Impairment losses	-	-	-
<b>Accumulated value impairment at 31 December 2019</b>	<b>-</b>	<b>(133)</b>	<b>(133)</b>
<b>NET CARRYING AMOUNT AT 31 December 2019</b>	<b>4,253</b>	<b>5,606</b>	<b>9,859</b>

This heading mainly comprises the sports facilities located at the Third Deposit on Calle Islas Filipinas and several other properties.

On 18 February 2019, the 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, 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 Boards 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.

Details of Investment Property that have not generated any income are as follows:

			In thousands of euros
			2020
	Cost	Accumulated amortisation/depreciation	Net
Lands	4,257	-	4,257
Patrimonial assets	2,160	(961)	1,199
<b>TOTAL</b>	<b>6,417</b>	<b>(961)</b>	<b>5,456</b>

			In thousands of euros
			2019
	Cost	Accumulated amortisation/depreciation	Net
Lands	4,253	-	4,253
Patrimonial assets	2,160	(916)	1,244
<b>TOTAL</b>	<b>6,413</b>	<b>(916)</b>	<b>5,497</b>

#### 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	274
Operating expenses		(268)	(355)
Income generating investments		(223)	(310)
Non income generating investments		(45)	(45)
	<b>NET</b>	<b>19</b>	<b>(81)</b>

#### c) Value impairment

No impairments were recognised in 2020 and 2019.

#### d) Insurances

The Company 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) Disposals**

At 31 December 2020, the Company recognised a disposal for the sale of joint ownership of plot I-8 of AR-1 Nuevo Tres Cantos in the amount of 1 thousand euros, generating a profit of 72 thousand euros which is booked in the accompanying income statement (Note 26 e)).

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.

**11. FINANCIAL RISK MANAGEMENT POLICY**

The primary objective of the Company'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 Company'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.

**(i) Credit risk**

The Company has no significant concentrations of credit risk other than those mentioned in Note 13 (d). Valuation allowances for bad debts and the review of individual balances based on customers' credit ratings and the historical analysis of bad debts at an aggregated level all require a high degree of judgement on the part of Management.

The total sum of the financial assets subject to credit risk is shown in Note 12.

**(ii) Interest rate risk**

Interest rate risk constitutes the impact on profit or loss of a rise in interest rates, which increases the cost of financial debt. At 31 December 2020, the Company has referenced 100% of the total debt at fixed rate, therefore there is no interest rate risk (100% at 31 December 2019).

**(iii) Liquidity risk**

The Company applies a prudent liquidity risk management policy, based on retaining cash and sufficient financing through committed credit facilities. Given the dynamic nature of its underlying business, the Company's Finance Department aims to be flexible with regard to financing through drawdowns on credit facilities.

The term and repayment schedule of financing obtained is established based on the type of needs to be financed. In this sense, in 2015 the Company carried out a bond issue for the sum of 500 million euros to attend future investment needs.

The classification of financial assets and liabilities as by terms of maturity is shown in Notes 13 and 21.

**(iv) Exchange Rate Risk**

The risk arising from exchange rate volatility is not considered to be significant and relates to fluctuations in the Colombian Peso, the Dominican Peso and the Brazilian Real reflected in the valuation of the Company's investment in Canal Extensia, S.A.

**(v) 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 circumstances, the effect on the business has been very limited and much less than in other sectors, since the Company provides an essential service in integrated water management and demand is much more stable.

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.

## 12. CLASSIFICATION OF FINANCIAL ASSETS BY CATEGORY AND INVESTMENTS IN EQUITY INSTRUMENTS OF GROUP COMPANIES AND ASSOCIATES

### a) Classification of financial assets by category

Financial assets, except for investments in equity instruments of Group companies and associates, classified by category are as follows:

In thousands of euros		
2020		
	Non-Current	Current
	At amortised/depreciated cost or cost	At amortised/depreciated cost or cost
<b>Loans and receivables</b>		
<b>Loans</b>		
Fixed rate (Note 13(a))	-	-
Variable rate (Note 13(a))	146,938	1,500
Interests	1,164	2,818
Other	61,108	7,877
<b>Total</b>	<b>209,210</b>	<b>12,195</b>
Deposits and securities (Note 13(b))	10,039	76
Other financial assets	-	1,679
<b>Total</b>	<b>10,039</b>	<b>1,755</b>
<b>Trade and other receivables</b>		
Trade and service provision customers	-	132,356
Other receivables	-	46,115
<b>Total</b>	<b>-</b>	<b>178,471</b>
<b>TOTAL, FINANCIAL ASSETS</b>	<b>219,249</b>	<b>192,421</b>

In thousands of euros		
2019		
	Non-Current	Current
	At amortised/depreciated cost or cost	At amortised/depreciated cost or cost
<b>Loans and receivables</b>		
<b>Loans</b>		
Fixed rate (Note 13(a))	-	10
Variable rate (Note 13(a))	135,900	1,000
Interests	109	5,565
Other	63,974	7,928
<b>Total</b>	<b>199,983</b>	<b>14,503</b>
Deposits and securities (Note 13(b))	10,512	108
Other financial assets	-	1,679
<b>Total</b>	<b>10,512</b>	<b>1,787</b>
<b>Trade and other receivables</b>		
Trade and service provision customers	-	131,236
Other receivables	-	47,824
<b>Total</b>	<b>-</b>	<b>179,060</b>
<b>TOTAL, FINANCIAL ASSETS</b>	<b>210,495</b>	<b>195,350</b>

The carrying amounts of these items do not differ from their fair values.

The only gains and losses on financial assets are finance income due to measuring receivables at amortised/depreciated cost (see Note 13 (b) (i)) and the valuation adjustments for impairment described in Note 13 (b) (ii).

**b) Investments in equity instruments of Group companies and associates**

Details of investments in equity instruments of Group companies and associates are as follows:

	In thousands of euros	
	2020	2019
<b>Group companies</b>		
Canal de Comunicaciones Unidas, S.A.U.	7,811	7,811
Canal Extensia, S.A.U.	92,491	92,491
Hidráulica Santillana, S.A.U.	31,577	31,577
Hispanagua, S.A.U.	10,260	10,260
Canal Gestión Lanzarote, S.A.U.	60	60
Canal Energía, S.L.U.	293	293
Ocio y Deporte Canal, S.L.U.	3	3
<b>Impairment adjustments</b>		
Hispanagua, S.A.U.	(8,454)	(5,640)
<b>TOTAL</b>	<b>134,041</b>	<b>136,855</b>
<b>Associates</b>		
GSS Venture, S.L.	504	504
<b>Impairment adjustments</b>		
GSS Venture, S.L.	(56)	(56)
<b>TOTAL</b>	<b>448</b>	<b>448</b>
<b>TOTAL</b>	<b>134,489</b>	<b>137,303</b>

None of the companies in which the Company holds an interest are listed on the stock exchange. Information on stakes in group companies and associates can be found in Appendix II.

At 31 December 2020 and 2019 the Company carried out the corresponding depreciation test for the investment in patrimonial instruments in group companies indicating the value impairment. In 2020, with the exception of the shareholding in Hispanagua, it was not necessary to record any impairments in addition to those recognised in the previous year.

This value was determined (with the exception of the Hispanagua shareholding) by discounting the cash flows generated by the companies, as a result of the strategic plans based on Management estimates, assuming a WACC (weighted average cost of capital) ranging between 4.85% and 15.7% depending on the investment, country, sector and activity (between 4.7% and 13.7% in 2019).

The uncertainty to which Note 19 refers in connection with the shareholding in Canal Extensia, S.A., the majority shareholder of INASSA, means that the assumptions considered to rule out possible impairment in the shareholding may not be valid in the event that the legal proceedings currently underway conclude with a ruling against the Company's interests.



(i) Value impairment

In thousands of euros						
Participation	Balance at 1 January 2020	Allocations	Reversion	Transfers	Cancellations	Balance at 31 December 2020
Hispanagua, S.A.U.	5,640	2,814	-	-	-	8,454
GSS Venture, S.L.	56	-	-	-	-	56
<b>TOTAL NON-CURRENT</b>	<b>5,696</b>	<b>2,814</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>8,510</b>

In thousands of euros						
Participation	Balance at 1 January 2019	Allocations	Reversion	Transfers	Cancellations	Balance at 31 December 2019
Hispanagua, S.A.U.	6,374	-	(734)	-	-	5,640
GSS Venturer, S.L.	-	56	-	-	-	56
<b>TOTAL NON-CURRENT</b>	<b>6,374</b>	<b>56</b>	<b>(734)</b>	<b>-</b>	<b>-</b>	<b>5,696</b>

With regard to the Hispanagua shareholding, 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 because it was not legally possible to further extend the Management Agreements for the provision of services to Canal and to simplify the Group's organisational structure. On 17 February 2021, the Shareholders' Meeting of Canal de Isabel II approved this merger with retroactive effect from 1 January 2021. The value of the shareholding was determined on the basis of the recoverable value of its net assets at close of 2020.

The absorption of the company by Canal and the losses accumulated during 2020, which were higher than expected, led to a decrease in the recoverable value of its shareholding. In 2020, the recoverable value associated with the shareholding in Hispanagua, S.A.U. is 1,806 thousand euros (4,620 thousand euros in 2019), lower than its carrying amount, which is 4,620 thousand euros (3,886 thousand euros in 2019). As a result, at 31 December 2020, the Company recorded an impairment provision of 2,814 thousand euros (an impairment reversal of 734 euros in 2019).

The reversal recognised in 2019 was associated with the updating of the Hispanagua, S.A.U. business plan based on the latest available information and the decrease in WACC compared to the previous year.

It must be pointed out that in June 2012, the cost value of the participation in Hispanagua, S.A.U. in the books of the Public Entity Canal de Isabel II was 639 thousand euros. As a result of the creation of the Company, this shareholding was contributed to the Company in accordance with Accounting and Valuation Standard (NRV) 21, and was therefore revalued for accounting purposes to 10,260 thousand euros. Subsequently, in 2014 the Company recognised income from dividends on the Hispanagua, S.A.U. shareholding amounting to 9,900 thousand euros, meaning that the asset value that led to the revaluation at the time of the non-Monetary contribution has already been transferred to the Company by means of the distribution of dividends against the reserves of Hispanagua, S.A.U.

At 31 December 2020, there is uncertainty with regard to the continued involvement of Canal Gestión Lanzarote, S.A.U. in the operation as a result of the legal status of the Concession agreement, 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 a prestigious legal adviser on 3 February 2020, 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 Gestión Lanzarote, S.A.U.
- The amount corresponding to the investments executed, net of updated repayments in line with the interest rate on the loan granted to Canal Gestión Lanzarote, S.A.U.
- Operating losses incurred in the years during which the Contract has been executed.
- Compensation for any other emerging damages as a result of the Contract being declared null and void.

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

### 13. FINANCIAL INVESTMENTS AND TRADE RECEIVABLES

#### a) Financial investments in Group companies and associates

Details of financial investments in Group companies and associates are as follows:

In thousands of euros		
2020		
	Non-Current	Current
<b>Group</b>		
Loans (Note 12)	146,938	1,500
Interests	1,164	2,818
Other	-	1,679
<b>TOTAL (NOTE 25 (a))</b>	<b>148,102</b>	<b>5,997</b>

In thousands of euros		
2019		
	Non-Current	Current
<b>Group</b>		
Loans (Note 12)	135,900	1,010
Interests	109	5,565
Other	-	1,679
<b>TOTAL (NOTE 25 (a))</b>	<b>136,009</b>	<b>8,254</b>

“Non-current loans” include:

- A receivable deriving from a participatory loan granted by the Company to Canal Gestión Lanzarote, S.A. in 2013 to finance its activities. This loan earns annual interest at market rate. Finance income earned in 2020 amounted to 2,803 thousand euros (5,545 thousand euros in 2019). This loan is due to mature on 31 December 2035 and the balance at 31 December 2020 is 124,461 thousand euros (117,416 thousand euros in 2019). At 31 December 2020, the amount receivable from said loan was 127,264 thousand euros, including outstanding interest. As mentioned in Note 12 to the financial statements, 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.
- Three loans to Canal Extensia, S.A.U.; the first arranged on 25 November 2019 and maturing on 25 November 2024 for an amount drawn down at 31 December 2020 of 13,134 thousand euros (11,950 thousand euros in 2019) for the purpose of granting an intercompany loan to the company Emissao, S.A., S.A.; the second arranged on the same date as the previous one and maturing on 25 November 2023, for an amount drawn down at 31 December 2020 of 6,843 thousand euros (6,533 thousand euros in 2023) for the purpose of granting an intercompany loan to the company INASSA; and the third arranged on 26 March 2019 with an addendum dated 31 March 2020 which modifies the maturity to 26 March 2025 for an amount drawn down at 31 December 2020 of 2,500 thousand euros (1,000 thousand euros in 2019 classified as “Current receivables”), for the purpose of granting an intercompany loan to the company Canal Extensia, S.A.U. All these loans bear interest at an annual variable market rate.

“Current receivables” include the loan to Hispanagua, S.A.U. arranged on 26 December 2019 for its operations, whose drawn-down amount at 31 December 2020 was 1,500 thousand euros, maturing on 31 March 2021. Finance income earned in 2020 amounted to 22 thousand euros.

**b) Financial investments**

Details of financial investments are as follows:

In thousands of euros		
2020		
	Non-Current	Current
<b>Unrelated</b>		
Loans	65,299	10,599
Impairment adjustments	(4,191)	(2,722)
Deposits and guarantees	10,039	76
<b>TOTAL</b>	<b>71,147</b>	<b>7,953</b>

In thousands of euros		
2019		
	Non-Current	Current
<b>Unrelated</b>		
Loans	68,037	10,650
Impairment adjustments	(4,063)	(2,722)
Deposits and guarantees	10,512	108
<b>TOTAL</b>	<b>74,486</b>	<b>8,036</b>

“Loans” includes balances receivable from certain City Councils for work conducted on water distribution and sewerage infrastructure in the respective 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).

“Non-current and current loans” include 2,546 and 370 thousand euros respectively (2,863 and 370 thousand euros in 2019), for 50% of the amounts owned by the City Council of Alcalá to the Aguas de Alcalá joint venture, for the concession deficit for the 2005-2015 period (see Note 6).

As is mentioned in Note 5 (j), the majority of these receivables from 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.

The figure for “Current impairment adjustments” relates to the sale 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 pending and receivable were recognised under “Short-term financial investments” in the balance sheet. 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.

“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.

