



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

2023

Prepared in accordance with international financial reporting standards as adopted by the European Union (IFRS-EU)

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Consolidated financial
statements

2023

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AT 31 DECEMBER 2023 AND

2022	Notes	2023	2022 (*)
(In thousands of euros)			
ASSETS			
Property, plant and equipment	7	31,971	30,989
Investment property	8	12,370	10,536
Goodwill	9	12,904	12,859
Other Intangible Assets	10	4,053,897	4,005,178
Investments accounted for using the equity method	12	316	439
Deferred tax assets	27	3,708	3,089
Other non-current financial assets	14	184,913	139,153
Other non-current non-financial assets	17	73,530	71,865
TOTAL NON-CURRENT ASSETS		4,373,609	4,274,108
Non-current assets held for sale	6	1	4,210
Inventories	15	11,041	11,324
Current income tax asset		479	375
Trade debtors and other accounts receivable	16	242,624	214,384
Other current financial assets	14	13,663	363,078
Other current non-financial assets	17	6,372	5,733
Cash and cash equivalents	18	445,203	232,119
TOTAL CURRENT ASSETS		719,383	831,223
TOTAL ASSETS		5,092,992	5,105,331

The attached notes to the financial statements are an integral part of the Consolidated Financial Statements for the financial year ending 31 December 2023

(*) Restated information.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AT 31				
DECEMBER 2023 AND 2022		Notes	2023	2022 (*)
(In thousands of euros)				
EQUITY AND LIABILITIES				
Share capital	19		1,074,032	1,074,032
Share premium	19		1,074,032	1,074,032
Other Reserves	19		214,561	210,057
Accumulated profit	19		507,119	451,623
Translation differences	19		(8,053)	(6,057)
Interim dividend paid during the year	19		(70,511)	(61,755)
EQUITY ATTRIBUTED TO HOLDERS OF EQUITY INSTRUMENTS OF THE PARENT COMPANY			2,791,180	2,741,932
Non-controlling interest	19		(29,027)	(22,448)
TOTAL EQUITY			2,762,153	2,719,484
Financial liabilities with credit entities	20		-	85
Other financial liabilities	20		622,367	618,152
Non-current government subsidies and other income	21		740,550	744,879
Financial debts with Group companies	20		167,381	182,143
Deferred tax liabilities	27		1,292	954
Non-current liabilities	23		251,671	440,019
Other non-current non-financial liabilities	25		11,473	12,368
TOTAL NON-CURRENT LIABILITIES			1,794,734	1,998,600
Financial liabilities from issuing bonds and other	20		7,111	7,111
Financial liabilities with credit entities	20		107	1,027
Financial debt with related companies	20		20,482	20,325
Other current financial liabilities	20		26,633	28,540
Current government subsidies and other income	21		20,028	21,403
Trade creditors and other accounts payable	22		278,822	215,094
Current income tax liability	22		1,095	1,333
Current provisions	23		174,469	85,772
Other current non-financial liabilities	25		7,358	6,642
TOTAL CURRENT LIABILITIES			536,105	387,247
TOTAL LIABILITIES AND EQUITY			5,092,992	5,105,331

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(*) Restated information.

CONSOLIDATED INCOME STATEMENT			
CORRESPONDING TO FINANCIAL YEARS ENDED AS OF			
31 December 2023 AND 2022	Notes	2023	2022 (*)
(In thousands of euros)			
Ordinary income	26a	945,520	947,727
Other income	26b	51,468	72,038
Works carried out by the Group for non-current assets		31,449	18,419
Consumption of goods, raw materials and consumables	26c	(319,488)	(358,192)
Employee benefits expense	26d	(209,025)	(195,911)
Amortization expense	26e	(134,089)	(131,831)
Losses (Reversal of losses) for fixed assets impairment	26g	12,924	2,104
Other expenses	26f	(241,705)	(223,078)
Finance income	26h	24,047	18,460
Finance expenses	26h	(28,630)	(26,243)
Losses (Reversal of losses) for investment impairment	26h	2,687	(290)
Share in investment earnings of the fiscal year recorded with the equity method	12	(138)	(37)
EARNINGS BEFORE ONGOING OPERATIONS TAXES		135,020	123,166
Tax on profits expense	27	(3,825)	(2,942)
ONGOING OPERATIONS INCOME FOR THE FISCAL YEAR		131,195	120,224
FINANCIAL YEAR PROFIT		131,195	120,224
Equity attributed to holders of equity instruments of the Parent		135,831	120,455
Income attributable to non-controlling interest		(4,636)	(231)

The attached notes to the financial statements are an integral part of the Consolidated Financial Statements for the financial year ending 31 December 2023

(*) Restated information.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

FOR THE YEARS ENDED 31 DECEMBER 2023 AND 2022

Notes

2023

2022 (*)

(In thousands of euros)

FINANCIAL YEAR PROFIT		131,195	120,224
Items to be reclassified as income		-	-
Translation differences of overseas businesses financial statements		(3,273)	(8,902)
OTHER COMPREHENSIVE INCOME, NET OF TAXES		(3,273)	(8,902)
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:		127,922	111,322
Equity attributed to holders of equity instruments of the Parent		133,835	112,308
Non-controlling interest		(5,913)	(986)

The attached notes to the financial statements are an integral part of the Consolidated Financial Statements for the financial year ending 31 December 2023

(*) Restated information.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY FOR THE YEARS

ENDED 31 DECEMBER 2023 AND 2022

(In thousands of euros)

EQUITY ATTRIBUTED TO HOLDERS OF NET WORTH INSTRUMENTS OF THE PARENT

	Share capital	Share Premium	Other Reserves	Accumulated profit	Interim dividend	Translation differences	Total	Non-controlling interests	TOTAL
A. BALANCE AT 01 JANUARY 2022	1,074,032	1,074,032	192,734	492,493	(93,174)	3,545	2,743,662	(4,098)	2,739,564
Adjustment to the initial balance	-	-	-	(37,887)	-	-	(37,887)	(17,674)	(55,561)
C. ADJUSTED BALANCE, BEGINNING OF YEAR 2022	1,074,032	1,074,032	192,734	454,606	(93,174)	3,545	2,705,775	(21,772)	2,684,003
Profit	-	-	-	120,455	-	-	120,455	(231)	120,224
Other comprehensive income	-	-	-	-	-	(8,147)	(8,147)	(755)	(8,902)
TOTAL COMPREHENSIVE INCOME STATEMENT	-	-	-	120,455	-	(8,147)	112,308	(986)	111,322
Distribution of the benefit for the financial year	-	-	-	-	-	-	-	-	-
Reserves	-	-	17,323	(17,323)	-	-	-	-	-
Dividends (note 19)	-	-	-	(103,751)	93,174	-	(10,577)	-	(10,577)
Dividends (note 19)	-	-	-	-	(61,755)	-	(61,755)	-	(61,755)
Other movements	-	-	-	(2,364)	-	(1,455)	(3,819)	310	(3,509)
C. BALANCE AT 31 DECEMBER 2022	1,074,032	1,074,032	210,057	451,623	(61,755)	(6,057)	2,741,932	(22,448)	2,719,484
Adjustment to the initial balance	-	-	-	-	-	-	-	-	-
D. ADJUSTED BALANCE, BEGINNING OF YEAR 2023	1,074,032	1,074,032	210,057	451,623	(61,755)	(6,057)	2,741,932	(22,448)	2,719,484
Profit	-	-	-	135,831	-	-	135,831	(4,636)	131,195
Other comprehensive income	-	-	-	-	-	(1,996)	(1,996)	(1,277)	(3,273)
TOTAL COMPREHENSIVE INCOME STATEMENT	-	-	-	135,831	-	(1,996)	133,835	(5,913)	127,922
Distribution of the benefit for the financial year	-	-	-	-	-	-	-	-	-
Reserves	-	-	4,504	(4,504)	-	-	-	-	-
Dividends (note 19)	-	-	-	(73,034)	61,755	-	(11,279)	-	(11,279)
Dividends (note 19)	-	-	-	-	(70,511)	-	(70,511)	-	(70,511)
Other movements	-	-	-	(2,797)	-	-	(2,797)	(666)	(3,463)
E. BALANCE AT 31 DECEMBER 2023	1,074,032	1,074,032	214,561	507,119	(70,511)	(8,053)	2,791,180	(29,027)	2,762,153

The attached notes to the financial statements are an integral part of the Consolidated Financial Statements for the financial year ending 31 December 2023

(*) Restated information.

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED 31 DECEMBER 2023 AND 2022.

(In thousands of euros)

2023
2022 (*)

CASH FLOWS FROM OPERATING ACTIVITIES		
PROFIT(LOSS) FOR THE YEAR	131,195	120,224
ADJUSTMENTS DUE TO:		
Amortization of fixed assets	134,089	131,831
Impairment write-downs	(1,170)	1,026
Variation of provisions	72,652	77,993
Allocation of subsidies	(20,028)	(21,402)
Attribution of other subsidies, gifts and bequests	(26)	(34)
Results for derecognitions and disposals of fixed assets	(9,860)	(143)
Finance income	(23,033)	(7,150)
Finance expenses	28,629	31,430
Translation differences	(1,014)	(11,310)
Profit tax	3,825	2,942
Other income and expenses	18,283	3,013
Share in profit/loss of equity-accounted companies	138	37
CHANGES IN WORKING CAPITAL EXCLUDING THE EFFECT OF ACQUISITIONS AND TRANSLATION DIFFERENCES		
Inventories	327	575
Trade and other accounts receivable	(26,681)	(13,155)
Other current assets	(1,126)	(400)
Creditors and other accounts payable	(17,132)	11,405
Other current liabilities	192	373
Provisions	(183,778)	(100,445)
Other non-current assets and liabilities	714	518
Restatement effect		(186)
EFFECT CAUSED BY OPERATING ACTIVITIES	106,196	227,142
Interest paid	(13,479)	(13,054)
Interest collections	15,205	1,066
Tax on profits payables (receivables)	(248)	449
OPERATING ACTIVITIES CASH FLOW	107,674	215,603
CASH FLOWS FROM INVESTMENT ACTIVITIES		
Payables for the purchase of intangible assets	(107,492)	(87,261)
Payables for the purchase of fixed assets	(964)	(405)
Payables for the purchase of investment property	(433)	(3)
Payables for the purchase of financial assets	(84,306)	(376,503)
Receivables from divestments in group companies and associates	37	-
Receivables from the sale of intangible assets	17	10
Receivables from the sale of property, plant and equipment	7	74
Receivables from the sale of investment property	-	179
Receivables from the sale of financial assets	373,978	20,023
Receivables from the sale of non-current assets held for sale	14,082	3,525
INVESTMENT ACTIVITIES CASH FLOW	194,926	(440,361)
CASH FLOWS FROM FINANCING ACTIVITIES		
Subsidies, gifts and covenants receivable	15,723	26,051
Receivables from debts with credit institutions	96	90
Receivables from debts with Group companies and Associates	1	-
Receivables from other debts	14,403	12,597
Payables for debts with credit institutions	(1,104)	(1,170)
Payables for debts with Group companies and Associates	(14,762)	(14,787)
Other payables	(20,332)	(18,610)
Dividends paid	(80,992)	(76,674)
FINANCING ACTIVITIES CASH FLOW	(86,967)	(72,503)
EFFECT OF EXCHANGE RATE FLUCTUATIONS	(2,550)	3,765
NET INCREASE/ DECREASE IN CASH OR CASH EQUIVALENTS	213,084	(293,496)
Cash or cash equivalents at beginning of the financial year	232,119	525,615
Cash or cash equivalents at close of financial year	445,203	232,119

The attached notes to the financial statements are an integral part of the Consolidated Financial Statements for the financial year ending 31 December 2023

(*) Restated information.

Notes to the Financial
Statements for
2023

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

Canal de Isabel II, S.A., M.P. (hereinafter “the Parent Company”) was created in accordance with the provisions of Article 16. One of Law 3/2008, of 29 December, on Fiscal and Administrative Measures, amended by Law 6/2011, of 28 December, on Fiscal and Administrative Measures enabling the Canal de Isabel II (hereinafter the “Public Entity” or “Canal”) to constitute a public limited company (sociedad anónima) for the purpose of carrying out activities related to the supply of water, sanitation, hydraulic services and works in accordance with Law 17/1984, of 20 December, regulating the supply and sanitation of water in the Region of Madrid and other remaining regulation.

The Parent Company was incorporated on 27 June 2012, as a public limited company for an indefinite period of time, has the status of a public trading company of the Region of Madrid, and is considered to be a personified own means of the Region of Madrid and the bodies, entities and entities of the public sector of the Region of Madrid, with respect to activities relating to the provision of mobile radiotelephony services in closed user groups and possible interconnections with this network. The Parent Company has its registered office and tax domicile at calle Santa Engracia, 125, Madrid.

The Ordinary General Shareholders' Meeting of 21 December 2022 adopted the resolution to modify its initial social name, changing its name to “Canal de Isabel II, S.A., M.P.”.

According to article 2 of its articles of association, the Parent Company's corporate purpose consists of the following:

- 1) Integral water cycle management throughout the Madrid region, which involves:
 - a) Managing the supply and recycling of drinking water.
 - b) Overseeing the sewerage service.
 - c) Controlling materials discharged through the sewerage system and the Public Hydraulic Domain.
 - d) Management of the wastewater treatment and reclamation service.
 - e) The management and recovery of waste resulting from the processes listed in the previous sections and the marketing of any by-products derived from them.
- f) 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 paragraphs and in particular; the completion of Technical Studies and Projects for works and the completion of cost and tariff studies.
- g) 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 statutory activity.
- 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, rental and other activities of a real estate nature, as well as the management and urban development of land, in relation to real estate, land or activities related to the main activity carried out by the parent company.
- 5) The development or provision of other public services or activities involving the use of networks, infrastructures or property in the management of which it participates or owned by it; as well as in the exercise of technical, commercial or research activities that contribute to strengthening the services provided by the Company and that represent 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 service provision, activities related to emergency, safety and rescue services, production, distribution and/or exhibition of own or external contents, website and eCommerce 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.

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

When commissioned to do so by the corresponding public authority, the Parent 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.

This corporate purpose does not include activities that are subject to special requirements pursuant to law, which cannot be met by the group companies.

In addition, the Company may carry out its statutory activity, as described above, in any part of Spain or in any other country. The Company may also carry out all or part of these activities indirectly or through shareholdings and/or equity holdings in other companies with the same or similar statutory activities.

The Parent Company may provide internal or intra-group services to its investees or the Public Entity Canal de Isabel II in relation to the matters listed above, and also in relation to those specified in Article 2 of its Articles of Association.

Related information on the consolidated subsidiaries, associates and joint ventures at 31 December 2023 and 2022 is included in Appendices II, III and IV.

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

As described in note 2 (h), in 2012 the Public Entity made a non-monetary contribution consisting of the activity, assets and liabilities, and shares and equity holdings in trading companies.

The Company's activity is regulated under the Contract-Programme.

a) Contract-Programme

On 14 June 2012, the Government Council of the Regional Government of Madrid approved the Contract-Programme between the Public Entity and the Parent Company, which was signed on 1 July 2012, establishing the mutual obligations and commitments assumed by both parties within the framework of the general financial policy and

water policy of the Regional Government of Madrid, all within the scope of Law 17/1984 of 20 December, which regulates water supply and sanitation in the Region of Madrid. This management includes running (operation, maintenance and upkeep) the Region of Madrid General Network and providing the corresponding water supply, sanitation and water recycling services for that network. The agreement has a 50-year term which cannot be extended.

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

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 controlling 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 Parent.

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 Region 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 Tax Law.

As required by article 47 of Law 3/2001 of 21 June 2001 (on the Assets of the Region 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 conditions of this non-monetary contribution and the valuation performed by the technical services are described in a 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 General Chart of Accounts and Ministry of Economy and Finance Order EHA/3362/2010 of 23 December 2010, approving the rules for the adaptation of the General Accounting Plan to public infrastructure concession companies. All assets and liabilities included in the non-monetary contribution were included at their net carrying amount, except for the assets corresponding to

investments in Group companies, jointly controlled group companies and associates, which were included at the value of the consolidated Canal Group at 30 June 2012, the effective date of the transaction. The valuation of the contributed activity amounted to 2,148,064 thousand euros.

b) Changes in the consolidated group

Canal de Isabel II, S.A., M.P. prepares its consolidated financial statements, including its investments in all its subsidiaries, associates and joint arrangements. Details of the main companies forming the Grupo Canal de Isabel II, S.A., M.P., and which are consolidated at the date of the accompanying consolidated Financial Statements are provided in Appendices II, III and IV hereto.

(I) In the year ended 31 December 2023

There were no changes in the consolidation scope.

(II) In the year ended 31 December 2022

Merger by absorption of Hidráulica Santillana, S.A.U.

On 1 April 2022, the merger by absorption between the Parent Company, Canal de Isabel II, S.A., M.P., S.A., S.A. was registered in the Business Registry . (absorbing company) and the Group company, Hidráulica Santillana, S.A.U. (Absorbed company) In accordance with the registration and valuation rules and regulations, the effects of the aforementioned merger are retroactive to 1 January 2022, and therefore the balance sheet attached to these notes to the consolidated financial statements includes the amounts at 1 January 2022 of the absorbed company.

The main aspects of the ordinary merger plan, approved at the Parent Company's Extraordinary Shareholders' Meeting held on 27 January 2022, were as follows:

- The Parent Company, Canal de Isabel II, S.A. has absorbed Hidráulica Santillana, S.A.U., which has been dissolved without liquidation by universal succession and being subrogated to the rights and obligations of the latter, in accordance with the provisions of article 49 of Law 3/2009, of 3 April 2009, on structural changes to mercantile companies. By virtue of this article, as it holds a 100% stake in the absorbed company, the absorbing company did not increase its share capital, nor was the intervention of independent experts or the issuance of reports by the Directors on the merger plan necessary, nor were the 2nd, 6th, 9th and 10th mentions of article 31 of Law 3/2009 required.
- Pursuant to the provisions of article 76 et seq. of Law 76/2014 of 27 November 2014, on Corporate Income Tax, the merger has been subject to the special tax regime for mergers, spin-offs, asset contributions, exchange of securities and global transfers of assets and liabilities and change of registered address of a European Company or a European Cooperatives from one Member State to another Member State of the European Union, as provided for in Chapter VII of Title VII, having notified the Tax Agency in a timely manner, in accordance with the provisions of the aforementioned Law and its implementing regulations.
- The merger deed is dated 15 March 2022 and was registered with the Business Registry of Madrid on 01 April 2022.
- In accordance with the amendments set out in Royal Decree 1159/2010, of 17 September, approving the Rules for the Preparation of Consolidated Financial Statements and, in particular, the aspects relating to Recording and Valuation Standard 21 "Transactions between Group companies" of the General Accounting Plan, the date of accounting effects was 1 January 2022. The transactions carried out by Hidráulica Santillana, S.A.U. as from 1 January 2022 are considered to be carried out by the Parent Company.
- The assets and liabilities incorporated into the Parent Company through the merger by absorption have been valued at the carrying values obtained from the Financial Statements of Hidráulica Santillana, S.A.U. at 31 December 2021.
- The Balance sheet of Hidráulica Santillana, S.A.U. showing the assets and liabilities at the effective date of the merger for accounting purposes , is presented below for the purpose of identifying and comparing the balances that have been incorporated as a result of the merger.

In thousands of euros			
ASSETS	01 JANUARY 2022	LIABILITIES	01/01/2022
A) NON-CURRENT ASSETS	12,916	A) EQUITY	29,655
Intangible fixed assets	12,761	A-1) OWN FUNDS	29,427
Property, plant and equipment	-	Share capital	4,753
Long-term financial investments	4	Share premium	-
Deferred tax assets	151	Reserves	22,869
B) CURRENT ASSETS	19,082	Profit(loss) for previous financial year	1,805
Non-current assets held for sale	-	A-2) SUBSIDIES, GIFTS AND BEQUESTS	228
Inventories	486	B) NON-CURRENT LIABILITIES	443
Trade debtors and other accounts receivable	8,416	Long-term Provisions	365
Short-term investments in group companies and associates	-	Long-term debt	2
Short-term financial investments	29	Deferred tax liabilities	76
Cash and cash equivalents	10,151	C) CURRENT LIABILITIES	1,900
		Short-term provisions	41
		Short-term debt	1
		Short-term debts with group companies and associates	567
		Trade creditors and other accounts payable	1,291
TOTAL ASSETS (A+B)	31,998	TOTAL EQUITY AND LIABILITIES (A+B+C)	31,998

As a result of the merger operation described above, negative merger reserves amounting to 1,195 thousand euros have been recognised in the parent company, with no effect on Consolidated Equity. (see note 19)

Dissolution and simultaneous liquidation of Ocio y Deporte, S.L.U.

On 16 September 2022, the Group company Ocio y Deporte, S.L.U., duly represented by its sole shareholder Canal de Isabel II, Sociedad Anónima, M.P., under article 15 of Royal Legislative Decree 1/2010, of 2 July, approving the Consolidated Text of the Corporate Enterprises Act, adopted the decision to approve its dissolution and simultaneous liquidation. Furthermore, the Governing Council of the Region of Madrid has authorised the dissolution, by means of a resolution adopted at its meeting of 13 July 2022,

published in the BOCAM (Official Gazette of the Region of Madrid) on 6 September 2022, in accordance with the provisions of Article 64(1) and (3) of Law 1/1984 of 19 January 1984, regulating the Institutional Administration of the Region of Madrid.

On 13 October 2022, the voluntary dissolution, liquidation and extinction of Ocio y Deporte, S.L.U. was registered with the Business Registry, by virtue of the resolutions to notarise the corporate resolutions for the dissolution and liquidation of the aforementioned Group company, dated 28 September 2022.

The final liquidation result drawn up by the liquidators on 16 September 2022 is as follows:

In thousands of euros			
ASSETS	01 JANUARY 2022	LIABILITIES	01/01/2022
A) NON-CURRENT ASSETS	-	A) EQUITY	1,091
B) CURRENT ASSETS	1,138	A-1) OWN FUNDS	1,091
Cash and cash equivalents	1,138	Share capital	3
		Reserves	703
		Profit(loss) for previous financial year	339
		Profit(loss) for the year	46
		B) NON-CURRENT LIABILITIES	43
		Other provisions	43
		C) CURRENT LIABILITIES	4
		Trade creditors and other accounts payable	4
TOTAL ASSETS (A+B)	1,138	TOTAL EQUITY AND LIABILITIES (A+B+C)	1,138

In accordance with the forecasts included in the final liquidation balance Sheet, the share capital distributable to the sole shareholder amounted to 1,091 thousand euros, the liquidation share of which was paid by means of a cash payment. The liquidation resulted in the recognition of income amounting to 1,088 thousand euros for the Parent Company, with no effect on Consolidated Equity.

Dissolution and simultaneous liquidation of Canal Energía, S.L.U.

On 16 September 2022, the Group company, Canal Energía, S.L.U., duly represented by its sole shareholder of the Parent Company Canal de Isabel II, S.A., M.P., under article 15 of Royal Legislative Decree 1/2010, of 2 July, approving the Consolidated Text of the Corporate Enterprises Act, adopted the decision to approve the dissolution and simultaneous liquidation. Furthermore, the Governing Council of the Region of Madrid has authorised the dissolution, by means of a resolution adopted at its meeting of 13 July 2022, published in the BOCAM (Official Gazette of the Region of Madrid) on 6 September 2022, in accordance with the provisions of Article 64(1) and (3) of Law 1/1984 of 19 January 1984, regulating the Institutional Administration of the Region of Madrid.

On 13 October 2022, the voluntary dissolution, liquidation and extinction of Ocio y Deporte, S.L.U. was registered with the Business Registry, by virtue of the resolutions to notarise the corporate resolutions for the dissolution and liquidation of the aforementioned Group company, dated 28 September 2022.

The final liquidation result drawn up by the sole liquidating company as at 16 September 2022 was as follows:

In thousands of euros			
ASSETS	01 JANUARY 2022	LIABILITIES	01/01/2022
A) NON-CURRENT ASSETS	-	A) EQUITY	246
B) CURRENT ASSETS	249	A-1) OWN FUNDS	246
Trade debtors and other accounts receivable	1	Share capital	4
Cash and cash equivalents	248	Share premium	16
		Reserves	253
		Profit(loss) for previous financial year	(24)
		Profit(loss) for the year	(3)
		B) NON-CURRENT LIABILITIES	-
		C) CURRENT LIABILITIES	3
		Trade creditors and other accounts payable	3
TOTAL ASSETS (A+B)	249	TOTAL EQUITY AND LIABILITIES (A+B+C)	249

In accordance with the forecasts included in the final liquidation result, the share capital distributable to the sole shareholder amounted to 246 thousand euros, the liquidation share of which was paid by means of a cash payment of 244 thousand euros and the assignment of a claim of 1 thousand euros against the Public Entity Canal de Isabel II. The liquidation resulted in the recognition of a loss of 51 thousand euros for the Parent Company, with no impact on Consolidated Equity.

Dissolution and liquidation of the company Aguas de Tumbes, S.A.

Aguas de Tumbes, S.A. was not part of the Group's scope of consolidation as it was classified as an asset held for sale. (See Note 6)

On 14 November 2018, the General Shareholders' Meeting of Aguas de Tumbes S.A., (ATUSA), declared the dissolution of the company due to the manifest impossibility of carrying out its corporate purpose. A liquidator was appointed, who began the respective procedures in order to inform creditors of the state of liquidation, carry out an inventory of assets and other procedures provided for in the bylaws and the law.

The above decision was published on the website of the judiciary, and the corresponding legal registrations were made.

On 20 October 2023, the judicial declaration of bankruptcy of the company was registered with the Peruvian Public Registration National Superintendency (SUNARP), thus ending the company's liquidation process.

2. BASIS OF PRESENTATION

a) True and fair view

The accompanying consolidated financial statements have been prepared on the basis of the accounting records of the Company and of the Group companies. The consolidated Financial Statements for the year ended 31 December 2023 have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS-EU), and other applicable provisions in the financial reporting framework, to present a true and fair view of the consolidated equity and consolidated financial position of the Canal de Isabel II Group at 31 December 2023 and consolidated profit and losses, consolidated cash flows and changes in the consolidated equity of the Group for the year then ended.

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

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

The application of amendments to IFRS in 2023 (see note f) did not have a material impact on the consolidated financial statements.

On 27 April 2023, the Board of Directors of Canal de Isabel II, S.A., M.P., resolved to call a General Meeting of Shareholders, which was called by the Chairperson of the Board of Directors on 27 April 2023, for 01 June 2023, on first call, and for 02 June 2023, on second call. Notice of the meeting was issued on 28 April 2023, by means of a

regulatory disclosure to the National Securities Market Commission (hereinafter, “CNMV”) and a communication on the corporate website of Canal de Isabel II, S.A., M.P. The individual and consolidated financial statements of the Parent Company were approved by shareholders at the Company’s Ordinary General Meeting on 01 June 2023.

The Directors of the Parent consider that the consolidated Financial Statements for 2023, authorised for issue at 21 March 2024, will be approved without significant changes at the Annual General Meeting of Shareholders.

The Consolidated Financial Statements of Canal de Isabel II, S.A., M.P., and its subsidiaries will be deposited in the Commercial Registry of Madrid, following its approval by the General Meeting of Shareholders.

The Parent Company forms part of Grupo Canal de Isabel II and its direct parent is the Public Entity Canal de Isabel II. The Public Entity’s registered office is located at Calle Santa Engracia, 125, Madrid.

b) Operating currency and presentation currency

The consolidated Financial Statements are presented in thousands of euros, which is the Parent’s operating and presentation currency, rounded to the nearest unit. The exchange rates for the main currencies of the Group Companies with regard to the euro at 31 December 2023 and 2022 have been as follows:

	Euros			
	31/12/2023		31/12/2022	
	Rate at year-end	Average accumulated rate	Rate at year-end	Average accumulated rate
United States Dollar (USD)	1.11	1.08	1.07	1.05
Columbian Pesos (COP)	4,223.37	4,678.92	5,130.56	4,485.50
Dominican Peso (DOP)	64.37	60.74	60.17	58.11
Brazilian Reais (BRL)	5.35	5.40	5.57	5.44
Uruguayan Peso (UYU)	43.12	41.99	42.74	43.39

c) Relevant accounting estimates, assumptions and judgements used when applying accounting principles and changes in estimates

Relevant accounting estimates and judgements and other estimates and assumptions have to be made when applying the Group's accounting principles, and measuring assets, liabilities, profit and losses, to prepare the consolidated financial statements in conformity with IFRS-EU.

In this regard, we include below a breakdown of the aspects that have been especially difficult or uncertain to assess or those for which hypotheses and estimates are relevant for the preparation of the Consolidated Financial Statements.

- The Group follows the accounting policy described in note 3 (i) for impairment of non-financial assets subject to amortisation or depreciation. Management and the Group must use estimates to calculate the recoverable amount, which is generally determined using cash flow discounting methods. The cash flows take into consideration past experience and represent the best estimate of future market performance. The estimates, including the methodology used, could have a significant impact on values and impairment (see note 9).
- In relation to concession assets, the Group capitalises extensions and improvements that increase productivity in intangible assets (see note 10). On the other hand, for replacement and major repair actions, which are due to continuous wear and tear of the infrastructure and the obligation to maintain it in an adequate condition and which have a period of use of more than one year, the Group records an expense by making an annual provision, on a systematic basis, based on the best estimate of the present value of the investments expected over the term of the concession agreement (see note 23). This provision is subject to a corresponding financial restatement each year.
- Write-downs for bad debts, the review of individual balances based on customers' credit ratings, current market trends, and historical analysis of bad debts at an aggregated level require a high degree of judgement by Management.

The Group companies consider the impairment evidence of the accounts receivable until maturity both specifically and collectively. In the case of individually significant accounts receivable, the possible impairment thereof is assessed specifically. Receivables that are not individually significant are collectively assessed at their possible impairment, grouping together receivables with similar risk

characteristics. The basis of the historical information of collection statistics is determined by assessing the collective impairment, particular in companies providing domestic public services.

In the case of the subsidiary Emissão, S.A., in the process of analysing the possible impairment of its receivables, which due to its activity are individually significant, the opening balance for the year 2022 has been impaired as it did not have sufficient guarantee based on the conclusions issued by the lawyers representing the Company in the claim and defence of its interests in order to ensure its collection.

- The consolidated Financial Statements for each reporting period include an estimate of the water supplied but not yet invoiced at 31 December each year (approximately one month's supply). Due to the meter-reading procedure, this supply is billed the following year.
- The Group is subject to regulatory and legal processes and inspections by government bodies in various jurisdictions. It recognises a provision for liabilities (see note 23) if it is probable that an obligation will exist at year end that will give rise to an outflow of resources and this outflow can be measured reliably. Legal processes usually involve complex issues and are subject to substantial uncertainties. As a result, management, although it analyses the potential risks with the support of specialist external advisors, it uses significant judgement when determining whether it is probable that the process will result in an outflow of resources and in estimating the amount.
- The Group has receivables from certain town and city councils for work carried out and work on infrastructures used in the water distribution services and sewerage 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 14).

The Parent Company has registered sureties received by the subscribers as collection guarantee for the supplies subject to invoicing. These security deposits are recognised at amortised cost considering the average reimbursement period. This period is estimated by the Parent Company based on past experience, which is the best estimate of the amount to be reimbursed in the future (see note 20).

The Parent Company has deposited security deposits for the provision of water supply services in accordance with applicable laws and regulations, in particular Decree 181/1996, of 5 December, which governs the security deposit system for leases in the

Region of Madrid and Decree 6/2022, of 25 January, which governs security deposits and the Regional Census of Urban Property Lease Agreements of Castilla-La Mancha. These deposits are recognised at amortised cost considering the average reimbursement period. This period is estimated by the Parent Company based on past experience, which is the best estimate of the amount to be reimbursed in the future (see note 20 (b)).

Although estimates are calculated based on the best information available at the reporting date, future events may require changes to these estimates in subsequent years. Any effect on the consolidated financial statements of adjustments to be made in subsequent years would be recognised prospectively.

d) Determining fair values

Certain accounting policies and Group policies require the fair value of financial and non-financial assets and liabilities to be determined, where applicable.

Where possible, the Group uses observable market data to measure the fair value of an asset or liability. The fair values are classified in different levels of the fair value hierarchy based on the inputs used in the valuation techniques, as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Where the inputs used to measure the fair value of an asset or liability can be categorised within different levels of the fair value hierarchy, the fair value valuation is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire valuation.

The Group recognises transfers between different levels of the fair value hierarchy at the end of the period in which the transfer occurs.

e) Information comparison

In accordance with regulations in force, in addition to the figures for the year ended 31 December 2023, the figures for the year ended 31 December 2022 are presented for comparative purposes. The Consolidated Financial Statements are presented for comparative purposes, with each of the items in the consolidated statement of financial position, consolidated income statement,

consolidated statement of comprehensive income, consolidated statement of cash flows, consolidated statement of changes in equity, and the notes to the consolidated financial statements, in addition to the consolidated figures for the year ended 31 December 2023 and those for the year ended 31 December 2022 (except as indicated in section (f) below) approved by the shareholders at the Annual General Meeting held on 01 June 2023.

f) Changes in accounting estimates and policies and correction of fundamental errors.

(I) Accounting reclassifications by the Parent Company:

Some amounts relating to the consolidated income statements for the financial year 2022 have been reclassified in these consolidated financial statements for the purposes of making them comparable to those of the current year and for comparability purposes.

The reclassification that has been carried out is as follows:

- Due to the uniform accounting treatment of the difference between the face value and the amortised cost of non-trade receivables with certain local councils for infrastructure works for the provision of distribution and sewerage services, the collection of which is instrumented through the supplementary payment in the bill to customers (see note 3 k (ii)).
- For the homogeneous treatment of the financial restatement of the Provision for infrastructure actions related to replacement and major repairs (see note 23).