(i) **Net profit and loss by financial asset category**

The figures for net profit and loss by financial asset category are the following:

	In thousands of euros
	2020
<b>Loans and receivables</b>	
Finance income applying the amortised cost method	350
Finance expenses applying the amortised cost method	(357)
Finance income applying the amortised cost method Alcalá joint venture	53
Finance income applying the amortised cost method Other loans	8
<b>NET PROFIT/(LOSS) IN THE INCOME STATEMENT</b>	<b>54</b>

	In thousands of euros
	2019
<b>Loans and receivables</b>	
Finance income applying the amortised cost method	3,388
Finance expenses applying the amortised cost method	(651)
Finance income applying the amortised cost method Other loans	67
<b>NET PROFIT/(LOSS) IN THE INCOME STATEMENT</b>	<b>( 581)</b>

The amount of finance income and costs is mainly derived from the revaluation in the year of receivables at amortised cost from certain City Councils for works carried out on the water distribution and sewerage infrastructure, financed through rate supplements.

(ii) Impairment adjustments

The movements in impairment accounts are as follows:

	In thousands of euros	
	2020	2019
<b>Balance at 1 January</b>	<b>6,785</b>	<b>6,855</b>
Loss	128	-
Reversion	-	(70)
<b>BALANCE AT 31 DECEMBER</b>	<b>6,913</b>	<b>6,785</b>

In 2020, the Company recognised an impairment on receivables from unrelated parties amounting to 128 thousand euros (an impairment reversal of 70 thousand euros in 2019).

c) Other information on financial investments

(i) Main characteristics of Receivables from unrelated parties

Details of the main receivables from unrelated parties, excluding impairment, are as follows:

	In thousands of euros			
	2020			
		Carrying amount		
	Year of maturity	Nominal amount	Non-Current	Current
<b>Unrelated</b>				
For works performed for City Councils	2050	96,114	62,624	7,487
Receivable TJV - Alcalá Council	2029	3,148	2,546	370
For derecognitions of fixed assets	2009	2,722	-	2,722
For regeneration works	2040	215	129	20
<b>TOTAL</b>		<b>102,199</b>	<b>65,299</b>	<b>10,599</b>

	In thousands of euros			
	2019			
		Carrying amount		
	Year of maturity	Nominal amount	Non-Current	Current
<b>Unrelated</b>				
For works performed for City Councils	2047	98,546	65,024	7,527
Receivable TJV - Alcalá Council	2029	3,518	2,863	370
For derecognitions of fixed assets	2009	2,722	-	2,722
For regeneration works	2040	254	150	31
<b>TOTAL</b>		<b>105,040</b>	<b>68,037</b>	<b>10,650</b>

**d) Trade and other receivables**

The breakdown of trade and other receivables is the following:

	In thousands of euros	
	2020	2019
	Current	Current
<b>Group</b>		
Other debtors (note 25 a)	2,414	1,560
<b>Total</b>	<b>2,414</b>	<b>1,560</b>
<b>Related</b>		
Other debtors (note 25 a)	682	619
<b>Total</b>	<b>682</b>	<b>619</b>
<b>Unrelated</b>		
Customers	166,623	162,938
Other debtors	50,757	53,272
Other loans from Public Administrations (Note 23)	2,292	921
Impairment adjustments	(42,005)	(39,329)
<b>Total</b>	<b>177,667</b>	<b>177,802</b>
	<b>TOTAL</b>	<b>180,763</b>
		<b>179,981</b>

“Other receivables” from Group companies mainly comprise the balance receivable from Hispanagua, S.A.U. for services rendered by the Company, amounting to 1,184 thousand euros (427 thousand euros in 2019).

Under “Other debtors” Related parties includes the debt of the Aguas de Alcalá temporary joint venture for water treatment services.

Under “Customers” Unrelated parties includes the debts of customers for items billed and estimated supplies provided pending billing, which constitute the activities of the Company.

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
<b>Balance at 1 January</b>	<b>39,329</b>	<b>42,645</b>
Impairment losses	6,176	3,331
Applications	(3,259)	(6,114)
Impairment reversals	(241)	(533)
<b>Balance at 31 December</b>	<b>42,005</b>	<b>39,329</b>

In 2020 and 2019, the Company did not recognise losses on unrecoverable trade receivables.



e) Classification by maturity

The classification of the financial assets by maturity is as follows:

	In thousands of euros						
	2020						
	2021	2022	2023	2024	2025	Others	Total
<b>Financial investments</b>	<b>13,950</b>	<b>8,545</b>	<b>25,691</b>	<b>12,024</b>	<b>17,984</b>	<b>155,005</b>	<b>233,199</b>
In Group companies and associates	5,997	-	17,343	3,671	9,626	117,462	154,099
Loans to third parties	7,877	7,744	7,547	7,552	7,557	30,708	68,985
Deposits and guarantees	76	801	801	801	801	6,835	10,115
<b>Trade and other receivables</b>	<b>178,471</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>178,471</b>
Trade and service provision customers	132,356	-	-	-	-	-	132,356
Other receivables, Group companies and associates	2,414	-	-	-	-	-	2,414
Sundry debtors	43,701	-	-	-	-	-	43,701
<b>TOTAL, FINANCIAL ASSETS</b>	<b>192,421</b>	<b>8,545</b>	<b>25,691</b>	<b>12,024</b>	<b>17,984</b>	<b>155,005</b>	<b>411,670</b>

Financial Statements and Directors' Report of Canal de Isabel II, S.A.  
2020 Financial Statements

	In thousands of euros						
	2019						
	2020	2021	2022	2023	2024	Others	Total
<b>Financial investments</b>	<b>16,290</b>	<b>8,970</b>	<b>8,886</b>	<b>24,723</b>	<b>11,402</b>	<b>156,514</b>	<b>226,785</b>
In Group companies and associates	8,254	-	-	15,959	2,634	117,416	144,263
Loans to third parties	7,928	7,920	7,835	7,714	7,717	32,788	71,902
Deposits and guarantees	108	1,050	1,051	1,050	1,051	6,310	10,620
<b>Trade and other receivables</b>	<b>179,060</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>179,060</b>
Trade and service provision customers	131,236	-	-	-	-	-	131,236
Other receivables, Group companies and associates	1,560	-	-	-	-	-	1,560
Sundry debtors	46,264	-	-	-	-	-	46,264
<b>TOTAL, FINANCIAL ASSETS</b>	<b>195,350</b>	<b>8,970</b>	<b>8,886</b>	<b>24,723</b>	<b>11,402</b>	<b>156,514</b>	<b>405,845</b>

## 14. INVENTORIES

### a) General

Details of "Inventories" are as follows:

	In thousands of euros	
	2020	2019
Trade	1,131	783
Materials	1,434	1,159
Chemical reagents	954	842
Other supplies	2,061	1,866
Long-cycle and short-cycle emission allowances	3,740	1,843
Impairment adjustments	(62)	(48)
<b>TOTAL</b>	<b>9,258</b>	<b>6,445</b>

Impairment of inventories is due to wastage, defects, deterioration, unauthorised or unregulated materials and prolonged storage of unused items.

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

### b) Emission allowances

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

	In thousands of euros	
	2020	2019
Short-cycle emission allowances	2,177	1,843
Long-cycle emission allowances	1,563	-
<b>TOTAL</b>	<b>3,740</b>	<b>1,843</b>
Impairment adjustments	-	-
<b>TOTAL</b>	<b>3,740</b>	<b>1,843</b>

Changes in emission allowances were the following:

	In thousands of euros	
	2020	2019
Cost at 1 January	1,843	494
Onerous additions	2,000	2,216
Freely acquired assets (see Note 18 (a))	1,907	118
Other movements		-
Disposals due to application	(2,010)	(985)
Disposals due to derecognition		-
<b>TOTAL</b>	<b>3,740</b>	<b>1,843</b>

During 2020, rights were granted to the Public Administration for the sum of 2,010 thousand euros (985 thousand euros in 2019) which have been applied and charged to the Provision for emission allowances (see Note 5(k) (ii)). At 31 December 2020, the emission allowances pending delivery amount to 3,740 thousand euros (1,843 thousand euros in 2019).

The emission allowances which were applied for the sum of 2,010 thousand euros (985 thousand euros in 2019) form part of installations relating to the energy cogeneration.

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

2020				
	Number of rights		In thousands of euros	
	Free	Remunerated	Free	Remunerated
2020	95,336	91,623	1,907	2,000
<b>TOTAL</b>	<b>95,336</b>	<b>91,623</b>	<b>1,907</b>	<b>2,000</b>

2019				
	Number of rights		In thousands of euros	
	Free	Remunerated	Free	Remunerated
2019	5,747	98,339	118	2,216
<b>TOTAL</b>	<b>5,747</b>	<b>98,339</b>	<b>118</b>	<b>2,216</b>

In 2020, the Company was assigned 95,336 free emission allowances for the corresponding period (2013-2020) (5,747 allowances in 2019).

## 15. ASSET ACCRUALS

Details of "Accruals" are as follows:

In thousands of euros		
2020		
	Non-current	Current
Advances	-	171
Asset accruals for long-service bonuses	2,498	113
Asset accruals for seniority	64,249	3,952
<b>TOTAL</b>	<b>66,747</b>	<b>4,236</b>

In thousands of euros		
2019		
	Non-current	Current
Advances	-	25
Asset accruals for long-service bonuses	2,535	164
Asset accruals for seniority	64,401	4,089
<b>TOTAL</b>	<b>66,936</b>	<b>4,278</b>

"Current advances" include payments made in the financial year, corresponding primarily to expenses for taxes in the year 2021.

"Asset accruals for long-service bonuses" reflect 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.

These accruals are taken to profit or loss as the premium in question is accrued. An amount of 405 thousand euros was accrued in 2020 (479 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).

"Asset accruals for seniority" reflect the deferred premium paid to an insurance company in respect of a risk insurance policy for early settlement of the long-service commitment. In years prior to 2011, under the terms of the Collective Bargaining Agreement in force, a seniority supplement was recognised for each three years' service provided.

On 4 January 2011 the Public Entity took out and paid a liability insurance policy for the early settlement of this item, making a single payment of 55,591 thousand euros, with this being adjusted in 2017 by the sum of 1,517 thousand euros pursuant to the Rulings issued by the Spanish National High Court and the Supreme Court. The insurance company undertakes to pay the insured parties a temporary actuarial annuity without reversal until they retire, or until the termination date of their contract for temporary

staff. This annuity is subject to an annual growth rate of 1.2%. In 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).

## 16. CASH AND CASH EQUIVALENTS

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

	In thousands of euros	
	2020	2019
Cash	420,831	302,283
<b>TOTAL</b>	<b>420,831</b>	<b>302,283</b>

The full cash balance is available for use in the Company's activities.

## 17. SHAREHOLDERS' EQUITY

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

### (i) Share capital

The Company 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 3.

All of the shares have the same voting and profit-sharing rights and can be freely transferred where permitted by law. None of the shares are listed on any stock exchange.

On 30 November 2012 the Board of Directors of the Public Entity, fulfilling the obligation assumed in the Agreements of Inclusion in the Management Model signed with the majority of local councils in the Region of Madrid, authorised the conveyance to those Councils of the shares in the Company corresponding to each local authority, following the established criteria on this matter. At 31 December 2020 and 2019 these local Councils hold 17.60% of the Company'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 Company 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

(ii) 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 3. This reserve is freely distributable.

(iii) Reserves

The breakdown and changes in the accounts included in reserves and profit/(loss) are shown in Appendix III.

- Legal reserve

Allocations to the Legal Reserve in 2020 amounted to 24,191 thousand euros, corresponding to the allocation of profit/(loss) in 2019, respectively, in accordance with Article 274 of the Spanish Companies Act, which establishes that, in any case, an amount equivalent to 10% of the profit for the financial year will be devoted to the Legal Reserve until it reaches at least 20% of share capital.

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 Company has allocated 173,524 thousand euros to this reserve (149,333 thousand euros at 31 December 2019).

- Other reserves

At 31 December 2020, this heading includes the voluntary reserve amounting to 364,955 thousand euros (294,592 thousand euros at 31 December 2019), and expenses from the incorporation of the Company and totalling 245 thousand euros (see Appendix III). The voluntary reserves are of free disposal.

## 18. SUBSIDIES, GIFTS AND BEQUESTS RECEIVED

The change in non-refundable "Subsidies, gifts and bequests" received is as follows:

	In thousands of euros	
	2020	2019
Balance at 1 January	749,069	718,316
Subsidies granted during the year	22,601	27,771
Other movements		19,701
Transfers to the income statement	(18,926)	(16,642)
Tax effect	(9)	(77)
<b>BALANCE AT 31 DECEMBER</b>	<b>752,735</b>	<b>749,069</b>

At 31 December 2020, this entry to the balance sheet mainly comprises:

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).

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 Company by various town councils. At 31 December 2020, 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 on 31 December 2019 (Note 21 b)). At 31 December 2020, 19,237 thousand euros are pending transfer to profit and loss.



a) Subsidies

Details of subsidies received 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
<b>TOTAL</b>	<b>22,601</b>		

In thousands of euros			
2019			
Awarding organisation	Amount	Purpose	Award date
European Office for Climate Change (Ministry for 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
<b>TOTAL</b>	<b>27,771</b>		

Details of the amounts recognised in the income statement are as follows:

In thousands of euros		
	2020	2019
Other government capital subsidies	2,034	484
Cohesion funds and ERDF	3,105	3,510
Transfers from City or Town Councils	610	146
Financing third party works	13,177	12,502
<b>TOTAL</b>	<b>18,926</b>	<b>16,642</b>

## 19. PROVISIONS AND CONTINGENT LIABILITIES

The breakdown of the Provisions heading is as follows:

In thousands of euros		
2020		
	Non-current	Current
Provisions for taxes	13,422	2,274
Provisions for other liabilities	6,491	3,624
Provisions for infrastructure works	398,061	88,039
<b>TOTAL</b>	<b>417,974</b>	<b>93,937</b>

In thousands of euros		
2019		
	Non-current	Current
Provisions for taxes	17,923	1,985
Provisions for other liabilities	5,443	3,926
Provisions for infrastructure works	381,495	89,993
<b>TOTAL</b>	<b>404,861</b>	<b>95,904</b>

Changes in the different provision accounts are as follows:

In thousands of euros				
2020				
	Provisions for taxes	Provisions for other liabilities	Provisions for infrastructure works	Total
<b>Initial balance at 1 January 2020</b>	<b>19,908</b>	<b>9,369</b>	<b>471,488</b>	<b>500,765</b>
Allocations	4,450	4,645	88,037	97,132
From adjustment of provisions	-	-	2	2
Applications	(3,268)	(3,681)	(73,427)	(80,376)
Excess of provisions	(5,394)	(218)	-	(5,612)
<b>AT 31 DECEMBER 2020</b>	<b>15,696</b>	<b>10,115</b>	<b>486,100</b>	<b>511,911</b>

				In thousands of euros
				2019
	Provisions for taxes	Provisions for Other responsibilities	Provisions for infrastructure works	Total
<b>Initial balance at 1 January 2019</b>	<b>18,612</b>	<b>5,729</b>	<b>450,014</b>	<b>474,355</b>
Allocations	5,867	6,997	89,991	102,855
From adjustment of provisions	-	-	2	2
Applications	(3,455)	(2,543)	(68,519)	(74,517)
Excess of provisions	(1,116)	(814)	-	(1,930)
<b>At 31 December 2019</b>	<b>19,908</b>	<b>9,369</b>	<b>471,488</b>	<b>500,765</b>

(i) Provisions for taxes

Provisions for taxes mainly includes the public prices payable by the 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 the corresponding land registers and municipal by-laws. Likewise, provisions are made for construction fees and taxes and works of Madrid City Council.

(ii) 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. The provision is estimated using the individual most likely outcome.

In addition, this provision includes 2,177 thousand euros for greenhouse gas emission expenses (2,392 thousand euros in 2019) (see Note 14 (b)). 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 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.

(iii) 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	Cáceres concession provisions	Total
Initial balance at 1 January 2020	429,797	32,420	5,752	3,519	471,488
Allocations (Note 8(a))	71,600	14,001	1,076	1,360	88,037
From adjustment of provisions	-	2	-	-	2
Applications	(55,275)	(17,760)	(182)	(210)	(73,427)
<b>At 31 December 2020</b>	<b>446,122</b>	<b>28,663</b>	<b>6,646</b>	<b>4,669</b>	<b>486,100</b>

In thousands of euros					
2019					
	Provision Region of Madrid Network	Provision Sanitation Agreement Madrid City Council	Provision Reuse Agreement Madrid City Council	Cáceres concession provisions	Total
Initial balance at 1 January 2019	413,139	28,235	5,442	3,198	450,014
Allocations (Note 8(a))	71,600	16,379	652	1,360	89,991
From adjustment of provisions	-	2	-	-	2
Applications	(54,942)	(12,196)	(342)	(1,039)	(68,519)
<b>At 31 December 2019</b>	<b>429,797</b>	<b>32,420</b>	<b>5,752</b>	<b>3,519</b>	<b>471,488</b>

Based on the 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).

(iv) [Contingent liabilities, guarantees and other commitments](#)

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

In thousands of euros		
	2020	2019
Guarantees received	(200,586)	(206,393)
Guarantees presented before Public Bodies	33,356	31,877

The 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 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 Company has also extended guarantees to Cáceres City Council totalling 1,000 thousand euros in respect of the Concession agreement in that city. The Company's Directors do not expect any significant liabilities to arise from these guarantees.

- **Pre-Trial Proceedings 91/16**

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 Emissão, S.A. by Canal de Isabel II and its business group.

Canal de Isabel II, S.A. appeared in the proceedings as private prosecutor on 2 October 2017, pursuant to Article 110 of the Code of Criminal Procedure and was accepted by the Court as such.

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 (LECr), it agreed to commence a trial against the persons identified as being those allegedly responsible for committing various criminal offences in the acquisitions of INASSA and Emissão, S.A. 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 Company could be held liable, criminally or civilly, for the events under investigation, is excluded.

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 2<sup>nd</sup> Section of the Criminal Division of the National High Court appointed a magistrate for the trial, in relation to the operations derived from the acquisition of Emissão, S.A. and under Abbreviated Proceedings reference 10/20 (Emissão Part).

- **Pre-Trial Proceedings 51/18**

During 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 that country. 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 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 Canal de Isabel II's Management regarding the possible impacts that could arise from the aforementioned actions, the Company's Directors do not foresee any additional liability arising other than those already recognised in the consolidated annual financial statements as a consequence of the aforementioned actions.

- **Suspension of the right of alienation, sequestration and embargo of the shares of INASSA in Triple A de Barranquilla.**

Canal de Isabel II S.A., was made aware that, on 3 October 2018, the Office of the Prosecutor General of Colombia adopted an agreement ordering the suspension of the right of alienation, sequestration and embargo of the shares of INASSA, company controlled indirectly by Canal de Isabel II, in Triple A of

Barranquilla, S.A. ("Triple AAA"), which constitute 82% of the share capital of Triple A and the transfer thereof in custody to Sociedad de Activos Especiales (Special Assets Company — SAE).

On 5 October 2018, at the request of Canal de Isabel II, S.A. and INASSA, a prestigious law firm issued a legal opinion on the New Extinction of Ownership Proceedings, the main conclusions of which 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.*

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

The 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, S.A.U. filed a writ of relation and opposition on 27 August 2020, requesting that the extinction of ownership be declared improper.

To date, no ruling has yet been issued on the request for dismissal and for interim measures to be lifted.

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.

On 3 December 2020, the High Court of Bogotá ruled on the request for control filed by INASSA on 4 April 2019, indicating that the interim measures imposed by the nation's Prosecutor General's Office in connection with INASSA's shares in Triple A were legal. INASSA and its legal advisors are considering the presentation of appropriate legal actions. Meanwhile, the extinction of ownership proceedings continue their course, pending, among other things, a response in relation to the request for dismissal filed by INASSA on 24 January 2020.

Furthermore, we are aware of other legal cases and/or investigations by the prosecutor in Colombia, in relation to the acquisition and subsequent management of the subsidiary INASSA, the result of which may lead, as these investigations progress, to additional contingencies arising that entail new operational and financial risks, which could potentially affect the Company's financial position and, in which case, would be immediately reflected in the relevant accounting documents.

- **Class Action Lawsuit**

Furthermore, on 22 July 2018, INASSA was notified of a class action lawsuit aimed, in summary, to render void the technical assistance contract between Triple A S.A. E.S.P. and INASSA S.A., and to order the reimbursement by INASSA of all sums paid in connection with said contract, among other ensuing claims.

In the claim, the Office of the Procurator General requested interim measures, which were denied on 14 August 2020 and confirmed on 30 October by the Administrative Court of Cundinamarca, the court reiterating that no facts were observed in the file showing that the technical assistance services were not rendered.

The decree of evidence in the proceedings is now pending.

Regardless of the accounting data, both at individual and consolidated level, that subsequent situations may give raise to, the Company will study all the relevant legal actions in this regard, including appearing as informant, plaintiff and/or injured party in the proceedings conducted before the Colombian courts, directly or via its subsidiaries, in an equivalent mode as verified by Canal de Isabel II, S.A. in the Spanish procedure indicated above.

Based on the information available to date, it is concluded that the risks analysed do not evidence additional impacts other than those already included in the Company's individual and consolidated annual financial statements.

However, it cannot reasonably be ruled out that, as the different investigations or judicial or administrative proceedings progress, contingencies will arise that imply new operational and financial risks, which could eventually affect the true and fair view of 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.

## 20. FINANCIAL LIABILITIES BY CATEGORIES

### a) Classification of financial liabilities by category

The classification of the financial liabilities by category and type is as follows:

In thousands of euros		
2020		
	Non-Current	Current
	At amortised/depreciated cost or cost	At amortised/depreciated cost or cost
	Carrying amount	Carrying amount
<b>Debits and payables</b>		
<b>Debts with Group companies and associates (Notes 21 (a) and 25)</b>	<b>211,667</b>	<b>33,213</b>
Debentures and other marketable securities	499,157	7,115
Obligations and bonds	499,157	-
Interests	-	7,115
Other financial liabilities	75,984	78,424
<b>Total liabilities (Note 21 (b))</b>	<b>575,141</b>	<b>85,539</b>
<b>Trade creditors and other accounts payable (Note 21 (d))</b>		
Suppliers	-	4,675
Suppliers, Group companies and associates (Note 25)	-	20,948
Sundry creditors	-	78,043
Personnel (remunerations payable)	-	12,303
<b>Total Trade creditors and other accounts payable</b>	<b>-</b>	<b>115,969</b>
<b>TOTAL, FINANCIAL LIABILITIES</b>	<b>786,808</b>	<b>234,721</b>



In thousands of euros		
2019		
	Non-Current	Current
	At amortised/depreciated cost or cost	At amortised/depreciated cost or cost
	Carrying amount	Carrying amount
<b>Debits and payables</b>		
<b>Debts with Group companies and associates (Notes 21 (a) and 25))</b>	<b>240,714</b>	<b>34,075</b>
Debentures and other marketable securities	498,955	7,111
Obligations and bonds	498,955	-
Interests	-	7,111
Other financial liabilities	74,912	83,892
<b>Total liabilities (Note 21 (b))</b>	<b>573,867</b>	<b>91,003</b>
<b>Trade creditors and other accounts payable (Note 21 (d))</b>		
Suppliers	-	5,601
Suppliers, Group companies and associates (Note 25)	-	21,083
Sundry creditors	-	82,508
Personnel (remunerations payable)	-	10,914
<b>Total Trade creditors and other accounts payable</b>	<b>-</b>	<b>120,106</b>
<b>TOTAL, FINANCIAL LIABILITIES</b>	<b>814,581</b>	<b>245,184</b>

The carrying amounts of these items do not differ from their relevant fair values.

On 26 February 2015 the 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 income statement in 2020. The arrangement fees, at 31 December 2020, total 842 thousand euros (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

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.

(i) **Net profit and loss by financial liability category**

The figures for net profit and loss by financial liability category are as follows:

In thousands of euros	
2020	
<b>Debits and payables</b>	
Finance expenses applying the amortised cost method	(2,107)
Income from the provision of services by change in fair value	2,107
Interests corresponding to obligations and bonds	(8,607)
Interest from debt with Group companies	(5,518)
Interest from debt with third parties	(352)
<b>NET PROFIT/(LOSS) IN THE INCOME STATEMENT</b>	<b>(14,477)</b>

In thousands of euros	
2019	
<b>Debits and payables</b>	
Finance expenses applying the amortised cost method	(2,193)
Income from the provision of services by change in fair value	2,193
Interests corresponding to obligations and bonds	(8,602)
Interest from debt with Group companies	(6,357)
Interest from debt with third parties	(255)
<b>NET PROFIT/(LOSS) IN THE INCOME STATEMENT</b>	<b>(15,214)</b>

In 2020 the interest on loans from Group companies and third parties in the income statement rose by 3,136 thousand euros (in 2019, it rose by 1,696 thousand euros) as a result of the finance expenses capitalised under the concession arrangements (see Note 8 (c)).

Finance expenses at amortised cost are those derived from the updating of advances received for the use of water during the year. Similarly, revenues from the rendering of services reflect the proportional distribution of the difference between the nominal amount and amortised cost based on the average estimated years over which the services will be provided (see Notes 21 (b) and 22).

## 21. FINANCIAL DEBTS AND TRADE DEBTORS

### a) Debts with Group companies and associates

Details of "Debts with Group companies and associates" are as follows:

		2020	
		Non-Current	Current
<b>Debts with Group companies</b>			
Canal de Isabel II Public Entity	211,667	31,947	
Hispanagua, S.A.U.	-	39	
<b>Suppliers of fixed assets Group</b>			
Canal de Comunicaciones Unidas, S.A.U.	-	1,111	
Hispanagua, S.A.U.	-	116	
<b>TOTAL</b>	<b>211,667</b>	<b>33,213</b>	

		2019	
		Non-Current	Current
<b>Debts with Group companies</b>			
Canal de Isabel II Public Entity	240,714	31,771	
<b>Suppliers of fixed assets Group</b>			
Canal de Comunicaciones Unidas, S.A.U.	-	1,523	
Hispanagua, S.A.U.	-	781	
<b>TOTAL</b>	<b>240,714</b>	<b>34,075</b>	

The heading "Debts with Group companies" primarily reflects the 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 Company and its lenders (see Note 25 (a)).

**b) Debts**

Details of "Debts" are as follows:

In thousands of euros		
2020		
	Non-current	Current
Obligations and bonds	499,157	7,115
Obligations and bonds	499,157	-
Interests	-	7,115
Suppliers of fixed assets	-	23,814
Asset dividend payable (Notes 4 and 25)	-	42,664
Other payables	5,375	9,285
Guarantees and deposits received	70,609	2,628
Other	-	33
<b>TOTAL</b>	<b>575,141</b>	<b>85,539</b>

In thousands of euros		
2019		
	Non-current	Current
Obligations and bonds	498,955	7,111
Obligations and bonds	498,955	-
Interests	-	7,111
Suppliers of fixed assets	-	25,580
Asset dividend payable (Notes 4 and 25)	-	37,262
Other payables	7,896	18,722
Guarantees and deposits received	67,016	2,301
Other	-	27
<b>TOTAL</b>	<b>573,867</b>	<b>91,003</b>

The heading "Other payables" 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).

Moreover, in 2020, under the heading "Other payables" 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 actions established in the Civil Code. (See Note 26 (f)).

In 2019, the Parent Company regularised amounts recorded 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. In accordance with the documents received from the Tagus Hydrographic Confederation confirming that the borrowing arranged in 1995 with that institution for the

construction of the pipeline between Picadas and Valmayor has been fully repaid, the difference between said borrowing and the total amount of the right-of-use of that infrastructure was considered a subsidy, which is being taken to income in the same period as that of the depreciation of the right-of-use of the associated infrastructure.

“Guarantees and deposits received” include advance payments for water use received from customers to guarantee compliance with the financial terms of the supply contract (advances for water use). These amounts fall due when the corresponding contracts are cancelled. The difference between the amount initially received and the amount reimbursed on maturity is recognised under “Accruals of liabilities” (see note 22).

**c) Other information on debts**

In thousands of euros				
2020				
Carrying amount				
	Year of maturity	Nominal amount	Non-Current	Current
<b>Group companies and associates</b>		<b>244,880</b>	<b>211,667</b>	<b>33,213</b>
Debts with Group companies	2036	244,880	211,667	33,213
<b>Unrelated</b>		<b>682,625</b>	<b>575,141</b>	<b>85,539</b>
Obligations and bonds	2025	507,114	499,157	7,115
Suppliers of fixed assets	2021	23,814	-	23,814
Assets payable dividends	2021	42,664	-	42,664
Debts	2024	14,660	5,375	9,285
Guarantees and deposits received	2038	94,340	70,609	2,628
Other	2021	33	-	33
<b>TOTAL</b>		<b>927,505</b>	<b>786,808</b>	<b>118,752</b>

In thousands of euros				
2019				
Carrying amount				
	Year of maturity	Nominal amount	Non-Current	Current
<b>Group companies and associates</b>		<b>274,789</b>	<b>240,714</b>	<b>34,075</b>
Debts with Group companies	2036	274,789	240,714	34,075
<b>Unrelated</b>		<b>688,593</b>	<b>573,867</b>	<b>91,003</b>
Obligations and bonds	2025	507,111	498,955	7,111
Suppliers of fixed assets	2020	25,580	-	25,580
Asset dividends payable	2019	37,262	-	37,262
Debts	2024	26,618	7,896	18,722
Guarantees and deposits received	2037	91,995	67,016	2,301
Other	2020	27	-	27
<b>TOTAL</b>		<b>963,382</b>	<b>814,581</b>	<b>125,078</b>

At 31 December 2020 and 2019, there were no debts with financial institutions.