In thousands of euros			
Headings of the Consolidated Income Statement	Opening 2022	Reclassification	Closing 2022
Other expenses	(226,152)	3,074	(223,078)
External services	(108,935)	(5,188)	(114,123)
Allocation to provisions for replacement and major repairs	(76,109)	8,262	(67,847)
Finance Expenses	(23,169)	(3,074)	(26,243)
For debt with third parties	(10,642)	5,188	(5,454)
Related to provisions	(18)	(8,262)	(8,280)

- The effect of fundamental error corrections is recorded by the Group as follows: where material, the

cumulative effect at the beginning of the year is adjusted in reserves and the effect of the year itself is recorded in the income statement for the year. In such cases, the financial data for the comparative period filed for the current period are restated.

During the financial year 2022, the group companies located in Brazil, Emissão and Fontes da Serra de Guapimirín, had a loss of database in the accounting information system, which caused the companies to prepare the financial statements for the financial year 2021 again. As a result, assets and liabilities representing significant amounts arose. This has led the Group (in accordance with IAS 8) to restate the financial statements for the year 2021 in the year 2022.

In 2023, as a result of review activities by the Management, it has been identified that certain non-current asset balances did not meet the accounting criteria for recognition based on the legal opinions of independent experts. The reversal of deferred tax assets carryforwards and the recognition of debt with public administration, as well as other minor adjustments, were also made in this respect. Consequently, a restatement of the previous year's balances has been made as detailed below:

(in thousands of euros)			
ASSETS	2022	Emissão Restatement effect	Restated in 2022
Property, plant and equipment	31,083	(94)	30,989
Deferred tax assets	18,378	(15,289)	3,089
Other non-current financial assets	162,632	(23,479)	139,153
Total non-current assets	212,093	(38,862)	173,231
Inventories	11,326	(2)	11,324
Current income tax asset	914	(539)	375
Trade debtors and other accounts receivable	214,657	(273)	214,384
Other current financial assets	363,142	(64)	363,078
Cash and cash equivalents	232,172	(53)	232,119
Total current assets	822,211	(931)	821,280
Total Assets	1,034,304	(39,793)	994,511

(In thousands of euros)	Emissão		
	2022	Restatement effect	Restated in 2022
EQUITY AND LIABILITIES			
Accumulated profit beginning balance 2022	492,493	-	492,493
Adjustment to the Parent Company's opening balance	-	(37,887)	(37,887)
Profit/loss for the financial year 2022	115,092	5,363	120,455
Other movements	(123,438)	-	(123,438)
Total accumulated profit	484,147	(32,524)	451,623
Translation differences opening balance 2022	3,545	-	3,545
Adjustment to the opening balance	-	(121)	(121)
changes in the year	(8,026)	-	(8,026)
Other movements	(1,455)	-	(1,455)
Total Translation Differences	(5,936)	(121)	(6,057)
Equity attributed to holders of equity instruments of the Parent	478,211	(32,645)	445,566
Non-controlling interests opening balance 2022	(4,098)	-	(4,098)
Adjustment to the opening balance	-	(17,674)	(17,674)
Profit/loss for the financial year 2022	(2,732)	2,501	(231)
Translation differences	(698)	(57)	(755)
Other movements	310	-	310
Non-controlling interests	(7,218)	(15,230)	(22,448)
Total Equity	470,993	(47,875)	423,118
Other financial liabilities	609,881	8,271	618,152
Financial debts with Group companies	182,143	-	182,143
Non-current liabilities	438,307	1,712	440,019
Total non-current liabilities	1,230,331	9,983	1,240,314
Financial liabilities with credit entities	985	42	1,027
Financial debts and other current financial liabilities	83,692	(29)	83,663
Trade creditors and other accounts payable	182,211	(1,914)	180,297
Total current liabilities	266,888	(1,901)	264,987
Total Liabilities and Equity	1,968,212	(39,793)	1,928,419

The reconciliation of the restatement of Equity is as follows:

(In thousands of euros)			
STATEMENT OF CASH FLOWS (expressed in thousands of euros)	2022	Emissão Restatement effect	Restatement 2022
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit(loss) for the year	112,360	7,864	120,224
Effect caused by operating activities	227,018	(757)	226,261
NET INCREASE/ DECREASE IN CASH OR CASH EQUIVALENTS	(293,492)	(53)	(293,545)

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

(I) Standards and interpretations effective during this financial year:

The following accounting standards, amendments and interpretations became effective in the financial year 2023 and, therefore, have been taken into account in the preparation of these consolidated financial statements:

Standards, amendments and interpretations	Description	Mandatory application in the years beginning on or after
ADOPTED BY THE EU		
Amendments to IAS 1 - Breakdown of accounting policies	Amendments that enable entities to identify appropriately the material accounting policy information that should be broken down in the financial statements.	01 January 2023
Amendment to IAS 8 - Definition of accounting estimate	Amendments and clarifications on what should be understood as a change in an accounting estimate.	01 January 2023
Amendment to IAS 12 - Deferred taxes from assets and liabilities resulting from a sole transaction	Clarifications on how entities should account deferred tax on transactions such as leases and decommissioning obligations.	01 January 2023
Amendment to IFRS 17 - Insurance Contracts - Initial Application of IFRS 17 and IFRS 9. Comparative information.	Amendments to the transition requirements of IFRS 17 for insurers applying IFRS 17 and IFRS 9 for the first time at the same time.	01 January 2023
NIIF 17 – Insurance Contracts	It replaces IFRS 4 and establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts. Its objective is to ensure that the entity provides relevant information that faithfully represents those contracts. This information gives the basis for users to assess the effect that the insurance contracts have on the financial statements.	01 January 2023

As of 1 January 2023, the Group has applied IAS 12, amendment to IAS 1, and amendments to IAS 8, with no material impact on the Group's financial statements.

(I) Standards and interpretations issued but not in force:

At 31 December 2023, the following are the most significant standards and interpretations that have been published by the IASB and have been adopted by the European Union:

Standards, amendments and interpretations	Description	Mandatory application in the years beginning on or after
NOT ADOPTED BY THE EU		
Amendment to IAS 1 - Classification of Liabilities as Current and Non-current and Classification of Non-current Liabilities with Covenants.	Clarifications on the presentation of liabilities as current or non-current, and in particular those with maturities conditional on compliance with covenants.	01 January 2024
Amendment to IFRS 16 - Lease liabilities in a sale and leaseback.	This amendment clarifies the subsequent accounting for lease liabilities arising on sale and leaseback transactions.	01/01/2024

3. SIGNIFICANT ACCOUNTING POLICIES APPLIED

a) Basis of consolidation

(I) Business Combinations

As permitted by IFRS 1 First-time Adoption of International Financial Reporting Standards, the Group has recognised only business combinations that occurred on or after 1 July 2012, the date of transition to IFRS-EU, using the acquisition method. Entities acquired prior to that date were recognised in accordance with Spanish GAAP previously in force, taking into account the necessary corrections and adjustments at the transition date.

The Group applies the acquisition method for business combinations.

The acquisition date is the one in which the Group obtains the control of the business acquired.

The consideration transferred in a business combination is calculated as the sum of the acquisition-date fair values of the assets transferred, the liabilities incurred or assumed, the equity instruments issued and any consideration contingent on future events or compliance with certain conditions in exchange for control of the acquired business. The consideration transferred excludes any payment that does not form part of the exchange for the acquired business. Those costs corresponding to the acquisition are recognised as expenses as they are being incurred.

At the acquisition date the Group recognises the assets acquired, the liabilities assumed and any non-controlling interest at fair value. Liabilities assumed include any contingent liabilities that represent present obligations arising from past events for which the fair value can be reliably measured. The assets acquired, and liabilities assumed, are classified and designated for subsequent valuation based on contractual agreements.

Any excess of the consideration transferred, plus the value assigned to non-controlling interests, over the assets acquired net of the liabilities assumed is recognised as goodwill. Where applicable, any shortfall, after evaluating the consideration transferred, the value assigned to non-controlling interests and the identification and valuation of the net assets acquired, is recognised in profit or loss.

The income and expenses of subsidiaries acquired from third parties are included in the consolidated financial statements from the date of acquisition, which is when the Group effectively takes control.

(II) Non-controlling interest

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

Non-controlling interests are disclosed in consolidated equity separately from equity attributable to shareholders of the Parent. Non-controlling interests' share in consolidated profit or loss for the year (and in consolidated total comprehensive income for the year) is disclosed separately in the consolidated income statement.

Group and non-controlling interests are calculated taking into account the possible exercise of potential voting rights and other derivative financial instruments which, in substance, currently allow access to the economic benefits associated with the interests held, such as entitlement to a share in future dividends and changes in the value of subsidiaries.

The excess of losses attributable to non-controlling interests incurred prior to 1 January 2010, which cannot be attributed to them as such losses exceed their interest in the equity of the subsidiary, is recognised as a decrease in equity attributable to shareholders of the Parent, except when the non-controlling interests are obliged to assume part or all of the losses and are in a position to make the necessary additional investment. Profits obtained in subsequent years are allocated to equity attributable to shareholders of the Parent until it recovers the losses of non-controlling interests absorbed in prior years.

As of 1 January 2010, profit and loss and each component of other comprehensive income are allocated to equity attributable to shareholders of the Parent and to non-controlling interests in proportion to their investment, even if this results in a balance receivable from non-controlling interests. Agreements entered into between the Group and non-controlling interests are recognised as a separate transaction.

(III) Subsidiaries

Subsidiaries are entities over which the Parent Company, either directly or indirectly through subsidiaries, exercises control. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control potential voting rights held by the Group or other entities that are exercisable or convertible at the end of each reporting period are considered.

Details of the subsidiaries making up the consolidated Group are provided in Appendix II.

The income, expenses and cash flows of subsidiaries are included in the consolidated Financial Statements from the date of acquisition, which is when the Group effectively takes control. Subsidiaries are excluded from the consolidated Group from the date on which this control is lost.

Transactions and balances with Group companies and unrealised gains or losses have been eliminated on consolidation. However, unrecognised losses have been considered as an indicator of the impairments of the value of transferred assets.

The subsidiaries' accounting policies have been adapted to Group accounting policies for like transactions and events in similar circumstances.

The Financial Statements of the subsidiaries used in the consolidation process have been prepared as of the same date and for the same period as those of the Parent.

(IV) Associates

Associates are entities over which the Parent Company, either directly or indirectly through subsidiaries, exercises significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies. The existence of potential voting rights that are exercisable or convertible at the end of each reporting period, including potential voting rights held by the Group or other entities, are considered when assessing whether an entity has significant influence.

Investments in associates are initially recognised by the equity method, from the date on which the significant

influence is exercised until the date on which the parent cannot justify the existence thereof.

Details of equity-accounted investees are included in Appendix III.

Investments in associates are initially recognised at cost of acquisition, including any cost directly attributable to the acquisition and any consideration receivable or payable contingent on future events or on compliance with certain conditions.

The Group's share of the profit or loss of an associate from the date of acquisition is recognised as an increase or decrease in the value of the investments, with a credit or debit to share of the profit or loss for the year of equity-accounted associates in the consolidated income statement. The Group's share of other comprehensive income of associates from the date of acquisition is recognised as an increase or decrease in the investments in associates with a balancing entry on a separate line in other comprehensive income. Profit distribution is registered as deductions of the investment value. The Group's share of profit or loss, including impairment losses recognised by the associates, is calculated based on income and expenses arising from application of the acquisition method.

The Group's share of the profit or loss of an associate and changes in equity is calculated to the extent of the Group's interest in the associate at year end and does not reflect the possible exercise or conversion of potential voting rights. However, the Group's share is calculated taking into account the possible exercise of potential voting rights and other derivative financial instruments which, in substance, currently allow access to the economic benefits associated with the interests held, such as entitlement to a share in future dividends and changes in the value of associates.

Losses of an associate attributable to the Group are limited to the extent of its net investment, except where the Group has legal or constructive obligations or when payments have been made on behalf of the associate. For the purpose of recognising impairment losses in associates, net investments are considered as the carrying amount of the investment after applying the equity method plus any other item which in substance forms part of the investment in the associate. The surplus of losses over the investment in equity instruments is applied to the other items in reserves order to that of the settlement priority. The benefits obtained afterwards by those associated companies in which the recognition of losses has been limited to the value of the investment are registered to the extent that they exceed those losses which have not been previously recognised.

The accounting policies of the associates have been subject to temporary and value harmonisation under the same terms applied to subsidiaries.

(V) Impairment losses

The calculation of the impairment is the result of the comparison of the book value associated to the net investment in the associated company and its recoverable value, which shall be construed as the highest value in use or the fair value minus sale costs. Value in use is calculated based on the Group's share of the present value of future cash flows expected to be derived from ordinary activities and from the disposal of the asset, or the estimated cash flows expected to be received from the distribution of dividends and the final disposal of the investment.

The recoverable amount of the investment in an associate is measured in relation to each associate, unless it does not constitute a cash-generating unit (CGU).

Value impairment losses are not allocated to the goodwill nor to other assets corresponding to the investment in associates arising from the application of the acquisition method. Value reversals of investments are recognised in previous financial years against profit/loss to the extent that there is an increase of the recoverable value. Impairment losses are presented separately from the Group's share of profit or loss of associates.

(VI) Joint ventures

For joint operations, the Group recognises the assets, including its share of any assets held jointly, the liabilities, including its share of any liabilities incurred jointly with the other operators, the revenue from the sale of its share of the output arising from the joint operation, its share of the revenue from the sale of the output by the joint operation and the expenses, including its share of any expenses incurred jointly, in the consolidated financial statements.

In sales or contributions by the Group to the joint operation, it recognises the resulting gains and losses only to the extent of the other parties' interests in the joint operation. When such transactions provide evidence of a reduction in net realisable value or an impairment loss of the assets transferred, such losses are recognised in full.

In purchases by the Group from a joint operation, it only recognises the resulting gains and losses when it resells the acquired assets to a third party. However, when such transactions provide evidence of a reduction in net realisable value or an impairment loss of the assets, the Group recognises its entire share of such losses.

Any initial or subsequent interest acquired by the Group in a joint operation is recognised using the criteria for business combinations, based on the percentage interest in the individual assets and liabilities. However, in the event of subsequent acquisitions of additional interests in joint operations, the previously held interest in the individual assets and liabilities is not subject to revaluation.

Information on joint operations is included in Annex IV.

b) Transactions, balances and flows in foreign currency

(I) Transactions, balances and flows in foreign currency

Foreign currency transactions were converted to euros applying the cash exchange rate to the amount in foreign currency on the date such transactions were completed.

Monetary assets and liabilities in foreign currency were converted into euros at the rate applicable as of the end of the year whereas non-monetary assets valued at the historical cost were converted by applying the exchange rate effective on the date when the transactions took place. Non-monetary assets measured at fair value have been converted into euros at the exchange rate at the date that the fair value was determined.

For the presentation of the consolidated cash flow statement, the flows from foreign currency transactions were converted to euros applying the cash exchange rate to the amount in foreign currency on the date such transactions were completed.

The effect of exchange rate fluctuations on cash and cash equivalents denominated in foreign currencies is recognised separately in the consolidated statement of cash flows as effect of exchange rate fluctuations.

The positive and negative exchange differences in the liquidation of the foreign currency transactions and in the conversion to Euros of assets and liabilities in foreign currency are recognised under the earnings.

However, exchange gains or losses arising on monetary items forming part of the net investment in foreign operations are recognised as conversion differences in consolidated other comprehensive income.

(II) Business conversion abroad

The Group has applied the exemption permitted by IFRS 1 First-time Adoption of International Financial Reporting Standards in relation to cumulative conversion differences. Consequently, conversion differences recognised in the consolidated financial statements generated prior to 1 July 2012 are recognised in accumulated profit. As of that date, foreign operations whose functional currency is not the currency of a hyperinflationary economy have been converted into euros as follows:

- Assets and liabilities, including goodwill and adjustments to net assets arising from the acquisition of business are translated into the exchange rate of the closing date of the balance sheet.

- Income and expenses are converted at the average exchange rates for the year; and
- All resulting exchange differences are recognised as conversion differences in other comprehensive income.

These criteria are also applicable to the conversion of the financial statements of equity-accounted investees, with conversion differences attributable to the Group being recognised in other comprehensive income.

Conversion differences recognised in other comprehensive income are accounted for in profit or loss as an adjustment to the gain or loss on the sale using the same criteria as for subsidiaries, associates and joint ventures.

The functional currencies of foreign subsidiaries are the currencies of the countries in which they are domiciled.

c) Borrowing costs

The Group recognises borrowing costs directly attributable to the purchase, construction or production of qualifying assets as an increase in the value of these assets.

Qualifying assets are those which require a substantial period of time before they can be used or sold. To the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalisation is determined as the actual borrowing costs incurred, less any returns on the temporary investments made in those funds.

The Group begins capitalising borrowing costs as part of the cost of a qualifying asset when it incurs expenditures for the asset, interest is accrued, and it undertakes activities that are necessary to prepare the asset for its intended use or sale and ceases capitalising borrowing costs when all or substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete. Nevertheless, capitalisation of borrowing costs is suspended when active development is interrupted for extended periods.

d) Intangible assets

(I) Goodwill

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

Goodwill is not amortised, but is tested for impairment at least annually, irrespective of whether there is an indication that goodwill may be impaired. Goodwill on business combinations is allocated to the cash-generating units (CGUs) or groups of CGUs which are expected to benefit from the synergies of the business combination and the criteria described in section (i) "Impairment of non-financial assets subject to amortisation or depreciation" are applied. After its initial recognition, the

goodwill is assessed at its cost minus accumulated impairment losses.

Internally generated goodwill is not recognised as an asset.

(II) Internally generated intangible assets

Research expenditure is recognised as an expense in the consolidated income statement.

The cost of internally generated assets is calculated using the same criteria established for determining production costs of inventories. The production cost is capitalised by allocating the costs attributable to the asset to Works carried out by the Group for non-current assets.

Expenditure on activities for which costs attributable to the research phase are not clearly distinguishable from costs associated with the development stage of intangible assets are recognised in profit or loss.

(III) Administrative concessions

As explained in note 10, the Group operates certain assets through service concession arrangements granted by different public-sector entities.

Administrative concessions include the costs incurred in their procurement.

The Group recognises the consideration received as an intangible asset to the extent that it is entitled to pass on to users the cost of access to or use of the public service.

The contractual obligations assumed by the Group to maintain the infrastructure during the operating period, or to carry out renovation work prior to returning the infrastructure to the transferor upon expiry of the concession arrangement, are recognised using the accounting policy described for provisions, to the extent that such activity does not generate revenue.

Concession arrangements not subject to IFRIC 12 are recognised using general criteria. If the Group recognises assets as Tangible assets, these are depreciated over the shorter of the asset's economic life or the concession period. Any investment, improvement or replacement obligation assumed by the Group is considered when calculating the asset's impairment as a contractual outflow of future cash flows necessary to obtain future cash inflows.

If the Group has ceded the use of the assets in exchange for consideration, the criteria for leases are applied.

(IV) Patents, licences, trademarks and similar rights

Names and graphic signs of corporate identity are recognised in this item under trademarks. These are measured at cost of acquisition (registration).

(V) Computer software

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

(VI) Subsequent costs

Subsequent costs incurred on intangible assets are recognised in profit and loss unless they increase the expected future economic benefits attributable to the intangible asset.

(VII) Useful life and amortisation rates

Intangible assets with finite useful lives are amortised on a straight-line basis by allocating the depreciable amount of an asset on a systematic basis over its useful life, applying the following criteria:

Item	Years of useful life
CONCESSIONS	CONCESSION PERIOD
Patents, licences, trademarks and similar rights	10
Computer software	5

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

(VIII) Value impairment of fixed assets

The Group measures and determines impairment to be recognised or reversed based on the criteria in section (h) of this note, "Impairment of non-financial assets subject to amortisation or depreciation."

e) Tangible fixed assets

(I) Initial recognition

Tangible assets are recognised at cost or deemed cost, less accumulated depreciation and any accumulated impairment losses.

The production cost is capitalised by allocating the costs attributable to the asset to non-current self-constructed assets in the consolidated income statement.

Spare parts used to replace similar parts in facilities, equipment and machinery are measured applying the aforementioned criteria. Parts with a warehouse cycle of less than one year are recognised as inventories. Parts with a warehouse cycle of more than one year and which are related to certain specific assets are recognised and depreciated on a systematic basis consistent with the depreciation policy for the assets in question, on a straight-line basis over the estimated replacement period.

The cost of an item of Tangible assets includes the estimated costs of dismantling or removal and restoration of the site on which it is located, provided that the obligation is incurred as a consequence of having used the item and for purposes other than production.

(II) Depreciations

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

Item	Depreciation percentage	
	MINIMUM	MAXIMUM
Construction works	1.00 %	3.00%
Urban developments, accessories and signalling	5.00%	11.10%
Electrical installations	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 Group reviews the residual value, the useful life and the depreciation method of the tangible fixed assets for each financial year. Amendments in initially established criteria are recognised as estimation changes.

(III) Subsequent costs

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

is derecognised. Costs of day-to-day servicing are recognised in the consolidated income statement as incurred.

Replacements of tangible fixed asset items subject to capitalisation reduce the book value 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 value, the cost of the replacement is used as indication of the cost of the elements at the time of acquisition or construction.

f) Investment property

Investment property is property earmarked totally or partially to earn rentals, for capital appreciation or both, rather than for use in the Group's activity or for administrative purposes.

Property that is under construction or development for future use as investment property is classified as Tangible assets under construction until construction or development is complete. Nevertheless, redevelopment work to extend or improve property is classified as investment property.

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

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

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

g) Non-current assets held for sale

The Group recognises under this heading non-current assets or disposable Groups of elements, the accounting value of which is going to be recovered mainly through a sale operation instead of by a continuous use. For the classification of non-current assets of disposable group of elements held for sale, this must be available, under their current conditions, for their immediate disposal exclusively subject to the standard terms for sale operation. It is also necessary to derecognise the assets which is highly likely to go through that process.

Likewise, the Group considers subsidiaries, associates or joint ventures as a disposal group held for sale or, if applicable, as a discontinued operation, when these meet the preceding conditions and over which the Group is going to lose the control, regardless of whether an investment is subsequently held that grants significant influence or joint control therein.

Non-disposable non-current or group assets of items classified as held for sale are not depreciated as the lesser of the book value or fair value less the costs of sale are valued.

The Group recognises those value impairment losses, both initial and subsequent, of the assets classified under this category charged to continuing operations of the consolidated profit and loss account, with the exception 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 book value thereof. Value impairment losses of the goodwill are not reversible.

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

The Group assesses non-current assets which are no longer classified as held for sale or which are no longer part of a disposable group of elements, at the lowest of their book value before their classification minus amortisations or depreciation which may have been recognised as such and the recoverable value on the reclassification date. Value adjustments arising from such reclassification are recognised in the results of continuing operations.

h) Right-of-use assets

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

(l) Right-of-use assets (leases) and associated financial debt:

Right-of-use assets (leases) and associated financial debt represent the entitlement to use the asset in question and the obligation to make payments pursuant to the lease agreement, respectively.

Right-of-use assets are valued at cost, which includes the following:

- Amount of the initial measurement of the lease liability.
- Any lease payments made on or prior to the commencement date, less any lease incentives received.
- Any direct initial cost and restoration costs.

Right-of-use assets are depreciated on a straight-line basis over the shorter between the useful life of the asset and the lease term.

Financial debt associated with right-of-use assets includes the current net value of lease payments.

Lease payments are discounted using the lessee's incremental borrowing rate, which is the rate the individual lessee would have to pay to borrow the necessary funds to obtain an asset of a value similar to the right-of-use asset in a similar economic environment with similar terms, guarantees and conditions.

i) Value impairment of non-financial assets subject to amortisation or depreciation

The Group has the policy of evaluating the existence of signs showing the potential value impairment of non-financial assets subject to amortisation or depreciation, with the purpose of checking if the accounting value of assets mentioned exceeds its recoverable amount, where this is understood as the greater of the reasonable value less any sales costs and its value-in-use.

Likewise, and regardless of the existence of any indication of value impairment, the Group verifies, at least annually, the potential value impairment that may affect the goodwill and intangible fixed assets with an indefinite useful life.

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

Impairment losses are recognised in the consolidated income statement.

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

The Groups methodology used to calculate the recoverable amount is general the value in use. The procedure used by Group management to conduct impairment tests in terms of cash-generating units, when applicable, is as follows:

Management prepares a business plan each year, generally covering a five-year period: The main components of this plan, which is the basis of the impairment test, are as follows:

- Result expectations.
- Investment expectations and working capital.

Other variables that affect the calculation of the recoverable value are as follows:

- Specific discount rate for each CGU. As a discount rate, the group uses the average weighted cost of the capital used after tax for each country and business, which is reviewed at least once a year. The rate is intended to reflect existing market evaluations regarding the temporary value of money and the specific risks of the assets. Therefore, the discount rate used takes into account the free risk rate, the risk-country, the currency in which the cash flow is generated and the market and credit risk. In order for the calculations to be consistent, future cash flow estimates do not reflect the risks that have already been adjusted in the discount rate used, or vice versa.
- Perpetual growth rate of cash flow used to extrapolate cash flow expectations beyond the period covered by the budgets or estimates. This rate does not exceed the long-term average growth rate for the business in which the various cash-generating units carry out their activity. If the cash-generating units have a defined deadline due to their concession, the expectations will be extended until the end of these, using a constant growth rate.

note 9 outlines the variables and hypotheses used by the Group to calculate the value in use and to determine the cash-generating units.

Losses related to the value impairment of the cash-generating unit reduce, initially, as the case might be, the value of the goodwill allocated to it and then the one corresponding to the non-current cash-generating unit assets pro rata based on the book value thereof, limited to the fair value for each one less any sales costs, the usage value and zero, whichever is higher.

The Group assesses at each one of the closing dates if there is any sign indicating that the value impairment losses recognised in previous financial years have disappeared or decreased. Value impairment losses corresponding to the goodwill are not reversible. The impairment losses of the rest of assets only revert in case of a change in the estimates used to establish the recoverable amount of the asset.

A reversal of an impairment loss is recognised in the consolidated income statement. However, the reversal of the losses cannot increase the accounting value of the asset above the accounting value it would have had, net of depreciation, if the impairment had not occurred.

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

Once a value adjustment due to impairment, or its reversal, has been recognised, depreciation for subsequent financial years is adjusted considering the new book value.

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

j) Leases

(I) Leasing classification

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

Leases in which the Group does not transfer to third parties substantially all the risks and rewards incidental to ownership of the assets are classified as operating leases. Otherwise they are classified as finance leases.

(II) (ii) Lessor accounting

Assets leased to third parties under operating lease contracts 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 value of the leased asset and recognised as an expense over the lease term on the same basis as the lease income.

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

(III) Accounting of the lessee

IFRS 16 supersedes IAS 17 Leases, IFRIC 4 interpretation: Determining whether an Arrangement Contains a Lease, SIC-15 – Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The new standard entered into force on 1 January 2019 and was not adopted early.

This new standard establishes a single accounting model in the lessee's balance sheet. The lessee recognises the lease asset, representing the right-of-use asset, and the lease liability, representing its obligation to make payments pursuant to the lease. The standard includes two exemptions: it does not require a lessee to recognise assets and liabilities for short-term leases (i.e., leases of 12 months or less) and leases of low-value assets.

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

The Group applied the following policies, estimates and criteria:

- The Group chose to apply a modified retrospective method on which basis it has not restated any figures from prior years for comparison purposes and it recognised the impacts as at 1 January 2019.
- Likewise, it decided to measure the initial right-of-use asset for an amount equal to the lease liability on 1 January 2019 for all lease contracts.

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

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

A specific review was carried out of the inventory of lease contracts classified as operating leases in accordance with the aforementioned standard, as well as certain services contracts potentially eligible to be classified as leases in

accordance with the new standard, there having been no material difference as a result of said analysis.

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

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

In 2023, detailed information concerning right-of-use assets is provided in Notes 7 and 10.

k) Financial Instruments

(I) Classification of financial instruments

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

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

Valuation:

Acquisitions and derecognitions of investments are recognised on their trading date, i.e., the date on which the Group undertakes to acquire or sell the asset. Investments are initially recognised at fair value plus the transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets at fair value through profit or loss are initially recognised at fair value, excluding transaction costs, which are charged to income. Investments are derecognised when the right to receive cash flows related to them have expired or have been transferred and the Group has substantially transferred all risks and benefits arising from their ownership.

Income from interest on financial assets at fair value through profit or loss is recognised in the income statement as "Other income" when the Group's right to collect payment is established.

For assets measured at fair value, gains and losses will be recognised in profit or loss or in other comprehensive income. For investments in equity instruments not held for trading, the Group made an irrevocable decision upon initial recognition to account for the entire capital investment at fair value through other comprehensive income.

(II) Financial assets at amortised cost (Loans and receivables)

Investments in debt instruments held for the collection of contractual cash flows, when those cash flows represent only principal and interest payments, are measured at amortised cost. They are classified as current assets unless they mature in more than 12 months after the reporting date, in which case they are classified as non-current, unless they are within the normal cycle of Group operations.

In general, they are included in this category:

- a) Non-trade receivables: these are financial assets arising from loans or credit transactions granted by the Group for which the amount receivable is determined or determinable.
- b) The Parent Company recognises non-trade receivables with certain local councils arising from infrastructure works and works for the provision of distribution and sewerage services in their municipalities, the collection of which is instrumented through a supplementary charge in the bill to customers. The difference between the amount receivable for work performed and its amortised cost is recognised in each year under "Other operating expenses" in the income statement, as these differences are treated as operating expenses rather than as finance expenses for a receivable that generates collections of a certain or determinable amount.
- c) Other financial assets, such as guarantees deposited for the provision of water supply services in accordance with current laws (consumption advances).

Initial assessment

Financial assets classified in this category are initially measured at the fair value of the consideration given, plus directly attributable transaction costs.

However, trade receivables maturing within one year that do not have an explicit contractual interest rate, as well as receivables from staff, dividends receivable and payments due on equity instruments that are expected to be received in the near term, may be measured at nominal value when the effect of not discounting cash flows is not material.

Subsequent assessment

Financial assets included in this category shall be measured at amortised cost. Accrued interest shall be recognised in the Income Statement using the effective interest method.

When the contractual cash flows of a financial asset change because of the issuer's financial difficulties, an entity shall analyse whether an impairment loss should be recognised.

Value impairment

At least at the end of each reporting period, an impairment loss shall be recognised whenever there is objective evidence that a financial asset, or a group of financial assets with similar risk characteristics measured collectively, is impaired as a result of one or more events that occurred after its initial recognition and that result in a reduction or delay in estimated future cash flows that may be caused by the debtor's insolvency.

The impairment loss on these financial assets is the difference between their carrying amount and the present value of future cash flows, including, where applicable, those arising from the real and personal guarantees, estimated to be generated, discounted at the effective interest rate calculated at the time of initial recognition. For floating rate financial assets, the effective interest rate at the reporting date in accordance with the contractual terms shall be used. Formula-based models or statistical methods may be used in the calculation of impairment losses for a group of financial assets.

Moreover, this category includes deposits and guarantees delivered to third parties. These assets are subsequently booked at amortised cost in accordance with the effective interest rate method. Accounts receivable that do not explicitly accrue interest are measured at their nominal amount, provided the effect of not financially updating the cash flows is not material. It is subsequently measured, in the event, at its nominal amount.

(III) Financial assets at fair value through profit or loss:

The assets that do not meet the amortised cost or fair value through other comprehensive income criteria are measured at fair value through profit or loss. Realised and unrealised gains and losses arising from changes in fair

value in the category of financial assets at fair value through profit or loss are included in the income statement of the year in which they arise.

Impairment

The impairment model requires the recognition of impairment provisions based on the model of expected losses instead of solely on the losses incurred.

The Group applies, for its customer accounts, accounts receivable and other assets, which correspond mainly to customers of acknowledged solvency with which it has considerable experience, the simplified approach, recognising the expected credit loss for the assets' entire lifetime.

For trade accounts receivable and contractual assets, provided they do not contain a material financial component, the Group applies the simplified approach, which requires recognising a loss allocation based on the model of expected losses throughout the asset's lifetime on each presentation date. The Group's model considers internal information, like the balance of customer exposures, external factors like customer credit ratings and risk ratings from agencies, and the specific circumstances of the customers considering the information available on past events, current conditions and prospective elements.

(IV) Offsetting of instruments

Financial assets and liabilities are offset and presented net in the balance sheet, when the Group currently has a legally enforceable right to set-off and intends to settle the asset and liability on a net basis or realise the asset and settle the liability simultaneously.

The legally enforceable right must not be contingent upon future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

(V) Financial liabilities

Financial liabilities, including trade and other payables, 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 depreciated 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 face value.

The Group receives security deposits from customers when contracts are signed to guarantee payment of future

supplies. These deposits are recognised as financial liabilities. The difference between the amount received and the amortised cost is recognised under accruals, which is adjusted based on the estimated average reimbursement period.

(VI) Derecognitions and amendments of financial liabilities

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

I) Inventory

(I) General

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

The purchase price comprises the amount invoiced by the seller, after deduction of any discounts, rebates or other similar items, such as interest incorporated into the nominal amount, plus any additional costs incurred to bring the goods to a saleable condition and other costs directly attributable to the acquisition, as well as borrowing costs and indirect taxes not recoverable from the Spanish taxation authorities.

Trade discounts are recognised as a reduction in the cost of inventories when it is probable that the conditions for discounts to be received will be met. Unallocated discounts are recognised as a decrease in merchandise, raw materials and consumables used (the cost of sales) in the consolidated income statement.

(II) Emission allowances

The Group has reclassified the emission allowances that were recorded as intangible assets in inventories.

Emission allowances, which are recognised when the Group becomes entitled to such allowances, are measured at cost of acquisition or production in raw materials and other provisions on the Balance Sheet (note 15). Emission allowances expected to be consumed within a period exceeding one year, are included in 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 by means for a non-refundable subsidy associated to the emission

allowances a credit to equity. Recognition in results in 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 as 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 expense corresponding to this part of the obligation is 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 average cost 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 Group recognises the relevant value adjustments, applying the criteria indicated for raw materials.

The Group recognises the sale of emission allowances applying the criteria indicated in section (r) (Ordinary Income).

m) Cash and cash equivalents

Cash and cash equivalents include cash holdings and bank deposits in credit institutions.

The Group presents payables and receivables from high-rotation financial assets and liabilities at the net amount on the cash flow statement. For these purposes, the turnover period is considered to be high when the period between the acquisition date and that of the maturity date is no more than six months. In the statement of cash flows, drawdowns on credit facilities that form an integral part of the Group's cash management are included as a component of cash and cash equivalents.

The Group classifies cash flows from interest received and paid as operating activities and cash flows used in dividend pay-outs as financing activities.

n) Official subsidies from Public Administrations

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

(I) Grants related to assets

Capital grants awarded as monetary assets are recognised under government grants in the consolidated statement of financial position and allocated to other income in line with the amortisation or depreciation of the assets for which the grants have been received.

(II) Operating subsidies

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

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

o) Employees Remunerations

(I) Details of Group pension plans.

Canal de Isabel II, S.A., M.P., and certain subsidiaries have pension plan and other commitments with personnel.

Defined contributions

The Group registers the contributions to be carried out to the defined contribution plans as the employees provide their services. The contributions payable are recognised as an expense for employee remuneration, and as a liability after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the end of the period, the Group only recognises that excess as an asset (prepaid expense) to the extent that the prepayments will lead to, for example, a reduction in future payments or a cash refund.

When contributions to a defined contribution plan do not fall due wholly within twelve months after the end of the period in which the employees render the related service, they are discounted using the market yield on high quality corporate bonds. (See Note 29)

Defined benefit plans

The Group includes plans financed through the payment of insurance premiums under defined benefit plans where a legal or constructive obligation exists to directly pay employees the committed benefits when they become payable or to pay further amounts in the event that the insurance company does not pay the employee benefits relating to employee service in the current and prior periods. (See Note 17)

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

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 Act (Law 8/1987 of 8 June). The main features of this agreement are as follows:

The Sponsor makes a monthly contribution comprising a percentage of each unit holder's salary for Plan purposes for the period. This percentage of salary for Plan purposes is 8.7% for unit holders joining the scheme prior to 3 November 1990 and 6.5% for those who joined since that date. For unit holders joining the scheme prior to 3 November 1990, 7% is allocated to the Capitalisation Fund and the remaining 1.7% to assure death and disability contingencies. For the unit holders joining the scheme after 3 November 1990, 4.8% is allocated to the Capitalisation Fund and the remaining 1.7% to assure death and disability contingencies.

The Parent recognises the contributions payable to this defined contribution plan when the employee has provided the corresponding services. The contributions payable are recognised as an employee benefits expense (see note 26).

The budgets for the financial year 2023 were extended in accordance with Law 4/2021 of 23 December on the General Budget for the Region of Madrid for 2022, which provides that no contributions could be made during 2022 to pension plans or collective insurance policies covering retirement. Since 2012 and in accordance with the provisions set forth in the relevant General Budget Legislation of the Regional Government of Madrid, no contributions have been made by the Company to pension plans or collective insurance policies covering retirement.

On 15 November 2002, the Parent Company outsourced 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 widows/widowers' and orphans' pensions. These benefits are subject to an estimated revaluation of 2% per year. The following assumptions were employed in the actuarial study used to calculate the insurance premium for the externalisation of the pension plan: technical interest rate of 5.15% until 31 December 2041 and 2.5% as of 1 January 2042, PERM/F 2000P mortality tables and a management fee of 0.23% of the premium. Pensions are updated annually based on the increases in state pensions. The premium required to adjust the externalised commitments being paid to retired personnel is calculated annually by independent actuaries using the Projected Unit Credit Method and recognised in the Consolidated Income Statement.

In January 2011 the Company outsourced the policies for tenure and seniority bonuses corresponding to existing remunerations committed to in the Collective Partnership Agreement. At present, the Parent Company recognises in the Income Statements the amount corresponding to the accrual of the cost for each financial year. The right with the insurance company for early payment is recognised in the heading "Other assets" (see Note 17) and the financial effect on updating the amortised cost in the Consolidated Income Statement.

Amagua C.E.M.:

The Labour Code of the Republic of Ecuador requires this subsidiary to provide an employer-paid retirement plan ("jubilación patronal") to all employees with at least 25 years' service. Since 2008, this subsidiary has recognised provisions for these benefits based on an actuarial study conducted by an independent third party. According to this study, at 31 December 2023 the present value of the actuarial mathematical provision for employer-paid retirement plans is 564 thousand euros (489 thousand euros in 2022).

Canal Gestión Lanzarote, S.A.U:

On 1 June 2013 Canal Gestión Lanzarote, S.A.U. assumed the contracts agreed with the employees of Insular de Aguas de Lanzarote, S.A. (INALSA), pursuant to the specific administrative terms and conditions governing the contracting of the service concession for water supply, sanitation and recycling on the islands of Lanzarote and La Graciosa.

Article 20 of the previous Collective Bargaining Agreement applicable to INALSA provided for compensation for "loyal service", awarding workers for long service to the company with a compensation payment linked to the number of years' service at the time of retirement or death while in active service.

Pursuant to Royal Legislative Decree 1/2002 of 29 November 2002, which passed the revised Law on Pension Plans and Funds, and Royal Decree 1588/1999 of 15 October 1999, which implements the legal provisions on the orchestration of employers' pension commitments, any monetary obligation assumed by a business towards its workers linked to retirement, death or permanent incapacity is, in legal substance, analogous to a pension commitment.

In accordance with the legislation in force, on 25 April 2005, INALSA externalised its commitments with personnel by taking out a group life insurance policy with Winterthur Vida, Sociedad Anónima de Seguros y Reaseguros Sobre la Vida, in which INALSA figures as the policyholder (policy number 82-18.514), which at 31 May 2013 had an externalised amount of 2,040 thousand euros. At 31 May 2013 2,040 thousand euros had been externalised through this policy. Subsequently, in 2014 INALSA surrendered this insurance policy for the amount of 2,059 thousand euros.

Pursuant to Article 20 of Law 22/2013, of 22 May 2013, on the General State Budget for 2014, Canal Gestión Lanzarote, S.A.U. made no contributions to the insurance as these were prohibited by said Law. When the Law is revoked, the Company will adopt the criterion of recognising the expenses relating to these benefits when the obligation arises, based on the actuarial studies conducted to calculate the commitment at each year end. Any actuarial gains or losses that come to light for each year will be recognised in the consolidated income statement.

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

However, on 4 May 2015 Labour Court no. 1 of Arrecife handed down a judgement ordering Canal Gestión Lanzarote, in its capacity as new company taking over the employment and Social Security rights and obligations of the previous company, including pension-related

commitments, to pay an employee this compensation by law based on article 44.1 of the Workers Statute.

As a result of the foregoing, and as a matter of prudence, the subsidiary carried the obligation amounting to 1,922 thousand euros in its Financial Statements for 2021 under "Long-term employee benefit obligations" in the balance sheet. In 2022, the obligation was externalised by taking out a group life insurance policy with BBVA for 2,119 thousand euros.

The net liabilities or assets recognised in the balance sheet in respect of a subsidiary's future payment obligations under benefits agreed by the entity is the present value of the obligation at the balance sheet date less the fair value of plan assets, together with adjustments for unrecognised actuarial gains and losses and past service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The changes in the calculation of the present value of the committed remuneration or, where applicable, of the related assets at the balance sheet date, due to actuarial gains and losses, are recognised directly in equity as reserves in the year in which they arise. For these purposes, profit and loss are solely those changes arising from changes in actuarial assumptions or adjustments for experience.

p) Provisions

(I) General criteria

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

The amount recognised as a provision is 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, where the time value of money is material, the financial effect of discounting provided that the expenditure to be made each period can be reliably estimated.

Isolated obligations are measured by the individual outcome that seems most likely. When the provision involves a large population of identical items, the obligation 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 sum.

The financial effect of provisions is recognised as a finance cost in the consolidated income statement.

In cases where the Group has outsourced the risk covered 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/loss when it is not likely that there will be resources to settle such obligation. The provision is reversed against the income statement caption in which the related expense was recognised, and any surplus is accounted for in other income.

q) Income recognition

The Group 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 Group 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 is recognised at an amount that reflects the consideration that the Group expects to be entitled to receive in exchange for transferring goods or services to a customer, at the time the customer obtains control of the goods or services provided. Such control means the ability to decide on the use and obtain materially all economic benefits derived from the good or service. The time when the control is transferred (a point in time or over time) determines the recognition of income.

Ordinary income from the sale of goods and the provision of services is measured at the monetary amount received or, where appropriate, the fair value of the consideration received or expected to be received, and that, unless there is evidence to the contrary, is the agreed price less any discounts, taxes and interest incorporated in the face value of receivables. The best estimate of the variable consideration is included in the measurement of revenue when reversal is not considered highly probable.

The tariffs paid by users are considered "Public services in respect of infrastructure operated under concession arrangements."

Water supplied to and used by customers but not yet invoiced is estimated in order to recognise the corresponding sale.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of costs incurred that are recoverable.

r) Interest and dividends

Interest is recognised using the effective interest method. The effective interest rate is the rate that exactly discounts estimated future cash flows through the expected life of a financial instrument to the net carrying amount of that

financial instrument based on the contractual terms of the instrument and not considering future credit losses.

Dividends from investments in equity instruments are recognised in profit or loss when the Group is entitled to receive them.

s) Income tax

Current tax expenses are calculated based on tax laws approved or about to be approved on the balance sheet date in the countries in which its subsidiaries and associates operate and generate income subject to tax. Management periodically assesses the positions taken in tax filings with respect to the situations in which applicable tax regulations are subject to interpretation and, where necessary, it establishes provisions in accordance with the amounts it expects the Company to pay the tax authorities.

The expense or income from tax on profits include both the current tax and the deferred tax.

Current profit tax assets or liabilities are valued at the amounts which are expected to pay or receive 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 profits 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 equity or on a business combination.

As certified before the taxation authorities on 22 October 2013, since 1 January 2014 the Parent and its Spanish subsidiaries have filed consolidated income tax returns, together with their ultimate parent company Canal de Isabel II, under the Special Tax Consolidation Regime set forth in Article 64 et seq. of Royal Legislative Decree 4/2004 of 5 March 2004.

On 1 January 2015, Law 27/2014 of 27 November came into force. Article 34 of this law provided for tax relief of 99% of the part of the full rate corresponding to income derived from the provision of local public services, which included the supply, sanitation and recycling of water. The Parent Company applies this tax relief as it has been commissioned to provide these services in territory of the Regional Government of Madrid. The tax rate imposed in Spain from the year 2016 is 25%.

At 31 December 2023, this tax group comprises the following companies:

- Canal de Isabel II
- Canal de Isabel II, S.A., M.P.
- Canal Extensia, S.A.U.
- Canal Gestión Lanzarote, S.A.U.

(I) Recognition of deferred tax liabilities

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

(II) Recognition of deferred tax assets

The Group recognises deferred tax assets provided that it is probable that sufficient future taxable profits will be available for their offset or when tax legislation allows the future conversion of deferred tax assets into a receivable from public entities.

The Group recognises the conversion of a deferred-tax asset in 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 Corporate Income Tax and the receivable is credited to the current profit tax. Similarly, the Group recognises the exchange of a deferred tax assets for government securities, when ownership thereof is acquired.

The Group recognises the payment obligation of the financial contribution as an operating expense charged to the debt with public entities when it accrues in accordance with the Income Tax Law.

Notwithstanding, assets that arise from initial recognition of the assets or liabilities in a transaction that is not a business combination and does not affect the book earnings on the date of the transaction or the tax base are not subject of recognition.

In order to determine future gains, the Group considers the tax planning opportunities, providing that it has the intention to adopt them or it is likely to adopt them.

(III) Valuation of deferred-tax assets and liabilities

Deferred tax assets and liabilities are measured based on the tax rates pending application in the financial years when assets are expected to be realised and liabilities paid, based on current regulations and rates or those approved pending publication and once the tax results which will arise from the way the Group expects to recover the assets or settle the liabilities have been considered. For these purposes, the Group has considered the reversion deduction of temporary measures implemented by the thirty-seventh transitional provision of Act 27/2014, of 27 November, on Corporate 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.

Where appropriate, the Group reviews the carrying amount of deferred tax assets at the reporting date to reduce the carrying amount of deferred tax assets to the extent that it is not probable that they will be recoverable.. It reviews the carrying amount of deferred tax assets at the reporting date to reduce the carrying amount to the extent that it is not probable that sufficient future taxable profit will be available or that tax programmes will not be able to offset them.

Deferred tax assets that do not meet the preceding conditions are not recognised in the consolidated income statement. The Group reconsiders, at year-end, if the conditions are met to recognise the deferred tax assets that were not recognised previously.

(IV) Compensation and classification

Deferred tax assets and liabilities are recognised in the consolidated statement of financial position under non-current assets or liabilities, irrespective of the expected date of recovery or settlement.

The Group only offsets tax assets and liabilities if it has a legally enforceable right to offset the recognised amounts and intends either to settle on a net basis or to realise the assets and settle the liabilities simultaneously.

The Spanish tax Group, of which the Public Entity Canal de Isabel II is the Parent Company and has filed consolidated tax returns since 2014.

In addition to the factors to be considered for individual taxation, set out previously, the following factors are taken into account when determining the accrued income tax expense for the companies forming the consolidated tax group:

- 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 shall 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.

Regarding tax loss of any company of the tax Group that have been offset by the other companies of the consolidated Group, 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 credits for loss carry forwards are recognised as deferred tax assets, considering the tax group as a taxable entity for their recovery.

The Parent Company of the tax 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.

t) Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, whose operating results are regularly reviewed by the board of directors to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

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

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

- Assets are classified as current if it can be expected that they will be realised or if they are intended to be sold or consumed within the normal cycle of operation of the 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 cash equivalents, save for those cases in which they cannot be exchanged or used to cancel a liability, at least within the twelve months following the closing date.
- Liabilities are classified as current when they are expected to be settled in the Group's normal operating cycle, they are held primarily for the purpose of trading, they are due to be settled within twelve months after the reporting date or the Group does not have an unconditional right to defer settlement of the liability for at least twelve months

after the reporting date. Moreover, 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. Otherwise these are classified as non-current liabilities.

v) Consolidated cash flow statement

For consolidated cash flow statements prepared using the indirect method, the following expressions are used as defined below:

- 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.
- Operating activities: activities that make up for the Group's ordinary income, as well as activities that may not be classified as investment or financing activities.
- Investment activities: activities comprising the purchase, sale or otherwise disposal of long non-current assets and other investment not included under cash or cash equivalents.
- Financing activities: activities causing changes on the size and composition of equity and liabilities not belonging to operating activities.

w) Environment

The Group performs operations wherein the main purpose is to prevent, reduce or repair damage that it may cause to the environment as a result of its activities.

Expenses derived from environmental activities are recognised as other operating expenses in the consolidated income statement in the period in which they are incurred.

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

4. SEGMENT FINANCIAL REPORTING

The Board of Directors and Parent management review the Group's internal information to assess performance and allocate resources.

The Group analyses the business by geographical segments, which are the different strategic business units. Information on the Group's different geographical segments is contained in Appendix I.

Canal de Isabel II S.A., M.P., and subsidiaries are not highly dependent on any particular customers.

Inter-segment transactions are carried out at arm's length.

The Group's segments are "domestic" and "international." The allocation and award used to establish and to offer the information of each segment is performed with regard to the financial statements of the different companies that form the Group, given that all of them operate exclusively within their geographical scope as a consequence of their activity.

5. BUSINESS COMBINATIONS AND OTHER COMPANY TRANSACTIONS

On 1 April 2022, the merger by absorption between Canal de Isabel II, S.A., M.P. (absorbing company) and the Group company, Hidráulica Santillana, S.A.U. (Absorbed company) was registered with the Business Registry.

In 2022, the investees Ocio y Deporte Canal, S.L., Canal Energía, S.L. and Aguas de Tumbes, S.A. were liquidated.

(See Note 1 (b))(i) and (ii))

6. NON-CURRENT ASSETS HELD FOR SALE

The breakdown and movement at 31 December were as follows:

In thousands of euros			
	2023		
	Lands	Buildings	Total
Opening balance	3,566	643	4,209
Additions	-	-	-
Derecognitions	(2,026)	(155)	(2,181)
Transfers	(1,556)	(488)	(2,044)
Translation differences	18	-	18
COST AS OF 31 DECEMBER 2023	2	-	2

In thousands of euros			
	2022		
	Lands	Buildings	Total
Opening balance	3,600	893	4,493
Additions	-	-	-
Derecognitions	(8)	(250)	(258)
Transfers	-	-	-
Translation differences	(26)	-	(26)
COST AS OF 31 DECEMBER 2022	3,566	643	4,209

The Parent Company has classified as non-current assets held for sale one property recognised as investment property. The property is held as an asset held for sale as there is a final decision to sell and a high probability of monetisation. It will materialise with the issuance of the award decree issued by the Administration of Justice.

In 2023, the Parent Company sold twenty-six properties located in various municipalities of the Region of Madrid by electronic public auction for 14,062 thousand euros, generating a profit of 11,881 thousand euros (see note 26 (g)).

In 2023, the subsidiary Gestus Gestión y Servicios, S.A.S. reclassified the values relating to assets held for sale to property, plant and equipment, recognising 594,404 thousand Colombian pesos (140 thousand euros) in land and natural resources and 361,383 thousand Colombian pesos (86 thousand euros) in buildings.

On 14 November 2018, the General Shareholders' Meeting of Aguas de Tumbes S.A., ATUSA, declared the dissolution of the company due to the manifest impossibility of carrying out its corporate purpose. A liquidator was appointed, who began the respective procedures in order to inform creditors of the state of liquidation, carry out an inventory of assets and other procedures provided for in the bylaws and the law.

Once the activities relating to the private liquidation procedure were completed, and as there were no assets that could be realised to meet the company's outstanding obligations, the relevant judicial bankruptcy application was filed, which fell under the jurisdiction of the thirteenth (13th) civil commercial court of the city of Lima, which by order of 17 November 2022 declared the bankruptcy of AGUAS DE TUMBES S.A.C. in liquidation, as well as the seizure of its assets and, as a result of the above, the uncollectibility of its debts.

The above decision was published on the website of the judiciary, and the corresponding legal registrations were made.

On 20 October 2023, the judicial declaration of bankruptcy of the company was registered with the Peruvian Public Registration National Superintendency (SUNARP), thus ending the company's liquidation process.

7. PROPERTY, PLANT AND EQUIPMENT

a) General

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

In thousands of euros							
2023							
	Land and buildings	Right-of-use Buildings and construction	Technical installations and other property	Machinery, furniture and tools	Right-of-use Other assets	Work in progress and advances	TOTAL
COST:							
BALANCE AT 31/12/2022	11,223	25,125	12,381	736	18,690	128	68,283
Adjustment to the opening balance	-	-	(403)	(114)	-	1,905	1,388
OPENING BALANCE AT 01 JANUARY 2023	11,223	25,125	11,978	622	18,690	2,033	69,671
Additions	18	447	279	28	3,495	639	4,906
Derecognitions	-	(68)	(417)	(15)	(14)	-	(514)
Transfers	418	(214)	234	12	-	(264)	186
Translation differences	(112)	5	(480)	9	29	449	(100)
COST AS OF 31 DECEMBER 2023	11,547	25,295	11,594	656	22,200	2,857	74,149
ACCUMULATED DEPRECIATION:							
BALANCE AS OF 31 DECEMBER 2023	(1,680)	(11,928)	(10,263)	(595)	(12,715)	-	(37,181)
Adjustment to the opening balance	98	-	510	59	-	-	667
OPENING BALANCE AT 01 JANUARY 2023	(1,582)	(11,928)	(9,753)	(536)	(12,715)	-	(36,514)
Depreciations (note 26 e)	(78)	(2,903)	(1,027)	(19)	(2,510)	-	(6,537)
Derecognitions	-	71	359	15	14	-	459
Transfers	(93)	93	-	-	-	-	-
Translation differences	60	5	407	(13)	(28)	-	431
ACCUMULATED DEPRECIATION AT 31 DECEMBER 2023	(1,693)	(14,662)	(10,014)	(553)	(15,239)	-	(42,161)
INITIAL IMPAIRMENT AT 01 JANUARY 2023	(16)	-	-	(2)	-	-	(18)
Impairment losses	-	-	-	-	-	-	-
Translation differences	1	-	-	-	-	-	1
ACCUMULATED IMPAIRMENT AS OF 31 DECEMBER 2023	(15)	-	-	(2)	-	-	(17)
NET CARRYING AMOUNT AT 31 DECEMBER 2023	9,839	10,633	1,580	101	6,961	2,857	31,971

In thousands of euros

	2022 (*)						
	Land and buildings	Right-of-use Buildings and construction	Technical installations and other property	Machinery, furniture and tools	Right-of-use Other assets	Work in progress and advances	TOTAL
COST:							
BALANCE AS OF 31 DECEMBER 2021	11,102	23,418	63,839	926	18,345	56	117,686
Adjustment to the opening balance	-	(4)	-	-	22	-	18
OPENING BALANCE AT 1 JANUARY 2022	11,102	23,414	63,839	926	18,367	56	117,704
Additions	15	1,762	249	10	410	131	2,577
Derecognitions	(34)	(50)	(546)	(116)	(68)	(29)	(844)
Transfers	(96)	-	(52,238)	(222)	-	(64)	(52,620)
Translation differences	235	(1)	661	24	(19)	5	905
COST AS OF 31 DECEMBER 2022	11,222	25,125	11,965	622	18,690	99	67,722
ACCUMULATED DEPRECIATION:							
BALANCE AS OF 31 DECEMBER 2021	(1,639)	(8,925)	(52,411)	(763)	(8,417)	-	(72,155)
Adjustment to the opening balance	-	-	-	-	(1,306)	-	(1,306)
OPENING BALANCE AT 1 JANUARY 2022	(1,639)	(8,925)	(52,411)	(763)	(9,723)	-	(73,461)
Depreciations (note 26 e)	(78)	(3,041)	(838)	(23)	(3,075)	-	(7,055)
Derecognitions	34	-	477	50	66	-	627
Transfers	98	-	43,388	211	-	-	43,697
Translation differences	(95)	38	(472)	(11)	17	-	(523)
ACCUMULATED DEPRECIATION AT 31 DECEMBER 2022	(1,680)	(11,928)	(9,856)	(536)	(12,715)	-	(36,715)
INITIAL IMPAIRMENT AT 01 JANUARY 2022	(15)	-	-	(2)	-	-	(17)
Impairment losses	-	-	-	-	-	-	-
Translation differences	(1)	-	-	-	-	-	(1)
ACCUMULATED IMPAIRMENT AS OF 31 DECEMBER 2022	(16)	-	-	(2)	-	-	(18)
NET CARRYING AMOUNT AT 31 DECEMBER 2022	9,526	13,197	2,108	84	5,975	99	30,989

(*) Restated information.

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

In thousands of euros				
2023				
	Right-of-use Buildings and construction works	Right-of-use Vehicles	Right-of-use Other assets	TOTAL
COST:				
Opening balance at 01 January 2023	25,125	17,460	1,229	43,814
Balance as of 01 January 2023	25,125	17,460	1,229	43,814
Additions	447	2,336	1,159	3,942
Derecognitions	(68)	-	(14)	(82)
Transfers	(214)	-	-	(214)
Translation differences	4	9	21	34
COST AS OF 31 DECEMBER 2023	25,294	19,805	2,395	47,494
ACCUMULATED DEPRECIATION:				
Opening balance at 01 January 2023	(11,928)	(12,122)	(592)	(24,642)
Adjustment to the opening balance	-	-	-	-
Balance as of 01/01/2023	(11,928)	(12,122)	(592)	(24,642)
Depreciation	(2,903)	(2,373)	(138)	(5,414)
Derecognitions	71	-	14	85
Transfers	93	-	-	93
Translation differences	6	(8)	(20)	(22)
ACCUMULATED DEPRECIATION AT 31 DECEMBER 2023	(14,661)	(14,503)	(736)	(29,900)
NET CARRYING AMOUNT AT 31 DECEMBER 2023	10,633	5,302	1,659	17,594

In thousands of euros

	2022			
	Right-of-use Buildings and construction works	Right-of-use Vehicles	Right-of-use Other assets	TOTAL
COST:				
Opening balance at 1 January 2022	23,418	17,406	939	41,763
Adjustment to the opening balance	(4)	22	-	18
Balance as of 01 January 2022	23,414	17,428	939	41,781
Additions	1,762	105	305	2,172
Derecognitions	(50)	(68)	-	(118)
Transfers	-	-	-	-
Translation differences	(1)	(5)	(15)	(21)
COST AS OF 31 DECEMBER 2022	25,125	17,460	1,229	43,814
ACCUMULATED DEPRECIATION:				
Opening balance at 1 January 2022	(8,925)	(7,893)	(524)	(17,342)
Adjustment to the opening balance	-	(1,306)	-	(1,306)
Balance as of 01 January 2022	(8,925)	(9,199)	(524)	(18,648)
Depreciation	(3,041)	(2,993)	(81)	(6,115)
Derecognitions	-	66	-	66
Transfers	-	-	-	-
Translation differences	38	4	13	55
ACCUMULATED DEPRECIATION AT 31 DECEMBER 2022	(11,928)	(12,122)	(592)	(24,642)
NET CARRYING AMOUNT AT 31 DECEMBER 2022	13,197	5,338	637	19,172

Since 2022, the detail of the accumulated depreciation and the net carrying value of the mini power plants, recorded in property, plant and equipment, and relating to the company Hidráulica Santillana, are no longer included under this heading, due to the merger by absorption of the aforementioned subsidiary. (See note 1 b (ii))

There are no individually relevant elements of property, plant and equipment among the Latin America States at 31 December 2023 and 2022. However, Amagua, C.E.M. recorded additions totalling 429 thousand dollars (288 thousand euros).

b) Fully depreciated assets

The cost of property, plant and equipment which are fully depreciated and still in use at 31 December is as follows:

	In thousands of euros	
	2023	2022
Construction works	833	883
Technical installations and machinery	1,830	2,161
Other installations, tools and furniture	757	594
Other items of fixed assets	955	1,085
TOTAL	4,375	4,723

c) Insurances

The Group has subscribed several insurance policies covering those risks tangible fixed items are subject to. The coverage provided by such policies is deemed to be sufficient.

d) Impairment

The Group did not recognise any significant impairment on its Tangible assets in 2023 or 2022.

e) Derecognitions

In 2023, the Group companies AAA Dominicana and Amagua recorded derecognitions in the amount of 55 thousand euros, generating a net loss of 52 thousand euros, which is recognised in the accompanying consolidated income statement.

In 2022, the Group companies AAA Dominicana, Amagua and Gestus recorded derecognitions in the amount of 88 thousand euros, generating a net profit of 37 thousand euros, which is recognised in the accompanying consolidated income statement.

8. INVESTMENT PROPERTY

a) General

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

In thousands of euros				
2023				
	LANDS	BUILDINGS	CONSTRUCTION IN PROGRESS	TOTAL
COST AS OF 01 JANUARY 2023	2,881	14,419	-	17,300
Additions	17	20	396	433
Derecognitions	-	(99)	-	(99)
Transfers	1370	1,003	-	2,373
Translation differences	1	25	-	26
Other movements	-	-	-	-
COST AS OF 31 DECEMBER 2023	4,269	15,368	396	20,033
ACCUMULATED DEPRECIATION AT 01 JANUARY 2023	-	(6,764)	-	(6,764)
Depreciations (note 26 e)	-	(433)	-	(433)
Derecognitions	-	57	-	57
Transfers	(4)	(519)	-	(523)
ACCUMULATED DEPRECIATION AT 31 DECEMBER 2023	(4)	(7,659)	-	(7,663)
ACCRUED IMPAIRMENT AS OF 01 JANUARY 2023	-	-	-	-
Recapture of impairment loss	-	-	-	-
ACCRUED IMPAIRMENT AS OF 31 DECEMBER 2023	-	-	-	-
NET CARRYING AMOUNT AT 31 DECEMBER 2023	4,265	7,709	396	12,370

In thousands of euros				
2022				
	LANDS	BUILDINGS	TOTAL	
COST AS OF 01 JANUARY 2022	3,014	13,237	16,251	
Additions	3	-	3	
Derecognitions	(137)	-	(137)	
Transfers	1	1,196	1,197	
Translation differences	-	(14)	(14)	
Other movements	-	-	-	
COST AS OF 31 DECEMBER 2022	2,881	14,419	17,300	
ACCRUED DEPRECIATION AS OF 01 JANUARY 2022	-	(7,887)	(7,887)	
Depreciations (note 26 e)	-	(367)	(367)	
Transfers	-	1,490	1,490	
ACCUMULATED DEPRECIATION AT 31 DECEMBER 2022	-	(6,764)	(6,764)	
ACCRUED IMPAIRMENT AS OF 01 JANUARY 2022	-	(133)	(133)	
Impairment reversals	-	133	133	
ACCRUED IMPAIRMENT AS OF 31 DECEMBER 2022	-	-	-	
NET CARRYING AMOUNT AT 31 DECEMBER 2022	2,881	7,655	10,536	

This heading mainly comprises the sports facilities located at the Riosequillo reservoir and several other properties owned by the Parent company.

Additions in 2023 include the contributions made to cover urban development and management expenses in the Compensation Boards in urban development sectors, as well as the actions carried out in the Palacio de Arteaga building in the municipality of Torrelaguna.

Following the completion of the process of disposal of properties by electronic public auction in 2023, the 28 properties not awarded or not included in the auction and which were included under "Non-current assets held for sale" were classified under "Investment property".

In 2022, the facilities of the leisure complex on the right side of the Riosequillo reservoir in Buitrago de Lozoya were incorporated. By resolution of the Manager of the Public Entity Canal de Isabel II, the public concession for the

complex was granted to the Buitrago City Council for 20 years, in exchange for a financial consideration.

On 23 February 2022, the Own Resources Commissioning Agreement with the public company Ocio y Deporte Canal, S.L.U. for the management and operation of the Parent Company's sports facilities located in the Tercer Depósito park was finalised.

The total carrying amount of the Group's investments outside of Spain is 146 thousand euros in 2023 (102 thousand euros in 2022). The Group's investment property outside Spain corresponds to Canal Extensia América, S.A.

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

In thousands of euros			
2023			
DESCRIPTION	COST	ACCUMULATED DEPRECIATION	NET
Lands	4,268	(4)	4,264
Patrimonial assets	3,236	(1,494)	1,742
TOTAL	7.504	(1,498)	6.006

In thousands of euros			
2022			
DESCRIPTION	COST	ACCRUED DEPRECIATION	NET
Lands	2,881	-	2,881
Patrimonial assets	2,224	(1,033)	1,191
TOTAL	5,105	(1,033)	4,072

b) Income and expenses from investment property

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

	Thousands of Euros	
	2023	2022
Income from leases	368	276
Income generating investments operating costs	(373)	(322)
Operating costs of non-income generating investments	(60)	(45)
TOTAL	(65)	(91)

c) Value impairment

No impairments were recognised by the Group in 2023.

In 2022, the Parent Company adjusted impairment of the sports facilities in the Tercer Depósito park at Calle Islas Filipinas, as the causes that led to it disappeared.

d) Insurance

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

e) Fair values

The fair value of investment property at 31 December 2023 and 2022 is as follows:

Item	Thousands of Euros	
	2023	2022
Construction works	48,409	41,247

f) Derecognitions

In 2023, the Parent Company derecognised by demolition three sentry boxes in the Dehesa de la Villa de Madrid, generating a loss of 43 thousand euros. In 2022, as a result of the sale of the interest in an urban plot of land, the Company registered derecognitions amounting to 137 thousand euros, generating a profit of 42 thousand euros (Note 26(g)).

9. GOODWILL

Movement during 2023 and 2022 is as follows:

In thousands of euros				
2023				
	BALANCE AS OF 01/01/2023	IMPAIRMENT	TRANSLATION DIFFERENCES	BALANCE AS OF 31/12/2023
AAA Ecuador Agacase	211	-	45	256
Hidráulica Santillana, S.A.U.	12,610	-	-	12,610
AAA Dominicana, S.A.	38	-	-	38
TOTAL	12,859	-	45	12,904

In thousands of euros				
2022				
	BALANCE AS OF 01/01/2022	IMPAIRMENT	TRANSLATION DIFFERENCES	BALANCE AS OF 31/12/2022
AAA Ecuador Agacase	240	-	(29)	211
Hidráulica Santillana, S.A.U.	12,610	-	-	12,610
AAA Dominicana, S.A.	38	-	-	38
TOTAL	12,888	-	(29)	12,859

The Cash-Generating Unit (CGU) of the lowest level at which the recognised goodwill is managed for the purposes of verifying the value impairment is each one of the consolidated companies. Pursuant to the procedure described in note 3 (a), the Group carried out the impairment test for each group of CGUs to which the goodwill has been assigned.

The group periodically assesses the recoverability of goodwill. Accordingly, it uses the business plans from the different CGUs to which they are assigned, discounting expected future cash flows.

The assumptions on which the cash flow forecasts are based are past experience and fair estimates of the business plans of the different CGUs. These estimates are contrasted with the expected growth, taking into account the position of the company and the strategic elements that could make this position change.

In any event, sensitivity analyses are conducted in relation to the discount rate used and the residual growth rate, in order to verify which fair changes in these assumptions will not have an impact on the possible recovery of the recognised goodwill.

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

U.G.E. Hidráulica Santillana:

The Group has estimated energy production based on the historical average production volume. Furthermore, the estimated sale price is in a range of between 87.5 euros/MWh and 50 euros/MWh during the 5 projected years.

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

Business Plan 2023	
Income CAGR	4.73%
EBITDA CAGR	5.42%

The pre-tax discount rate applied (WACC or weighted average cost of capital) is 7.38% (6.12% in 2022), and a constant perpetual growth rate was estimated to calculate terminal value of 2%, linked mainly to the increase in the price of energy (2% in 2022).

The impairment test carried out at 31 December 2023, reflects a recoverable sum of 31,253 thousand euros (43,241 thousand in 2022), with an excess over the book value of the CGU's net operating assets of 5,512 thousand euros (including goodwill) (17,634 thousand euros in 2022).