The average rate of the total debt (including mirror debt) for 2020, is 1.84% (1.88% in 2019).

At 31 December 2020, the Company has credit facilities signed for the sum of 132,000 thousand euros (132,000 thousand euros in 2019), with a balance at 31 December 2020 of the following:

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	-
<b>TOTAL</b>	<b>132,000</b>		<b>132,000</b>	

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.

**d) Trade creditors and other accounts payable**

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

In thousands of euros		
2020		
	Non-current	Current
<b>Group (Note 25(a))</b>		
Creditors	-	20,668
<b>Total</b>	-	<b>20,668</b>
<b>Associates (Note 25 (a))</b>		
Creditors	-	280
<b>Total</b>	-	<b>280</b>
<b>Unrelated</b>		
Suppliers	-	4,675
Creditors	-	78,043
Personnel	-	12,303
Public Administrations (Note 23)	-	5,235
<b>Total</b>	-	<b>100,256</b>
<b>TOTAL</b>		<b>121,204</b>

In thousands of euros		
2019		
	Non-current	Current
<b>Group (Note 25(a))</b>		
Creditors	-	20,420
<b>Total</b>	-	<b>20,420</b>
<b>Associates (Note 25 (a))</b>		
Creditors	-	663
<b>Total</b>	-	<b>663</b>
<b>Unrelated</b>		
Suppliers	-	5,601
Creditors	-	82,508
Personnel	-	10,914
Public Administrations (Note 23)	-	4,931
<b>Total</b>	-	<b>103,954</b>
<b>TOTAL</b>		<b>125,037</b>

e) Classification by maturity

	In thousands of euros						
							2020
	2021	2022	2023	2024	2025	Others	Total
<b>Debts</b>	<b>85,539</b>	<b>8,139</b>	<b>6,617</b>	<b>6,617</b>	<b>504,371</b>	<b>49,397</b>	<b>660,680</b>
Obligations and bonds, plus interest	7,115	-	-	-	499,157	-	506,272
Other financial liabilities	78,424	8,139	6,617	6,617	5,214	49,397	154,408
<b>Debts with Group companies and associates</b>	<b>33,213</b>	<b>14,762</b>	<b>14,762</b>	<b>14,762</b>	<b>14,762</b>	<b>152,619</b>	<b>244,880</b>
<b>Trade creditors and other accounts payable</b>	<b>115,969</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>115,969</b>
Suppliers	4,675	-	-	-	-	-	4,675
Suppliers Group companies and associates	20,948	-	-	-	-	-	20,948
Sundry creditors, plus advances	78,043	-	-	-	-	-	78,043
Personnel	12,303	-	-	-	-	-	12,303
<b>TOTAL, FINANCIAL LIABILITIES</b>	<b>234,721</b>	<b>22,901</b>	<b>21,379</b>	<b>21,379</b>	<b>519,133</b>	<b>202,016</b>	<b>1,021,529</b>



Financial Statements and Directors' Report of Canal de Isabel II, S.A.  
2020 Financial Statements

	In thousands of euros						
	2020	2021	2022	2023	2024	Others	2019
<b>Debts</b>	<b>91,003</b>	<b>7,907</b>	<b>7,542</b>	<b>6,376</b>	<b>6,375</b>	<b>545,667</b>	<b>664,870</b>
Obligations and bonds, plus interest	7,111	-	-	-	-	498,955	506,066
Other financial liabilities	83,892	7,907	7,542	6,376	6,375	46,712	158,804
<b>Debts with Group companies and associates</b>	<b>34,075</b>	<b>29,047</b>	<b>14,762</b>	<b>14,762</b>	<b>14,762</b>	<b>167,381</b>	<b>274,796</b>
<b>Trade creditors and other accounts payable</b>	<b>120,106</b>	-	-	-	-	-	<b>120,106</b>
Suppliers	5,601	-	-	-	-	-	5,601
Suppliers Group companies and associates	21,083	-	-	-	-	-	21,083
Sundry creditors, plus advances	82,508	-	-	-	-	-	82,508
Personnel	10,914	-	-	-	-	-	10,914
<b>TOTAL, FINANCIAL LIABILITIES</b>	<b>245,184</b>	<b>36,954</b>	<b>22,304</b>	<b>21,138</b>	<b>21,137</b>	<b>713,048</b>	<b>1,059,765</b>

## 22. ACCRUALS OF LIABILITIES

Details of "Accruals" are as follows:

In thousands of euros		
2020		
	Non-current	Current
Advance income for advances for water use (Note 21 (b))	15,888	5,214
Usage fee Lozoya	3,040	343
Fee Pedrezuela mini-plant	751	85
<b>TOTAL</b>	<b>19,679</b>	<b>5,642</b>

In thousands of euros		
2019		
	Non-current	Current
Advance income for advances for water use (Note 21 (b))	17,705	4,973
Usage fee Lozoya	3,384	343
Fee Pedrezuela mini-plant	835	85
<b>TOTAL</b>	<b>21,924</b>	<b>5,401</b>

"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 (see Note 5 (i) (viii)). To calculate the current value of the "Advances for water use" for 2020, the average reimbursement period was established at 18 years (18 years in 2019).

The fees for use of the Lozoya and on Pedrezuela mini-plant reflect the pending income to be entered to the income statement for the granting or usage rights to the flows of the Guadalix River through the Pedrezuela mini-plant for the sums of 12,020 thousand euros and 2,175 thousand euros respectively. At 31 December 2020 the sums yet to be taken to profit or loss were 3,383 thousand euros and 836 thousand euros respectively (3,727 thousand euros and 920 thousand euros in 2019).

### 23. TAX STATUS

The detail of the balances with Public Administrations are as follows:

In thousands of euros		
2020		
	Non-current	Current
<b>Assets</b>		
Deferred tax assets	72	-
Current tax assets	-	-
Value added tax and similar taxes	-	2,096
Other loans from Public Administrations	-	196
<b>TOTAL</b>	<b>72</b>	<b>2,292</b>
<b>Liabilities</b>		
Deferred tax liabilities	(1,887)	-
Social Security	-	(2,948)
Other payables to Public Administrations	-	(43)
Withholdings	-	(2,244)
<b>TOTAL</b>	<b>(1,887)</b>	<b>(5,235)</b>

In thousands of euros		
2019		
	Non-current	Current
<b>Assets</b>		
Deferred tax assets	90	-
Current tax assets	-	-
Value added tax and similar taxes	-	677
Other loans from Public Administrations	-	244
<b>TOTAL</b>	<b>90</b>	<b>921</b>
<b>Liabilities</b>		
Deferred tax liabilities	(1,877)	-
Social Security	-	(2,895)
Other payables to Public Administrations	-	(11)
Withholdings	-	(2,025)
<b>TOTAL</b>	<b>(1,877)</b>	<b>(4,931)</b>

As stated in Note 3, the contribution of the branch of activity rote to the Spanish 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.

At 31 December 2020 the Company retains, open to inspection by the tax authorities, the last four years for the main applicable taxes:

	Years pending inspection								
Corporate income tax	2012	2013	2014	2015	2016	2017	2018	2019	2020
Value Added Tax		2013	2014	2015	2016	2017	2018	2019	2020
Personal Income Tax		2013	2014	2015	2016	2017	2018	2019	2020
Trade Tax			2014	2015	2016	2017	2018	2019	2020

On 19 April 2017, the Company received a communication regarding the start of the inspection, verification and investigation activities by the Tax Inspectorate of the Tax Agency.

On 23 May 2018, the Central Examining Magistrate's Court No. 6 of the Spanish National High Court, in response to the request submitted by the Central Office of High-Income Taxpayers of the Tax Agency, issued an Order that provides for the suspension of ongoing inspection proceedings until the criminal investigation advances and the need to maintain it can be specified in greater detail.

The inspection activities refer to the following taxes and periods:

Corporate Income Tax: periods 07/2012 to 12/2015

Value Added Tax: periods 03/2013 to 12/2016

Retention/Lodgement on account. Income from Personal/professional work: periods 03/2013 to 12/2016.

The 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.

#### a) Tax on profit

As mentioned in Note 5 (t), since 2014, the Company is subject to the consolidated tax return system.

At 31 December 2020, the Companies forming part of the Fiscal group are the following:

Parent Company:

- Canal de Isabel II Public Entity

Subsidiaries:

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

Reconciliation between the net revenue and expenses for the year and the tax base is as follows:

In thousands of euros							
2020							
	Income statements			Recognised income and expenses			
	Increases	Decreases	Net	Increases	Decreases	Net	Total
Income and expenses balance for the year	194,553	-	194,553	22,544	-	22,544	217,097
Corporate Income Tax	530	-	530	57	-	57	587
Permanent differences	5,070	(624)	4,446	-	-	-	4,446
Temporary differences	4,571	(6,112)	(1,541)	-	(22,601)	(22,601)	(24,142)
Arising in the year	4,571	-	4,571	-	(22,601)	(22,601)	(18,030)
Originating in prior financial years	-	(6,112)	(6,112)	-	-	-	(6,112)
<b>TAX BASE (TAX RESULT)</b>	<b>204,724</b>	<b>(6,736)</b>	<b>197,988</b>	<b>22,601</b>	<b>(22,601)</b>	<b>-</b>	<b>197,988</b>

In thousands of euros							
2019							
	Income statements			Recognised income and expenses			
	Increases	Decreases	Net	Increases	Decreases	Net	Total
Income and expenses balance for the year	241,912	-	241,912	47,352	-	47,352	289,265
Corporate Income Tax	348	-	348	119	-	119	466
Permanent differences	4,233	(3,541)	692	-	-	-	692
Temporary differences	992	(5,998)	(5,005)	-	(47,471)	(47,471)	(52,477)
Arising in the year	992	-	992	-	(47,471)	(47,471)	(46,479)
Originating in prior financial years	-	(5,998)	(5,998)	-	-	-	(5,988)
<b>TAX BASE (TAX RESULT)</b>	<b>247,484</b>	<b>(9,539)</b>	<b>237,946</b>	<b>47,471</b>	<b>(47,471)</b>	<b>-</b>	<b>237,946</b>

In 2020, permanent differences primarily include as increases the amount of 3,998 thousand euros from the donation given to the Canal de Isabel II Foundation and considered non-deductible pursuant to Article 15.e) of Corporate Income Tax Law 27/2014 (3,649 thousand euros in 2019).

Article 7 of Law 16/2012, of 27 December 2012, for tax periods commencing in 2013 and 2014, companies 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 2020 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.

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

In thousands of euros			
2020			
	Income statements	Recognised income and expenses	Total
<b>Income and expenses balance for the year</b>	<b>195,083</b>	<b>22,601</b>	<b>217,684</b>
<b>Increases</b>	<b>9,641</b>	-	<b>9,641</b>
Allocation for non-deductible provisions	4,571	-	4,571
Other non-deductible expenses	5,070	-	5,070
<b>Decreases</b>	<b>(6,736)</b>	<b>(22,601)</b>	<b>(29,337)</b>
Reversal of non-deductible amortisation/depreciation	(5,998)	-	(5,998)
Subsidies	-	(22,601)	(22,601)
Other non-deductible expenses	(587)	-	(587)
Application of deductible provisions	(151)	-	(151)
<b>TOTAL</b>	<b>197,988</b>	-	<b>197,988</b>
Tax rate at 25%	49,497	-	49,497
Deductions and loans for the financial year	(48,795)	-	(48,795)
<b>Expenses /(income) on tax on profits</b>	<b>702</b>	-	<b>702</b>

			In thousands of euros
			2019
	Income statements	Recognised income and expenses	Total
<b>Income and expenses balance for the year</b>	<b>242,260</b>	<b>47,471</b>	<b>289,731</b>
<b>Increases</b>	<b>5,225</b>	-	<b>5,225</b>
Allocation for non-deductible provisions	992	-	992
Other non-deductible expenses	4,233	-	4,233
<b>Decreases</b>	<b>(9,538)</b>	<b>(47,471)</b>	<b>(57,010)</b>
Reversal of non-deductible amortisation/depreciation	(5,998)	-	(5,998)
Subsidies	-	(47,471)	(47,471)
Other non-deductible expenses	(3,446)	-	(3,446)
Application of deductible provisions	(95)	-	(95)
<b>TOTAL</b>	<b>237,946</b>	-	<b>237,946</b>
Tax rate at 25%	56,487	-	59,487
Deductions and loans for the financial year	(58,068)	-	(58,068)
Expenses /(income) on tax on profits	1,418	-	1,418
<b>From continuing operations</b>	<b>1,418</b>	-	<b>1,418</b>

The breakdown of tax on profit expense is the following:

			In thousands of euros
	2020	2019	
Current tax for the financial year	702	1,418	
Deferred tax	18	18	
Deferred tax settlement		-	
Other adjustments		-	
Tax adjustments corresponding to previous financial years	(190)	(1,089)	
<b>TOTAL</b>	<b>530</b>	<b>348</b>	

The amount payable to the Public Entity for consolidated corporate income tax is 1,451 thousand euros (1.154 thousand euros in 2019). Said amount is recognised under the heading "Financial investments in Group companies and associates" (Note 13 a)).

The breakdown of deferred tax assets and liabilities at 31 December 2020 and 2019 is the following:

			In thousands of euros
			2020
	Assets	Liabilities	Net
From subsidies	-	(1,887)	(1,887)
From amortisations/depreciations	72	-	72
<b>NET ASSETS AND LIABILITIES</b>	<b>72</b>	<b>(1,887)</b>	<b>(1,815)</b>

			In thousands of euros
			2019
	Assets	Liabilities	Net
From subsidies	-	(1,877)	(1,877)
From amortisations/depreciations	90	-	90
<b>NET ASSETS AND LIABILITIES</b>	<b>90</b>	<b>(1,877)</b>	<b>(1,787)</b>

On 28 November 2014 the new Law 27/2014 on Corporate Income Tax, applicable for tax periods beginning on or after 1 January 2015, was published in the Official State Gazette. The applicable tax rate for periods starting 1 January 2016 is 25%.

The breakdown of 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	
Deferred tax assets	54	72	
Deferred tax liabilities	1,877	1,800	

The amount of deferred tax assets and liabilities that have not been recognised is not significant.



## 24. ENVIRONMENTAL INFORMATION

Details of the assets classified under Concessions used to minimise the impact on the environment are as follows:

In thousands of euros			
2020			
	Cost	Accumulated amortisation/depreciation	Net
WWTP installations	620,743	(238,590)	382,153
Sewer network	27,863	(9,682)	18,181
Reuse network	96,245	(15,620)	80,625
<b>TOTAL</b>	<b>744,851</b>	<b>(263,892)</b>	<b>480,959</b>

In thousands of euros			
2019			
	Cost	Accumulated amortisation/depreciation	Net
WWTP installations	615,222	(229,944)	385,278
Sewer network	28,367	(8,862)	19,505
Reuse network	96,650	(13,798)	82,852
<b>TOTAL</b>	<b>740,239</b>	<b>(252,604)</b>	<b>487,635</b>

The breakdown of investments made by the Company for environmental reasons is the following:

In thousands of euros		
	2020	2019
Water treatment	5,521	8,253
Sewer network	129	1,035
Reuse network	2,202	2,396
<b>TOTAL</b>	<b>7,852</b>	<b>11,684</b>

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

In thousands of euros		
	2020	2019
Water treatment	150,451	158,193
Sewerage	67,714	71,845
Reuse	8,524	8,381
Others (green areas, environmental expenses, etc.)	7,122	5,429
<b>TOTAL</b>	<b>233,811</b>	<b>243,849</b>

The Company's Management integrates all its activities through an Environmental Management System, which has been duly certified in accordance with the UNE-EN-ISO-14001:2015 environmental management standard. The renewal 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 by facility category were carried out at some of the 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 Company had 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 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 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 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.

## 25. RELATED PARTY BALANCES AND TRANSACTIONS

### a) Balances with related parties

Details of the Company's balances with Group companies, associates and joint ventures are as follows:

In thousands of euros		
2020		
	Debtor balances	Creditor balance
<b>Parent Company</b>		
Canal de Isabel II Public Entity	1,975	(245,261)
<b>Group companies</b>		
Hispanagua, S.A.U.	2,699	(1,501)
Hidráulica Santillana, S.A.U.	99	(6,517)
Canal de Comunicaciones Unidas, S.A.U.	50	(12,812)
Canal Energía, S.L.	2	-
Canal Gestión Lanzarote, S.A.U.	127,597	-
Emissão, S.A.	60	-
Ocio y Deporte, S.L.U.	243	-
Aguas de Alcalá UTE	682	-
Canal Extensia, S.A.U.	23,645	-
Gestus Gestión & Servicios S.A.S.	6	-
Amerika Tecnologías de la Información, S.A.S.	3	-
Avanzadas Soluciones	5	-
AAA Dominicana	12	-
AAA Ecuador	1	-
Fontes da Serra Saneamento de Guapimirim Ltda.	8	-
Soluciones Andinas de Aguas, S.R.L.	15	-
Amagua, CEM	7	-
Inassa	85	-
<b>Associates</b>		
GSS Venture, S.L.	-	(280)
<b>TOTAL (Notes 13 (a, d) and 21 (a, d))</b>	<b>157,194</b>	<b>(266,371)</b>

In thousands of euros		
2019		
	Debtor balances	Creditor balance
<b>Parent Company</b>		
Canal de Isabel II Public Entity	1,917	(274,203)
<b>Group companies</b>		
Hispanagua, S.A.U.	427	(2,890)
Hidráulica Santillana, S.A.U.	307	(5,754)
Canal de Comunicaciones Unidas, S.A.U.	51	(12,362)
Canal Energía, S.L.	1	-
Canal Gestión Lanzarote, S.A.U.	123,158	-
Emissão, S.A.	38	-
Ocio y Deporte, S.L.U.	203	-
Aguas de Alcalá UTE	619	-
Canal Extensia, S.A.U.	19,618	-
Gestus Gestión & Servicios S.A.S.	3	-
Amerika Tecnologías de la Información, S.A.S.	2	-
Avanzadas Soluciones	4	-
Aguas de Tumbe	20	-
AAA Dominicana	10	-
AAA Ecuador	2	-
Fontes da Serra Saneamento de Guapimirim Ltda.	5	-
Soluciones Andinas de Aguas, S.R.L.	10	-
Amagua, CEM	12	-
Inassa	35	-
<b>Associates</b>		
GSS Venture, S.L.	-	(663)
<b>TOTAL (Notes 13 (a, d) and 21 (a, d))</b>	<b>146,442</b>	<b>(295,872)</b>

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 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 3, whereby the debt of the contributed activity was transferred from the Public Entity to the Company. 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 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 Company to the Public Entity are those specified in the contracts between the latter and the lenders (see Note 21(c)). In 2020 the weighted average interest rate of the mirror debt was 2.14 %. (2.22% in 2019).

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:

							In thousands of euros
							2020
FINANCIAL INSTITUTION	ORIGINAL AMOUNT	TRANSACTION	MATURITY 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	155,000
<b>TOTAL</b>					<b>29,048</b>	<b>211,667</b>	<b>240,715</b>

- (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:

							In thousands of euros
							2019
FINANCIAL INSTITUTION	ORIGINAL AMOUNT	TRANSACTION	MATURITY 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
<b>TOTAL</b>					<b>29,048</b>	<b>240,714</b>	<b>269,762</b>

- (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).

Likewise, at 31 December 2020, the third-party credit headings, customers for services rendered and creditors (see Notes 13(b), 13(d) and 21(d)) include the amounts of 66,174 thousand euros, 86,442 thousand euros and 47,904 thousand euros, respectively, for balances with shareholder City Councils (69,349 thousand euros, 98,688 thousand euros and 65,518 thousand euros, respectively, in 2019). In addition, "Assets payable dividends" (see Note 21 (b)) includes an amount of 42,664 thousand euros (37,262 thousand euros in 2019) payable to said shareholders.

**b) Transactions with related parties**

Details of the Company's transactions with Group companies, associates and joint ventures are as follows:

	In thousands of euros								
	2020								
	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	Ocio y Deporte Canal, S.L.U.	Joint Ventures
<b>Income</b>									
Service provision	-	-	-	3	-	-	-	3	-
Materials sales	3	-	-	-	-	-	-	-	-
Compensation for faults	-	-	-	2	-	-	-	-	-
Concession fee	-	428	-	-	-	-	-	200	-
Finance income	-	-	-	23	2,803	-	1,033	-	429
Dividends	-	-	-	-	-	-	-	-	-
Other operating income	194	519	130	589	677	-	24	-	551
<b>Expenses</b>									
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)	-	-	-	-	-
Repairs of technical installations	-	-	(3,926)	(1,051)	-	-	-	-	-
Technical assistance	(2,825)	-	-	(1,077)	-	-	-	-	-
Advertising	-	-	-	-	-	-	-	-	-
Other current operating expenses	(774)	-	-	(883)	-	-	-	-	-
Finance expenses	(5,518)	-	-	-	-	-	-	-	-
<b>Investments</b>	-	-	<b>(362)</b>	<b>(3,175)</b>	-	-	-	-	-

In 2020, and as a result of town councils gaining stakes in its share capital, at 31 December 2020 the 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).

Financial Statements and Directors' Report of Canal de Isabel II, S.A.  
2020 Financial Statements

In thousands of euros									
2019									
	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	Ocio y Deporte Canal, S.L.U.	Joint Ventures
<b>Income</b>									.
Services rendered	.	-	-	4	-	.		1	.
Materials sales	3	-	-	-	-	.		-	.
Compensation for faults	.	-	-	7	-	.		-	.
Concession fee	.	428	-	-	-	.		185	.
Finance income	.	-	-	-	5,545	.	437	-	479
Dividends	-	-	-	-	-	-	-	300	-
Other operating income	250	570	108	831	792	.	7	4	557
<b>Expenses</b>									
Purchase of water	.	-	-	-	.	.		-	(2)
Supplies	-	-	-	-	-	-	-	-	-
Energy	.	(1,715)	-	-	.	.	-	-	.
Telephone helpline	.	-	-	-	.	(3,222)		-	.
WWTP operations	.	-	-	(3,386)	.	.		-	.
Sales offices	.	-	-	-	.	(847)		-	.
Other operating work.	.	-	(30)	(5,681)	.	.		-	.
Repairs of technical installations	-	-	(3,862)	(1,156)	-	-		-	.
Technical assistance	(2,825)	-	(61)	(782)	.	.		-	.
Advertising	-	-	-	-	.	.		(7)	.
Other current operating expenses	(851)	-	-	-	.	.		(2)	.
Finance Expenses	(6,358)	-	-	-	-	.		-	.
<b>Investments</b>	-	-	(455)	(3,573)	.	.		-	.

Sales of goods, provisions of services, purchases of supplies and other expenses are incurred on an arm's length basis.

**c) Information on the members of the Board of Directors and Senior Management Personnel of the Company**

Pursuant to the 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 of the Company and its Committees for an amount of 73.2 thousand euros, not having received any remuneration for other items (47.4 thousand euros in 2019), nor do they have any advances or loans or any outstanding balances at 31 December 2020 and 2019.

The Company has not assumed any obligations on behalf of the Directors as a guarantee. The 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 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 Company's Management Committee. In 2020, the Company's senior management received a total remuneration of 1,023 thousand euros (945 thousand euros in 2019). The senior management personnel have not received any advances or loans, and the Company 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 Company has pension plans and life insurance obligations with respect to the senior management personnel (see Note 5 (o)). Furthermore, in 2020 they received 12 thousand euros (10 thousand euros in 2019) for the seniority policy (see Note 5 (p)).

**d) Conflicts of interest concerning the Directors**

In 2020 and 2019, the Directors of the Company 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.

**e) Transactions unrelated to normal business or under different market conditions carried out by the Board of Directors**

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

**26. INCOME AND EXPENSES**

**a) Net turnover**

The breakdown of net turnover reflects the operation of infrastructure to provide water supply, sanitation and recycling services.



	In thousands of euros	
	2020	2019
Income from the provision of operations services of Infrastructure	841,681	874,693
Income from the provision of services	11,395	12,320
<b>TOTAL</b>	<b>853,076</b>	<b>887,013</b>

The total amount of "Income from the provision of services" and the sales of water are made on the domestic market and in euros.

**b) Supplies**

The breakdown of supplies is the following:

	In thousands of euros	
	2020	2019
<b>Supplies</b>		
Consumed raw materials and other consumables	26,698	24,150
Consumed electricity and natural gas	48,182	57,803
Works carried out by other companies	134,159	131,859
Impairment of raw materials and other consumables	15	(8)
<b>TOTAL</b>	<b>209,054</b>	<b>213,804</b>

Details of raw materials and other consumables are as follows:

	In thousands of euros	
	2020	2019
<b>Consumed raw materials and other consumables</b>		
Domestic acquisitions	31,339	25,776
Intra-Community acquisitions	580	102
Inventory variation	(5,221)	(1,728)
<b>TOTAL</b>	<b>26,698</b>	<b>24,150</b>

**c) Operating leases**

**i) Lessee**

The Company has leased the use of certain assets to third parties under an operating lease regime.

A description of the most relevant lease agreements is the following:

- Floors 3 and 4 and several garage parking spaces in an office building in Madrid's Plaza del Descubridor Diego de Ordas, 3. The contract is valid for 3 years, extendable for a further 2 years, beginning on 1 March 2017, (4th floor and parking spaces) and 1 May 2017 (3rd floor). The annual rent for 2019 totalled 846 thousand euros (843 thousand euros in 2019).
- Building for office use located in calle Ríos Rosas 24, arising from lease contract signed on 28 February 2018. The contract has a term of five years, renewable for additional 3- and 2-year periods. The annual rent for 2020 totalled 1,105 thousand euros (1,149 thousand euros in 2019).
- Six contracts for fleets of vehicles leased from 2013 to 2020, with terms of 5, 4 and 3 years. The annual rent for 2020 totalled 2,210 thousand euros (2,067 thousand euros in 2019).

It is anticipated that these contracts will be renewed upon the expiry of same.

The expenses for leases in 2020 totalled 5,124 thousand euros (4,952 thousand euros in 2019).

None of the lease agreements subscribed include contingent fees.

Future minimum payments corresponding to non-cancellable operating leases are the following:

	In thousands of euros	
	2020	2019
Up to a year	5,051	4,879
From two to five years	8,336	9,870
More than five years	330	1,650
<b>TOTAL</b>	<b>13,717</b>	<b>16,399</b>

#### d) Personnel expenses

The breakdown of personnel expenses is the following:

	In thousands of euros	
	2020	2019
<b>Wages, Salaries and similar payments</b>	<b>111,388</b>	<b>105,356</b>
<b>Social Security contributions</b>	<b>37,293</b>	<b>35,315</b>
Social security at the expense of the Company	31,492	29,260
Long-service bonus (Note 15)	405	479
Seniority (Note 15)	3,967	3,393
Other social contributions	1,429	2,183
<b>Provisions</b>	<b>403</b>	<b>385</b>
<b>TOTAL</b>	<b>149,084</b>	<b>141,056</b>

**e) 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
<b>Profit</b>		
Investment property (Note 10)	73	-
<b>Loss</b>		-
Intangible fixed assets (Note 8)	(2,632)	(3,422)
<b>TOTAL</b>	<b>(2,559)</b>	<b>(3,422)</b>

**f) Other operating 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 (see Note 22).

In 2020, the Company had recognised 9,564 thousand euros corresponding to trade receivables that expired in December 2020 (Note 21 b)).

**27. INFORMATION ON EMPLOYEES**

The average headcount, broken down by standardised categories in accordance with the 4th National Collective Bargaining Agreement for the drinking water and wastewater sourcing, elevation, conveyance, treatment, distribution, sanitation and purification industries, effective from 5 July 2013, is as follows:

Category	Number	
	2020	2019
Senior Management	8	8
G.6 (Structure and Structural Support)	417	407
G.5 (University Graduates)	481	438
G.4 (Middle management)	139	145
G.3 (Technical personnel)	246	237
G.2 (Administrative and Official)	1,437	1,427
G.1 (Auxiliary personnel)	52	52
<b>GENERAL TOTAL</b>	<b>2,780</b>	<b>2,714</b>
<b>Partially retired</b>	<b>94</b>	<b>119</b>

At the end of 2020, the distribution by gender of the Company's personnel, members of the Board of Directors and senior management personnel, is as follows:

			Number
			2020
Category	Women	Men	
Members of the Board of Directors	3	8	
Senior Management	2	4	
G.6 (Structure and Structural Support)	151	289	
G.5 (University Graduates)	238	240	
G.4 (Middle management)	19	117	
G.3 (Technical personnel)	95	164	
G.2 (Administrative and Official)	415	1,052	
G.1 (Auxiliary personnel)	23	28	
<b>GENERAL TOTAL</b>	<b>946</b>	<b>1,902</b>	
<b>Partially retired</b>	<b>19</b>	<b>67</b>	

			Number
			2019
Category	Women	Men	
Members of the Board of Directors	2	7	
Senior Management	1	6	
G.6 (Structure and Structural Support)	137	269	
G.5 (University Graduates)	235	251	
G.4 (Middle management)	19	124	
G.3 (Technical personnel)	85	158	
G.2 (Administrative and Official)	410	1,025	
G.1 (Auxiliary personnel)	19	33	
<b>GENERAL TOTAL</b>	<b>908</b>	<b>1,873</b>	
<b>Partially retired</b>	<b>28</b>	<b>78</b>	

The number of employees in the Company with a disability equal to or higher than 33% (or equivalent local grading) during 2020 and 2019, itemised by categories is as follows:

		Number
		2020
		2019
Technical personnel	12	13
Administrative	52	46
Workers and auxiliary personnel	12	13
<b>GENERAL TOTAL</b>	<b>76</b>	<b>72</b>

## 28. AUDIT FEES

The auditors AUREN AUDITORES SP, S.L.P. and other firms belonging to the network accrued the following breakdown of fees for professional services for the year ended 31 December 2020:

	In thousands of euros	
	2020	2019
For auditing services	422	282
For other services	82	95
<b>TOTAL</b>	<b>504</b>	<b>377</b>

“Audit services” in 2020 includes fees for auditing the Company’s balance sheet at 31 October 2020 in the amount of 136 thousand euros.