The Group has also performed a sensitivity analysis for the main key assumptions. Key assumptions of the impairment test are the discount rate (WACC) and business turnover. The details of the amount for which the value assigned to the key assumptions must be changed in order to equal the sum of the recoverable amount to the book value of the CGU are as follows:

	2023
Income decrease	9.2%
WACC increase (bp)	212

This sensitivity analysis illustrates that this CGU does not have significant risks associated with variations in the key assumptions. During 2023 and 2022, goodwill impairment losses were not recognised in this CGU.

The other goodwill associated with the various CGUs is not individually significant. However, the Group has conducted the impairment testing of goodwill and no impairment has been recognised.

10. OTHER INTANGIBLE ASSETS

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

In thousands of euros								
	2023							
	Development	Concessions	IT applications	Right-of-use Software IFRS 16	Concession agreement, regulated assets	Concession agreement, regulated assets in progress	Other intangible fixed assets	TOTAL
BALANCE AS OF 31 December 2022	56	1,226	1,637	80	7,104,591	107,164	-	7,214,754
ADJUSTMENT TO THE OPENING BALANCE	-	-	-	-	(2,364)	-	-	(2,364)
COST AS OF 01 JANUARY 2023	56	1,226	1,637	80	7,102,227	107,164	-	7,212,390
Additions	-	-	187	-	64,585	111,255	-	176,027
Derecognitions	-	-	(65)	-	(5,209)	-	-	(5,274)
Transfers	-	-	17	-	49,430	(49,447)	-	-
Translation differences	(3)	263	128	17	(13)	(55)	-	337
COST AS OF 31 DECEMBER 2023	53	1,489	1,904	97	7,211,020	168,917	-	7,383,480
BALANCE AS OF 31 December 2022	(29)	(1,226)	(1,258)	(57)	(3,203,940)	-	-	(3,206,510)
ADJUSTMENT TO THE OPENING BALANCE	-	-	-	-	1,312	-	-	1,312
Cost as of 01 January 2023	(29)	(1,226)	(1,258)	(57)	(3,202,628)	-	-	(3,205,198)
Amortisations	(2)	-	(63)	(22)	(127,032)	-	-	(127,119)
Derecognitions	-	-	65	-	3,246	-	-	3,311
Transfers	-	-	-	-	7	-	-	7
Translation differences	1	(263)	(54)	(15)	(251)	-	-	(582)
ACCUMULATED AMORTISATION AT 31 DECEMBER 2023	(30)	(1,489)	(1,310)	(94)	(3,326,658)	-	-	(3,329,581)
IMPAIRMENT AT 01 JANUARY 2023	-	-	(2)	-	(3,064)	-	-	(3,066)
Impairment losses	-	-	-	-	-	-	-	-
Impairment reversals	-	-	-	-	3,064	-	-	3,064
ACCUMULATED IMPAIRMENT LOSS AT 31 DECEMBER 2023	-	-	(2)	-	-	-	-	(2)
NET CARRYING AMOUNT AT 31 DECEMBER 2023	23	-	592	3	3,884,362	168,917	-	4,053,897

In thousands of euros

	2022 (*)							
	Development	Concessions	IT applications	Right-of-use Software IFRS 16	Concession agreement, regulated assets	Concession agreement, regulated assets in progress	Other intangible assets	TOTAL
COST AS OF 01 JANUARY 2022	53	1,395	1,867	91	6,983,520	85,540	635	7,073,101
Additions	-	-	153	-	46,778	52,116	-	99,047
Derecognitions	-	-	(241)	-	(9,448)	-	-	(9,689)
Transfers	-	-	(129)	-	82,947	(30,521)	(635)	51,662
Translation differences	3	(169)	(13)	(11)	794	29	-	633
COST AS OF 31 DECEMBER 2022	56	1,226	1,637	80	7,104,591	107,164	-	7,214,754
ACCUMULATED AMORTISATION AT 01 JANUARY 2022	(26)	(1,395)	(1,545)	(42)	(3,040,164)	-	-	(3,043,172)
Amortisations	(2)	-	(59)	(23)	(124,324)	-	-	(124,408)
Derecognitions	-	-	241	-	6,235	-	-	6,476
Transfers	-	-	127	-	(45,542)	-	-	(45,415)
Translation differences	(1)	169	(22)	8	(145)	-	-	9
ACCUMULATED AMORTISATION AT 31 DECEMBER 2022	(29)	(1,226)	(1,258)	(57)	(3,203,940)	-	-	(3,206,510)
IMPAIRMENT AT 01 JANUARY 2022	-	-	(2)	-	(4,892)	-	-	(4,894)
Impairment losses	-	-	-	-	-	-	-	-
Impairment reversals	-	-	-	-	1,828	-	-	1,828
ACCUMULATED IMPAIRMENT LOSS AT 31 DECEMBER 2022	-	-	(2)	-	(3,064)	-	-	(3,066)
NET CARRYING AMOUNT AT 31 DECEMBER	27	-	377	23	3,897,587	107,164	-	4,005,178

(*) Restated information.

The main additions in 2023 and 2022 under "Concession agreement, regulated assets" and "Concession arrangements, regulated assets in progress"

come from extensions and improvements to the infrastructure assets required to provide the services under the concession arrangements.

The most significant additions and transfers in 2023 under the heading "Concession agreement, regulated assets" included the following:

The Red Plan works for the renewal of networks in the pipelines of different municipalities in the Region of Madrid, replacing obsolete materials with more technologically advanced ones, to guarantee the quality and increase the efficiency of the distribution network; as well as the installation of meters and connections of the Plan to implement and integrate the water meters of the Region of Madrid in the remote reading system.

In addition, the rehabilitation of the San Fernando artery at the junction with the M-40; and of the left branch of the main East artery in the gallery as it passes under the A-2; as well as improvements to the facilities of the Santillana DWTP.

In supply, the adaptation of the roof of the 2nd Getafe tank for its waterproofing and the subsequent installation of photovoltaic panels on the surface; the construction of regulating tanks in the municipalities of Redueña and Torrelaguna with the necessary piping to increase the guarantee of supply.

In wastewater treatment, the adaptation of the Arroyo de la Vega WWTP to the National Water Quality Plan; biological treatment at the La Poveda WWTP; improvement works at the Morata de Tajuña, Tres Cantos, Alcalá Este and Casaquemada WWTPs; and the construction of a new Workplace at the El Endrinal WWTP in Collado Villalba.

In the network of sewers and outfalls in the Region of Madrid, the construction of a WWTP in Redueña and pumping to the Venturada WWTP; as well as those arising from the Sanea Plan to improve the efficiency of the sewerage network in the Region of Madrid with the renovation of municipal sewerage networks.

In reclaimed water, the supply of reusable irrigation water in Algete from the tertiary treatment plant of the Algete Oeste WWTP; and in the reuse network of Torrejón de Ardoz.

Within the automation plan, the installation of new TETRA base stations to strengthen the telecommunications network, improve coverage and the final quality of the service provided, as well as continuous measuring equipment based on smart sensors to control water quality in the distribution network.

Within the framework of the Solar Plan for the commissioning of new photovoltaic installations in the company's infrastructures, floating photovoltaic panels have been installed in the lower tank of the Torrelaguna hydroelectric plant for the production of electricity with connection to the plant's existing installations.

In 2022, the most significant additions and transfers in "Concession agreement, regulated asset" were as follows:

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

Actions on the Pedrezuela dam bottom spillway; renovation of the left branch of the main east artery; the inlet and outlet galleries to the El Goloso reservoir of the Atazar Canal; and the construction of new installations for calcium hydroxide at the Valmayor DWTP.

The construction of a regulating tank in Talamanca; a bypass at the Navahondilla lifting station; installation of a rechlorination station at the Soto II tank; construction of a test bench for meters and flow meters in Majadahonda.

Storm tanks at the Villanueva de la Cañada and Valdaracete WWTPs; improvements to the biological station and centrifuges at several WWTPs.

In the network of sewers and outfalls of the Region of Madrid, the connection sewer from the Colmenar DWTP to the Colmenar Viejo WWTP; improvements to the sewerage network; a coarse grating at San Martín de la Vega WWTP; commissioning of the second cell for the waste tank at the Loeches landfill site.

In regeneration, the improvements made to the tertiary treatment at the Arroyo de la Vega WWTP and the extension of the reused water supply network in Parla should be , highlighted.

Implementation of the unified real-time monitoring system for operational technology assets; and continued integration in the remote control system of the distribution elevators, DWTP, chlorination installation, treatment plants and mini-power plants.

Actions to increase security in IT systems and facilities; IT equipment for remote working; integration of energy measures in the systems; technical improvements in the emergency system and warning to the population within the flood zone.

Automation actions to increase security in computer systems and installations. Evolution in geographic information systems, and in supply and treatment operation management applications.

The Company Amagua, C.E.M. recorded additions totalling 771 thousand dollars (698 thousand euros), the most significant amount being 540 thousand dollars (489 thousand euros) corresponding to "Advance payments for intangible assets".

It was due to the investment "AAPP 800 mm pipeline in Samborondón Canton" with the aim of optimising and extending the service provided to the populations of the Samborondón sector, in addition to the correct construction of chambers, provision and installation of accessories and other implements required for the commissioning of this pipeline.

a) Main Concession Agreement and Administrative Concessions

Details of the most significant concession arrangements are as follows:

							Thousands of Euros	
							2023	
CONCESSION AGREEMENTS REGULATED ASSETS	USE	EXPIRATION DATE	AMORTISATION PERIOD	COST	ACCUMULATED AMORTISATION	VALUATION ADJUSTMENTS	NET	
IN SPAIN								
Network Infrastructures of the Regional Government of Madrid	Operating activities	2062	50	5,619,250	(2,573,151)	-	3,046,099	
Assignment of use of operating sanitation structures of the City council of Madrid	Operating activities	2036	31	926,000	(536,000)	-	390,000	
Reuse infrastructures Madrid City Council	Operating activities	2061	50	192,684	(47,731)	-	144,953	
Infrastructures of the municipal sewerage networks	Operating activities	2062	50	132,834	(33,901)	-	98,933	
Technical installations Aguas de la Cuenca de España	Operating activities	2039	30	72,183	(34,144)	-	38,039	
Administrative Concession Lanzarote	Operating activities	2043	30	106,886	(28,545)	-	78,341	
Additional investments								
Granting of "rights to use Madrid City Council sanitation infrastructures	Operating activities	2036	31	66,721	(26,180)	-	40,541	
Investments extension and upgrade of Alcalá de Henares concession	Operating activities	2029	25	18,830	(14,015)	-	4,815	
Granting of Use of Municipal Land in Guadarrama	Operating activities	2039	30	10,752	(5,346)	-	5,406	
Administrative Concession Cáceres	Operating activities	2039	24	39,259	(12,906)	-	26,353	
IN IBERO-AMERICA								
Rights over contracts AAA Ecuador	Operating activities	2032	30	777	(527)	-	250	
Concession municipality of Samborondón	Operating activities	2051	36	11,642	(2,886)	-	8,756	
Concession municipality of Daule	Operating activities	2024 (*)	8	3,282	(2,953)	-	329	
Rights over contracts UTE Santa Marta	Operating activities	2017	13	1,935	(1,935)	-	-	
Rights over contracts AAA Dominicana	Operating activities	2015	11	1,489	(1,489)	-	-	
Rights on contracts Fontes da Serra (Brazil)	Operating activities	2030	30	1,007	(551)	-	456	
TOTAL				7,205,531	(3,322,260)	-	3,883,271	

(*) Estimate associated to the completion of the work.

In thousands of euros							
2022							
CONCESSION AGREEMENTS REGULATED ASSETS	USE	EXPIRATION DATE	AMORTISATION PERIOD	COST	ACCRUED DEPRECIATION	VALUATION ADJUSTMENTS	NET
IN SPAIN							
Network Infrastructures of the Regional Government of Madrid	Operating activities	2062	50	5,516,812	(2,498,948)	-	3,017,864
Assignment of use of operating sanitation structures of the City council of Madrid	Operating activities	2036	31	926,109	(506,000)	-	420,109
Reuse infrastructures Madrid City Council	Operating activities	2061	50	192,613	(43,868)	-	148,745
Infrastructures of the municipal sewerage networks	Operating activities	2062	50	132,834	(31,333)	-	101,501
Technical installations Aguas de la Cuenca de España	Operating activities	2039	30	72,183	(31,670)	-	40,513
Administrative Concession Lanzarote	Operating activities	2043	30	97,495	(24,607)	-	72,888
Additional investments Granting of "rights to use Madrid City Council sanitation infrastructures	Operating activities	2036	31	64,244	(23,474)	-	40,770
Investments extension and upgrade of Alcalá de Henares concession	Operating activities	2029	25	18,708	(13,148)	-	5,560
Granting of Use of Municipal Land in Guadarrama	Operating activities	2039	30	10,752	(4,988)	-	5,764
Administrative Concession Cáceres	Operating activities	2039	24	39,259	(11,380)	(3,064)	24,815
IN IBERO-AMERICA							
Rights over contracts AAA Ecuador	Operating activities	2032	30	640	(411)	-	229
Concession municipality of Samborondón	Operating activities	2051	36	14,228	(3,977)	-	10,251
Concession municipality of Daule	Operating activities	2024 (*)	8	3,214	(2,862)	-	352
Rights over contracts UTE Santa Marta	Operating activities	2017	13	1,593	(1,593)	-	-
Rights over contracts AAA Dominicana	Operating activities	2015	11	1,226	(1,226)	-	-
Rights on contracts Fontes da Serra (Brazil)	Operating activities	2030	30	967	(504)	-	463
TOTAL				7,092,877	(3,199,989)	(3,064)	3,889,824

(*) Estimate associated to the completion of the work.

Details of concession arrangements and the most significant terms and conditions thereof, as provided by the Parent Company, are as follows:

- The Region of Madrid General Network comprises all of the infrastructures used to provide the public services assigned to the Public Entity by the Regional Government of Madrid. Under the terms of Law 3/2008 and in accordance with the terms and conditions of the Contract-Programme, the management of these infrastructures has been entrusted to the Parent Company. All of these infrastructures are public property as they are used for public services provided by the Parent. As such,

they may not be disposed of or seized and are not subject to any statute of limitations.

The Contract-Programme has a 50-year term from 1 July 2012 and cannot be renewed.

In 2023 the Parent Company charged 21,681 thousand euros to the provision for infrastructure replacement relating to the Region of Madrid General Network (50,362 thousand euros in 2022) (see note 23).

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

- The granting of the right to use Madrid City Council sanitation infrastructures is regulated by the Management Agreement Regarding Sanitation Services, signed between the Madrid City Council, the Regional Government of Madrid and Canal de Isabel II on 19 December 2005, by virtue of which, Canal de Isabel II 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 sewer 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 total remuneration of 226 million euros and the contract term was extended by a further six years (in addition to the initial 25 years) to 31 December 2036.

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 to be carried out by the end of the contractual period totals 613 million euros, of which 438 million euros was considered investment in replacements. During the period ended 31 December 2023 the Parent Company charged 14,495 thousand euros to the provision for replacements (15,456 thousand euros in 2022) (see note 23).

The consideration received by the Company is the right to collect the corresponding tariffs from customers in the city of Madrid for sewerage and treatment services rendered, based on their use of these services. Tariffs and any amendments thereto are authorised by the Region 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 recycling, signed between Madrid City Council,

the Regional Government of Madrid and Canal de Isabel II on 4 May 2011, which assigned the running of the recycled water transportation and supply service in the city of Madrid for any of the uses foreseen by the Law in force to Canal for a period of 50 years from 1 July 2011.

The agreement does not include any commitment to perform any maintenance work required with respect to the infrastructure.

Total consideration of 189 million euros was paid for the right to use these infrastructures. By way of consideration, the Parent Company is entitled to bill the recycling services rendered, in accordance with the approved tariffs. Tariffs and any amendments thereto are authorised by the Community of Madrid in accordance with the legislation in force. During the period ended 31 December 2023 the Parent Company charged 419 thousand euros to the provision for replacements (625 thousand euros in 2022) (see note 23).

- 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 Region 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 de Isabel II. The councils entrust the Region of Madrid through the Parent Company to manage and to operate the sewerage system, as well as related infrastructures and facilities.

No new sewerage agreements were signed in 2023. The municipalities that signed the aforementioned sewerage agreements at 31 December 2023 total 135, of which 31 have become effective since 1 July 2012, the total cost of which in 2023 and 2022 is 35,695 thousand euros.

The consideration received by the Parent Company is the right to collect tariffs from customers for their use of the public services provided.

Tariffs and any amendments thereto are authorised by the Regional Government of Madrid in accordance with the legislation in force.

From all such Agreements signed since 1 July 2012, 187 thousand euros are pending payment at 31 December 2023 and have been recognised under payables to suppliers of fixed assets (187 thousand euros in 2022) (see Note 20).

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

The concession has a nominal fee of 39,217 thousand euros, which has been fully paid. Additionally, the Parent Company pays Cáceres City Council a variable fee of 4% of total billings as from year five of the concession.

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 2023 the Parent Company charged 1,682 thousand euros to the provision for replacements (1,404 thousand euros in 2022). (See Note 23)

- In 2017, the "Concession agreement for the management, operation and maintenance of the municipal drinking water and sewerage service in the municipality of Monroy (Cáceres)" was signed. The Concession agreement was signed on 21 November 2006 for a term of 20 years and for an amount of 50 thousand euros. The Concession agreement does not establish investment commitments.
- On 23 May 2013, Canal Gestión Lanzarote, S.A. signed a public service management agreement with Water Consortium of Lanzarote for the concession to provide water supply, sanitation and recycling services on the islands of Lanzarote and La Graciosa, and to carry out the works included in the investment plan included in the Company proposal in the tender announced for said purpose.

The validity period is 30 years commencing on 1 June 2013. Once the agreement has ended, Canal Gestión Lanzarote, S.A. will continue providing the services

included in the concession until the Consortium directly, or a new successful bidder, starts providing the service, for which they will have a maximum period of 18 months.

Once the concession period has ended, all the works and installations required for the provision of the service, shall revert to Water Consortium of Lanzarote, with Canal Gestión Lanzarote, S.A. delivering them in good working order and free of charges and encumbrances.

The agreement signed with Water Consortium of Lanzarote established the payment of an initial fee, as consideration for the concession to use the infrastructures, of 50 million euros, paid in the first five years of the concession. Similarly, Canal Gestión Lanzarote, S.A. had committed investments of 54,455 thousand euros to be made in the first 5 years of the concession (updated to the CPI of 5 years, amounting to 55,649 thousand euros). At 31 December 2023, 57,712 thousand euros of chargeable investments have been made, which is more than the amount committed. Canal Gestión Lanzarote has completed these committed investments, with a remaining amount of only approximately 300 thousand euros.

The consideration received by Canal Gestión Lanzarote, S.A. is the right to collect tariffs from customers for their use of the public services provided. Tariffs and amendments thereto are authorised by the Water Consortium of Lanzarote.

Although the first price review was established in the agreement for 1 June 2017, the proposal submitted by the titleholder of the agreement was not accepted by Water Consortium of Lanzarote for the financial years 2017 to 2023.

On 26 January 2023, the first section of the administrative chamber of the Supreme Court dismissed the cassation appeal filed by the Lanzarote Water Consortium against the ruling of 22 July 2021, handed down by the first section of the administrative chamber of the Regional High Court of Justice of the Canary Islands, which confirmed the ruling handed down by the Administrative Court No. 3 of the Canary Islands on 9 February 2021.

This implies the nullity of the alleged rejection of the tariff revision requests submitted by the Company for the financial years 2017, 2018 and 2019. The request for the revision of tariffs for the aforementioned years is accepted and the right to receive, as remuneration for the contract and from the fourth year of its duration, the updated tariffs, in accordance with the CPI + 1% formula, is recognised.

The increases requested under the contract are:

- 2.3% (CPI 1.3%+ 1%) from 1 June 2017,
- 2.1% (CPI 1.1%+ 1%) from 01 June 2018,
- 2.4% (CPI 1.4%+ 1%) from 1 June 2019,

- 1.4% (CPI 0.4%+ 1%) from 01 June 2020,
 - 0.9% (CPI -0.1%+ 1%) from 01 June 2021,
 - 6.8% (CPI 5.8%+ 1%) from 01 June 2022,
 - 6.8% (CPI 5.8% + 1%) from 1 June 2023.
 which has resulted in a decrease in income for the Company, amounting to 19,773 thousand at 31 December 2023, which is not recorded at year-end.

Details of concession arrangements in Latin America and the most significant terms and conditions of these arrangements are as follows:

- Amagua C.E.M. (Ecuador) provides public drinking water and sewerage services through exclusive concessions (under regulated authorisation) granted by the decentralised autonomous governments of the cantons of Samborondón and Daule.

Amagua's operations in the Samborondón canton are governed by the "Agreement regulating the relationship between the town of Samborondón and the company Aguas de Samborondón Amagua C.E.M. for the provision of drinking water and sewerage services in the urban development area of Samborondón canton", which was signed on 30 November 2001, the first addendum thereto signed on 14 December 2009, the second signed on 29 August 2014, the third signed on 31 January 2019, and the fourth signed on 31 January 2020, for a 50-year period from March 1998 onwards. Moreover, the service provided by Amagua is governed by the town charter approved by the government of the canton of Samborondón on 28 May 2010 and published in Official Record No. 47, of 21 June 2010.

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

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

Among Amagua's obligations deriving from the aforementioned agreements, the third addendum to the delegation agreement signed with Daule on 17 February 2020 stipulates the one-off execution of various specific works under a certain budget.

However, despite this stipulation, the delegation agreements do not generally entail any obligation for Amagua to make investments, as its operations are confined to the existing infrastructure available for the service, in some cases provided by the municipal authorities themselves, and in others by real estate developers. According to this subsidiary's technical department, the useful life of the facilities is longer than the concession term and a suitable corrective and preventative maintenance programme will eradicate the need for any major investments or replacements. Although it is not bound to make any investments, where required for its particular needs, the subsidiary may carry out work on a self-financed basis or in collaboration with other parties.

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

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

Concession agreement signed on 30 June 2000, with the municipal government of Guapimirim, whose operating permit was recently issued and is valid until 23/12/2026. The purpose of this administrative concession arrangement is to manage water supply system services in the municipality of Guapimirim-RJ, including the obligation to cover 90% of the municipality's urban population and exclusive responsibility for harnessing, intake, production, operation, repairs and maintenance, modernisation and charging directly for the services.

In accordance with the conditions (clause 4.1 of the agreement), at the end of the concession the assets will revert to the town council of Guapimirim (the grantor) with no financial compensation.

There is no contractual obligation to undertake additional investment. The only obligation is to maintain the supply service in suitable condition.

- Avanzadas Soluciones de Acueducto y Alcantarillado, S.A. E.S.P. (ASAA S.A. E.S.P.) (Colombia) has the following concession arrangement:

An agreement to "operate, maintain and refurbish the public conduit and sewerage network infrastructure", between the municipality of Riohacha and the company formerly called AGUAS DE LA GUAJIRA (now ASAA S.A. E.S.P.), dated 4 October 2000.

Subject to the provisions in Clause four of the referred agreement the operating term is of 20 years from the date of the underwriting of the Certificate of Commencement of the operation, dated 1 December 2000. The agreement would therefore expire on 30 November 2020.

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

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

On 26 November 2020, the Riohacha District and the company ASAA S.A. E.S.P. signed contract addendum No. 3, governing the operation, refurbishment and maintenance of the public conduit and sewerage network infrastructure, extending the contract for one (1) year, from 1 December 2020 to 30 November 2021, and thereby guaranteeing the provision of conduit and sewerage services to the Riohacha District for another year. This was approved by the company's Board of Directors at its meeting of 29 October 2020.

Likewise, on 26 November 2021, the same parties (Riohacha District and the company ASAA S.A. E.S.P.) signed contract addendum No. 4, governing the Provisions on Operation, Refurbishment and Maintenance of the Public Conduit And Sewerage Network Infrastructure, extending the contract again for eight (8) months, from 01 December 2021 to 30 July 2022, and thereby guaranteeing the provision of Conduit and Sewerage services to the Riohacha District during the extension. This was approved by the company's Board of Directors at its meeting of the twenty-sixth (26) day of November of the year two thousand and twenty-one (2021).

Likewise, on 14 June 2022, by e-mail, the Government of the District of Riohacha informed the company of its intention to extend the contract, which was duly formalised through Additional Section No. 5 in its First Clause: - Extension of the Term of operation described: The parties agree to extend the term of operation of the contract named "Provisions for the operation, renovation and maintenance of the

infrastructure of the public water and sewerage services" for seven (7) additional months after 30 July 2022 of the current year, that is, until the twenty-eighth (28) day of February of the year two thousand and twenty-three (2023). This was approved by the company's Board of Directors at its meeting of the twenty-seventh (27th) day of July of the year two thousand and twenty-two (2022).

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

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

DESCRIPTION	YEARS	Thousands of Euros	
		2023	2022
Network Infrastructures of the Regional Government of Madrid	50	158,766	99,685
TOTAL		158,766	99,685

c) Derecognitions

Derecognitions of intangible assets in 2023 generated a loss of 1,948 thousand euros and a profit of 1 thousand euros which are recognised in the Income statement (a loss of 3,213 thousand euros and a profit of 10 thousand euros in 2022) (see Note 26 g).

The derecognitions of the Parent Company for 2023 arose as a result of the periodic review and reconciliation of the asset inventory, mainly from restoration or replacement of meters amounting to 1,510 thousand euros and restoration or replacement installations in several technical locations amounting to 438 thousand euros.

Disposals in 2022 in the Parent Company arose as a result of the periodic review and reconciliation of the asset inventory, mainly due to the renewal of installations at various technical locations amounting to 1,144 thousand euros, meters amounting to 1,489 thousand euros and assignment of electrical installations to the supply company amounting to 567 thousand euros.

d) Value impairment

In 2018, due to the vagueness of the procedure for the review of tariffs 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 tariffs since 2015, the first year of the Concession agreement, when the concession agreement entered into force, the Parent Company updated the business plan for the concession based on the overall analysis of both the

concession's contractual documentation and the interpretations thereof by consultative bodies and applicable case law.

To date, there was no progress or significant events with an impact on the concession's business plan. However, the accumulation of losses recoverable in future tariff reviews has positively impacted the value of the concession business, despite an increase in the WACC discount rate, 7.84% in 2023 compared to 6.12% used in 2022. The recoverable value of the concession totalled 19,766 thousand euros, lower than the net carrying amount of the net operating assets associated with the concession net of impairment, which was 17,701 thousand euros. As a result, the Parent Company has fully reversed the impairment related to the concession in the amount of 3,064 thousand euros (reversal of 1,828 thousand euros in 2022).

The Parent Company continues to work on defining the methodology for the review of tariffs 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 associated assets.

There was no indication of impairment in the other concession assets of the Parent Company in 2023 and 2022.

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

e) Insurances

The Group has taken out insurance policies to cover the risk of damage to its assets. These policies are reasonably sufficient to cover the carrying amounts of the Group's intangible assets.

f) Revertible intangible assets

Intangible assets for which the Group has acquired operating rights that will revert in the future are detailed in section (a) of this note. (vii) Investment commitments

g) Investment Budget

The Parent Company's budget for 2024 includes investment amounting to 414 million euros. Replacements account for approximately 159 million euros of this balance (135 million euros in 2023).

Likewise, and in accordance with the provisions of the Management Agreement for Sanitation Services between the Madrid City Council, the Region of Madrid and Canal de Isabel II, the Company has made investments for an aggregate amount of 286 million euros at 31 December 2023 (261 million euros until 2022), of which 204 million euros relate to the application of the replacement provision (187 million euros in 2022).

In accordance with the terms of the management agreement for the integral water service in the municipality of Cáceres, at 31 December 2023 the Parent Company has made investments amounting to 7,400 thousand euros (6,740 thousand euros at 31 December 2022).

The subsidiary Amagua has included in its budget investments estimated at 650 thousand dollars (588 thousand euros) for a reservoir or pumping station in the Mocolí area and a leak detection system.

Aguas de Samborondón Amagua C.E.M. signed an agreement on 3 August 2022 to install a pipeline with an approximate length of 2,2 linear kilometres. The agreement has a value of 1,350 thousand dollars (1,266 thousand euros) with a term of 150 days from the date of delivery of the advance payment. Local insurance policies were taken out in favour of Amagua for the good use of the advance payment for a period of 150 days and policies for the faithful fulfilment of the contract for 5% of the agreed price for 150 days until the provisional reception of the work is carried out.

The main objective of the execution of this work is to connect the future drinking water treatment plant of Samborondón with the drinking water distribution network that supplies the entire sector of Nuevo Samborondón, Samborondón norte and sur of the district of La Puntilla.

h) Individually significant items

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

	Thousands of Euros	
	2023	2022
	NET AMOUNT	NET AMOUNT
Canals and general pipelines	807,114	824,163
Distribution network	678,557	658,151
WWTP	397,466	371,206
Deposits	208,473	204,896
Lands	188,912	189,685
General buildings	151,509	149,500
DWTP	118,496	118,319
Low voltage transformation and distribution	111,235	107,669
Reusage networks	75,614	77,158
Underground water catchment	15,845	16,123
TOTAL	2,753,221	2,716,870

As of 31 December 2023 and 31 December 2022 there are no individually significant elements in Latin America.

i) Fully depreciated assets

The cost of fully amortised intangible assets at 31 December 2023 and 2022 is as follows:

In thousands of euros		
	2023	2022
Development	193	190
Applications	707	1,007
Concessions and Concession agreements	285,938	286,098
TOTAL	286,838	287,295

j) Lease agreements under IFRS 16

At 31 December 2023, the breakdown and movements of leases subject to IFRS were as follows:

In thousands of Euros					
2023					
	PROPERTY, PLANT AND EQUIPMENT			OTHER INTANGIBLE ASSETS	
	Right-of-use Buildings and construction works	Right-of-use Vehicles	Right-of-use Other assets	Right-of-use Software	TOTAL
COST:					
BALANCE AT 31 DECEMBER 2022	25,125	17,460	1,229	80	43,894
OPENING BALANCE AT 01 JANUARY 2023	25,125	17,460	1,229	80	43,894
Additions	447	2,336	1,159	-	3,942
Derecognitions	(68)	-	(14)	-	(82)
Transfers	(214)	-	-	-	(214)
Translation differences	4	8	21	16	49
COST AS OF 31 DECEMBER 2023	25,294	19,804	2,395	96	47,589
ACCUMULATED DEPRECIATION:					
BALANCE AS OF 31 DECEMBER 2022	(11,928)	(12,122)	(592)	(57)	(24,699)
OPENING BALANCE AT 01 JANUARY 2023	(11,928)	(12,122)	(592)	(57)	(24,699)
Depreciations (note 26 e)	(2,903)	(2,373)	(138)	(22)	(5,436)
Derecognitions	71	-	14	-	85
Transfers	93	-	-	-	93
Translation differences	6	(7)	(20)	(15)	(36)
ACCUMULATED DEPRECIATION AT 31 DECEMBER 2023	(14,661)	(14,502)	(736)	(94)	(29,993)
NET CARRYING AMOUNT AT 31 DECEMBER 2023	10,633	5,302	1,659	2	17,596

At 31 December 2023, financial debt associated with right-of-use (lease) assets is as follows:

In thousands of euros		
2023		
	NON-CURRENT	CURRENT
LEASE LIABILITIES:		
Lease payables	14,002	4,364
TOTAL	14,002	4,364

11. LEASES

a) Lessees

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

The amounts paid for right-of-use assets under lease arrangements at 31 December 2023 totalled 4,998 thousand euros (6,370 thousand euros at 31 December 2022).

At 31 December 2023, the financial debt associated with right-of-use assets under lease arrangements amounted to 18,366 thousand euros (19,844 thousand euros at 31 December 2022), and interest accrued in the income statement amounted to 391 thousand euros (453 thousand euros at 31 December 2022).

b) Lessors

The Group has leased out various items and infrastructure; specifically, facilities and land where cable installations are authorised, as well as antennas and other facilities leased to telecommunications operators. Most of these contracts have a term of one year.

Future minimum payments receivable under this non-cancellable operating lease are as follows:

	Thousands of Euros	
	2023	2022
Up to a year	2,632	2,561
One to five years	333	93
More than five years	314	288
TOTAL	3,279	2,942

12. INVESTMENTS IN EQUITY-ACCOUNTED ASSOCIATES

Details of equity-accounted associates are included in Appendix III.

The breakdown of the investments in associated companies is as follows:

Thousands of Euros					
2023					
	BALANCE AS OF 01/01/2023	PROFIT/(LOSS)	TRANSLATION DIFFERENCES	OTHER	BALANCE AS OF 31/12/2023
GSS Venture, S.L.	439	(136)	-	13	316
Avanzadas Soluciones de Acueducto y Alcantarillado SA ESP (ASAA)	-	(2)	2	-	-
TOTAL	439	(138)	2	13	316

In thousands of euros					
2022					
	BALANCE AS OF 01/01/2022	PROFIT/(LOSS)	TRANSLATION DIFFERENCES	OTHER	BALANCE AS OF 31/12/2022
GSS Venture, S.L.	473	(36)	-	2	439
Avanzadas Soluciones de Acueducto y Alcantarillado SA ESP (ASAA)	-	(1)	1	-	-
TOTAL	473	(37)	1	2	439

On 21 April 2017, the shareholders of Metroagua approved the company dissolution as a result of not being able to carry out its corporate purpose, pursuant to the decision of the Third Administrative Court, which ruled, within the framework of a judicial process (public interest claim), a precautionary measure consisting in handing over the city's entire conduit and sewerage infrastructure to the Santa Marta District.

The Court did not accept the company's arguments enabling the use of the infrastructure to continue after the end of the lease agreement until the District paid all the improvements owed to the public utility company. Given the Court's decision, the company filed the relevant appeals and handed over the infrastructure as ordered.

The report from the liquidator on 31 December 2018, reflected that, on that date, 95% of the labour liabilities, which do not form part of the judicial contingencies, had been addressed, and progress is being made in negotiating the debt with lenders and other providers, the enforceability of which is non-debatable. The judicial processes are ongoing for the other contingencies since most of these are still in the first instance.