“Other services” in 2020 include the 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 (ICFR) 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 detailed include the total fees for services rendered in 2020 and 2019, irrespective of the date of invoice.

## 29. INFORMATION ON AVERAGE TERM OF PAYMENT TO SUPPLIERS. THIRD ADDITIONAL PROVISION. <<RIGHT TO INFORMATION>> OF LAW 15/2010, OF 5 JULY.

Information on the average term of payment to suppliers is as follows:

	In thousands of euros	
	2020	2019
Average term of payment to suppliers	29.19	33.88
Ratio of paid transactions	29.19	35.09
Ratio of transactions payable	29.19	20.26
Total payments made	339,502	325,887
Total pending payments	25,106	28,940

### 30. 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 agrees 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.

**APPENDIX I.- DETAILS OF JOINT VENTURES AT 31 December 2020 AND 2019**

Details of joint ventures at 31 December 2020							Appendix I	
							2020	In thousands of euros
							% share	
Name	Registered Address	Activity	Type	Direct	Indirect	Total	Turnover	
Aguas de Alcalá UTE	C/ Federico Salmón, 13 – Madrid (Spain)	Management of supply and sanitation of the water cycle to the city of Alcalá de Henares in the province of Madrid		50 %	-	50 %	14,076	

Details of joint ventures at 31 December 2019							Appendix I	
							2019	In thousands of euros
							% share	
Name	Registered Address	Activity	Type	Direct	Indirect	Total	Turnover	
Aguas de Alcalá UTE	C/ Federico Salmón, 13 – Madrid (Spain)	Management of supply and sanitation of the water cycle to the city of Alcalá de Henares in the province of Madrid		50 %	-	50 %	14,586	

This Appendix forms an integral part of the accompanying Notes (1 and 6), in conjunction with which it should be read.

**APPENDIX II (1). - INFORMATION RELATING TO GROUP COMPANIES AT 31 December 2020 AND 2019**

Information relating to Group Companies at 31 December 2020												Appendix II (1)			
												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			
Canal Extensia, S.A.U.	Santa Engracia, 125 – Madrid (Spain)	Shareholding	AUREN	100.00 %	-	100.00 %	80,600	64,321	(2,667)	(1,560)	140,694	140,694			
Hispanagua, S.A.U.	San Enrique, 3 – Madrid (Spain)	Maintenance, operation, distribution and sanitation of water	AUREN	100.00 %	-	100.00 %	1,188	1,128	165	(3,174)	(693)	(693)			
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 %	4,620	7,002	-	651	12,272	12,272			
Hidráulica Santillana, S.A.U.	San Enrique, 3 – Madrid (Spain)	Electricity production	AUREN	100.00 %	-	100.00 %	4,753	22,764	255 <sup>(2)</sup>	105	27,622	27,877 <sup>(2)</sup>			
Canal Gestión Lanzarote, S.A.U.	Ctra. Arrecife-Las Caletas Km. 3,5 – Lanzarote (Spain)	Comprehensive water cycle management	AUREN	100.00 %	-	100.00 %	60	(1)	(16,100)	(6,123)	(22,164)	(22,164)			
Ocio y Deporte Canal, S.L.	Santa Engracia 125 - Madrid (Spain)	Commercial and sporting operation	AUREN	100.00 %	-	100.00 %	3	703	-	(95)	611	611			
Canal Energía, S.L.	José Abascal, 10 – Madrid (Spain)	Holding company	AUREN	80.00 %	20.00 %	100.00 %	4	253	(2)	(3)	252	252			
Sociedad Interamericana de Aguas y Servicios, S.A.	Barranquilla (Colombia)	Comprehensive water cycle operator	AUREN	-	81.84 %	81.84 %	27,483	6,354	(24,074)	(7,957)	1,806	1,806			
Gestus Gestión & Servicios S.A.S.	Barranquilla (Colombia)	Tax management	AUREN	-	77.03 %	77.03 %	657	692	-	(428)	921	921			
Acueducto, Alcantarillado y Aseo Dominicana, S.A.	Santo Domingo (Dominican Republic)	Comprehensive water cycle operator	AUREN	-	53.20 %	53.20 %	685	68	2,097	215	3,065	3,065			
Acueducto, Alcantarillado y Aseo Ecuador Agacase	Samborondon (Ecuador)	Public resources management	AUREN	-	82.02 %	82.02 %	308	-	(663)	449	94	94			
Amagua, CEM	Samborondon (Ecuador)	Comprehensive water cycle operator	AUREN	-	57.41 %	57.41 %	4,058	727	1,430 <sup>(2)</sup>	1,846	6,851	8,061 <sup>(2)</sup>			
Amerika Tecnología y Servicios, S.A.S.	Barranquilla (Colombia)	Design, maintenance, development, support and management of information technology projects	AUREN	-	81.84 %	81.84 %	142	399	-	8	549	549			



Financial Statements and Directors' Report of Canal de Isabel II, S.A.  
2020 Financial Statements

Information relating to Group Companies at 31 December 2020

Appendix II (1)

2020

Company	Registered Address	Activity	Auditor	% share			Share capital	Reserves	Other Net Equity items	Profit/(Loss)	In thousands of euros	
				Direct	Indirect	Total					Total Own Funds	Total Net Equity
Soluciones Andinas de Aguas, S.R.L.	Montevideo (Uruguay)	Investment and asset holding	AUREN	-	90.92 %	90.92 %	3		(28,841)	(5,122)	(33,960)	(33,960)
Interamericana de Aguas de México, S.A.	Veracruz (México)	Comprehensive water cycle operator	-	-	80.20 %	80.20 %	66	2	(40)	-	28	28
Mexagua	Veracruz (México)	Comprehensive water cycle operator	-	-	56.14 %	56.14 %	69	21	(47)	-	43	43
Emissão, S.A. <sup>(1)</sup>	Brazil	Maintenance, operation, distribution and sanitation of water	AUREN	-	68.19 %	68.19 %	5,450	-	(2,702)	(4,476)	(1,728)	(1,728)
Fontes da Serra Saneamento de Guapimirim Ltda.	Brazil	Comprehensive water cycle operator	AUREN	-	66.83 %	66.83 %	8	-	120	84	212	212

<sup>(1)</sup> Includes joint ventures (Consortia).

<sup>(2)</sup> Includes Subsidies, gifts and bequests received.

This Appendix forms an integral part of Notes 1 and 6 to the accompanying Notes, in conjunction with which it should be read. Figures converted using the exchange rate at the closing date.

Financial Statements and Directors' Report of Canal de Isabel II, S.A.  
2020 Financial Statements

Information relating to Group Companies at 31 December 2019

Appendix  
II (1)

Company	Registered Address	Activity	Auditor	% share			thousands of euros					
				Direct	Indirect	Total	Share capital	Reserves	Other Net Equity items	Profit/(Loss)	Total Own Funds	Total Net Equity
Canal Extensia, S.A.U.	Santa Engracia 125 – Madrid (Spain)	Shareholding	AUREN	100.00 %	-	100.00 %	80,600	64,321	-	(2,668)	142,253	142,253
Hispanagua, S.A.U.	San Enrique 3 – Madrid (Spain)	Maintenance, operation, distribution and sanitation of water	AUREN	100.00 %	-	100.00 %	1,188	3,567	165	(2,439)	2,481	2,481
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 %	4,620	6,195	-	806	11,622	11,622
Hidráulica Santillana, S.A.U.	San Enrique 3 – Madrid (Spain)	Electricity production	AUREN	100.00 %	-	100.00 %	4,753	22,430	281 <sup>(2)</sup>	335	27,518	27,799 <sup>(2)</sup>
Canal Gestión Lanzarote, S.A.U.	Ctra. Arrecife-Las Caletas Km. 3,5 – Lanzarote (Spain)	Comprehensive water cycle management	AUREN	100.00 %	-	100.00 %	60	(1)	(17,681)	1,581	(16,040)	(16,040)
Ocio y Deporte Canal, S.L.	Santa Engracia 125 – Madrid (Spain)	Commercial and sporting operation	AUREN	100.00 %	-	100.00 %	3	457	-	246	706	706
Canal Energía, S.L.	José Abascal 10 – Madrid (Spain)	Holding company	AUREN	80.00 %	20.00 %	100.00 %	4	252	4	(5)	255	255
Sociedad Interamericana de Aguas y Servicios, S.A.	Barranquilla (Colombia)	Comprehensive water cycle operator	AUREN	-	81.84 %	81.84 %	31,443	30,129	(39,698)	(10,705)	11,170	11,170
Gestus Gestión & Servicios S.A.S.	Barranquilla (Colombia)	Tax management	AUREN	-	77.03 %	77.03 %	752	848	-	(56)	1,544	1,544
Acueducto, Alcantarillado y Aseo Dominicana, S.A.	Santo Domingo (Dominican Republic)	Comprehensive water cycle operator	AUREN	-	53.20 %	53.20 %	824	82	2,443	80	3,428	3,428
Acueducto, Alcantarillado y Aseo Ecuador Agacase	Samborondon (Ecuador)	Public resources management	AUREN	-	82.02 %	82.02 %	336	-	(678)	449	108	108
Amagua, CEM	Samborondon (Ecuador)	Comprehensive water cycle operator	AUREN	-	57.41 %	57.41 %	4,129	679	1,586 <sup>(2)</sup>	1,143	6,173	7,535 <sup>(2)</sup>
Amerika, Tecnología y Servicios, S.A.S.	Barranquilla (Colombia)	Design, maintenance, development, support and management of information technology projects	AUREN	-	81.84 %	81.84 %	163	316	-	303	782	782
Soluciones Andinas de Aguas, S.R.L.	Montevideo (Uruguay)	Investment and asset holding	AUREN	-	90.92%	90.92 %	4	-	(20,373)	(15,379)	(35,748)	(35,748)
Interamericana de Aguas de México, S.A.	Veracruz (México)	Comprehensive water cycle operator	-	-	80.20 %	80.20 %	76	2	(46)	-	33	33
Mexagua	Veracruz (México)	Comprehensive water cycle operator	-	-	56.14 %	56.14 %	79	24	(55)	-	49	49
Emissão, S.A. <sup>(1)</sup>	Brazil	Maintenance, operation, distribution and sanitation of water	AUREN	-	68.19 %	68.19 %	7,673	-	(970)	(1,956)	4,748	4,748
Fontes da Serra Saneamento de Guapimirim Ltda.	Brazil	Water cycle operator	AUREN	-	66.83 %	66.83 %	11	-	281	(112)	180	180

<sup>(1)</sup> Includes joint ventures (Consortia).

<sup>(2)</sup> Includes Subsidiaries, gifts and bequests received

This appendix forms an integral part of the accompanying Notes 1 and 6, in conjunction with which it should be read. Figures converted using the exchange rate at the closing date.

**APPENDIX II (2). - INFORMATION RELATING TO ASSOCIATES AT 31 December 2020 AND 2019**

Information relating to Associates at 31 December 2020													Appendix II (2)			
													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 (Spain)	Communication and telemarketing service	Mazars Auditores SLP	25.00 %	-	25.00 %	60	2,106	(851)	554	1,869	1,869				
Metroagua, S.A. E.S.P. <sup>(1)</sup>	Santa Marta (Colombia)	Comprehensive water cycle operator	-	-	29.35 %	29.35 %	-	-	-	-	-	-				
Avanzadas soluciones de Acueducto y Alcantarillado, S.A. ESP	Riohacha (Colombia)	Catchment, treatment and distribution of water	AUREN	-	32.74 %	32.74 %	475	602	(1,693)	16	(600)	(600)				

Information relating to Associates at 31 December 2019													Appendix II (2)			
													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 (Spain)	Communication and telemarketing service	Mazars Auditores SLP	25.00 %	-	25.00 %	60	2,106	(871)	54	1,349	1,349				
Metroagua, S.A. E.S.P. <sup>(1)</sup>	Santa Marta (Colombia)	Comprehensive water cycle operator	-	-	29.13 %	29.13 %	-	-	-	-	-	-				
Avanzadas soluciones de Acueducto y Alcantarillado, S.A. ESP	Riohacha (Colombia)	Catchment, treatment and distribution of water	AUREN	-	32.50 %	32.50 %	543	689	(2,182)	246	(705)	(705)				

<sup>(1)</sup> No information available. Company in liquidation  
Figures converted using the exchange rate at the closing date.

**APPENDIX III.- DETAILS OF CHANGES IN RESERVES AND PROFIT/(LOSS) CORRESPONDING TO THE FINANCIAL YEARS ENDED 31 December 2020 AND 2019**

Breakdown of Changes in Reserves and Profit/(loss) corresponding to the financial year ended 31 December 2020			Appendix III
			In thousands of euros
			2020
	Legal reserve	Voluntary reserves	Total
<b>Balance at 1 January 2020</b>	<b>149,333</b>	<b>294,347</b>	<b>443,680</b>
Distribution of profit/(loss) for financial year 2019 (Note 4)			
Allocation Legal Reserve	24,191	-	24,191
Other movements	-	70,363	70,363
<b>Balance at 31 December 2020</b>	<b>173,524</b>	<b>364,710</b>	<b>538,234</b>

Breakdown of Changes in Reserves and Profit/(loss) corresponding to the financial year ended 31 December 2019			Appendix III
			In thousands of euros
			2019
	Legal reserve	Voluntary reserves	Total
<b>Balance at 1 January 2019</b>	<b>102,147</b>	<b>166,336</b>	<b>268,483</b>
Distribution of profit/(loss) for financial year 2017 and 2018 (Note 4)			
Allocation Legal Reserve	47,186	-	47,186
Other movements	-	128,011	128,011
<b>Balance at 31 December 2019</b>	<b>149,333</b>	<b>294,347</b>	<b>443,680</b>

This Appendix is an integral part of the accompanying Notes (Note 17) to the Financial Statements, along with which it should be read.