Details of items in the statement of financial position and the income statement relating to the companies, which the Group consolidates applying the equity method, are presented below:

	2023		
	In thousands of euros		
	GSS	ASAA	TOTAL
Non-current assets	3	-	3
Current assets	1,499	1,243	2,742
Equity	1,267	(385)	882
Non-current liabilities	-	-	-
Current liabilities	235	1,628	1,863
Net turnover	2,910	2,980	5,890
Supplies	(1,703)	(748)	(2,451)
Other operating income	1	-	1
Personnel Expenses	(1,643)	(553)	(2,196)
Other operating expenses	(121)	(1,701)	(1,822)
Amortisations	-	(105)	(105)
Finance expenses	(4)	(103)	(107)
Finance income	16	17	33

	2022		
	In thousands of euros		
	GSS	ASAA	TOTAL
Non-current assets	-	258	258
Current assets	2,360	1,678	4,038
Equity	1,761	(123)	1,638
Non-current liabilities	-	1,110	1,110
Current liabilities	599	949	1,548
Net turnover	5,687	6,468	12,155
Supplies	(3,274)	(1,707)	(4,981)
Other operating income	-	-	-
Personnel Expenses	(2,396)	(810)	(3,206)
Other operating expenses	(154)	(3,485)	(3,639)
Amortisations	-	(179)	(179)
Finance expenses	(8)	(153)	(161)
Finance income	-	12	12

13. JOINT OPERATIONS

Information on joint operations in the form of temporary joint ventures is presented in Appendix IV.

Details of items in the statement of financial position and the income statement relating to the different temporary joint ventures, which are proportionately consolidated, are presented below:

	2023	
	UTE AGUAS DE ALCALÁ	TOTAL
Non-current assets	12,433	12,433
Current assets	4,570	4,570
Equity	(669)	(669)
Non-current liabilities	(1,058)	(1,058)
Current liabilities	(15,276)	(15,276)
Net turnover	14,916	14,916
Supplies	(6,035)	(6,035)
Other operating income	22	22
Personnel Expenses	(2,901)	(2,901)
Other operating expenses	(2,545)	(2,545)
Depreciations and amortisations	(1,747)	(1,747)
Finance expenses	(1,057)	(1,057)

	2022 (*)	
	UTE AGUAS DE ALCALÁ	TOTAL
Non-current assets	14,467	14,467
Current assets	3,661	3,661
Equity	(1,544)	(1,544)
Non-current liabilities	(1,227)	(1,227)
Current liabilities	(15,358)	(15,358)
Net turnover	14,722	14,722
Supplies	(5,677)	(5,677)
Other operating income	42	42
Personnel Expenses	(2,669)	(2,669)
Other operating expenses	(2,366)	(2,366)
Depreciations and amortisations	(1,726)	(1,726)
Finance expenses	(835)	(835)

(*) Restated information.

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

Outside Spain, the consortiums in which the company Emissão, S.A. participated in Brazil in 2022 were all derecognised due to the closure of their activities.

14. FINANCIAL ASSETS

a) Other financial assets

Details of other financial assets are as follows:

Thousands of Euros				
	2023		2022 (*)	
	NON-CURRENT	CURRENT	NON-CURRENT	CURRENT
ASSOCIATES				
Equity Instruments	-	-	82	-
Credits to group and related companies	-	2,441	-	3,086
NON-RELATED				
Equity instruments	67,516	-	67,438	-
Credits to third parties	114,756	11,290	96,161	10,815
Deposits and guarantees	28,768	573	4,440	841
Impairment write-downs	(26,127)	(2,722)	(29,610)	(2,722)
Other financial assets	-	2,081	641	351,059
TOTAL	184,913	13,663	139,152	363,079

(*) Restated information.

Details of loans to group companies are outlined in note 28.

Related companies, Equity instruments include the companies belonging to Canal Extensia América, S.A. that are outside the scope of consolidation.

Non-related companies, equity instruments include the investment in Triple A de Barranquilla, amounting to

65,524 thousand euros and the investment held by Emissão in Vale S.A. - Debentures, the cost of which amounts to 1,992 thousand euros (1,914 thousand euros in 2022) and which is impaired in the amount of 1,992 thousand euros (1,914 thousand euros in 2022).

This investment has an indefinite maturity date.

Thousands of Euros				
TYPE	YEAR OF MATURITY	FACE VALUE	2023	
			NON-CURRENT	CURRENT
For works performed for City Councils	2055	140,732	88,880	8,193
For disposal of fixed assets	2009	2,722	-	2,722
For regeneration works	2040	164	111	5
TJV Loan- Alcalá de Henares City Council	2029	2,037	1,563	370
Other loans Emissão, S.A.	Miscellaneous	24,135	24,135	-
Other loans Canal Extensia América, S.A.	Miscellaneous	-	-	-
Other loans AAA Dominicana, S.A.	Miscellaneous	-	-	-
Personnel credits	Miscellaneous	66	66	-
TOTAL		169,856	114,755	11,290

In thousands of euros				
2022 (*)				
TYPE	YEAR OF MATURITY	FACE VALUE	NON-CURRENT	CURRENT
For works performed for City Councils	2053	108,584	70,882	7,626
For disposal of fixed assets	2009	2,722	-	2,722
For regeneration works	2040	176	115	7
TJV Loan- Alcalá de Henares City Council	2029	2,407	1,896	370
Other loans Emissão, S.A.	Miscellaneous	23,191	23,191	-
Other loans Canal Extensia América, S.A.	Miscellaneous	90	-	90
Other loans AAA Dominicana, S.A.	Miscellaneous	-	-	-
Personnel credits	Miscellaneous	77	77	-
TOTAL		137,247	96,161	10,815

(*) Restated information.

Within the Loans for works performed for City Councils, collection rights of the Parent Company against certain City Councils are registered, arising out of infrastructure works destined to distribution and sewerage services performed in their municipalities. The main loans granted in 2023 amounted to 53,809 thousand euros (27,426 thousand euros in 2022). In broad terms, the collection is recognised through the receipt of paid loans; the amount received in this respect in 2023 was 20,132 thousand euros was received in 2022 (17,587 thousand euros in 2022). In 2023, works carried out within the "Plan for the improvement of supply and reduction of losses in networks of small and medium-sized municipalities" amounting to 2,325 thousand euros were financed by the European Union through funds from the RRF (Recovery and Resilience Facility) (see note 20 c).

Additionally, non-current and current loans include 1,568 and 370 thousand euros respectively (1,896 and 370 thousand euros non-current and current in 2022), for 50% of the amounts owned by the City Council of Alcalá to the U.T.E. Aguas de Alcalá for the concession deficit for the 2005-2015 period (note 13).

As is mentioned in Note 3 (k), the majority of the receivables from City Councils are recognised at amortised cost, considering the period over which each balance is expected to be recovered. Value adjustments for non-current impairment reflects unrecoverable receivables from these city councils under the terms of the relevant agreements.

b) Deposits and guarantees

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

c) Impairment write-downs

The amount of current impairment write-downs relates to the disposal in 2007 of the parent company's interest in the share capital of Global Sales Solutions Line, S.L. for 4,234 thousand euros, with 2,722 thousand euros reflected in the consolidated statement of financial position under other financial assets in current assets, corresponding to the remaining amount receivable, which has been provided for as it was not collected on the agreed date and there are reasonable doubts as to its recovery.

The amount of non-current "Impairment write-downs" at 31 December 2023 relates to Emissão, S.A. in the amount of 24,135 thousand euros (23,191 thousand euros in 2022) in respect of long-term customer balances corresponding to the Prefecture of Embasa, CEDAE, Vasauras and Resende in Emissão.

The changes in impairment accounts are as follows:

	Thousands of Euros	
	2023	2022 (*)
BALANCE AT 1 JANUARY	(32,332)	(11,866)
Adjustment to the opening balance	(82)	(16,057)
Transfers	1,817	-
Translation differences	(1,039)	(586)
Impairment reversals	2,687	-
Impairment losses	-	(3,823)
BALANCE AT 31 DECEMBER	(28,949)	(32,332)

(*) Restated information.

15. INVENTORIES

a) General

Inventories primarily comprise the materials necessary for the use and replacement of the supply network, as well as reagents for the treatment process.

Details of "Inventories" are as follows:

	Thousands of Euros	
	2023	2022 (*)
PRODUCTION AND DISTRIBUTION BUSINESS		
Trade	1,778	818
Materials	1,723	1,974
Chemical reagents	1,318	994
Other supplies	4,146	4,345
Long-cycle and short-cycle emission allowances	2,430	3,663
Impairment write-downs	(354)	(470)
TOTAL	11,041	11,324

(*) Restated information.

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

The Group has subscribed several insurance policies covering those risks relating to inventories. 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	
	2023	2022
Short-cycle emission allowances	2,430	3,663
Long-cycle emission allowances	-	-
TOTAL	2,430	3,663
Impairment write-downs	-	-
TOTAL	2,430	3,663

Changes in emission allowances were as follows:

	In thousands of euros	
	2023	2022
Cost at 1 January	3,663	3,452
Onerous additions	1,594	3,800
Freely acquired assets (see Note 17 (a))	1,776	3,807
Derecognitions due to application	(4,602)	(7,396)
Derecognitions due to obsolescence	(1)	-
TOTAL	2,430	3,663

In the financial year 2023, the Parent Company has granted rights amounting to 4,602 thousand euros (7,396 thousand euros in 2022) to the Public Administration, of which 4,213 thousand euros (4,232 thousand euros in 2022) have been applied against the Provision for emission allowances. At 31 December 2023, the emission allowances pending delivery amount to 2,430 thousand euros (3,663 thousand euros in 2022).

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

	2023	
	Number of allowances	In thousands of euros
Free	20,175	1,775
Remunerated	19,387	1,594
TOTAL	39,562	3,369

	2022	
	Number of allowances	In thousands of euros
Free	44,283	3,807
Remunerated	45,067	3,800
TOTAL	89,350	7,607

In 2023, the Parent Company was assigned 64,458 free emission allowances for the programme of the period (2021-2030).

16. TRADE AND OTHER RECEIVABLES

Details are as follows:

	Thousands of Euros	
	CURRENT	
	2023	2022 (*)
Customers	200,918	194,559
Miscellaneous debtors	46,566	51,942
Personnel	82	113
Other receivables from Public Administrations	42,323	14,626
Impairment write-downs	(47,265)	(46,856)
TOTAL	242,624	214,384

(*) Restated information.

Trade receivables mainly include receivables from customers for amounts billed in relation to the Group's principal activity. At 31 December 2023, the amount recorded by the Parent Company in this respect amounts to 71,296 thousand euros (68,622 thousand euros at 31 December 2022).

The heading "Sundry debtors" includes the debt of Aguas de Alcalá, UTE for water treatment, 659 thousand euros (586 thousand euros in 2022) and the debt of Canal de Isabel II (Public Entity), 167 thousand euros (145 thousand euros in 2022).

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

The changes in impairment accounts are as follows:

	Thousands of Euros	
	2023	2022
BALANCE AS OF 1 JANUARY	(46,856)	(50,870)
Adjustment to the opening balance	(507)	-
Allowances	-	-
Applications	4,973	6,187
Surplus	-	-
Additions	-	(131)
Impairment losses	(8,998)	(5,705)
Impairment reversals	4,589	3,112
Transfers	(133)	596
Translation differences	(333)	(45)
BALANCE AS OF 31 DECEMBER	(47,265)	(46,856)

17. OTHER NON-FINANCIAL ASSETS

Details of other assets at 31 December are as follows:

	In thousands of euros			
	2023		2022	
	NON-CURRENT	CURRENT	NON-CURRENT	CURRENT
Prepaid expenses	73,530	6,372	64,080	5,733
Other financial assets	-	-	7,785	-
TOTAL	73,530	6,372	71,865	5,733

Details of prepayments are as follows:

	Thousands of Euros			
	2023		2022	
	NON-CURRENT	CURRENT	NON-CURRENT	CURRENT
Asset prepaid expenses for seniority	60,401	4,927	62,120	5,070
Asset prepaid expenses for long-service bonus	1,980	215	1,960	283
Prepaid expenses	11,149	1,230	-	380
TOTAL	73,530	6,372	64,080	5,733

“Current advances” include payments made in the financial year, corresponding primarily to expenses for taxes and rights.

“Asset prepaid expenses for long-service bonus” reflects the deferred premium paid to an insurance company in respect of an insurance policy for the accrual of early settlements of long-service bonuses, in accordance with the Collective Bargaining Agreement, in a single-payment of 5,833 thousand euros. (See Note 3 (p))

These prepayments are taken to income as the premium in question is accrued. An amount of 255 thousand euros was accrued in 2022 (354 thousand euros in 2022) (see note 26 (d)). Additionally, in 2023 an amount of 193 thousand euros was recognised in relation to the financial update of this item (237 thousand euros in 2022).

“Asset prepaid expenses for seniority” reflects the deferred premium paid to an insurance company, totalling 57,108 thousand euros, in respect of a risk insurance policy

for early settlement of the seniority payments, recognised in financial years prior to 2011.

The insurance company undertakes to pay the insured parties a temporary actuarial annuity without reversal until they retire, or until the termination of their contract for temporary staff. This annuity is subject to an annual growth rate of 1.2%. In the financial year 2023, 4,891 thousand euros were paid in respect of this item to employees of Canal de Isabel II S.A. (4,402 thousand euros in 2022).

These accruals are allocated to profit or loss as accrued. A sum of 4,891 thousand euros was accrued in 2023 (4,402 thousand euros in 2022) (see note 26 (d)). Additionally, in 2023 an amount of 3,758 thousand euros was recognised in relation to the financial update of this item (3,827 thousand euros in 2022).

18. CASH AND CASH EQUIVALENTS

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

	Thousands of Euros	
	2023	2022 (*)
Cash and banks	444,893	231,814
Short-term debts with credit institutions	310	305
TOTAL	445,203	232,119

(*) Restated information.

Cash on deposit at banks reflects the aggregate of each of the companies forming the consolidated Group, with 441,801 thousand euros corresponding to Canal de Isabel II, S.A., M.P., (225,869 thousand euros in 2022).

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

19. EQUITY

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

a) Share capital

The Parent was incorporated on 27 June 2012 through the issue of 1,074,032,000 ordinary shares of Euro 1 par value each, which were subscribed and fully paid in by the Public Entity by way of the non-monetary contribution of the activity described in note 1. 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 Public Entity, fulfilling the obligation assumed in the Agreements of Inclusion in the Management Model signed with 111 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 2023 these local Councils hold 17.65% (17.60% at 31 December 2022) of the Parent Company's share capital. The ownership has been increased with respect to 31 December 2022 as a result of the transfer of the shares of the Canal de Isabel II Public Entity to two local councils.

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.

At 31 December 2023, shareholdings above 10% are as follows:

Entities	No. of shares	Ownership percentage
Canal de Isabel II Public Entity	884,997,643	82.35
Madrid City Council	107,403,200	10.00

Canal de Isabel II's ownership interest at 31 December 2023 has decreased with respect to 31 December 2022 (82.40%) as a result of the aforementioned transfer.

b) Share premium

The shares were issued with a share premium of Euro 1 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 1. This reserve is freely distributable provided that, as a result of its distribution, the equity value of the Parent Company does not fall below the amount of its share capital.

c) Other reserves:

(I) Legal Reserve

Allocations to the Parent Company's Legal Reserve in 2023 amounted to 4,504 thousand euros, corresponding to the allocation of profit in 2021, in accordance with Article 274 of the Corporate Enterprise Act, which establishes that, in any case, an amount equivalent to 10% of the profit for the financial year will be earmarked for the Legal Reserve until it reaches at least 20% of share capital.

This reserve, provided that it does not exceed the limit specified above, may only be used to offset losses if no other reserves are available for this purpose.

At 31 December 2023, the Parent has appropriated 214,806 thousand euros to this reserve (210,302 thousand euros at 31 December 2022), included under other reserves.

(II) Incorporation expenses

Expenses arising from the incorporation of the Parent Company amount to 245 thousand euros.

d) Accumulated profit

At 31 December 2023, the Group includes the following under this heading:

Accumulated profit reconciliation (In thousands of euros)	Financial year 2023	Financial year 2022 (*)
Profit attributed to the parent company	135,831	115,092
Emissão restatement profit	-	5,363
PROFIT(LOSS) FOR THE YEAR	135,831	120,455
Allocation to legal reserve Parent Company	(4,504)	(17,323)
Dividends		
Interim dividends of the Parent Company	(61,755)	(93,174)
Complementary dividends of the Parent Company	(11,279)	(10,577)
DIVIDENDS	(73,034)	(103,751)
Adjustments to prior years' profit/loss	(114)	2,243
Adjustment for merger of Hidráulica Santillana, S.A.U.	-	12
Parent Company Reserves Adjustment	(2,683)	(4,619)
RESERVES	(2,797)	(2,364)
ACCUMULATED PROFIT	55,496	(2,983)

(*) Restated information.

The closing balance under this heading at 31 December 2023 is 507,119 thousand euros (541,623 thousand euros at 31 December 2022).

Voluntary reserves are freely distributable, provided that, as a result of their distribution, the value of the equity of each company does not fall below the amount of its share capital.

e) Translation differences

Details of translation differences are as follows:

COMPANY	Thousands of Euros	
	2023	2022 (*)
Canal Extensia América, S.A.	(9,232)	(8,759)
Gestus Gestión & Servicios S.A.S.	(1,348)	(1,251)
AAA Dominicana, S.A.	(503)	(722)
AAA Ecuador Agacase, S.A.	166	366
Amerika Tecnología y Servicios, S.A.S.	(245)	(319)
Soluciones Andinas de Aguas, S.R.L.	9,544	9,170
Emissão, S.A.	(6,435)	(4,542)
TOTAL	(8,053)	(6,057)

(*) Restated information.

f) Distribution of profits/loss

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

The distribution of the Parent's profit for the year ended 31 December 2022, approved by the shareholders at their Annual General Meeting held on 01 June 2023, was as follows:

	Euro
BASE FOR DISTRIBUTION	
Financial year profit	125,390,522.06
DISTRIBUTION	
Legal reserve	4,503,949.37
Voluntary reserve	47,852,433.19
Interim dividend	61,754,644.67
Complementary dividends	11,279,494.83
TOTAL	125,390,522.06

The Board of Directors of the Parent Company, on 21 December 2023, agreed to distribute an interim dividend of 70,428,463.06 euros for 2023, calculated as 0.06557 euros per share.

The provisional accounting situation formulated by the Board of Directors on 21 December 2023 in accordance with legal requirements and which evidenced

sufficient liquidity for the distribution of said dividend is provided below:

In thousands of euros	
2023	
FORECAST OF DISTRIBUTABLE PROFITS FOR 2023:	
Forecast profit/loss after tax on or before 31.12.2023	140,857
Estimated distributable profit for 2023	140,857
Interim dividend distributed	70,428
TREASURY FORECAST FOR THE PERIOD 01 NOVEMBER 2023 TO 01 NOVEMBER 2024:	
Cash balances at 01 November 2023	537,092
Projected collections	1,097,578
Projected payments, including interim dividend	1,386,023
PROJECTED TREASURY BALANCE AS OF 01 NOVEMBER 2024	248,647

The result obtained by the Parent Company in 2023 amounts to a profit of 154,747 thousand euros.

The proposed distribution of the Parent Company's 2023 profit to be submitted to the shareholders for approval at their Annual General Meeting is as follows:

Euro	
BASE FOR DISTRIBUTION	
Financial year profit	154,746,523.68
DISTRIBUTION	
Voluntary reserve	69,470,138.08
Interim dividend	70,428,463.06
Complementary dividends	14,847,922.54
TOTAL	154,746,523.68

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

In thousands of euros		
	2023	2022
Non-distributable reserves		
Legal reserve	214,806	210,302
TOTAL	214,806	210,302

g) Non-controlling interest

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

Thousands of Euros		
COMPANY	2023	2022 (*)
Canal Extensia América, S.A.	(2,368)	(2,331)
Gestus Gestión & Servicios S.A.S.	(411)	114
AAA Dominicana S. A	(3,160)	(358)
AAA Ecuador Agacase S.A.	5,544	5,117
Amerika Tecnología y Servicios, S.A.S.	102	100
Soluciones Andinas de Aguas, S.R.L.	(4,055)	(4,013)
Emissão, S.A.	(24,679)	(21,077)
TOTAL	(29,027)	(22,448)

(*) Restated information.

The movement in the line item of non-controlling interest has been as follows:

	Thousands of Euros	
	2023	2022 (*)
BALANCE AS OF 1 JANUARY	(22,448)	(19,327)
Adjustments to prior years' profit/loss	(104)	528
Share in profit/loss	(4,636)	(2,732)
Other movements	(1)	(26)
Exchange rates variation	(1,279)	(699)
Dividends paid	(559)	(192)
BALANCE AS OF 31 DECEMBER	(29,027)	(22,448)

(*) Restated information.

h) Capital management

The Group manages its capital with the aim of safeguarding its capacity to continue operating as a going concern, so as to continue providing shareholder remuneration and benefiting other stakeholders, while maintaining an optimum capital structure to reduce the cost of capital.

The Group formed by Canal de Isabel II, S.A., M.P. and subsidiaries controls its capital structure on a gearing ratio basis. This ratio is calculated as net debt divided by total capital. Net debt is the sum of financial debt less cash and cash equivalents.

Ratios in 2023 and 2022 are calculated as follows:

	Thousands of Euros	
	2023	2022 (*)
Long-term debts with financial institutions (note 20)	-	85
Short-term debts with financial institutions (note 20)	106	1,024
Long-term debts with group and associated companies (note 20)	167,381	169,716
Short-term debts with group and associated companies (note 20)	14,778	27,179
Long-term debts for bond issues and other marketable securities	500,000	500,000
Short-term debt for bond issues and other marketable securities (see note 20)	-	-
FINANCIAL DEBT	682,265	698,004
Less Cash and cash equivalents (note 18)	(445,202)	(582,119)
NET FINANCIAL ASSETS	237,063	115,885
Plus interest for short-term debts with credit institutions (note 20)	1	3
Plus other debts with Group and associated companies (note 20)	1,004	1,088
Plus interests for debentures and other marketable securities (Note 20)	7,111	7,111
less amortised cost debentures	(235)	(438)
NET DEBT (ND)	244,944	123,649
EQUITY (IFRS PROGRAMME)	2,762,153	2,719,484
ADJUSTED DEBT-TO-EQUITY RATIO	0.09	0.05

(*) Restated information.

20. FINANCIAL DEBT

Details of financial liabilities are as follows:

	Thousands of Euros			
	2023		2022 (*)	
	NON-CURRENT	CURRENT	NON-CURRENT	CURRENT
Debt with credit entities	-	107	85	1,027
Debts with Group and associated companies (note 28)	167,381	20,482	182,143	20,325
Other financial liabilities	122,602	26,633	118,590	28,540
Financial liabilities for issuing bonds and other marketable securities	499,765	7,111	499,562	7,111
TOTAL	789,748	54,333	800,380	57,003

(*) Restated information.

In 2023 and 2022 the Parent has repaid all loans and borrowings from financial institutions.

a) Debt with credit institutions

This line item includes the bank loans and borrowings detailed below, as well as credit facilities:

Thousands of Euros							
2023							
COMPANY	ORIGINAL AMOUNT	TRANSACTION	MATURITY DATE	ANNUAL INTEREST RATE	CURRENT	NON-CURRENT	TOTAL
SUBGROUP CANAL EXTENSIA AMERICA, S.A.							
Emissão, S.A.	-	-	-	-	-	-	-
Amagua-CEM	1,20 MM USD	Ordinary course	Miscellaneous	Fixed 8.95%	82	-	82
Fontes da Serra	-	-	-	-	-	-	-
TOTAL					82	-	82

In thousands of euros							
2022 (*)							
COMPANY	ORIGINAL AMOUNT	TRANSACTION	MATURITY DATE	ANNUAL INTEREST RATE	CURRENT	NON-CURRENT	TOTAL
SUBGROUP CANAL EXTENSIA AMERICA, S.A.							
Emissão, S.A.	4.6 MBRL	Ordinary	30 December 2023	16.77%	460	-	460
Amagua-CEM	2,20 MM USD	Ordinary.	Miscellaneous	Fixed, between 8.30% and 8.95%	543	85	628
Fontes da Serra	407 m BRL	Ordinary	31 January 2023	29.84%	12	-	12
TOTAL					1,015	85	1,100

(*) Restated information.

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

Thousands of Euros				
	2023		2022	
ENTITY	CREDIT LIMIT	SUM USED	CREDIT LIMIT	SUM USED
CaixaBank	15,000	-	15,000	-
HSBC	10,000	-	10,000	-
Bankinter	6,000	-	6,000	-
Ibercaja	6,000	-	10,000	-
Santander	21,000	-	21,000	-
Sabadell	6,000	-	6,000	-
Abanca	10,000	-	20,000	-
Eurocaja Rural	6,000	-	6,000	-
BNP	10,000	-	10,000	-
Unicaja	6,000	-	-	-
CBNK Banco Colectivos	6000	-	-	-
TOTAL	102,000	-	104,000	-

These credit facilities expire in December 2024, since they require annual authorisations from the Board of Directors and from the Department of Finance and Public Administration of the Region of Madrid.

b) Debts with Group companies

Payables to group companies Payables to Group companies primarily reflect the Company's obligation to repay the 183,147 thousand euros (197,993 thousand euros in 2022) of the financing contracts arranged between the Public Entity and its lender institutions (further information on this mirror debt is provided in note 2).

c) Other financial liabilities

This item also includes security deposits amounting to 82,337 thousand euros (81,144 thousand euros in 2022) in the form of 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 other liabilities.

This heading includes lease liabilities amounting to 19,844 thousand euros (19,844 thousand euros in 2022).

This heading also reflects a 10,847 thousand euros (8,921 thousand euros in 2022) dividend payable by the Parent

Company and Amagua to certain shareholders at 31 December 2023. (See Note 19)

"Other debts" mainly reflects the financed amounts including interest on payables to the Public Administration of Emissão, S.A., which, at 31 December 2023, amount to 27,684 thousand euros (25,139 thousand euros in 2022). At 31 December 2023, this debt has accrued interest for the sum of thousand 1,891 thousand euros (1,563 thousand euros in 2022).

In the year 2023, the Parent Company recognised 382 thousand euros (425 thousand euros in 2022) have been recognised in respect of trade receivables past due (see note 26 (b)).

This heading also includes the European Union contribution allocated by the Sectoral Conference on the Environment of funds from the Recovery and Resilience Facility (RRF), specifically the "Plan for the improvement of supply and reduction of losses in networks of small and medium-sized municipalities". The contribution was received by Canal de Isabel II Public Entity and transferred to the Parent Company in 2023 for an amount of 2,901 thousand euros. At 31 December 2023, the work carried out in this respect amounted to 2,325 thousand euros, and therefore the contribution received has been applied to hedge this loan, leaving 576 thousand euros in the heading "other debts" of current liabilities at year-end.

d) Finance lease liabilities

Adoption of IFRS 16. (See note 10)

e) Financial liabilities for issuing debentures and other marketable securities

On 26 February 2015 the Parent Company successfully finalised the conditions of a 500 million euros issue of ordinary unsubordinated bonds maturing in the year 2025. The bonds will pay an annual coupon of 1.68%.

In 2023, accrued interest payable by the Parent Company totalled 8,400 thousand euros, of which, 7,111 thousand euros is pending payment at 31 December 2023 (8,400 and 7,111 thousand euros, respectively, in 2022). The maturity of the interest is established for February 2024.

The arrangement fees for these bonds amounted to 2,025 thousand euros, of which 203 thousand euros (203 thousand euros in 2022) was charged to the income statement in 2023. These arrangement fees are recognised at 235 thousand euros under other non-current liabilities (438 thousand euros in 2022).

The fair value of the bond at the reporting date was 496,863 thousand euros (482,473 thousand euros at the 2022 reporting date), based on the quoted price on AIAF Mercado de Renta Fija, S.A..

21. GOVERNMENT SUBSIDIES

Movement in the years ended 31 December 2023 and 2022, is as follows:

	Thousands of Euros	
	2023	2022
BALANCE AS OF 1 JANUARY	766,282	761,574
Adjustment to the opening balance	(1,367)	-
Subsidies granted during the year	15,723	26,051
Transfer to the Consolidated Income Statement	(20,054)	(21,437)
Translation differences	(6)	93
Net tax effect	-	1
Other movements	-	-
BALANCE AS OF 31 DECEMBER	760,578	766,282

This item line of the consolidated statement of financial position mainly contains the Parent company's subsidies subject to the following breakdown:

The contribution of the Cohesion Fund to the set of projects entitled "River Basin Clean-ups and Extension of Madrid Treatment Plants," for a total of 22,816 thousand euros, of which 6,250 thousand euros are pending recognition in profit and loss (6,412 thousand euros in 2022). This Cohesion Fund assistance was approved by the Commission of European Communities on 13 October 1997.

The 14,215-thousand-euro Cohesion Fund contribution to the project for the "Tagus Basin Clean-up 2001, Group III", of which 7,785 thousand euros is pending release to profit and loss (7,988 thousand euros in 2022). This grant was approved by the Commission of 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 23,716 thousand euros is pending release to profit and loss, was approved by the Commission of European Communities on 26 March 2002 (24,333 thousand euros in 2022).

The 12,338 thousand euros Cohesion Fund contribution to the project for the "Tagus Basin Clean-up 2002", of which 5,918 thousand euros is pending release to profit and loss (6,072 thousand euros in 2022).

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 grant was awarded on 7 March 2001. 37,126 thousand euros of the total balance is yet to be taken to income (38,089 thousand euros in 2022).

The contributions from the European Regional Development Fund 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 CAM 2007-2013 Operational Programme was approved on 14 December 2007. 1,240 thousand euros of this amount have yet to be taken to profit and loss (1,287 thousand euros in 2022).

The contributions from the European Regional Development Fund CAM 2014-2020 Operational Programme amounting to 4,069 thousand euros, aimed at renewable energy and energy efficiency projects. The ERDF CAM 2014-2020 Operational Programme was approved on 14 July 2015. 3,739 thousand euros of this amount have yet to be taken to profit and loss (3,813 thousand euros in 2022).

Contributions from the European Regional Development Fund of the React EU Operational Programme, amounting to 4,343 thousand euros, aimed at Solar Plan projects, of which 1,174 thousand euros were received in 2022. The ERDF's React EU Operational Programme was approved on 17 February 2021. 4,343 thousand euros of this amount are pending transfer to profit and loss.

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 assistance was approved by the Commission of European Communities on 20 December 2006. 19,717 thousand euros is pending attribution to the income statement (20,229 thousand euros in 2022).

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. 9,839 thousand euros has yet to be taken to income (10,095 thousand euros in 2022).

The Spanish Energy Diversification and Saving Institute (IDEA) 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 released to profit and loss is 2,493 thousand euros (2,613 thousand euros in 2022).

The contributions received from the European Union for the financing of R&D&I projects (Life projects) approved in 2019 for the improvement in wastewater treatment processes amounting to 385 thousand euros, of which 148 thousand euros were received in 2023, which are pending to be attributed to income.

Contributions received from the United Nations IN-Habitat agency relating to the project WOP approved in 2022 between the Parent Company and Sedapal, S.A. for the use of waste water as an effective tool in the fight against climate change through reclaimed water and against COVID-19 through its early detection in the sewerage network, amounting to 117 thousand euros, of which 57 thousand euros are pending allocation to profit or loss (83 thousand euros in 2022).

The contributions received from the European Union for the financing of R&D+i project "Horizon Europe intoDBP" for reduction and control of disinfecting products amounting to 47 thousand euros, which are pending allocation to profit or loss.

The balances incorporated in the merger with the Group company Hidráulica Santillana, S.A.U., relating to the amounts received by the latter from the European Regional Development Fund for the construction of the Pinilla and El Atazar plants (1993 and 1994) and the remodelling of the Torrelaguna plant (1995), amounting to 304 thousand euros, net, of which 289 thousand euros are pending allocation to profit or loss (297 thousand euros in 2022).

Contributions from the European Union in the framework of the Recovery, Transformation and Resilience Plan (RRF) received by the Public Entity Canal de Isabel II and transferred to the Company in 2023. 3,003 thousand for the financing of the PERTE Digitalisation of Water Cycle, of which 2,967 thousand euros are pending to be taken to profit and loss.

Contributions from the Region of Madrid received by Canal de Isabel II Public Entity and transferred to the Company in 2023 to finance PRISMA projects for supply works amounting to 1,757 thousand euros, of which 1,753 thousand euros are pending to be taken to profit and loss.

The value of 90,018 thousand euros attributed to facilities assigned to the Parent by various town councils. At 31 December 2023, 5,475 thousand euros is pending transfer to profit or loss (5,621 thousand euros in 2022).

The amounts received from new water utility customers for hook-up rights and pipeline adaptation and extension totalling 972,148 thousand euros (963,109 thousand euros

in 2022). As of 31 December 2023, 609,101 thousand euros is pending transfer to the income statement (614,489 thousand euros in 2022).

The right-of-use value not repayable to the Tagus Hydrographic Confederation for the Picadas – Valmayor pipeline, amounting to 19,761 thousand euros was recognised in 2019. As of 31 December 2023, 17,903 thousand euros is pending transfer to the income statement (18,368 thousand euros in 2022).

The amounts received by the Ministry for Ecological Transition and the Demographic Challenge for the free award of emission allowances amounting to 7,681 thousand euros, of which 1,775 thousand euros have been allocated in 2023 (3,807 thousand euros in 2022). At 31 December 2023 and 2022 they are fully allocated to profit or loss.

The Subsidiary Amagua CEM entered into two agreements with third parties to provide the company with funds for the construction of:

- Wastewater treatment plant in Los Arcos sector, funded in 2006 with 131.7 thousand dollars (116.3 thousand euros).
- Construction, adaptation and commissioning of the wastewater treatment plant for Urbanización Rinconada del Lago, funded in 2012 with 150 thousand dollars (132.4 thousand euros).

In both cases the amounts were non-refundable.

Details of the main subsidies received in 2023 and 2022 are as follows:

Thousands of Euros			
2023			
AWARDING ORGANISATION	AMOUNT	PURPOSE	AWARD DATE
Ministry for Ecological Transition and the Demographic Challenge (European Climate Change Office)	1,776	Co2 emissions	30/03/23 and 21/04/23
European Union (Life Safe T Water Project)	68	LIFE project (R&D&I)	Year 2019
European Union (Life Zero Waste Water Project)	80	LIFE project (R&D&I)	Year 2019
Financing third party works	9,039	Supply, Sanitation Works	Miscellaneous
European Union (PRR Perte Digitalisation of Water Cycle)	3003	Supply works	19/09/2023
Region of Madrid (Prisma)	1757	Supply works	Year 2023
TOTAL	15,723		

In thousands of euros			
2022			
AWARDING ORGANISATION	AMOUNT	PURPOSE	AWARD DATE
Ministry for Ecological Transition and the Demographic Challenge (European Climate Change Office)	3,807	Co2 emissions	26/02/22 and 08/04/22
United Nations (UN-Habitat)	117	Project WOP (wastewater)	05 July 2022
ERDF's React Eu Solar Plan Operational Programme	1,174	Supply, sanitation works	Miscellaneous
Financing third party works	20,797	Supply, Sanitation Works	Miscellaneous
European Union (Life Project)	109	Project Life (R&D&I)	Year 2019
European Union (Horizon Europe)	47	Project Horizon Europe intoDBP (R&D&I)	Miscellaneous
TOTAL	26,051		

The breakdown of personnel expenses is the following:

Thousands of Euros		
	2023	2022 (*)
Grants related to assets	2,018	3,975
ERDF and Cohesion Funds	2,994	3,018
Transfers from Local Authorities	150	146
Financing third party works	14,892	14,299
TOTAL	20,054	21,438

(*) Restated information.

22. TRADE CREDITORS AND OTHER ACCOUNTS PAYABLE

a) Details of creditors and other accounts payable

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

	Thousands of Euros	
	2023	2022 (*)
	CURRENT	CURRENT
ASSOCIATES		
Suppliers, Group companies and associates (Note 28)	4,517	5,160
Creditors, Group companies and associates (Note 28)	20	61
NON-RELATED		
Suppliers	15,988	14,302
Creditors	127,279	135,719
Personnel	18,739	16,352
Other debt with Public Administrations	8,096	8,605
Advance Payments from Customers	2,664	98
Suppliers of fixed assets	101,519	34,797
TOTAL CREDITORS	278,822	215,095
Current income tax liability (note 27)	1,095	1,333
TOTAL	279,917	216,428

(*) Restated information.

The main contribution to the Accounts payable heading by the Parent Company is an amount of 214,152 thousand euros (150,369 thousand euros in 2022).

b) Information on average term of payment to suppliers Third additional provision. "Duty of disclosure" under Law 15/2010, of 5 July and article 9 of law 18/2022 of 28 September.

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

	2023	2022
Average term of payment to suppliers (days)	28	31
Ratio of paid transactions (days)	28	30
Ratio of transactions pending payment (days)	20	41
Total payments made (thousands of euros)	481,859	470,557
Total outstanding payments (thousands of euros)	31,171	51,329
Invoices paid before the established term (number)	32,622	33,569
Number of invoices paid before the established term (%)	81%	85%
Cash amount relating to invoices paid before the established term (thousands of euros)	347,974	341,214
Cash amount relating to invoices paid before the established term (%)	72%	73%

23. PROVISIONS AND CONTINGENT LIABILITIES

The breakdown of the Provisions section is as follows:

In thousands of euros				
	2023		2022 (*)	
	NON-CURRENT	CURRENT	NON-CURRENT	CURRENT
Provisions for long-term compensations to personnel for defined benefits	564	-	489	-
Other benefits for employees	53	19	8	81
Provisions for taxes	9,028	2,272	10,287	1,838
Provisions for infrastructure works	220,293	159,023	402,626	77,774
Provisions for decommissioning, dismantling or restoration	6	-	5	-
Provisions for other liabilities	21,727	13,155	26,604	6,079
TOTAL	251,671	174,469	440,019	85,772

(*) Restated information.

The adjustment in the years ended 31 December 2023 and 2022, is as follows:

In thousands of euros						
	2023					
	Provisions for taxes	Provisions for employees	Provisions for other liabilities	Other provisions	Provisions for infrastructure works	TOTAL
AS OF 01 JANUARY 2023	12,125	578	32,684	5	480,400	525,792
Allowances	4,397	147	13,829	-	62,390	80,763
Provisions update	-	60	612	1	9,972	10,645
Applications	(3,519)	(83)	(6,776)	1	(173,446)	(183,823)
Excess of provisions	(1,703)	(32)	(6,204)	(1)	-	(7,940)
Translation differences	-	(19)	2,280	-	-	2,261
Transfers	-	-	(1,543)	-	-	(1,543)
Derecognitions	-	-	-	-	-	-
Other	-	(15)	-	-	-	(15)
AS OF 31 DECEMBER 2023	11,300	636	34,882	6	379,316	426,140

In thousands of euros

2022 (*)

	Provisions for taxes	Provisions for employees	Provisions for other liabilities	Other provisions	Provisions for infrastructure works	TOTAL
AS OF 01 JANUARY 2022	12,205	2,614	23,470	4	491,852	530,145
Allowances	4,474	270	19,141	-	67,847	91,732
Provisions update	-	18	415	1	8,262	8,696
Applications	(3,040)	(2,330)	(7,431)	-	(87,561)	(100,362)
Excess of provisions	(1,508)	(46)	(820)	-	-	(2,374)
Translation differences	-	30	(1,650)	-	-	(1,620)
Transfers	(6)	-	(400)	-	-	(406)
Derecognitions	-	-	(42)	-	-	(42)
Other	-	22	-	-	-	22
AS OF 31 DECEMBER 2022	12,125	578	32,683	5	480,400	525,791

(*) Restated information.

a) Provisions for infrastructure works

This provision covers replacement measures for usage periods in excess of one year that can be requested for items that are essential components of the transferred

infrastructure so that the corresponding services can be provided satisfactorily.

Thousands of Euros

2023

	Provision Region of Madrid Network	Provisions Sanitation Agreement Madrid	Provisions Sanitation Agreement Madrid	Cáceres concession provisions	TOTAL
AS OF 01 JANUARY 2023	447,105	20,010	7,893	5,392	480,400
Allocations (Note 26 (f))	45,794	14,495	419	1,682	62,390
Provisions update (Note 26 (h))	9,102	482	215	173	9,972
Applications	(155,798)	(16,650)	(338)	(660)	(173,446)
AS OF 31 DECEMBER 2023	346,203	18,337	8,189	6,587	379,316

In thousands of euros

	2022				
	Provision Region of Madrid Network	Provisions Sanitation Agreement Madrid	Provisions Sanitation Agreement Madrid	Cáceres concession provisions	TOTAL
AS OF 01 JANUARY 2022	461,815	18,189	7,287	4,561	491,852
Allocations (Note 26 (f))	50,362	15,456	625	1,404	67,847
Provisions update (Note 26 (h))	7,690	344	136	92	8,262
Applications	(72,762)	(13,979)	(155)	(665)	(87,561)
AS OF 31 DECEMBER 2022	447,105	20,010	7,893	5,392	480,400

In the financial year 2023, among the most significant renewal or replacement investments of the Parent Company applied to the provision, those made in the Region of Madrid network stand out, the most important being the renewal of supply pipelines for 118 million euros (57 million euros in 2022), those performed on WWTPs and sanitation and reuse networks for 7 million euros (8 million euros in 2022), and those performed on the computer and remote control systems for 4 million euros (5 million euros in 2022), as well as those carried out in the DWTPs for 2 million euros.

Based on the Parent Company's estimates, the investment plan for replacement initiatives in the Region of Madrid Network over the concession period totals 5,077 million euros (4,433 million euros in 2022).

b) Provisions for other liabilities

This provision primarily covers probable or certain liabilities arising from ongoing litigation and outstanding compensation or obligations of an uncertain amount payable to third parties. Based on the legal advice received, the Directors do not consider that any liabilities arising from these litigations will differ significantly from the amounts provided for at 31 December 2023 and 2022. The provision is estimated using the individual most likely outcome. (See Note 23 (f)).

The Parent Company booked a provision of 2,282 thousand euros for greenhouse gas emission expenses (4,213 thousand euros in 2022). 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.

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

Proceedings in 2015: Action for annulment and restoration of rights before the administrative courts - INCOME TAX and CREE 2015.

The DIAN, in its inspection process of the Income Tax and Income Tax for Equity (CREE) relating to Canal Extensia America for the year 2015, did not recognise the costs incurred by the company relating to technical assistance provided by Canal Extensia and SLASA. In May and December 2019 Canal Extensia America filed actions for annulment for Income Tax and CREE respectively before the administrative courts, considering that there was sufficient evidence to prove the provision of the service, the actions were admitted in October 2019 and 3 March 2021 respectively. Canal Extensia América is now awaiting the initial hearing.

However, being the first year of challenge by the DIAN and possibly not having the level of detailed evidence required by the DIAN, Canal Extensia America decided to provision the amount claimed by the DIAN, including interest and penalties to date, in the amount of 28,820 million Colombian pesos (6,824 thousand euros).

Proceedings in 2016: Action for annulment and restoration of rights before the administrative courts - INCOME TAX and CREE 2016.

The DIAN, in its inspection process of the Income Tax and Income Tax for Equity (CREE) relating to Canal Extensia America for the year 2016, did not recognise the costs incurred by the company relating to technical assistance provided by Canal Extensia and SLASA. In January 2022 Canal Extensia America filed actions for annulment for Income Tax and CREE respectively before the administrative courts, considering that there was sufficient evidence to prove the provision of the service. The actions were admitted in January and February 2022. Amendments were made to the claims, which were also admitted. By orders of 9 March 2023 for income tax and 4 May 2023 for CREE, the initial hearing was dispensed with, the evidence provided by the parties was taken as evidence, and the case was referred to the court for the conclusion procedure. In response, Canal Extensia America filed a motion for reconsideration on 26 April 2023, which was resolved by the Atlantic Administrative Court on 13 July 2023, denying the reconsideration and giving notice to send conclusions to the parties. Canal Extensia America presented its findings on 23 August 2023. In both proceedings the first instance court has not yet delivered a judgment.

However, not having sufficient documentary support as required by the DIAN for the deductibility of the technical assistance costs for the services received from the company SLASA, Canal Extensia America decided to provision an amount of 1,990 million Colombian pesos (471 thousand euros).

Proceedings in 2017: Action for annulment and restoration of rights before the administrative courts - INCOME TAX 2017.

The DIAN, in its inspection process of the Income Tax relating to Canal Extensia America for the year 2017, proposed the amendment of the tax return, as it did not recognise the costs incurred by the company relating to technical assistance provided by Canal Extensia and SLASA. Canal Extensia America filed an action for annulment and restoration "per saltum" on 26 May 2023, which was admitted on 20 June 2023. As in the previous proceedings, an amendment to the statement of claim was filed, but the Court had not taken notice of this and had dispensed with the initial hearing and given notice to argue in conclusion. The relevant appeals were lodged, the Court acknowledged the error and has now transferred the proceedings to the DIAN so that it can respond to the amendment to the statement of claim.

However, not having sufficient documentary support as required by the DIAN for the deductibility of the technical

assistance costs for the services received from the company SLASA, Canal Extensia America decided to provision an amount of 4,970 million Colombian pesos (1,177 thousand euros).

Proceedings in 2018: Action for annulment and restoration of rights before the administrative courts - INCOME TAX 2018.

On 16 November 2023, the DIAN issued an official assessment to Canal Extensia America for the 2018 income tax return, in which they are not aware of the costs of technical assistance. On 11 December 2023, Canal Extensia America filed an action for annulment and restoration of rights against the Official Review Assessment. As of today, the admission of the action is still pending.

However, not having sufficient documentary support as required by the DIAN for the deductibility of the technical assistance costs for the services received from the company SLASA, Canal Extensia America decided to provision an amount of 1,330 million Colombian pesos (315 thousand euros).

For all these proceedings with the DIAN, Canal Extensia América has a total provision of 37,109 million Colombian pesos (8,787 thousand euros) corresponding to the highest tax payable and potential penalties for tax contingencies for the years 2015, 2016, 2017 and 2018.

No other relevant tax inspections, litigation or contingencies are known for the rest of the Group's companies based in LATAM.

c) Provisions for taxes

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

d) Provisions for employees

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

e) OTHER PROVISIONS

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

f) Contingent liabilities, guarantees and other commitments

Details of guarantees deposited and received at 31 December 2023 and 2022 are as follows:

	Thousands of Euros	
	2023	2022
Guarantees received	(257,292)	(217,022)
Guarantees presented before Public Bodies	41,723	31,066

The Parent Company has provided guarantees to Public Bodies in relation to the normal course of business amounting to 41,723 thousand euros (31,066 thousand euros in 2022). 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. The Parent Company is jointly and severally liable, alongside Canal Gestión Lanzarote, S.A.U., for fulfilling the agreement and for the financial and other obligations arising therefrom. The Parent Company has also extended guarantees to Cáceres City Council totalling 1,000 thousand euros in respect of the concession arrangement in that city. The Parent Company's Directors do not expect any significant liabilities to arise from these guarantees.

g) Lawsuits

(I) Emissão, S.A.

Contingencies claim against the seller (First Arbitration Proceedings No. 22/17): Soluciones Andinas v. Sebastião Cristovam

In order to resolve various disputes related to the share purchase agreement of Emissão, in 2017 Soluciones Andinas resorted to arbitration proceedings.

In 2019, the Arbitration Court issued the Arbitration Award stating that Sebastião Cristovam breached the Contract. Sebastião Cristovam was ordered to pay 24,962 thousand Brazilian reais (4,664 thousand euros), of which 1,048 thousand Brazilian reais (196 thousand euros) relate to legal fees.

There are two proceedings related to the amount arising from the Arbitration Award:

Action brought by Sebastião Cristovam:

In 2020, it brought an action seeking to limit the enforcement of the Arbitration Award and the payment of its debts. On 26 January 2021, the first instance judge issued an award contrary to the interests of Sebastião, as he deemed the matter in dispute was already *res judicata*. Sebastião presented an appeal before the Court of Appeal of Rio de Janeiro, and a ruling was handed down on 28 February 2023. In this ruling, the Court has deemed the argument in the appeal filed by Sebastião to be admissible, in the sense of considering valid the agreement of 15 June 2015, signed by the shareholders, in which their liability was limited, solely, to the transfer of the shares held by them. The aforementioned decision has been appealed by Soluciones Andinas' legal advisors and, at the date of preparation of these consolidated financial statements, the company is awaiting a decision from the judicial authorities.

The directors of the Company consider that these proceedings have no impact on the financial statements.

Action for enforcement by Soluciones Andinas:

Soluciones Andinas applied for the enforcement of the Arbitration Award favourable to its interests and, since then, several steps have been taken to collect it. However, the Resolution of 28 February 2023 -referred to in the preceding paragraph- led to the stay of the enforcement proceedings and, at the date of preparation of these consolidated annual accounts, the Court is to deliver a decision on the claims made by the parties.

The directors of the Company consider that these proceedings have no impact on the financial statements.

Financial liabilities of Emissão, S.A.

Emissão's tax regularisation process was commenced in October 2022, with expert accounting and tax advisors, for the 2020, 2021 and 2022 tax returns, which also includes a comprehensive analysis of outstanding obligations and scenarios for joining the Tax Transaction Programme to be able to enter into a payment agreement with the tax authorities.

According to the analysis carried out by an external firm, the company's total tax debt liabilities were identified, relating to Social Security, Corporate Income Tax (IRPJ), Social Contribution on Net Profit (CSL), Income Withholding Tax (IRRF), Social Integration Programme Tax (PIS) and Social Security Financing Contribution (COFINS). They also include administrative litigation and debt from the Special Tax Regularisation Programme (PERT).

Emissão has a tax debt of 148,056 thousand Brazilian reais (27,666 thousand euros) which is provisioned for in the accounts. The alternatives provided by the government to make compromises and obtain benefits and compensation for tax losses are currently being analysed.

Tax liabilities of Fontes da Serra

According to the analysis carried out by an external tax adviser, tax liabilities pending regularisation were identified, relating to Social Security, Corporate Income Tax (IRPJ), Social Contribution on Net Profit (CSL), Income Withholding Tax (IRRF), Social Integration Programme Tax (PIS) and Social Security Financing Contribution (COFINS) for a total amount of 5,699 thousand reais (1,065 thousand euros) which are provisioned for in the accounts and which could be increased in the event of non-compliance with the commitments undertaken through accession to various programmes for debt repayment in instalments.

Labour and civil proceedings of Emissão, S.A.

As of December 2023, the total number of civil proceedings, in which Emissão is a Defendant, is 93, of which 83 proceedings are in the enforcement stage and 10 in the initial stage. The company's strategy is to make compromises for payment, as has been done to date, with discounts of approximately 55% due to the stage of litigation. This amounts to an estimated total liability of 78,921 thousand Brazilian reais (14,747 thousand euros).

The legal opinion of the lawyer estimates an expected payment in these proceedings of 37,185 thousand Brazilian reais (6,948 thousand euros), an amount recorded in the contingent liability accounts.

On the other hand, it also appears as a defendant in 970 labour proceedings, both in the hearing and enforcement stage. 206 compromises have been signed with discounts for the company of approximately 60%. This amounts to an estimated total liability of 34,789 thousand Brazilian reais (6,517 thousand euros).

The legal opinion of the lawyer estimates a total expected payment in these proceedings of 15,695 thousand Brazilian reais (2,933 thousand euros), an amount recorded in the contingent liability accounts.

Customers

CEDAE

Action against Companhia Estadual de Águas e Esgotos - CEDAE, for breach of contracts entered into in 2018 and 2019, for the provision of ongoing support services for the maintenance and operation of water supply and sanitary drainage.

According to the lawyers' legal opinion, the chances of success are remote for the company, due to the poor evidentiary documentation to prove that the services were indeed provided by Emissão. Therefore, they consider the fines claimed by CEDAE for breach of contract to be likely. For this reason, the amount of 79,830 thousand Brazilian reais (14,917 thousand euros) from the account receivable is offset against prior years' results and the account payable to CEDAE amounting to 29,630 thousand Brazilian reais (5,537 thousand euros) was recognised.

Municipality of Campos

Action against the Municipality of Campos for non-payment of invoices for services rendered under Administrative Contract No. 084-2013.

The action includes other claims and the amount claimed, as updated in December 2023, amounts to 90,646 thousand Brazilian reais (16,938 thousand euros). The amount recorded in accounts receivable is 31,614 thousand Brazilian reais (5,907 thousand euros), and as its recoverability is not considered virtually certain, it is offset against prior years' results.

Municipality of SL Meriti

Action against the Municipality of SL Meriti for non-payment of invoices for services rendered under Contract No. 050/2013.

The amount claimed, as updated in December 2023, amounts to 19,456 thousand Brazilian reais (3,636 thousand euros). The amount recorded in accounts receivable is 10,899 thousand Brazilian reais (2,037 thousand euros), and as its recoverability is not considered virtually certain, it is offset against prior years' results.

Municipality of Porto Real

Action against the Municipality of Porto Real for non-payment of invoices for services rendered under Contract No. 015/2011.

The amount claimed, as updated in December 2023, amounts to 7,675 thousand Brazilian reais (1,434 thousand euros). The amount recorded in accounts receivable is 3,848 thousand Brazilian reais (719 thousand euros), and as its

recoverability is not considered virtually certain, it is offset against prior years' results.

CAEMA

Action against Companhia de Saneamento Ambiental do Maranhão-Caema, for non-payment of invoices for services rendered under Contracts No. 091 and 092.

The action includes other claims and the amount claimed, as updated in December 2023, amounts to 8,620 thousand Brazilian reais (1,611 thousand euros). The amount recorded in accounts receivable is 3,136 thousand Brazilian reais (586 thousand euros), and as its recoverability is not considered virtually certain, it is offset against prior years' results.

(II) Abbreviated Proceedings 9/2020 and 10/2020 (Pre-Trial Proceedings 91/2016)

In 2023, Pre-Trial Proceedings 91/2016 continued to be processed before the Central Examining Court No. 6 of the Spanish National High Court, which is investigating, among others, the operations carried out for the purchase of the companies Canal Extensia América, S.A. and Emissão by Canal de Isabel II, S.A. ,. and its business group.

Regarding the separate piece Canal Extensia América, S.A. (Abbreviated Proceedings 9/2020), on 21 April 2023, a Ruling was handed down ordering a stay of proceedings, and no new date has been set for the start of the trial to date.

Regarding the separate piece Emissão (Abbreviated Proceedings 10/2020), on 3 November 2023, a Ruling was notified ordering a stay of proceedings in relation to the acts scheduled for 24 May 2024, and no new dates have yet been set for the trial.

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

At the date of preparation of these Consolidated Financial Statements there is no financial impact.

(III) Actions of Control Entities

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

Office of the Attorney General of the Nation. Class Action Lawsuit

On 22 July 2018, the Attorney General's Office initiated a Popular Action against Canal Extensia América, S.A., in order to annul the Technical Assistance Contract entered into between Triple A de Barranquilla and Canal Extensia América, S.A.,, as well as to order the return of the amounts paid for this Contract.

Likewise, the Attorney General's Office in its lawsuit requested the adoption of precautionary measures including the immediate suspension of the execution and payment of the Technical Assistance Contract, the implementation of a plan for Canal Extensia América, S.A. to proceed with the repayment of the amounts paid that have been cancelled in the course of the Technical Assistance Contract, the immediate seizure and sequestration of Canal Extensia América, S.A.'s shares in Triple A de Barranquilla and, in general, the seizure and sequestration of Canal Extensia América, S.A.'s shareholding, rights, income and assets in Colombia and abroad, among others.

Based on the opinions issued by their legal advisers, considering the available information and the fact that the evidentiary stage has not yet been completed, Canal Extensia América, S.A.'s directors do not know whether or not the court will order one or more interim measures; therefore, at 31 December 2023, there are no provisions or impacts on the equity of Canal Extensia América, S.A.

District Comptroller of Barranquilla against Canal Extensia América, S.A. and Triple A de Barranquilla

On 27 February 2018, in the case of Triple A de Barranquilla and on 8 March 2018, in the case of Canal Extensia América, S.A., notice of opening of an ordinary fiscal responsibility proceeding was received by the District Comptroller of Barranquilla, against the two companies in relation to: i) Decrease in the shareholding of the District of Barranquilla in Triple A de Barranquilla, in which it preliminarily values the damage for the amount of 601 million Colombian pesos (142 thousands of euros), and ii) Remuneration for technical assistance to INASSA, which preliminarily values the damage for the sum of 221.753 billion Colombian pesos (52,506 thousands of euros).

Canal Extensia América, S.A. and Triple A de Barranquilla, together with their legal advisers, examined the legal defence to be mounted, particularly in this case, and concluded the following:

- Regarding the capitalisation of Triple A Barranquilla, it is not quantitatively considered a significant contingency (142 thousand euros).
- In connection with the underwriting and alleged non-execution of the Technical Assistance Agreement, the likelihood of a Fiscal Liability Judgement against Canal Extensia América, S.A. and Triple A Barranquilla is indeterminable at the present procedural moment due to the grounds and amounts described in the Order to Commence. This conclusion was based on the information received from executives and/or officials of Canal Extensia América, S.A. and/or Triple A de Barranquilla confirming the provision of the technical assistance service, and in the arguments, explanations and information presented to different authorities related to the execution of technical assistance.

On 27 March 2019, notification was received from the District Comptroller that the tax liability proceedings were to be suspended until such time as there is a final decision on the criminal proceedings currently underway in this connection.

Subject to what has been exposed above, and at the date of issuance of the Financial Statements on 31 December 2023, no additional notification on this proceeding has been received and no additional registration of liabilities is deemed necessary in this regard on Canal Extensia América, S.A.'s Financial Statements at 31 December 2023.

Prosecutor's Office 20 Specialised Directorate (Law 600)

On 20 March 2018, the Prosecutor General of Colombia issued a press release stating that the historical Managers and Presidents of Triple A de Barranquilla and Canal Extensia América, S.A. were subpoenaed during the term of the technical assistance agreement between the two companies on 4 September 2000 as it is considered that said agreement was not performed and therefore implied an irregular deviation of funds.

Since that date, a number of procedural steps have been taken. Of these steps, it is worth noting that the High Court of Bogotá, by resolutions dated 18 and 19 October 2023, revoked the decision of the Prosecutor's Office to bind Canal Extensia América, S.A. as a third party with civil liability. Simultaneously, these resolutions eliminated the status of victims previously granted to the District of Barranquilla and Triple A de Barranquilla. It is currently awaiting the resumption of the proceedings it is pursuing against various former directors of the company.

In accordance with the above, the directors of Canal Extensia América, S.A., based on the opinions issued by its legal counsel, considers it unnecessary to record any provision or charge in the financial statements at 31 December 2023.

Office of the Prosecutor General of Colombia

Extinction of ownership proceedings

The proceedings initiated on 3 October 2018 by the Attorney General's Office, aims to extinguish the ownership of the shares that Canal Extensia América, S.A. held in Triple A de Barranquilla, which accounted for 82.16% of its share capital. The aforementioned proceedings are being heard by the Extinction of Ownership Court of Barranquilla.

Since that date, a number of steps have been carried out. Among these steps, on 25 April 2022, Canal Extensia América, S.A. filed a motion for reconsideration and, if dismissed, an appeal against the aforementioned orders dated 20 April 2022. The first motion was decided on 15 July 2022, rejecting reconsideration. The second, dated 30 May 2023, dismissed the appeals against the decision denying the exclusion of evidence; it urged that the appeals filed by Canal Extensia América, S.A. be dealt with in their entirety. It confirmed the nullity, related to the evidence presented by the Prosecutor's Office and, as a final measure, ordered that new legal entities (Canal de Isabel II, S.A., M.P.) be bound by the proceedings.

At the date of preparation of these consolidated financial statements, the legal entities bound by the proceedings are still awaiting notification and, at the same time, a final decision on the appeals filed by Canal Extensia América, S.A. is to be delivered. Once the above has been concluded, the proceedings would be pending the opening of the evidentiary phase.

Delegate Prosecutor's Office 38 (Law 906)

On 22 October 2020, the High Court of the Judicial District of Barranquilla sentenced a former manager of Triple A de Barranquilla, as allegedly responsible for misappropriating 27,880 million Colombian pesos (6,601 thousand euros) from transactions allegedly not carried out at Triple A de Barranquilla, to 190 months imprisonment and a fine of 50,000 legal monthly minimum wages in force.

Currently, the Criminal Division of the Supreme Court of Justice shall issue a decision on the extraordinary appeal lodged by the former manager.

As per the current stage of the proceedings and the opinions issued by the legal counsel, the directors of Canal Extensia América, S.A., consider it unnecessary to record as at 31 December 2023 any provision or charge in the financial statements.

International arbitration

Canal Extensia holds 81,84 % of the shares of Canal Extensia América, which in turn held 82,16 % of Triple A's subscribed capital. Canal Extensia, S.A.U. also holds directly 1,16 %, and indirectly 0,0004 % through its subsidiary Gestus Gestión & Servicios S.A.S., of Triple A's share capital.

As a result of the early disposal procedure of the shares held by Canal Extensia America, S.A. in Triple A de Barranquilla, Canal Extensia S.A.U. has studied and explored actions to recover its investment.

To this end, in 2022, the company initiated the necessary steps to submit the dispute to arbitration before the International Centre for Settlement of Investment Disputes (ICSID), which dispute arises from the understanding that the aforementioned early disposal would entail a violation of the obligations undertaken by Colombia through the "Agreement between the Kingdom of Spain and the Republic of Colombia for the reciprocal promotion and protection of investments -APRI-".

On 26 September 2022, Canal Extensia, S.A.U. notified the Colombian Government of its intention to submit its claim arising from the dispute to the aforementioned arbitration proceedings. As all Canal Extensia S.A.U.'s negotiation and settlement attempts with the Republic of Colombia were unsuccessful, on 26 December 2022 it filed an application with the International Centre for Settlement of Investment Disputes (ICSID) for arbitration in relation to the existing

differences between Canal Extensia, S.A.U. and the Republic of Colombia, in view of the damage caused to the rights and interests of the Canal group. On 13 January 2023, ICSID registered the request for arbitration filed, initiating international investment arbitration proceedings.

From January until 29 November 2023, the parties went through all the steps required for the appointment of the arbitrators forming the Tribunal. With the appointment of the President, negotiations began between the parties and ICSID to set dates for the first hearing of the proceedings. The first of the agreed dates was 19 February 2024.

Colombian Tax and Customs Authority (DIAN)

Claims and potential contingencies corresponding to the years open to inspection by the DIAN are detailed in Note 23(b)(i), Provisions for other liabilities.

(IV) Employment Litigation

Canal Extensia América, S.A.

- Employment lawsuit filed by the former Resources Manager against the company, by virtue of the unilateral termination of his employment contract due to inconsistencies in his administrative management. Due to the fact that, in similar processes, the company had not obtained a favourable ruling, it was decided to provision the amounts claimed, even though the process was at a preliminary stage, for an amount of 965,582 thousand Colombian pesos (229 thousand euros). The company is awaiting the evidentiary period to examine whether the provision is maintained or removed.
- Cassation appeal in the process of corporate action for liability against the former Executive Chairman of the company for irregularities in his management and causing financial damage to the Company. The company has not registered a receivable in respect of these proceedings, it is awaiting a favourable final resolution in order to enforce the relevant collection and subsequent recognition in the company's financial statements.

AAA Dominicana, S.A.

- Employment lawsuit filed by the former General Manager of the company, by virtue of the unilateral termination of the employment contract due to irregularities in her administrative management.

The company's external advisors estimate a 50% favourable ruling based on evidence and third party opinions supporting the termination of the former employee's contract. A provision of 126,909 thousand Dominican pesos (1,971 thousand euros) was recorded.

Several hearings were held during 2023, and it is expected that all the evidence will be examined in the first half of 2024.

- Employment lawsuit filed by the former Resources Assistant Manager against the company, by virtue of the unilateral termination of his employment contract due to inconsistencies in her administrative management.

The company's external advisors consider the chances of success at 10% due to the lack of evidentiary strength. The company decided to make a provision of 21,378 thousand Dominican pesos (332 thousand euros).

Several hearings were held during 2023, and it is expected that all the evidence will be examined in the first half of 2024.

Corporate actions for liability

With a view to rebuilding Canal Extensia América, S.A.'s wealth, undermined by the activities performed by its former directors, two corporate actions for liability were filed:

- The first, filed on 18 July 2019 against the former managers. It includes claims cumulatively amounting to more than 5,000 thousand dollars (4,525 thousand euros). The final judgement sentenced one of the former directors to pay 3,911 million Colombian pesos (926 thousand euros) and 173 thousand dollars (157 thousand euros). The decision was appealed as it did not convict the other former directors, and was confirmed by the High Court of Bogotá on 30 March 2022.
- The second, filed on 4 December 2019 against the former chairman of Canal Extensia América, S.A., entails amounts exceeding 6,000 thousand dollars (5,430 thousand euros). Following the final decision at first instance, an extraordinary cassation appeal was filed. This appeal was admitted on 17 October 2023 and subsequently lodged on 30 November 2023. Canal Extensia América, S.A. is awaiting a ruling.

Civil actions

Civil action by former Triple A's legal representative

On 24 March 2022, Canal Extensia America was notified of a civil lawsuit for tort liability filed by a former legal representative of Triple A de Barranquilla, seeking to order the company to pay fines and penalties imposed by a public authority directly to the official. It includes claims cumulatively amounting to more than 10,000 thousand dollars (9,050 thousand euros). The process of personal notification of all parties involved in this legal action is awaiting completion.

Based on the opinions of the advisors and the stage of the proceedings, Canal Extensia America's directors do not consider it necessary to record any additional liability for this reason in the company's Financial Statements at 31 December 2023.

Civil action by Aguas de Manizales

Application for arbitration against Canal Extensia América, S.A. to request the declaration of non-compliance with the Share Purchase Agreement of the company Aguas de Tumbes, S.A.

On 20 December 2023, notice was received for a hearing to appoint an arbitrator and the company is in the process of appointing arbitrators and, pending formal notification of the application in order to know the scope of the claims and an estimate of the likelihood and date of the ruling, the arbitration process is expected to begin in the first quarter of 2024.

The amount of 1,295 million Colombian pesos (307 thousand euros) is recorded in a trust account for this purpose.

Branch of Canal Extensia América, S.A. in Panama - INASSA in Panama:

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

Collection Enforcement Proceedings - Arbitration Award in relation to disputes arising under the Portfolio Management Contract signed with IDAAN No. 115-2010.

The legal opinion issued by a law firm dated 24 November 2023, referring to the amount of the Award of 8,878 thousand dollars (8,034 thousand euros) recorded as a receivable, plus legal costs and interest. Taking into account the estimated date of the ruling, the interest amounts to 4,808 dollars (4,351 euros).

At the date of preparation of these Consolidated Financial Statements, it is expected that the IDAAN will comply with

the payment of the obligation or, failing this, that the judge will order the application of section 1048 and order the National Bank to make available to the court the amount owed by the IDAAN and recognised in the award.

Meter reading and invoice distribution service.

Administrative complaint against the INSTITUTO DE ACUEDUCTOS Y ALCANTARILLADOS NACIONALES (IDAAN), under Contract 19-2016 for meter reading and invoice distribution in the sectors of Panamá Metro, Arraiján and Panamá Oeste, due to repeated non-payments.

Although the complaint is supported by the service offered and accounts submitted, the lawyers consider that they cannot assess the likelihood of the outcome at this stage because it is at a very early stage, however, they have reviewed all the information and consider that all the factual and legal conditions are met to request the settlement of the contract and, therefore, the payment of the amounts owed. The entity's budget management will be decisive for the success of the complaint.

At year-end 2023, receivables under this contract amount to 4,514 thousand dollars (4,085 thousand euros), having collected in 2020 an amount of 1.1 thousand dollars (995 thousand euros), which was applied to the payment of workers and taxes, and another payment of 1.1 thousand dollars (995 thousand euros) in 2022.

La Pintada

Appeal for the recognition of all damages arising from the unilateral termination by the National Council for Sustainable Development - CONADES of Contract No. 08-2012, for the design and construction of the sanitary sewerage system in La Pintada, Panama.