# DIRECTORS' REPORT FOR 2020



## 1. Business model

Canal de Isabel II S.A. (hereinafter "the Company", or "Canal") is a public-owned entity whose ownership structure includes the government of the Region of Madrid, by means of the Public Entity Canal de Isabel II, and the one hundred and eleven municipalities of which the region is comprised.

Pursuant to its Articles of Association and the Contract-Programme signed between the Company and the Public Entity Canal de Isabel II, Canal is responsible for running (operation, maintenance and upkeep) the Region of Madrid General Network and providing the water supply, sanitation and reuse services for this Network, which until 30 June 2012 were rendered by the Public Entity Canal de Isabel II.

The comprehensive water cycle comprises two broad phases: supply and sanitation, which correspond to the necessary actions to provide consumers with drinking water and to collect and treat wastewater. In addition to this cycle there is a third phase, namely the reuse of wastewater following adequate treatment so as to guarantee its sanitary characteristics, for use in the irrigation of gardens, street cleaning, irrigation in sport facilities and even in industry.

Canal currently manages all these phases and stages, providing the comprehensive water cycle in practically all the Region of Madrid.

Canal's management model in the drinking water supply and sewerage segments, which are owned by the municipal government, is based on long-term agreements with municipal governments to operate said infrastructure. Carrying out these activities by means of a supra-municipal approach generates scale economies and synergies in the operation which imply considerable advantages for the municipalities.

For economic purposes, managing the entire cycle and on a supra-municipal basis means not only covering costs in the various process phases but also obtaining sufficient margin to ensure the necessary investments and the economic and financial balance, thanks precisely to the aforementioned scale economies and synergies, guaranteeing a homogeneous service at a single 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 Company, form the Canal de Isabel II Group.

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 Company'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 Company redefines its medium and long-term positioning: strengthening the public nature of the Company and focussing on providing the people living in Madrid with an excellent service. In this regard, the 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 new 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.
- 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 of the Company aims to establish the bases for enabling Canal 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 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 activities it performs also enable it to contribute to the remaining sustainable development goals.

In this regard, in 2020 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. Business Development

### Canal 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.

In Spain, the government approved Royal Decree 463/2020, of 14 March, declaring a state of emergency throughout the national territory in order to manage the health crisis unleashed by the Covid-19 outbreak. The state of emergency was initially to have lasted 15 calendar days. Due to the severity of the situation and the high number of infections, the state of emergency was subsequently extended 6 times, and eventually ended on 21 June 2020.

The Spanish government, through Royal Decree 926/2020, approved on 25 October 2020 the declaration of a second state of emergency to contain the spread of Covid-19, lasting until 9 November 2020. Ultimately, on 3 November the Cabinet approved a 6-month extension of the state of emergency, from 9 November 2020 to 9 May 2021.

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.

To mitigate the economic impact of this crisis, on 17 March, the Cabinet approved Royal Decree-Law 8/2020, dated 17 March, concerning extraordinary emergency measures to tackle the economic and social impact of the Covid-19 outbreak, which came into force on 18 March 2020. Canal de Isabel II applied these measures, along with a set of voluntary measures, immediately.

#### Measures adopted by Canal

For some years Canal has had action protocols for implementation in the event of crisis scenarios which, in the case of the current pandemic, enabled it to take certain specific steps in advance, even before the Spanish government officially declared a state of emergency. On 25 February, the Health and Safety Committee approved a first package of preventive measures. Days later, the Business Continuity Committee began organising the Company's joint response.

Thanks to the initial steps taken, on 2 March 2020 a Crisis Committee had been set up which launched a contingency plan to guarantee the essential services of water supply and sanitation and to reduce the risk of Canal's employees being infected.

Below is an outline of some of the measures implemented by the Company in 2020 in accordance with the objectives thereof:

a) Guaranteeing supply

It is important to note that the Company's business is to provide an essential service, so it has taken the necessary measures to guarantee the continuity of its service and prevent the spread of the virus, in accordance with the measures adopted by the Authorities.

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, various working groups were set up to limit the contact between workers in the field and the Company ensured the presence of reserve teams at home and ready to replace other workers in the event of a case being detected.

Other notable actions to guarantee supply included: stockpiling reagents so as to ensure the operation of all plants, transfer of the Control Centre to the homes of more than 50 workers, from where they have remained ready to deal with any incident 24 hours a day, 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.

b) 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, the Company had to implement teleworking to continue performing many of its activities, and a significant effort was made to strengthen communications networks, all the while respecting people's work-life balance. Canal set up some 1,500 remote work stations in just ten days.

It also strengthened the cleaning and disinfection of workplaces; provided employees with personal protective equipment; cancelled events and meetings; suspended supply cut-offs and meter-reading, with only breakdowns attended to; closed commercial offices and replaced face-to-face service with telematic and telephone contact.

Moreover, Canal tested its employees as they gradually returned to the various work centres.

c) Living up to our customers' expectations

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 caused 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.

Canal also stopped cutting off water supply, so that no one would be left without water at a time when it was more necessary than ever. This suspension remained in place at the end of 2020.

At the same time, in order to tackle the high volume of requests and maintain the quality of customer service while commercial offices remained closed due to lockdown, the company strengthened the remote workforce and services.

d) Commitment to society

Canal 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 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, the Company 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.

Canal has also conducted awareness campaigns to mitigate the spread of the virus, such as the one launched in March in coordination with Canal Cáceres and Canal Gestión Lanzarote regarding the importance of frequent handwashing.

Moreover, the 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). The Company 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 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 Canal's business

Despite the considerable impact of Covid-19 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. Compared to 2019, the Company's turnover has decreased by 3.8%, including the potential impact of weather conditions.

However, in 2020, there were impacts on invoicing 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 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 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.

## Supply

Business indicators: Supply	2020	2019	2018
Number of customers (thousands)	1,524.88	1,504.79	1,484.56
Population supplied (thousands)	6,556.59	6,455.10	6,370.09
Water for consumption (Hm <sup>3</sup> )	488.27	501.08	479.87
Breakage index per 1000km of distribution network	96.22	108.55	110.50
Reused reclaimed water (Hm <sup>3</sup> )	13.14	15.88	12.10

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

In 2020, the 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, Canal 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.

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.

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.

Specifically in 2020, water for consumption amounted to 488.27 hm<sup>3</sup>, down 2.6% on 2019 as a result of the impact of Covid-19 on the business and the increased precipitation (natural contributions were 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 aggregate result of all the optimisation actions and measures carried out by the 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<sup>3</sup>, 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.

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 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.

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. In the last 10 years Canal has managed to halve the number of pipeline breakages per kilometre of network.

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 obtaining, not only operational improvements and reductions in the loss of water, but they are also aimed at improving customer service, emphasising the reduction of the average service disruption time through breakdowns and the frequency and impact rates per contract.

Another of the objectives which has been in development for some years in relation to guaranteeing supply is the extension of the supply of reclaimed water for irrigating parks and gardens, cleaning streets and for use in industrial processes. 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 Company channelled 13.1 hm<sup>3</sup> 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<sup>3</sup>). This reduction is due mainly to the weather conditions as 2019 was especially dry and more irrigation water was supplied. Moreover, the restrictions implemented as a result of the pandemic triggered a decline in demand in 2020.

## 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-conformities in water for consumption.

In 2020, in compliance with applicable legislation concerning water for consumption, the 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.

With regard to the quality of water for consumption, note that the percentage of samples compliant with regulatory requirements (92.05%) remains similar to that of 2019 (93.81%). Like last year, ensuring the presence of disinfectants at all usage points required slightly higher dosing in outlets at 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, to guarantee water that is suitable for human consumption.

The 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 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 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 an, framed within strategic line 2, a "Plan to enhance the use of new treatment technologies" has been developed. 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 in checking that the laboratory methods at DWTPs conform with new regulations. In this regard, 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, while fostering the quantitative assessment of microbiological risk as a quality standard beyond legal requirements.

## Sanitation

Business indicators: Sanitation	2020	2019	2018
Treated water (Hm <sup>3</sup> )	478.82	460.13	501.44
Reclaimed water discharged to waterways (Hm <sup>3</sup> )	112.79	105.77	112.62

*\*The indicators do not include information on the Cáceres Concession.*

In terms of Sanitation, in 2020, the Company continued to carry out actions established in the National Treated Water Quality Plan, to comply with Framework Water Directive 2000/60/EC, water treatment plants must have the necessary processes to eliminate phosphorous and nitrogen. This obligation entails carrying out a series of investments with the aim of equipping the treatment plants with advanced processes for eliminating nutrients. 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.

In 2020, the 157 treatment plants managed by Canal processed a total of 478.82 hm<sup>3</sup> of wastewater, of which 465.68 hm<sup>3</sup> was discharged into waterways and 13.14 hm<sup>3</sup> 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 hm<sup>3</sup>, was subject to tertiary treatment for reclaiming, with a view to being re-used or to improve the quality of the water discharged to waterways in Madrid.

The volumes treated in the year were higher than in the previous year (460.13 hm<sup>3</sup>), 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 "Plan Incorpora" was launched, 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 public 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 cumulative 200 million euros in projects for execution over the next few years.

Lastly, the awareness campaigns 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 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.

### **Telecontrol and metrology**

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

Canal's general communication system covers all the geographical area in which it operates, with a network that integrates all of 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 de Isabel II'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)	510.79	470.57	459.11
Electricity production (GWh)	378.80	363.96	312.22
Production/Consumption (%)	74.16 %	77.34 %	68.01 %

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

The production processes needed to provide the services require significant electricity consumption (water treatment at drinking water and wastewater plants, and pumping both for water harnessing and throughout the supply and sanitation network system). Therefore, given the importance of optimising this consumption, in recent years initiatives have been conducted to improve efficiency in processes and generate clean energy. We highlight that 100% of the energy purchased by Canal since 2018 is certified as having come from renewable sources.

In 2020, the 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.

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

One of the goals of the strategic plan is sustainable development. With regard to clean energy, the 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 378.80 GWh, a 4.08% increase on 2019 (363.96 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 74.16% of the electricity consumed was generated, a slight decrease on the previous year's figure (77.34% in 2019).

## Customer-oriented

Canal has always been distinguished by its commitment to its users. Accordingly, Line 6 of the Strategic Plan is aimed at strengthening the commitment and proximity to users, maximising the customer experience and boosting the efficiency of commercial processes.

Evidence of this commitment and of the objective of keeping fair and accessible 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, in 2020, Canal 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 pandemic. In addition, at the end of 2020, its social rebates were extended to include 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 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, Canal has two major projects underway that will significantly impact on its relationship with customers. The Company is working to develop a new, next-generation commercial system to tackle the digital transformation, integrate the entire customer relationship and implement a process of continuous efficiency improvement in all commercial processes. Furthermore, remote meter reading will enable the Company to provide customers with tips on how to save water, among others, and help detect leaks.

### Structure of the workforce

Business indicators: Structure of the workforce	2020	2019	2018
Open-ended contracts	2,134	1,984	1,608
Temporary contracts	790	895	1,200
<b>Total workforce at year end</b>	<b>2,924</b>	<b>2,879</b>	<b>2,808</b>
% of temporary contracts	27.02 %	31.09 %	42.74 %

In the last few years, regulatory restrictions have limited the capacity for open-ended contracts, significantly increasing staff turnover.

Aware of the major importance of reducing the percentage of temporary contracts in our workforce, which in 2018 reached almost 45%, and to ensure the continuity of the company's professionals and the stability of the workforce as a key element of service quality and medium- and long-term sustainability, in the last few years Canal has worked to obtain the regional government's approval to post new public employment vacancies. Accordingly, coverage was approved of around 1,000 positions with open-ended contracts. In 2018, 2019 and 2020, Canal 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.

### Other significant matters in relation to Group companies

In addition to managing the comprehensive water cycle in the Madrid region and in Cáceres, Canal is the parent company of a number of companies located in Spain and Latin America.

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 Extensia Group: Due to the potential impact on the business, because Canal is the parent of the Canal Extensia group, 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.

Canal, through its representatives in Inassa, is exercising all pertinent legal actions to defend this company's interests and safeguard its economic and property rights. This information, and other contingencies that might affect the Canal Group, are outlined in more detail in Note 19 to the financial statements.

### 3. Economic figures

Turnover (millions of euros)	2020	2019	2018
Turnover	853.08	887.01	854.14
EBITDA	311.00	346.43	338.15
Depreciation	(117.47)	(114.94)	(112.4)
Operating Profit/(Loss)	209.26	247.06	227.59
Financial Profit/(Loss)	(14.18)	(4.8)	(17.92)
Net Profit/(Loss)	194.55	241.91	209.97
Other financial indicators	2020	2019	2018
Net financial debt (millions of euros)	319.88	467.48	459.45
EBITDA/Turnover	36.46 %	39.06 %	39.59 %
Net financial debt/EBITDA	1.03	1.35	1.36
Average collection period (days)	50.48	49.28	52.65
Average term of payment (days)	29.19	33.88	39.52

**Turnover** fell by 3.83% with respect to the previous year as a result of the 2.77% reduction in the volume of 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 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<sup>3</sup> invoiced fell.

It is important to note that 2019 saw record invoicing at the Company, since it was very dry until November, and rates remained frozen in 2020 for the fifth consecutive year. Furthermore, as already stated, the Company applied temporary rate rebates 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.

Overall **operating expenses** remained constant despite the reduced activity and lower energy prices, as a result of the rollout of new activities and improvements in process quality within the framework of the Strategic Plan, as well as increased own and subcontracted personnel costs and adaptation to new and increasingly exacting regulations.

Canal has not passed on to its rates, frozen since 2016, the increase in its operating expenses, since it considers it has the capacity to absorb them, ensuring not only that said costs are covered, but that it manages to generate a margin that enables it to undertake investments and shareholder remuneration as planned.

Furthermore, in 2020 Canal de Isabel II had to make an exceptional effort to guarantee provision to the population 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, 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, pushed up operating expenses by approximately 8.5 million euros.

As a result, **EBITDA** fell by 35.4 million euros on the 2019 figure, with operating profitability in percentage terms going from 39.06% in 2019 to 36.46% in 2020.

As for **finance income**, it fell sharply compared to the previous year due to various factors unrelated to finance expenses to service borrowings:

- In 2020 the Company recognised an impairment on its shareholding in Hispanagua of 2.8 million euros as a result of the losses posted in the year and the approval of its merger by absorption, while in 2019 it recognised an impairment reversal of 0.7 million euros.
- Furthermore, income on loans to group companies fell as the applicable interest rate on loans to Spanish companies was revised down in accordance with the current market conditions.
- Lastly, financial updates to keep asset and liability accounts at their current value, and other financial capitalisations deriving from the application of accounting standards for infrastructure concessionaire companies, were 4.4 million euros lower than in 2019.

**Net profit** worsened by 47.4 million euros year-on-year for the reasons outlined above.

### Net financial debt

In 2020, net financial debt continued to decrease in accordance with its programme of maturities. In addition to the issuance of bonds amounting to 500 million euros, 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 10% compared with the 286 million euros of 2019.