The account receivable has not been recorded, initially due to litigation by a consortium in which Canal Extensia América, S.A. had a stake; a favourable final ruling is expected for its recognition.

The appeal filed on 25 September 2023, in which the request for this incidental procedure is reiterated, is currently awaiting resolution.

Sucursal de Canal Extensia América, S.A. in Ecuador- INASSA in Ecuador:

Proceedings against a former legal representative of the Ecuador branch and former contractors of Canal Extensia América, S.A.

The preliminary investigation is based on a report with indications of criminal responsibility issued by the State Comptroller General's Office, where a special examination was carried out of the pre-contractual, contractual, execution and liquidation phases of contracts: Milagro Flood Control Project.

According to the information obtained, the Comptroller's Office reviewed the reimbursable costs of contract, for the consultancy service for conducting the project studies between Canal Extensia America, S.A. and the contractor company between Canal Extensia America, S.A. and the contractor. The Comptroller's Office concludes that there is no support for reimbursable costs amounting to 434 thousand dollars (407 thousand euros). We are waiting for him to notify the process.

In the financial statements of Canal Extensia America at 31 December 2023, no provision or charge has been recorded in relation to these proceedings.

Proceedings in Quito for alleged influence peddling. A former legal representative of Canal Extensia América, S.A. is being prosecuted.

This process is initiated by a Criminal Liability Report issued by the State Comptroller General's Office, following a review of the preparatory, pre-contractual, completion, settlement and payment processes of the contracts: Jama and Coaque projects, signed between the National Secretariat of Water and Canal Extensia América, S.A..

The Comptroller's Office carries out an analysis of the direct contracting of Canal Extensia América, S.A. for the preparation of studies and designs for the Multipurpose projects Jama and Coaque, through a special regime based on the Understanding and Cooperation Agreement signed between the aforementioned institutions. The Comptroller's Office concludes that such direct contracting allegedly involves influence peddling. We are waiting for him to notify the process in order to provide the corresponding explanations.

In the financial statements of Canal Extensia America at 31 December 2023, no provision or charge has been recorded in relation to these proceedings.

AAA Dominicana, S.A.:

ITBIS CAASD

AAA Dominicana brought a case against the Directorate General of Internal Taxes (DGII) of the Dominican Republic, which established a tax obligation applicable to AAA Dominicana for the sum of 2,110 thousand euros, as a result of the adjustment made for "Income declared as tax-exempt", relating to the tax periods from 1 January and 31 December 2009, for the Tax on the Transfer of Industrialised Goods and Services (ITBIS) for services provided to Corporación de Acueducto y Alcantarillado de Santo Domingo (CAASD) and with regard to which, AAA Dominicana filed an appeal requesting reversal.

An agreement was signed with the DGII under Law 51 of 2023, obtaining a benefit of total dismantling of penalties and 30% of the tax base, through a one-off payment of 25,916 thousand Dominican pesos (403 thousand euros). The administrative and judicial proceedings are deemed to have been closed due to lack of merits.

Early termination agreement of the contract with Corporación de Acueducto y Alcantarillado de Santo Domingo (CAASD)

Arbitration proceedings brought by AAA Dominicana against Corporación de Acueducto y Alcantarillado de Santo Domingo (CAASD) as a result of the early termination of the contract between the two companies.

The action includes other claims such as interest to the date of the filing of the action, loss of profits due to the early termination, anticipated costs incurred for the payment of settlements to personnel, totalling 833,424 thousand Dominican pesos (12,947 thousand euros), however, this amount is not recorded in the company's balance sheet, with the amount of 430,800 thousand Dominican pesos (6,692 thousand euros) of accounts receivable, 4,106 thousand Dominican pesos (64 thousand euros) of fixed assets and 76,406 thousand Dominican pesos (1,187 thousand euros) of inventory being recorded instead, leaving a total of 511,311 thousand Dominican pesos (7,943 thousand euros).

The litigation between CAASD and AAA Dominicana involves proceedings for Declaration of Damages. The High Administrative Court initially took over the case, but declared its lack of jurisdiction due to an arbitration clause in the contract, so the case was referred to the Chamber of Commerce and Production of Santo Domingo. However, CAASD filed a cassation appeal against the decision, and the Supreme Court of Justice sent the case back to the High Administrative Court. The latter upheld the CAASD's action for declaration of damages and declared the contract between the parties to be detrimental to the Dominican State. AAA Dominicana, S.A. filed a cassation

appeal against this decision dated 26 December 2023, and the Supreme Court of Justice is to hand down a ruling on this case.

On the basis of the information available to date, no indications have been detected that would lead to the recording of any provision or that suggest that any additional liability would arise as a result of the aforementioned actions.

AAA Dominicana's external advisors consider that the chances of success in favour of the company are high, given that there is sufficient evidentiary support of the irregularities committed by CAASD, as well as the outstanding invoices and related items.

Gestus Gestión & Servicios S.A.S.

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

Litigation against the District of Santa Marta D.T.C.H. seeking to declare null and void the termination of the Contract for the reform of the tax collection system and management No. 092 of 2002, or in its absence the removal thereof.

The action includes other claims such as late payment interest as of the date of collection in the amount of 6,825 million Colombian pesos (1,616 thousand euros). The amount of the claim totals 11,939 million Colombian pesos (2,827 thousand euros), recorded in the financial statements and according to the measurement of the directors of Canal Extensia América, S.A., an impairment was recorded for the same amount. It insists on the appeal in respect of the settlement of the contract, since the factual and legal conditions for the recognition of the sums owed are met.

ASAA

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

Appeal against the decision not to approve the compromise between the District of Riohacha and ASAA, for the collection of subsidies for the months of August to December 2019. Operating Contract.

The appeal is pending before the Council of State in Bogotá, with a decision expected in June 2024.

The receivable amounting to 1,133 million Colombian pesos (268 thousand euros) has been recorded.

Suspension of tender process/selection of new water and sewerage utilities operating:

On 18 September 2019, the District Mayor's Office published a notice of call for public tender which aims to select a strategic partner that will constitute with the District of Riohacha a mixed economy company for the provision of public conduit and sewerage services for households.

On 4 October 2019, the Attorney General's Office suspended the procurement process for identifying some irregularities in the public tender process. The District of Riohacha decided to initiate a new tender process for the selection of a new operator, which started in November 2022.

The Mayor's Office of Riohacha lifted the suspension on 27 March 2023, without addressing the inconsistencies pointed out by the authorities. An addendum was issued amending the timetable, setting the award hearing on 30 March 2023. Despite warnings about irregularities in the process, it proceeded to sign Operating Contract No. 268-01, addressing the management of public services in Riohacha for 30 years.

The contract authorising ASAA as operator of the water and sewerage services in the city expired on 31 May 2023.

In ASAA's financial statements at 31 December 2023, no provision or charge has been recorded in relation to these proceedings.

Class Action Lawsuit Procurator General's Office – ASAA:

On 29 April 2019, ASAA was notified of the lawsuit filed by the Office of the Procurator General Judicial against the District of Riohacha, whose purpose is to suspend the transfer of public resources from the General System of Participations to the autonomous capital that manages the resources of the contract for Operation, Maintenance and Refurbishment between the District of Riohacha and ASAA.

On 1 April 2022, a first instance judgement was delivered, the judge decreed the suspension of the transfers, for which reason an appeal was lodged on 12 July 2022.

At the date of preparation of these Consolidated Financial Statements, the resolution of the appeal is pending. In ASAA's financial statements at 31 December 2023, no provision has been recorded in relation to these proceedings.

Amerika Software

Fraudulent use of intellectual property by Triple A de Barranquilla

Canal Extensia, S.A.U. brought civil and criminal proceedings as a result of the unauthorised use of specialised software (hereinafter "Amerika Software"), owned by Canal Extensia, S.A.U., by the company Triple A de Barranquilla. Details of the proceedings:

- I) Criminal proceedings against Triple A de Barranquilla for the crime of infringement of copyright and related rights.

On 24 June 2020, a complaint was filed with the Attorney General's Office against Triple A de Barranquilla, for the crime of violation of copyright and related rights, due to the unauthorised use of the Amerika Software.

As of the date of preparation of the Consolidated Financial Statements, the process is awaiting the analysis by the Prosecutor's Office No. 32 of the information submitted following the inspection of Amerika T.I.'s offices. A further meeting with the Prosecutor has therefore been arranged, which took place in February 2024.

- II) Civil suit for copyright infringement against Triple A de Barranquilla.

At the same time, a civil action was filed for copyright infringement. The High Court of the Judicial District of Barranquilla ruled by means of an order on the competence to hear the proceedings of the National Directorate for Copyright (hereinafter "DNDA").

By order of 6 December 2023, the DNDA considered that the conditions for a preliminary ruling had been met and issued such ruling, denying the claims submitted by Canal Extensia, S.A.U. in the action. An appeal was lodged against the aforementioned ruling, which was admitted by order of 14 December 2023 and lodged in January 2024.

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

On 19 April 2017, Canal de Isabel II S.A., M.P., and Canal Extensia, S.A.U. received a communication regarding the start of the inspection, verification and investigation activities by the Tax Inspectorate of the Tax Agency.

On 23 May 2018, the Examining 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 Work/professional: periods 03/2013 to 12/2016

The Group'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.

Among the auditing actions, by means of Proceeding No. 13, the Audit requests from Canal Extensia, S.A.U.: "Justification of the material and human resources used in the technical assistance services provided to Canal Extensia América, S.A., in accordance with the contracts signed with this company".

In this regard, Canal Extensia, S.A.U. proceeded to request a report from a firm of independent experts for the purposes of analysing and quantifying the technical assistance provided by Canal Extensia, S.A.U. to Canal Extensia América, S.A., including the transfer of associated know-how.

Furthermore, a report was requested from the Group's financial adviser regarding the possible recovery in Spain of non-deductible expenses in Colombia.

The Company's Directors do not think this inspection will lead to significant liabilities and that there are no further contingencies arising from the fiscal years open to inspection.

Lanzarote

On 26 October 2016, Administrative Court No. 3 of Las Palmas de Gran Canaria (Ordinary Proceedings No. 20/2015), issued a ruling dismissing the administrative appeal filed by Club Lanzarote, S.A. in respect of the Agreement of the Extraordinary General Assembly of Water Consortium of Lanzarote, on 26 December 2014 (hereinafter, the Consortium), rejecting the request for an ex-officio review of the Consortium's resolutions whereby (i) the negotiated procedure commenced with public notice to adjudicate the concession agreement for water supply, sanitation and water reuse services in the Islands of Lanzarote and La Graciosa, and (ii) the contract was awarded to the Company Canal de Isabel II, S.A., M.P. (Hereinafter, "Canal").

Club Lanzarote, S.A. did not agree with this ruling, and lodged the mandatory appeal before the Administrative Chamber of the Regional High Court of Justice of the Canary Islands, which on 21 November 2017, issued a ruling partially upholding the appeal, understanding that

the Water Consortium should have processed the request for review requested by Club Lanzarote, S.A., but not with respect to the resolution issued by the Water Consortium which agreed to award the contract, but not with regard to the resolution issued by the Water Consortium, by which the award of the contract was agreed.

Canal announced it was filing a cassation appeal before the Supreme Court, which was not accepted by the Acceptance Section of the Administrative Division of the Supreme Court by means of a Decision on 21 February 2019, since it considered there was not objective appellate interest for the formation of jurisprudence.

On 6 June 2019, the Administrative Court No. 3 of Las Palmas de Gran Canaria issued a measure of organisation of procedure as follows:

- Confirming receipt of the procedures by the Regional High Court of Justice of the Canary Islands, the Ruling issued by said Court having been declared final.
- Ordering the defendant Administration to properly and fully execute the Ruling in the period indicated by Law, carrying out all necessary measures to comply with the ruling and notifying the responsible body of its compliance, and without prejudice to possible enforced execution by the appellant.

The Regional High Court of Justice Ruling may lead to the Contract preparatory actions being declared null and void since, on the one hand, it orders the Consortium to commence, process and resolve the ex-officio proceedings of said actions, and, on the other hand, it declares *obiter dicta* the existence of a cause for it being judged void ab initio. It would be declared void following processing of the ex-officio review (which involves a hearing with the concessionaire and the ruling by the Consultative Council of the Canary Islands).

The declaration of the Contract's preparatory actions as void would, once final (its being final understood necessarily to emanate from legal, and not administrative, channels), imply that the Contract itself is void, and must be settled, with the effects established in Article 35.1 of the Consolidated Text of the Public Sector Contracts Act (TRLCSF).

Article 35.1 of TRLCSP contemplates as a necessary effect of the nullity of the contract the reciprocal restitution of the services that constitute its object, or, if not possible, of its value; this necessary effect is identified by case law with the restitution of the situation of the parties to the state prior to the award, so that none of them suffers a prejudice or obtains a benefit due to the award and the subsequent execution of the contract. In this particular case, we understand that Canal should not suffer any damage or impairment as a consequence of the award of the Contract, and this should mean that Canal can recover the capital invested in the execution of the Contract; in particular:

Canal must recover the amount corresponding to the initial fee updated in line with the interest rate on the loan granted to Canal Lanzarote.

Canal must recover the amount corresponding to the investments executed, net of amortisation, updated in line with the interest rate on the loan granted to Canal Lanzarote.

Canal must recover the guarantees deposited.

Cáceres Concession

The Parent Company is carrying out various actions to request the economic and financial rebalancing of the contract signed on 18 March 2015 with the City Council of Cáceres.

The Parent Company is entitled to request the economic rebalancing of the contract in accordance with the provisions of the Terms and Conditions, mainly in its Clause 19, which reads as follows: *"The concession contract shall maintain its economic balance in the terms that were considered for its award..." the request for the maintenance of the economic and financial balance...may only be requested by the entity awarded the concession after four years have elapsed from its last request...". "For this purpose, the evolution of costs, the evolution of the interest rate on borrowing for the fee, where applicable, and the evolution of revenue shall be taken into account."*

Likewise, even the Draft presented by the City Council in the tender process stated in its "SUMMARY AND CONCLUSIONS" section that: *"A cost increase of more than 2-2.5 % of the initial estimates, as well as a reduction in the m3 invoiced, would call into question the feasibility of the operation"*.

It is important to highlight that these two circumstances have been occurring since the beginning of the concession, calling into question its feasibility under the initially agreed terms.

Given the financial and technical scope of the claim to be filed and the economic importance of the same for the survival of the concession (valid until 2039), the legal advice and legal assistance in court services have been contracted with a law firm specialising in the processing of this type of claims, both in administrative and legal proceedings. In order to quantify the economic damage caused to the Parent Company to date, the contract also included the preparation of an expert report analysing the economic impact on the economy of the contract, the number of m3 actually invoiced since the beginning of the concession and the losses associated with this invoicing.

24. ENVIRONMENTAL INFORMATION

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

Thousands of Euros			
2023			
	COST	ACCRUED DEPRECIATION	NET
Construction and installation in WWTP	692,202	(266,660)	425,542
Sewerage networks	30,765	(12,344)	18,421
Reusage networks	96,815	(21,201)	75,614
TOTAL	819,782	(300,205)	519,577

In thousands of euros			
2022			
	COST	ACCRUED DEPRECIATION	NET
Construction and installation in WWTP	656,067	(257,125)	398,942
Sewerage networks	30,486	(11,439)	19,047
Reusage networks	96,434	(19,276)	77,158
TOTAL	782,987	(287,840)	495,147

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

Thousands of euros		
DESCRIPTION	2023	2022
Water purification	36,255	19,763
Sewerage	279	1,795
Reuse	381	177
TOTAL	36,915	21,735

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

Thousands of euros		
DESCRIPTION	2023	2022
Water purification	172,733	201,191
Sewerage	74,632	71,346
Reuse	7,975	10,576
Others (green areas, environmental expenses, etc.)	8,596	8,690
TOTAL	263,936	291,803

The Parent Company management integrates all its activities through an Environmental Management System, which has been duly certified in accordance with the UNE-EN-ISO-14001:2015 environmental management standard. The follow-up audit for this certificate was carried out in 2023, with favourable results for the continuous development and improvement of this Management System.

In 2023, the Parent Company has 40 open proceedings for non-compliance with environmental legislation (34 proceedings in 2022), although most of these are for minor penalties, continuing the trend of recent years in line with the strategic plan implemented by the Parent Company for excellence in purification:

In this regard, it should be taken into account that several of the proceedings are caused by circumstances beyond the control of this Public Company, and are therefore not attributable to the Parent Company, which is why they are currently being appealed through administrative channels. Nevertheless, based on experience and the estimated likelihood of the success of those appeals, the Parent Company considers that no significant contingencies exist concerning possible litigation, compensation or other items and, accordingly, no provision has been made in this regard.

The Parent Company has insurance policies that reasonably assure the coverage of any possible contingency that could arise from its environmental activities.

In addition to its public liability cover, since June 2010 the Parent Company, as the affected operator, has held 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 is underwritten for the maximum financial guarantee of 25 million, in excess of the maximum guarantee established by law of 5 million.

The Group had no environmental projects in Latin America in 2022. In the financial year 2023 it had the following lines of action:

Amagua C.E.M.:

- **AALL Pipeline View of the Park:** This work consists of the installation of a PVC pipeline D=1200mm which includes all the complementary works such as excavation, removal and compacted backfill, interconnection to rainwater systems in the Samborondón sector, construction of inspection chambers, and other implements generally required for the correct operation and commissioning thereof.

25. OTHER LIABILITIES

Other current and non-current liabilities include the following:

	Thousands of euros			
	2023		2022	
	NON-CURRENT	CURRENT	NON-CURRENT	CURRENT
Advance income for consumption advances	11,459	7,103	12,353	6,321
Other	14	255	15	321
TOTAL	11,473	7,358	12,368	6,642

“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. To calculate the current value of the

“Advances for water use” for 2023, the average reimbursement period was established at 14 years (15 years in 2022). As this change in the estimate is due to the more precise information obtained it has not been considered a change in accounting criteria and is applied prospectively.

26. INCOME AND EXPENSES

a) Ordinary income

Revenues include the operation of infrastructure to provide water supply, sanitation and recycling services.

Details are as follows:

	Thousands of euros					
	NATIONAL		IBERO-AMERICA		TOTAL	
	2023	2022	2023	2022	2023	2022
Income for the provision of operations services of Infrastructure	904,591	907,688	24,586	23,902	929,177	931,590
Income for the provision of services	12,343	11,926	4,000	4,208	16,343	16,134
Income arising from the sale of goods and merchandise	-	-	-	3	-	3
TOTAL	916,934	919,614	28,586	28,113	945,520	947,727

All of these domestic revenues have been earned in euros. All of these domestic revenues have been earned in euros. Sales in Latin America have been made in Colombian Pesos, Dominican Pesos, US Dollars and Brazilian Reals.

b) Other income

Non-trading income is primarily from energy sales and other income derived from the lease of certain properties and from levies for the assignment of hydropower generation rights.

It also includes allocations to profit and loss for capital subsidies, donations and legacies received which are allocated to profit and loss in accordance with the relevant depreciation of the assets financed with this income.

In 2023, the Parent Company recognised 382 thousand euros (425 thousand euros in 2022) in respect of trade receivables past due. (See Note 20 (c)).

c) Cost of supplies by nature and geographical area

The breakdown of supplies is the following:

In thousands of euros						
	NATIONAL		IBERO-AMERICA		TOTAL	
	2023	2022	2023	2022	2023	2022
Consumed electricity and natural gas	90,214	154,898	1,053	948	91,267	155,846
Purchase of raw materials	30,122	31,312	482	482	30,604	31,794
Consumption of goods	29,324	14,503	5,193	5,319	34,517	19,822
Inventory variation	(3,952)	(3,693)	2	20	(3,950)	(3,673)
TOTAL CONSUMPTION	145,708	197,020	6,730	6,769	152,438	203,789
Works carried out by other companies	158,583	147,151	8,467	7,252	167,050	154,403
TOTAL	304,291	344,171	15,197	14,021	319,488	358,192

The changes in electricity and natural gas consumption were mainly due to the decrease in the price of energy and the lower level of activity of some production facilities.

d) Employee benefits expense

The breakdown of personnel expenses is the following:

	Thousands of euros	
	2023	2022 (*)
Wages, Salaries and similar payments	155,112	145,876
Social security contributions	53,379	49,628
Social security at the expense of the Company	46,108	42,325
Contributions to defined Contribution Plans - external -	227	225
Long-service bonus (note 17)	243	454
Seniority (note 17)	4,891	4,402
Other social contributions	1,910	2,222
TOTAL	208,491	195,504
Provisions	534	407
TOTAL	209,025	195,911

(*) Restated information.

e) Non-financial asset amortization and impairment expenses.

e. Amortisation, depreciation and impairment of non-financial assets Details of amortisation and depreciation are as follows:

	Thousands of euros	
	2023	2022 (*)
Non-tangible asset depreciation expense (note 10)	(127,119)	(124,408)
The useful life of property, plant and equipment and intangible assets (see notes 7 and 8).	(6,970)	(7,423)
COMPREHENSIVE AMORTIZATION EXPENSE	(134,089)	(131,831)
Intangible asset impairment expense (Note 10)	-	-
Impairment charges on tangible investments	-	-
Reversal of impairment of intangible assets	3,064	1,828
Reversal of impairment of property, plant and equipment and investment property	-	133
TOTAL COST OF IMPAIRMENT	3,064	1,961

(*) Restated information.

f) Other expenses

Details of other financial expenses are as follows:

	Thousands of euros	
	2023	2022 (*)
Research expenses	1,728	1,229
Leases and fees	24,965	22,503
Repairs and maintenance	75,217	56,174
Outsourced professional services	20,597	19,112
Transport	378	377
Insurance premiums	5,961	5,926
Advertising and publicity	2,985	2,549
Supplies	1,710	1,756
Other external services	5,558	4,498
Taxes	26,757	25,903
Value impairment losses and non-payment of commercial debts and other accounts receivable (notes 14 and 16)	2,228	329
Provision for restoration and major repairs actions (note 23)	62,389	67,846
Other expenses	11,232	14,876
TOTAL	241,705	223,078

(*) Restated information.

g) Profit/loss on disposal of assets

The breakdown of profit/loss on disposal of assets is as follows:

	Thousands of euros	
	2023	2022
PROFIT		
Tangible Fixed Assets	6	3,309
Intangible fixed assets	1	10
Investment property	11,902	42
	11,909	3,361
LOSS		
Tangible Fixed Assets	(58)	(5)
Intangible fixed assets	(1,948)	(3,213)
Fixed assets	(43)	-
	(2,049)	(3,218)
TOTAL	9,860	143

Derecognitions in 2023, which amount to 99 thousand euros, correspond to the demolition of three sentry boxes

in the Dehesa de la Villa de Madrid, generating a loss of 43 thousand euros.

Derecognitions in 2022 arise from the sale of the interest in an urban plot of land amounting to 137 thousand euros, generating a profit of 42 thousand euros.

At 31 December 2023, the Company Amagua, CEM has recorded a loss of 58 thousand dollars (58 thousand euros), for the sale of vehicles.

h) Finance income and expenses

Details of finance income and costs are as follows:

	In thousands of euros	
	2023	2022 (*)
Finance income from investments held to maturity	2,769	1,162
Other finance income	20,264	5,988
Translation differences	1,014	11,310
OTHER FINANCE INCOME	24,047	18,460
Finance expenses of debts with third parties	(6,277)	(5,454)
Finance expenses with regard to provisions (note 23)	(10,033)	(8,281)
Other finance expenses	(12,320)	(12,508)
TOTAL FINANCE EXPENSES	(28,630)	(26,243)
Investment impairment and loss	2,687	(290)
FINANCIAL PROFIT/(LOSS)	(1,896)	(8,073)

(*) Restated information.

27. TAX STATUS

In accordance with the current laws, 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.

Furthermore, Article 66 bis 2 of this General Tax Law 58/2003 of 17 December 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 to be inspected.

As certified before the Tax Agency on 22 October 2013, since 1 January 2014 the Parent Company and its Spanish subsidiaries have filed income tax returns under the Special Tax Consolidation Regime, together with their

ultimate parent company Canal de Isabel II (Entity), as provided for in Article 55 et seq. of Law 27/2014, of 27 November. All of the subsidiaries are taxed individually in their respective countries. Income is subject to a tax of 25% on the tax base in Spain, 35% in Colombia, 27% in the Dominican Republic, 25% in Ecuador, 25% in Uruguay and 34% in Brazil. The Spanish subsidiaries file consolidated tax returns.

The Group formed by the Spanish companies is subject to general taxation and is therefore required to file annual income tax returns.

The breakdown of deferred tax assets and liabilities at 31 December 2023 and 2022 is the following:

In thousands of euros						
	ASSETS		LIABILITIES		NET	
	2023	2022 (*)	2023	2022	2023	2022 (*)
Concessions	163	133	-	-	163	133
Amortisation and depreciation	198	124	-	-	198	124
Provisions	27	10	-	-	27	10
Other concepts	3,320	2,822	(1,292)	(954)	2,028	1,868
Industry and Trade	-	-	-	-	-	-
NET ASSETS AND LIABILITIES	3,708	3,089	(1,292)	(954)	2,416	2,135

(*) Restated information.

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		
	2023	2022 (*)
ASSETS	3,501	2,916
Depreciations and amortisations	144	269
Other	3,357	2,647
LIABILITIES	(3,192)	(2,994)
Concessions	-	-
Other	(3,192)	(2,994)
TOTAL	309	(78)

(*) Restated information.

The breakdown of expenditure on taxes on profits is as follows:

	Thousands of euros	
	2023	2022 (*)
Current tax	4,950	3,420
Deferred tax	(174)	245
Adjustments in final declaration of prior financial years	(951)	(723)
Positive adjustments on income tax	-	-
TOTAL	3,825	2,942

(*) Restated information.

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

	Thousands of euros	
	2023	2022 (*)
INCOME AND EXPENSES BALANCE FOR THE YEAR	135,020	123,166
Tax rate at 25%	(33,755)	(30,791)
Tax effect rates other than 25%	641	396
Presumptive income tax effect	(189)	(99)
Other non-deductible expenditure	(2,818)	(1,471)
Other adjustments	(8,397)	(1,207)
Corporate tax adjustments in previous years	951	723
Consolidation adjustments	10,898	4,799
Deductions and credits for the financial year	28,844	24,708
EXPENSE FOR CONSOLIDATED TAX ON PROFIT	(3,825)	(2,942)

(*) Restated information.

The effective average tax rate in 2023 is 2.83% (3.38% in 2022).

The changes in deferred tax assets and liabilities in 2023 and 2022 are as follows:

In thousands of euros							
2023							
	Net balance as of 1 January	Recognized in Profit and Loss	Other	Translation differences	Net	Deferred tax assets	Deferred tax liabilities
Concessions	133	30	-	-	163	163	-
Amortisation and depreciation	124	74	-	-	198	198	-
Provisions	10	15	-	2	27	27	-
Other concepts	1,868	61	(221)	320	2,028	3,320	(1,292)
Industry and Trade	-	-	-	-	-	-	-
NET ASSETS AND LIABILITIES	2,135	180	(221)	322	2,416	3,708	(1,292)

Thousands of euros							
2022 (*)							
	Net balance as of 1 January	Recognized in Profit and Loss	Other	Translation differences	Net	Deferred tax assets	Deferred tax liabilities
Concessions	141	(8)	-	-	133	133	-
Amortisation and depreciation	193	(95)	26	-	124	124	-
Provisions	22	(12)	-	-	10	10	-
Other concepts	2,160	(130)	25	(187)	1,868	2,822	(954)
Industry and Trade	-	-	-	-	-	-	-
NET ASSETS AND LIABILITIES	2,516	(245)	51	(187)	2,135	3,089	(954)

(*) Restated information.

At 31 December 2023 there are tax loss carryforwards for an amount of 8,816 thousand euros (6,675 thousand euros

at 31 December 2022) registered under the heading “Other items” corresponding to the following companies:

In thousands of euros				
COMPANY	2023		2022	
	ACCOUNTED FOR	NOT ACCOUNTED FOR	ACCOUNTED FOR	NOT ACCOUNTED FOR
Canal Extensia América, S.A.	5,038	2,013	4,147	1,531
Gestus Gestión & Servicios S.A.S.	-	647	-	514
AAA Dominicana, S.A.	3,778	-	2,528	-
Emissão, S.A.	-	-	-	-
Canal Gestión Lanzarote, S.A.U.	-	7,248	-	13,872
TOTAL	8,816	9,908	6,675	15,917

The recoverability of deferred tax assets is assessed when they are generated and subsequently on each balance sheet date, in accordance with the Group's performance as projected in its business plan. In particular, in assessing the recoverability of deferred tax assets, among other factors, the Group takes into account synergies deriving from fiscal consolidation, as well as estimated future tax profits on the basis of the Group's business plan.

In Colombia, taxable income is due according to the due date of each tax return. According to local regulations, the period for offsetting taxable income is 12 years from the date of filing.

In the Dominican Republic, as established in the tax code (Law 11-92) in its Article 287 Literal K) Losses. Losses suffered by legal entities in their financial years shall be deductible from profits in the financial years immediately following the year of the losses, without this offset extending beyond five (5) years.

In addition, 1,514 thousand euros were recorded under this heading relating to deductions for investments in the Canary Islands corresponding to the subsidiary Canal Gestión Lanzarote, S.A.U., which have been almost fully offset in 2023.

At 31 December 2022, an amount of 70 thousand euros relating to the year 2021 was offset.

In 2023, due to the implementation of the non-deductibility of 50% of tax losses, a deferred asset of 7,248 (thousand euros) corresponding to Canal Gestión Lanzarote is generated, which will be recovered proportionally over the next 10 years.

The Board members of the companies consider that the taxable bases to be applied will be recoverable as the company generates legal benefits.

Likewise, on 18 and 19 April 2017, the investee, Canal Extensia, S.A.U., and the Parent respectively, received a communication regarding the start of the inspection, verification and investigation activities by the Tax Inspectorate.

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

The inspection activities refer to the following taxes and periods:

- Corporate Income Tax: periods 07/2012 to 12/2015.
- Value Added Tax: periods 03/2013 to 12/2016.
- Retention/Lodgement on account. Income from Personal/professional work: periods 03/2013 to 12/2016

The Company's Directors do not think this inspection will lead to significant liabilities and that there are no further contingencies arising from the years open to inspection. The Group

has the following main applicable taxes open to inspection by the Spanish taxation authorities:

Tax	Years pending inspection				
	2019	2020	2021	2022	2023
Corporate tax	2019	2020	2021	2022	2023
Value Added Tax	2019	2020	2021	2022	2023
Personal Income Tax	2019	2020	2021	2022	2023
Trade Tax	2019	2020	2021	2022	2023
Social Security	2019	2020	2021	2022	2023
Non-residents	2019	2020	2021	2022	2023

The Parent Company, in permanent differences for 2023, an amount of 8,798 thousand euros (3,042 thousand euros in 2022) is mainly included as an increase, relating to expenses in different infrastructures that have been considered non-deductible as they are not directly related to generating income. Adjustments of permanent differences also include as increases, the amount of 3,600 thousand euros from the donation given to the Canal de Isabel II Foundation and considered non-deductible pursuant to Article 15.e) of Law 27/2014, on Corporate Income Tax (3,600 thousand euros in 2022).

According to article 7 of Law 16/2012, of 27 December 2012, tax years commencing in 2013 and 2014, permits the deduction from taxable income of up to 70% of the amortisation/depreciation that would have been tax deductible had the percentage pursuant to 12.1 and 12.2 of Corporate Tax Law 27/2014 not been applied. Non-tax-deductible accounting amortisation and depreciation that was not tax deductible 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 2023, reductions in temporary differences originating in prior years include an amount of 6,145 thousand euros (6,145 thousand euros in 2022) in respect of the reversal of part of the amortisation/depreciation not considered as tax deductible in 2013 and 2014.

Law 22/2021, of 28 December, on the General State Budget for 2022, effective for tax periods beginning on or after 1 January 2022, sets in Article 30 bis of the Corporate Income Tax Law a minimum taxation of 15 per cent of the tax base for taxpayers with a net turnover equal to or greater than twenty million euros and, in any case, for taxpayers under the tax consolidation regime.

Due to the application of the aforementioned regulations, net deferred tax assets include 136 thousand euros in 2023 from deductions not applied in the 2022 corporate income

tax return due to insufficient tax liability, with the accumulated deferred tax asset amounting to 198 thousand euros at 31 December 2023 (124 thousand euros in 2022). Deductions not applied may be deducted in subsequent tax periods in accordance with the regulations applicable in each case.

In accordance with current tax laws (Law 2277 of 2022), it introduces the following changes to Colombian companies:

- They are subject to income and supplementary tax, the applicable rate being 35% as from 2022.
- Taxable income for the purpose of occasional gains tax is taxed at a 15% rate.
- Law 2277 of 2022 modified the withholding tax rate on the distribution of dividends between domestic companies to 10%. Such withholding shall be transferable to the natural person resident for tax purposes in Colombia, or to the investor (natural or legal person) resident abroad. Exceptions for not applying this withholding remain in force.
- Minimum tax rate: A minimum tax rate of 15% is implemented for income tax payers. This minimum rate is known as the Adjusted Tax Rate - TTD, and may not be less than 15%. The TTD is determined by dividing the adjusted tax (ID) by the adjusted profit (UD). In turn, the factors that make up the ID and the UD are established to define their determination. If the TTD is less than 15%, the TTD should be adjusted to reach the minimum 15%.
- From the taxable year 2021, the presumptive income tariff is zero percent (0%).

In Ecuador, in spite of the 25% tax rate, in 2023 and 2022 Amagua declared as final corporate income tax the amount resulting from application of a 17.5% rate on taxable profits, since this was higher than the minimum advanced payment of the relevant corporate income tax.

In Brazil, the applicable tax rate is 34% on taxable profits. Emissão had recorded deferred taxes amounting to 29,074 thousand Brazilian reais (5,220 thousand euros) in the income statement for 2022 and as a result of the restatement of the company's financial statements, this amount was derecognised as it was not considered to be recoverable. The company Fontes da Serra, as it does not generate taxable income, is taxed as presumptive income in the amount of 522,625 Brazilian reais (4,423 euros).