No new indebtedness was taken on in 2020, but rather total debt was reduced in the amount due for repayment in the year (29 million euros, the 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 so as to provide liquidity to its suppliers, and to distribute dividends amounting to 109.1 million euros, ending the year with a balance of 420.8 million euros, bringing Net Financial Debt to 319.9 million euros.

## 4. Investments

The cash flow generated in operating activities were mainly used to address the volume of investment carried out in 2020, which amounts to 131.7 million euros in construction works and projects (compared with 131.5 million euros 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 of the year.

It should be pointed out that this figure includes investments considered replacement investments, pursuant to the standard to adapt to the Spanish General Accounting Plan for public infrastructure concessionaire companies and that pursuant to this standard, they have not been capitalised by the Company as a greater value of Fixed Assets. The Company executed investments of this kind amounting to 73.0 million euros (68.9 million euros in 2019).

Furthermore, Canal 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:

Investment by category (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
<b>TOTAL</b>	<b>131.66</b>	<b>131.50</b>	<b>128.03</b>
Works in distribution and sewerage networks owned by third parties	11.92	15.91	18.55
<b>TOTAL INVESTMENTS AND PROJECTS OWNED BY THIRD PARTIES</b>	<b>143.58</b>	<b>147.41</b>	<b>146.58</b>

The total amount of investments made in the last three years was below the Company's historical average. From 9 March 2018, it began to apply the new Public Procurement Act, which increased the average contract 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, with 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 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, of note are 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, of note are 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, of note are 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 Valdeterres; 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, of note are 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, of note are 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.

In 2019, the Company continued its efforts to automate the operation, enhance the security of IT systems and assemble equipment and infrastructure in the telecommunications network. Of note are 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.



### **R&D&I Investments**

The Company also contributes actively 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.

The Company's innovation efforts in the last few years are evidenced by its portfolio of 32 RDI projects launched, underway or completed during 2020.

Of note is "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 in 2020 amounted to 4.8 million euros, i.e., 0.54% of the Company's 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.

During 2020, due to the circumstances caused by the coronavirus, Canal has played an active and notable role in the main international forums (in online format due to the pandemic) on water management, research, development and innovation in the sector and new technologies applied to the various phases of the integrated water cycle.

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.

## **5. Risk Factors**

The Company'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 Company's main operating risks arise from managing water, a limited resource. The availability thereof is directly affected by external weather factors, mainly rainfall and temperatures, which are beyond the control of the Company. Climate change also presents a challenge in terms of hydric stress, with rainfall differing greatly from levels to which we had become accustomed up until now. In terms of the challenge of water availability, we are facing moderate population growth over the coming years in the Region of Madrid.

This is why efficiency in the management of this resource is one of the main objectives and that's why it's framed within strategic line 1. To mitigate this risk, Canal works on: improving its infrastructure to reduce losses, optimising management of reservoirs, exploitation of underground waters, the extension of reclaimed water and the development of campaigns to raise awareness and motivate people to save water.

Specifically, the Company manages 13 reservoirs with a capacity for 943.5 hm<sup>3</sup> and 78 underground water catchments.

**Potential damage to infrastructure**

Furthermore, as a company that manages the comprehensive water cycle, it requires considerable investment in infrastructures and, therefore, is exposed to possible damage to its assets due to external factors. To mitigate these risks, the Company periodically performs preventive maintenance and has taken out various insurance policies. These policies are reasonably sufficient to cover the net carrying amounts of the Company's property, plant and equipment and intangible assets.

**Environmental impact**

The management of an essential resource, high levels of energy consumption and large investments the Company must make in operations have a considerable environmental impact. Inadequate management could have negative repercussions for the Company from a legal and social perspective.

In this regard, the Company 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 Company 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 the Company in terms of retaining talent.

Among the measures and actions developed by the Company is the aforementioned increase in the number of open-ended contracts.

### **Political interference**

Given the 100% public nature of the 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 Company. To mitigate this risk and disassociate the Company's activities from potential interference, the Strategic Plan includes clearly defined strategic lines and actions for development, that will allow Canal to focus on its mission and achieve its long-term objectives.

### **Corruption and bribery**

There is also a risk of corruption and bribery, which, if it were to materialise, would have negative legal and reputational consequences.

Canal pursues transparency and efficiency in all its actions. Due to its public nature and due to the fact that the Company offers an essential service, it is committed to excel and to be rigorous with regard to corporate governance and ethical behaviour. To achieve this strategic objective, the Company 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 Canal's Compliance Policy.

### **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. In the case of Canal, due to the many elements of the Company that depend on commands managed from the Control Centre, this risk is even greater.

Accordingly, the Company has defined and implemented a series of policies and actions that focus on the following aspects:

- 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

These policies are detailed 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, Canal increased the percentage of fixed-rate debt, standing at 100% at the end of 2020, which reduces the Company's exposure to the risk through interest rate variation to zero.

### Liquidity risk

Canal 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, Canal engages in long-term financial planning and constantly monitors and controls its cashflows. The 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 Company's cash amounted to 420.8 million euros.

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 Company's standalone rating unchanged at BBB+.

### Price pressure

Another risk factor inherent to the Company's activities is possible price pressures, as a result of providing an essential service as is managing the comprehensive water cycle. Exposure to this risk is evidenced by the rates' having been frozen since 2016, and they will remain frozen in 2021.

### Credit risk

Due to the fact that the Company has an extremely scattered customer population, credit risk is not a significant factor.

#### - **Risk Management**

In the area of Risk Management, Canal has established a system for identification, analysis and control of the risks to which its business could be exposed, and which could affect the organisation's ability to meet its strategic objectives.

More detailed information on the Company'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. Own shares**

During the year ended 31 December 2020 the Company has not acquired any own shares.

## **7. Financial instruments**

The Company has not arranged any financial instruments during the year that are relevant to the valuation of its assets, liabilities, financial position or results.

## **8. Events after the Reporting Date**

Events after the Reporting Date are displayed in Note 30 of the Notes to the Financial Statements.

## **9. About this Report**

The Group compiles the "Non-financial Information Statement (NFIS)" as part of its 2020 Sustainability Report, which is an integral part of the Consolidated Directors' Report and is deposited in the Commercial Registry of Madrid along with the Consolidated Financial Statements. The NFIS has been verified by an independent provider of verification services and includes the Canal Group's non-financial information. Therefore, Canal de Isabel II S.A. is exempt from the obligation to include this information in its individual Directors' Report in accordance with the provisions of Law 11/2018, amending the Commercial Code, the Spanish Companies Act and the Law on the Auditing of Accounts in relation to non-financial information and diversity.

This report includes, as an integral part thereof, the Annual Corporate Governance Report for 2020.

# Annual Corporate Governance Report

*The contents of this section 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](http://www.cnmv.es)*



**APPENDIX IV FORM**

**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

C.I.F. (TAX  
IDENTIFICATION CODE)  
A86488087

Corporate Name: CANAL DE ISABEL II, S.A.

Registered Address: C/ SANTA ENGRACIA, 125, 28003 MADRID (SPAIN)



**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 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.
  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.
- c) Technical assistance and advice in telecontrol projects.
- d) Advice concerning quality management systems.
- e) Internal audit, risk management and internal control services.
- f) Legal advice and assistance.
- g) Data protection officer services.
- h) Advice and assistance in human resources management and occupational health and safety.
- i) Document record and filing services.
- j) Technical advice and assistance in relation to consolidation, tax matters and accounting.
- k) Cleaning, gardening and maintenance of offices and facilities, removing waste where necessary.

- l) Security services.
- m) Courier services between group companies and entities.
- n) Medical consultation, nursing and physiotherapy services, where applicable.
- o) Coordination and control of contractors in the execution phase and compliance with the contracts adjudicated jointly by the Company and its investees and/or the public entity Canal de Isabel II.

## **B** GOVERNING BODIES OF THE ENTITY

### **B.1 List the different governing bodies of the entity and explain their composition, procedures and organisational rules and their function, along with the regime for the adoption of agreements.**

#### **ANNUAL GENERAL MEETING OF SHAREHOLDERS**

Per the provisions of the Company's Articles of Association, unless other quorums for the convening of meetings are established by law, the Meeting of Shareholders shall be validly convened, on first call, where the shareholders present in person or by proxy hold at least twenty-five (25) percent of the voting share capital. On second call, the Meeting of Shareholders shall be validly convened regardless of the share capital present.

Nevertheless, in order that the Meeting of Shareholders may validly resolve on the items referred to in Article 194 of the Spanish Companies Act, shareholders holding at least fifty (50) percent of the voting share capital must be present in person or by proxy on first call. On second call, only twenty-five (25) percent of share capital is required to be present.

With regard to the regime for the adoption of agreements of the Company, the statutory regime replicates the statutory regime in force at the date of approval of this Annual Corporate Governance Report.

Per the provisions of the Company's Articles of Association, unless other majorities are established by law, Shareholders' Meeting resolutions shall be adopted by a simple majority of the votes of the shareholders present in person or by proxy, considering an agreement to have been adopted following the affirmative vote of half plus one of the share capital present in person or by proxy. The affirmative vote of more than fifty (50) percent of the share capital present in person or by proxy shall be sufficient to adopt the resolutions referred to in Article 194 of the Act. However, the affirmative vote of two thirds of the share capital present in person or by proxy at the Meeting of 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.

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 held 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.

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.

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
  - 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, of note are 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.



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 529 *quindecies*. 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.
- 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 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
	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.

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	-	-
<b>TOTAL</b>	<b>206.5</b>	-

#### 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

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.**

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

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:

Financial Statements and Directors' Report of Canal de Isabel II, S.A.  
2020 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
<b>INCOME</b>									
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
<b>EXPENSES</b>									
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)	-	-	-	-	-	-	-	-
<b>INVESTMENT</b>	-	-	(362)	(3,175)	-	-	-	-	-

In 2020, transactions between Group companies in which Canal de Isabel II, S.A. did not hold a stake were as follows:

Company	Income	Expense	In thousands of euros 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 Tecnologías 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 Tecnologías y Servicios, S.A.S.		34	Back office lease
Gestus Gestión & Servicios, S.A.S.		8	Technical assistance
Amerika Tecnologías 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.U.	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
Emissão, S.A., S.A.		164	Interest on loans
Gestus Gestión & Servicios, S.A.S.		57	Interest on loans
Amerika Tecnologías 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		
Emissão, S.A.		627	Interest on loans

Operations linked to financing agreements were as follows:

#### 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 approved on 23 November 2018 by the Board of Directors of Canal de Isabel II 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 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, S.A.U. granted INASSA a loan of up to 49.3 million US dollars in order to unify all the loans already granted (42.7 million US dollars) plus the interest



accrued on that date, amounting to 2.7 million US dollars. This contract included a new facility to be drawn down in the outstanding debt amounting to 3.9 million dollars, 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 a total of 2.2 million dollars of the 3.9 million dollars available, 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. granted 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. – Emissão, S.A., 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.
- To execute this financing transaction between Canal Extensia, S.A.U. and Soluciones Andinas del Agua - which owns the shareholding in Emissao, S.A., on 29 January 2019 a loan contract was signed by Canal de Isabel II, S.A. and Canal Extensia, S.A.U. in the amount of 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 Emissão, 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 Emissão, 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, S.A., so that the first and only loan payment for the shareholding in Emissão, S.A. 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 Isabel II, S.A. And Canal Extensia, S.A.U. up to a maximum of 4 million euros, 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	thousands of euros
<b>INASSA sureties and guarantees</b>		
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.**

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 a Certification 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.
- 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.

#### **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.

Moreover, there is a category of Strategy Risks linked to the set of decisions made by the organisation in order to achieve its mission. Category No. Risks % of total:

- Information 13 (10%)
- Compliance 21 (15%)
- Strategy 28 (20%)
- Operations 64 (47%)
- Senior Management 11 (8%)

### Process

Canal de Isabel II conducts its risk management based on the COSO methodology, adapted to suit the organisation's characteristics. This methodology enables the Company to identify, create, capture and sustain the value of risk management.

The risk assessment process starts with identification and continues as follows:

- Risks are assessed at the level of impact and likelihood based on scales that factor in various risk impact aspects.
- A list is drawn up of the potential risks at Canal de Isabel II based on the categories used in COSO.
- The entity's risk map is updated periodically (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 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.

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.

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](mailto: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.

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 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 Emissão, S.A. received training. 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 at 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 on 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.**

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:

- 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 Emissao, S.A., 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, S.A.	34	34	116
INASSA	37	37	110
<b>TOTAL</b>	<b>492</b>	<b>492</b>	<b>1,316</b>

The total number of tests in 2020 at the aforementioned companies amounted to 1,749.

Moreover, in 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.

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 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.

During 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 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.**

Canal is a public mercantile company whose contracts, in accordance with their amount and purpose, are subject to Law 9/2017, of 8 November, on Public Sector Contracts or the relevant part of Royal Decree-Law 3/2020, of 4 February, on urgent measures, incorporating into the Spanish legal framework various European Union Directives in the sphere of public contracting in certain sectors, namely private insurance, pension schemes and funds, taxation and tax litigation; and repealing Law 31/2007, of 30 October, on contracting procedures in the water, energy, transport and postal services sectors.

Activities entrusted to third parties that could have a material impact on the financial statements are considered relevant to the generation of financial information, which lead to, if applicable, the identification of risks of errors, which involves designing the associated internal controls. These controls cover the analysis and internal approval of the basic assumptions to be used, as well as the review of the assessments, calculations or valuations of the activities performed by external personnel, by comparing these with calculations performed internally.

In 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 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. In 2020, 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 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.

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.



## Drafting of Financial Statements and Directors' Report for 2020.

The Directors of Canal de Isabel II, S.A. at 29 March 2021 and pursuant to the provisions established in Article 253.2 of the Revised Text of the Spanish Companies Act and in Article 37 of the Spanish Commercial Code, have prepared the financial statements and the Directors' Report of the financial year from 1 January 2020 to 31 December 2020.

Signed by:

Signed: Ms Paloma Martín Martín Chairperson of the Board of Directors	
Signed: Mr Pascual Fernández Martínez Deputy Chairperson of the Board of Directors and Chief Executive Officer	Signed: Mr Guillermo Hita Téllez Director
Signed: Mr Mariano González Sáez Director	Signed: Mr Jacobo Martínez Pérez de Espinosa Director
Signed: Mr Antonio Javier Cordero Ferrero Director	Signed: Mr Francisco Muñoz García Director
Signed: Mr Jaime Sánchez Gallego Director	Signed: Mr Jaime García-Legaz Ponce Director
Signed: Ms Alicia Muñoz Lombardía Director	Signed: Ms Lourdes Vega Fernández Director

*(Signed on original in Spanish)*

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



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