In the Dominican Republic, in accordance with the current laws, corporate income tax is the higher of 27% on taxable income and 1% on taxable assets. At year-end the company is taxed on income from assets, which generates expenses of 5,631 thousand Dominican pesos (93 thousand euros) and a deferred tax of 10,908 thousand Dominican pesos (180 thousand euros).

28. BALANCES AND OPERATIONS WITH RELATED PARTIES

a) Balances and Operations with Related Parties

The consolidated financial statements include transactions carried out with the following related parties: associates and jointly controlled entities, which are accounted for using the equity method; shareholders of the Company

and related companies; and key management personnel of the Group and members of the Board of Directors.

Details of receivables from and payables to related parties are as follows:

Thousands of euros				
2023		2022		
DEBIT BALANCE	CREDIT BALANCE	DEBIT BALANCE	CREDIT BALANCE	
(Notes 14 and 16)	(Notes 20 and 22)	(Notes 14 and 16)	(Notes 20 and 22)	
GROUP COMPANIES				
Canal de Isabel II (Public Entity)	1,750	(187,638)	1,766	(203,096)
Aguas de Alcalá, UTE	659		586	-
Other	884	(4,700)	1,561	(4,485)
ASSOCIATED COMPANIES				
Compañía de Acueducto y Alcantarillado Metropolitano de Santa Marta, S.A., E.S.P.	-	(20)	-	(21)
Avanzadas soluciones de Acueducto y Alcantarillado, S.A.	303	-	992	-
GSS Venture, S.L.	-	-	-	(30)
Other	-	(42)	(89)	(42)
TOTAL	3,596	(192,400)	4,816	(207,674)

In accordance with the Contract-Programme for debt with the Public entity for the sum of 183,147 thousand euros (197,993 thousand euros in 2022) for the item "Mirror Debt" corresponding to the Company's obligation, as per financing contracts, to pay the Public Entity the sums provided for the purpose of meeting the compliance arising from such Contacts.

The origin of this payable was the non-monetary contribution made in 2012, as described in note 2, whereby the debt of the contributed activity was transferred from the Public Entity to the Parent. Both parties recognised the initial debt and the terms of future repayment, as well as the procedure to be followed to settle interest and repay the debt. The ownership of the above debts with financial institutions correspond to the Public Entity. The Company assumed all of the obligations originally agreed in these contracts with financial institutions for the corresponding sums. The maturities

and interest rates applicable to the balances payable by the Parent to the Public Entity are those specified in the contracts between the latter and the financial institutions (see note 20). v). In 2023 the weighted average interest rate of the mirror debt was 1.96%. (1.96% in 2022).

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

Inside the Group and outside Spain, commercial operations have been carried out with Avanzadas Soluciones de Acueducto y Alcantarillado S.A: during the years 2023 and 2022 for an amount of 139 thousand euros (306 thousand euros in 2022). No transactions were carried out with Acueducto y Alcantarillado Metropolitano de Santa Marta, S.A. E.S.P during 2023 and 2022.

Details of the Public Entity's balances with financial institutions at 31 December 2023 in thousands of euros, excluding accrued interest payable, as a result of the loan transactions from the mirror debt are as follows:

FINANCIAL INSTITUTIONS	ORIGINAL SUM	TRANSACTION	EXPIRATION DATE	ANNUAL INTEREST RATE	CURRENT	NON-CURRENT	TOTAL
B.E.I. ⁽¹⁾	100,000	Loan	15-oct-35	Fixed (3.268%)	4,762	52,381	57,143
B.E.I. ⁽²⁾	200,000	Loan	21-feb-36	Fixed (1.342%)	10,000	115,000	125,000
TOTAL					14,762	167,381	182,143

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

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

As of 31 December 2022, the balances were as follows:

FINANCIAL INSTITUTIONS	ORIGINAL SUM	TRANSACTION	EXPIRATION DATE	ANNUAL INTEREST RATE	CURRENT	NON-CURRENT	TOTAL
B.E.I. ⁽¹⁾	100,000	Loan	15-oct-35	Fixed (3.268%)	4,762	57,143	61,905
B.E.I. ⁽²⁾	200,000	Loan	21-feb-36	Fixed (1.342%)	10,000	125,000	135,000
TOTAL					14,762	182,143	196,905

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

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

Interest accrued and not paid as of 31 December 2023 arising from mirror debt is 1,004 thousand euros (1,088 thousand euros in 2022).

Accrued interest payable relating to the mirror debt at 31 December 2017 amounted to 1,689 thousand euros (1,821 thousand euros in 2016). The receivable from the Public Entity mainly reflects the amounts derived from the tax obligations of the Public Entity that were settled by the Parent in accordance with the Contract-Programme.

At 31 December 2022, "other financial assets", "other assets" and "trade and other receivables" include 85,779 thousand euros, 78,558 thousand euros and 42,489 thousand euros, respectively, receivable from shareholders that are town or city councils (69,481 thousand euros, 66,975 thousand euros and 27,293 thousand euros, respectively, in 2022). Dividends payable include 10,766 thousand euros payable to the said shareholders (8,921 thousand euros in 2022).

The transactions carried out by the Group with Canal de Isabel II (Public Entity) at 31 December 2023 for financial expenses arising from mirror debt, operating expenses and other operating income amount to 3,717 thousand euros (4,009 thousand euros in 2022); 4,432 thousand euros (3,289 thousand euros in 2022) and 204 thousand euros (241 thousand euros in 2022), respectively.

In 2023 the Group did not carry out any transactions with GSS; in 2022 the amount was 2,379 thousand euros, mainly for telemarketing activities.

As a result of town councils gaining stakes in its share capital, at 31 December 2023 the Parent has carried out transactions with shareholders, primarily in the form of services and tax settlements totalling 42,969 thousand euros and 18,525 thousand euros, respectively (46,201 thousand euros and 24,699 thousand euros, respectively, in 2022).

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

During 2022, members of the Board of Directors, in accordance with the articles of association of the company, only received expenses for attendance at board meetings for the sum of 127,2 thousand euros, having received no other remuneration for any items (97,8 thousand euros as of 31 December 2022) nor have they received any advances or loans nor do any outstanding balances as of 31 December 2023 and 2022. Neither the members of the board of directors nor senior management personnel have received any advances or loans at 31 December 2017 and 2017, and the Parent has not extended any guarantees on their behalf. The Parent has a civil liability insurance policy

in place for damages caused by acts or omissions while carrying out its functions, with a premium of 1,576 thousand euros. In 2023 and 2022, the Parent has no pension plans or life insurance obligations with former or current members of its board of directors.

Senior management personnel are the members of the Parent Company's Management Committee. In 2023, the Company's senior management received total remuneration of 1,189 thousand euros (1,018 thousand euros in 2022). Neither the members of the board of directors nor senior management personnel have received any advances or loans, and the Parent has not extended any guarantees on their behalf. The provisions allocated for remuneration pending payment of the AVANZA Performance Management System at 31 December 2023 amounted to 197 thousand euros (193 thousand euros at 31 December 2022). With respect to the Senior Management, the Parent Company has obligations contracts in the shape of pensions and life insurance (see note 3(o)). Furthermore, in 2023 they received 12

thousand euros (11 thousand euros in 2022) for the seniority policy.

c) Conflicts of interest concerning the directors of the Parent..

As of 31 December 2023 and 2022, the Directors of the Parent and their related parties have had no conflicts of interest requiring disclosure in accordance with Section 229 of the Consolidated Spanish Companies Act.

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

During 2023 and 2022, the Parent's Directors did not carry out any transactions unrelated to normal business or under different market conditions with the Company or with Group companies.

29. RISK MANAGEMENT AND FAIR VALUE

a) Exchange Rate Risk

The primary objective of the Group's financial risk management policy is to ensure that sufficient funds are available to meet its financial commitments and to protect the value of its cash flows, assets and liabilities. The Group's policy is to hedge against all significant and unacceptable exposure, provided that appropriate instruments exist, and the cost of the hedging operation is reasonable.

Group's activities are exposed to various financial risks: market risk (including exchange rate risk, fair value interest risk and price risk), credit risk, liquidity risk and cash flow interest rate risk. The management programme of the global risk of the Group is based on the uncertainty of financial markets and tries to minimise the potential negative effects on the financial profitability of the Group.

(I) Exchange Rate Risk

The risk arising from exchange rate volatility is not considered to be significant and primarily relates to fluctuations in the Colombian Peso, Dominican Peso and Brazilian Real reflected in the valuation of assets and liabilities located in Colombia, the Dominican Republic and Brazil. This risk is managed using resources denominated in the corresponding foreign currencies.

The Group's exposure to currency risk at 31 December 2023 and 2022 is detailed below. The tables show the carrying amount of the Group's financial assets and liabilities denominated in foreign currency:

In thousands of euros						
	2023					TOTAL
	Colombian pesos	Dominican Pesos	Dollars (Ecuador)	Uruguayan Pesos	Brazilian Reals	
ASSETS						
Equity instruments	-	-	-	-	-	-
Credits to third parties	-	-	-	-	-	-
Other financial assets	-	20	-	-	54	74
TOTAL NON-CURRENT FINANCIAL ASSETS	-	20	-	-	54	74
Trade debtors and other accounts receivable	19,316	6,063	2,043	-	205	27,627
Short-term financial investments	779	26	451	-	18	1,274
TOTAL CURRENT FINANCIAL ASSETS	20,095	6,089	2,494	-	223	28,901
TOTAL FINANCIAL ASSETS	20,095	6,109	2,494	-	277	28,975
LIABILITIES						
Debt with credit institutions	-	-	-	-	-	-
Other financial liabilities	-	45	261	-	28,797	29,103
Financial debts with group companies	-	-	-	-	-	-
TOTAL NON-CURRENT LIABILITIES	-	45	261	-	28,797	29,103
Debt with credit institutions	12	-	83	-	12	107
Other financial liabilities	1,267	1,806	2,738	-	105	5,916
Trade creditors and other accounts payable	8,127	20	890	-	1,268	10,305
TOTAL CURRENT LIABILITIES	9,406	1,826	3,711	-	1,385	16,328
TOTAL FINANCIAL LIABILITIES	9,406	1,871	3,972	-	30,182	45,431
GROSS EXPOSURE OF THE BALANCE	10,689	4,238	(1,478)	-	(29,905)	(16,456)

Thousands of euros

	2022 (*)					
	Colombian pesos	Dominican Pesos	Dollars (Ecuador)	Uruguayan Pesos	Brazilian Reals	TOTAL
ASSETS						
Equity instruments	82	-	-	-	-	82
Credits to third parties	-	-	-	-	-	-
Other financial assets	635	23	-	-	15	673
TOTAL NON-CURRENT FINANCIAL ASSETS	717	23	-	-	15	755
Trade debtors and other accounts receivable	13,193	7,184	2,102	-	501	22,980
Short-term financial investments	-	8	-	-	49	57
TOTAL CURRENT FINANCIAL ASSETS	13,193	7,192	2,102	-	550	23,037
TOTAL FINANCIAL ASSETS	13,910	7,215	2,102	-	565	23,792
LIABILITIES						
Debt with credit institutions	-	-	85	-	-	85
Other financial liabilities	-	35	411	-	24,225	24,671
Financial debts with group companies	-	-	-	-	-	-
TOTAL NON-CURRENT LIABILITIES	-	35	496	-	24,225	24,756
Debt with credit institutions	8	-	546	-	472	1,026
Other financial liabilities	1,171	1,804	2,839	-	2,145	7,959
Trade creditors and other accounts payable	5,151	9	860	-	62	6,082
TOTAL CURRENT LIABILITIES	6,330	1,813	4,245	-	2,679	15,067
TOTAL FINANCIAL LIABILITIES	6,330	1,848	4,741	-	26,904	39,823
GROSS EXPOSURE OF THE BALANCE SHEET	7,580	5,367	(2,639)	-	(26,339)	(16,031)

(*) Restated information.

(II) Credit risk

The Group's exposure to credit risk is mainly affected by the individual characteristics of each customer; however, the Group also considers the demography of the customer base, since this can also affect the credit risk.

The Group establishes a provision for impairment that represents its estimate of losses incurred in relation to trade debtors and other accounts receivable. This provision mainly comprises a specific loss component related to individually significant exposures and a collective loss component for similar groups of assets related to losses incurred but yet to be identified. The provision for collective loss is established according to the historic information of payment statistics for similar financial assets.

The creditworthiness of the trade debtors and other accounts receivable is assessed on the basis of a credit policy established by the management of the Group companies, analysing the customer's credit risk, grouping

together trade debtors and other accounts receivable based on their characteristics.

Based on its analysis of the customer's credit risk, the Group considers that, with the exception of the foregoing, a greater provision for impairment for the other trade debtors other than that indicated in note 16, is not necessary.

The bad debt estimates with regard to trade debtors and other accounts receivable and debt instruments measured at amortised cost, are used to record impairment losses unless the Group is satisfied that the amount owed cannot be recovered; at that point, the amount is considered unrecoverable and it is directly derecognised against the financial asset.

The most significant customer is Madrid City Council, which generates 2.18% of the Group's total revenues (2.36% in 2022).

The following tables show an ageing analysis of financial assets that are past-due but not impaired at 31 December 2023 and 2022:

	2023	2022
0 30 days	430	395
31 60 days	1,861	1,528
61 90 days	5,883	6,984
91 180 days	21,950	25,415
181 360 days	11,865	11,761
More than 361 days	72,594	59,173
TOTAL	114,583	105,256

The Group assesses credit risk, analysing whether there is objective evidence of impairment of a financial asset as a result of one or more events that occurred after the initial recognition of the asset and the event or events have an impact on the estimated future cash flows of the financial asset that can be reliably estimated.

(III) Cash Flows Interest Rate Risk

Interest rate risk constitutes the impact on profit of a rise in interest rates, which increases the cost of borrowings. The Group endeavours to mitigate this risk through drawdowns on fixed-rate loans and the issuance of bonds, which at 31 December 2023 represent 100% of total fixed-rate borrowings; hence there is no interest rate risk (100% in 2022).

(IV) Liquidity risk

The liquidity risk is the risk of the Group having trouble fulfilling its obligations related to its financial liabilities, suppliers and creditors, which are paid in cash or other financial assets. The Group's policy for managing liquidity is to ensure, insofar as possible, that it always has sufficient liquidity to fulfil its obligations when due, both under normal and difficult conditions, without incurring unacceptable losses or risking the Group's reputation.

The Group also analyses incoming cash expected through trade debtors and other receivables together with outgoings expected through trade creditors and other payables.

The Group's exposure to liquidity risk at 31 December 2023 and 2022 is shown below. These tables reflect the analysis of financial liabilities by remaining contractual maturity dates:

In thousands of euros						
2023						
	2024	2025	2026	2027	2028	SUBSEQUENT YEARS
Debentures and other marketable securities	7,111	499,765	-	-	-	-
Debt with credit institutions	107	-	-	-	-	-
Other financial liabilities	128,152	40,509	10,151	8,542	8,410	54,991
Debt with group companies and associates	20,482	14,762	14,762	14,762	14,762	108,333
TOTAL	155,852	555,036	24,913	23,304	23,172	163,324

In thousands of euros						
2022 (*)						
	2023	2024	2025	2026	2027	SUBSEQUENT YEARS
Debentures and other marketable securities	7,111	-	499,562	-	-	-
Debt with credit institutions	1,027	85	-	-	-	-
Other financial liabilities	63,336	28,230	9,186	7,585	7,532	66,057
Debt with group companies and associates	20,350	14,762	14,762	14,762	14,762	123,095
TOTAL	91,824	43,077	523,510	22,347	22,294	189,152

(*) Restated information.

Additionally, at 31 December 2023 the Parent Company has credit facilities with an outstanding amount of 102,000 thousand euros (104,000 thousand euros in 2022).

The changes in liabilities arising from financing activities at 31 December were as follows:

In thousands of euros						
	Balance as of 01/01/2023	Cash flows	Change in fair values	Translation differences	Other	Balance as of 31/12/2023
Financial liabilities with credit entities	1,112	(1,104)	77	6	16	107
Lease liabilities	19,844	(5,009)	401	12	3,206	18,454
Debts with Group companies	202,468	(14,762)	3,717	-	(3,560)	187,863
Financial liabilities from issuing debentures	506,673	(8,400)	8,603	-	-	506,876
Other financial liabilities	118,365	(15,323)	1,331	1,069	14,492	119,934
Dividends payable	8,921	(80,992)	-	(2)	82,920	10,847
TOTAL FINANCING ACTIVITIES LIABILITIES	857,383	(125,590)	14,129	1,085	97,074	844,081

In thousands of euros						
	Balance at 01 January 2022 (*)	Cash flows	Change in fair values	Translation differences	Other	Balance at 31 December 2022 (*)
Financial liabilities with credit entities	1,911	(1,170)	111	173	87	1,112
Lease liabilities	23,694	(6,025)	14	10	2,151	19,844
Debts with Group companies	218,223	(14,787)	4,009	-	(4,977)	202,468
Financial liabilities from issuing debentures	506,471	(8,400)	8,603	-	(1)	506,673
Other financial liabilities	104,205	(12,585)	1,052	1,898	23,795	118,365
Dividends payable	12,820	(76,674)	-	-	72,775	8,921
TOTAL FINANCING ACTIVITIES LIABILITIES	867,324	(119,641)	13,789	2,081	93,830	857,383

(*) Restated information.

b) Financial instruments and fair value

The carrying amounts of financial instruments, classified by category, are shown below. The Group has no

financial instruments carried at fair value at 31 December 2023 and 2022 and estimates the fair value of its financial instruments carried at cost or amortised cost to be similar to their carrying amount.

In thousands of euros			
2023			
	LOANS AND RECEIVABLES	DEBITS AND PAYABLES	TOTAL
FINANCIAL ASSETS NOT VALUED AT FAIR VALUE			
Loans to group companies	2,441	-	2,441
Equity Instruments	65,524	-	65,524
Credits to third parties	101,236	-	101,236
Deposits and guarantees	29,342	-	29,342
Trade and Service Provision Customers	159,931	-	159,931
Other accounts receivable	40,402	-	40,402
FINANCIAL LIABILITIES NOT VALUED AT FAIR VALUE			
Debt with group and associated companies	-	187,863	187,863
Debt with credit institutions	-	107	107
Other financial liabilities	-	149,235	149,235
GOVERNMENT GRANTS	-	760,578	760,578
Suppliers	-	15,988	15,988
Suppliers, group and associated companies	-	4,517	4,517
Sundry creditors	-	228,817	228,817
Other accounts payable	-	2,664	2,664
Personnel	-	18,739	18,739
TOTAL	398,876	1,368,509	1,767,385

In thousands of euros			
2022 (*)			
	LOANS AND RECEIVABLES	DEBITS AND PAYABLES	TOTAL
FINANCIAL ASSETS NOT VALUED AT FAIR VALUE			
Loans to group companies	3,086	-	3,086
Equity Instruments	65,606	-	65,606
Credits to third parties	427,588	-	427,588
Deposits and guarantees	5,310	-	5,310
Trade and Service Provision Customers	157,337	-	157,337
Other accounts receivable	42,979	-	42,979
FINANCIAL LIABILITIES NOT VALUED AT FAIR VALUE			
Debt with group and associated companies	-	202,467	202,467
Debt with credit institutions	-	1,112	1,112
Other financial liabilities	-	147,129	147,129
GOVERNMENT GRANTS	-	766,282	766,282
Suppliers	-	14,302	14,302
Suppliers, group and associated companies	-	5,160	5,160
Sundry creditors	-	170,576	170,576
Other accounts payable	-	98	98
Personnel	-	16,353	16,353
TOTAL	701,906	1,323,479	2,025,385

(*) Restated information.

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

Details of losses and gains on financial assets are as follows:

In thousands of euros		
	LOANS AND RECEIVABLES	
	2023	2022
Finance income applying the amortised cost method	3,019	814
Operating expenses applying the amortised cost method	(14,785)	(5,188)
Finance income applying the amortised cost method – Alcalá joint venture	37	42
Finance income applying the amortised cost method Other credits	5	6
NET EARNINGS/(LOSSES) ON THE PROFIT AND LOSS ACCOUNT	(11,724)	(4,326)

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

Details of losses and gains on financial liabilities are as follows:

	In thousands of euros	
	DEBITS AND PAYABLES	
	2023	2022 (*)
Financial expenditure applying the amortised cost method	(2,369)	(2,173)
Interests corresponding to obligations and bonds	(8,603)	(8,603)
Interest from borrowings from group companies	(3,717)	(4,009)
Interest from borrowings from third parties	(1,540)	(463)
NET EARNINGS/(LOSSES) ON THE PROFIT AND LOSS ACCOUNT	(16,229)	(15, 248)

(*) Restated information.

Finance costs 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.

30. INFORMATION ON EMPLOYEES

The average number of employees, broken down by categories, is as follows:

	2023	2022
Management	26	27
Technical personnel	1,517	1,527
Administrative	1,730	1,686
Workers and auxiliary personnel	236	256
TOTAL	3,509	3,496
Partially retired	104	84

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

	2023	2022
Management	3	8
Technical personnel	13	22
Administrative	10	34
Workers and auxiliary personnel	96	160
TOTAL	122	224

At the 2023 and 2022 reporting date, the distribution by gender of the Group's personnel, members of the board of directors and senior management personnel of the Parent, is as follows:

	2023		2022	
	WOMEN	MEN	WOMEN	MEN
Members of the board of directors	4	10	5	10
Management	10	13	11	14
Technical personnel	568	952	545	948
Administrative	531	1,236	489	1,173
Workers and auxiliary personnel	19	214	20	224
TOTAL	1,132	2,425	1,070	2,369
Partially retired	18	100	18	82

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

	2023		2022	
	WOMEN	MEN	WOMEN	MEN
Members of the board of directors	-	-	-	-
Management	-	-	1	7
Technical personnel	9	1	15	4
Administrative	-	-	16	13
Workers and auxiliary personnel	63	13	95	32
TOTAL	72	14	127	56

The average number of employees of the Cooperative during the financial year 2023 and 2022, broken down by category, is as follows:

	In thousands of euros	
	2023	2022
Technical personnel	10	12
Administrative	63	41
Workers and auxiliary personnel	16	24
TOTAL	89	77

31. AUDIT FEES

The auditors of the consolidated financial statements of the Group, ERNST & YOUNG, S.L., have invoiced the following fees for professional services during the periods ended 31 December 2023:

	In thousands of euros	
	2023	2022
For auditing services	380	314
Other audit-related services	75	87
TOTAL	455	401

The item "Other services" for the financial year 2023 includes the Review of the information of the financial information internal control system (FIICS) for 15 thousand euros, the limited Review of the UTE Aguas de Alcalá for 10 thousand euros, the Review of the non-financial information of the Annual Report for 8 thousand euros and the "Ecoembes" agreed procedures report for 5 thousand euros and other reports of the company Canal Gestión Lanzarote, for 10 thousand euros.

Other ERNST & YOUNG, S.L. International affiliates have invoiced the Group for the following fees and expenses for professional services during the year ending 31 December 2023:

	In thousands of euros	
	2023	2022
For auditing services	269	77
TOTAL	269	77

The professional fees for the financial year 2022 were accrued by Auren Auditores SP, S.L.P.

The amounts detailed in the above tables include the total fees for services rendered in 2023 and 2022, irrespective of the date of invoice.

32. EVENTS AFTER YEAR-END

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

The Board of Directors of the Parent Company approved, at its meeting held on 25 January 2024, the disposal of the offices, commercial premises, storage rooms and parking spaces owned by the Parent Company, located in the building at Calle José Abascal, 57, City of Madrid, by means of a public auction procedure, respecting the principles of publicity and competition and following an expert appraisal, as established in article 50.4 of Law 3/2001, of 21 June, on the Assets of the Region of Madrid.

On 29 February 2024, the Extraordinary General Meeting of the Parent Company was held, at which resolutions were adopted on the composition of the Board of Directors.

On 08 March 2024, the Public Entity Canal de Isabel II transferred to Brunete City Council the shares corresponding to 0.02998 percent of the Parent Company's share capital, under the Agreement of 16 February 2024, relating to the incorporation of Brunete City Council into the management model of Canal de Isabel II, signed between the Region of Madrid, Canal de Isabel II and Brunete City Council.

(See Note 23 (g)).

b) Lawsuits

(I) Canal Extensia América, S.A.

Civil action by Aguas de Manizales:

On 9 January 2024, the Conciliation and Arbitration Centre of the Bogotá Chamber of Commerce convened the Arbitration Tribunal. The first meeting was held on 17 January 2024 and the Arbitration Tribunal was constituted on 8 February 2024.

(II) Amerika Software

Criminal complaint for fraudulent use of intellectual property by Triple A de Barranquilla:

The process is awaiting analysis by Prosecutor's Office No. 32 of the information provided by the investigator at the end of 2023, and a further meeting with the Prosecutor has been arranged for February 2024.

Civil case for copyright infringement against Triple A de Barranquilla:

On 15 January 2024, an appeal was lodged with the High Court of Bogotá against the preliminary ruling of first instance that denied the claims in the lawsuit.

(III) International arbitration

With the appointment of the President, negotiations began between the parties and ICSID to set dates for the first hearing of the proceedings. The first of the agreed dates is 19 February 2024.

(IV) AAA Dominicana, S.A.

Employment lawsuits filed by the former Manager and by the former Assistant Manager:

Several hearings were held during 2023, and it is expected that all the evidence will be examined in the first half of 2024.

(V) Avanzadas soluciones de Acueducto y Alcantarillado, S.A. (ASAA)

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

The appeal is pending before the Council of State in Bogotá, with a decision expected in June 2024.

Annexes

2023

ANNEX I (1)
SEGMENT REPORTING 2023

(In thousand euros)

	SEGMENTS		TOTAL
	NATIONAL	INTERNATIONAL	
ORDINARY INCOME	916,933	28,587	945,520
- Services to external clients	916,933	28,466	945,399
- Inter-segment services	-	121	121
PRE-TAX PROFITS OF SEGMENTS	147,262	(12,242)	135,020
FINANCE INCOME	22,716	1,331	24,047
FINANCE EXPENSES	(25,573)	(3,057)	(28,630)
AMORTISATION AND DEPRECIATION	132,324	1,765	134,089
SHARE OF PROFITS FOR THE FINANCIAL YEAR OF ASSOCIATED COMPANIES ENTERED USING PARTICIPATION METHOD	(136)	(2)	(138)
LOSSES, IMPAIRMENT AND VARIATION IN PROVISIONS	15,642	(31)	15,611
- Losses / (Reversals of losses) for impairment of assets	12,955	(31)	12,924
- Losses / (Reversals of losses) for impairment of investments	2,687	-	2,687
TAX ON PROFITS EXPENSE	(2,755)	(1,070)	(3,825)
SEGMENT ASSETS	5,103,890	(10,898)	5,092,992
SEGMENT LIABILITIES	2,251,968	78,871	2,330,839
NET CASH FLOWS RELATED TO	214,909	6,699	221,608
- Operating activities	104,419	3,255	107,674
- Investment	189,033	5,893	194,926
- Financing	(78,543)	(2,449)	(80,992)
ACQUISITION OF NON-CURRENT ASSETS DURING THE FINANCIAL YEAR	179,000	1,933	180,933

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

ANNEX I (2)
SEGMENT REPORTING 2022 (*)

(In thousand euros)

	SEGMENTS		TOTAL
	NATIONAL	INTERNATIONAL	
ORDINARY INCOME	919,613	28,114	947,727
- Services to external clients	919,367	27,841	947,208
- Inter-segment services	246	273	519
PRE-TAX PROFITS OF SEGMENTS	115,250	7,916	123,166
FINANCE INCOME	6,965	11,495	18,460
FINANCE EXPENSES	(24,122)	(2,121)	(26,243)
AMORTISATION AND DEPRECIATION	130,274	1,557	131,831
SHARE OF PROFITS FOR THE FINANCIAL YEAR OF ASSOCIATED COMPANIES ENTERED USING PARTICIPATION METHOD	(36)	(1)	(37)
LOSSES, IMPAIRMENT AND VARIATION IN PROVISIONS	1,777	37	1,814
- Losses / (Reversals of losses) for impairment of assets	2,067	37	2,104
- Losses / (Reversals of losses) for impairment of investments	(290)	-	(290)
TAX ON PROFITS EXPENSE	(587)	(2,355)	(2,942)
SEGMENT ASSETS	5,107,962	(2,631)	5,105,331
SEGMENT LIABILITIES	2,316,187	69,660	2,385,847
NET CASH FLOWS RELATED TO	(288,443)	(8,818)	(297,261)
- Operating activities	209,207	6,396	215,603
- Investment	(427,298)	(13,063)	(440,361)
- Financing	(70,352)	(2,151)	(72,503)
ACQUISITION OF NON-CURRENT ASSETS DURING THE FINANCIAL YEAR	99,879	1,745	101,624

(*) Restated information.

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

ANNEX (1) DETAILS OF SUBSIDIARIES AT 31 DECEMBER 2023

COMPANY	REGISTERED ADDRESS	ACTIVITY	AUDITOR	DIRECT	INDIRECT	TOTAL
Canal Extensia, S.A.U.	Santa Engracia 125 - Madrid	Holding company	EY	100.00%	-	100.00%
Canal Gestión Lanzarote, S.A.U.	Ctra. Arrecife-Las Caletas Km.3,5 - Lanzarote	Integral water cycle management	EY	100.00%	-	100.00%
Canal Extensia América, S.A. (formerly INASSA)	Barranquilla (Colombia)	Integral water cycle operator	EY	-	81.84%	81.84%
Gestus Gestión & Servicios S.A.S.	Barranquilla (Colombia)	Comprehensive consultancy service provision for tax collection management	EY	-	77.03%	77.03%
AAA Dominicana, S.A.	Santo Domingo (Dominican Republic)	Integral water cycle	EY	-	53.20%	53.20%
AAA Ecuador Agacase, S.A.	Ecuador	Public resources management	EY	-	82.02%	82.02%
Amagua, CEM	Ecuador	Integral water cycle	EY	-	57.41%	57.41%
Amerika Tecnología y Servicios, S.A.S.	Barranquilla (Colombia)	Design, maintenance, development, support and management of information technology projects	EY	-	81.84%	81.84%
Soluciones Andinas de Aguas, S.R.L.	Montevideo (Uruguay)	Investment and asset holding	EY	-	90.92%	90.92%
Interamericanas de Aguas de México, S.A.	Mexico	Integral water cycle	-	-	81.05%	81.05%
Mexaqua, S.A.	Mexico	Integral water cycle	-	-	56.73%	56.73%
Emissão, S.A.	Brazil	Maintenance, operation, distribution and sanitation of water	EY	-	68.19%	68.19%
Fontes da Serra Saneamiento de Guapimirim Ltda.	Brazil	Integral water cycle	EY	-	66.83%	66.83%

EY: ERNST & YOUNG, S.L.

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

ANNEX (2) DETAILS OF SUBSIDIARIES AT 31 DECEMBER 2022

COMPANY	REGISTERED ADDRESS	ACTIVITY	AUDITOR	DIRECT	INDIRECT	TOTAL
Canal Extensia, S.A.U.	Santa Engracia 125 - Madrid	Holding company	AUREN	100.00%	-	100.00%
Canal Gestión Lanzarote, S.A.U.	Ctra. Arrecife-Las Caletas Km.3,5 - Lanzarote	Integral water cycle management	AUREN	100.00%	-	100.00%
Canal Extensia América, S.A. (formerly INASSA)	Barranquilla (Colombia)	Integral water cycle operator	AUREN	-	81.84%	81.84%
Gestus Gestión & Servicios S.A.S.	Barranquilla (Colombia)	Comprehensive consultancy service provision for tax collection management	AUREN	-	77.03%	77.03%
AAA Dominicana, S.A.	Santo Domingo (Dominican Republic)	Integral water cycle	AUREN	-	53.20%	53.20%
AAA Ecuador Agacase, S.A.	Ecuador	Public resources management	AUREN	-	82.02%	82.02%
Amagua, CEM	Ecuador	Integral water cycle	AUREN	-	57.41%	57.41%
Amerika Tecnología y Servicios, S.A.S.	Barranquilla (Colombia)	Design, maintenance, development, support and management of information technology projects	AUREN	-	81.84%	81.84%
Soluciones Andinas de Aguas, S.R.L.	Montevideo (Uruguay)	Investment and asset holding	AUREN	-	90.92%	90.92%
Interamericanas de Aguas de México, S.A.	Mexico	Integral water cycle	-	-	81.05%	81.05%
Mexaqua, S.A.	Mexico	Integral water cycle	-	-	56.73%	56.73%
Emissão, S.A.	Brazil	Maintenance, operation, distribution and sanitation of water	AUREN	-	68.19%	68.19%
Fontes da Serra Saneamiento de Guapimirim Ltda.	Brazil	Integral water cycle	AUREN	-	66.83%	66.83%

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

ANNEX III (1) DETAILS OF EQUITY-ACCOUNTED INVESTMENTS AT 31 DECEMBER 2023

Company	Registered Address	Activity	Auditor	% OF OWNERSHIP INTEREST			IN THOUSANDS OF EUROS					
				Direct	Indirect	Total	Share capital	Reserves	Other Equity items	Profit (Loss)	Total equity	Total Equity
GSS Venture, S.L.	c/ Guzmán el Bueno, 133 (Madrid)	Communication and telemarketing services	EY	25.00%	-	25.00%	60	2,106	(355)	(544)	1,267	1,267
Metroagua S.A., E.S.P. ⁽¹⁾	Santa Marta (Colombia)	Integral water cycle operator	-	-	29.35%	29.35%	-	-	-	-	-	-
Avanzadas Soluciones de Acueducto y Alcantarillado, S.A. E.S.P.	Riohacha (Colombia)	Integral water cycle operator	EY	-	32.74%	32.74%	474	600	(1,223)	(236)	(385)	(385)

ANNEX III (2) DETAILS OF EQUITY-ACCOUNTED INVESTMENTS AT 31 DECEMBER 2022

Company	Registered Address	Activity	Auditor	% OF OWNERSHIP INTEREST			IN THOUSANDS OF EUROS					
				Direct	Indirect	Total	Share capital	Reserves	Other Equity items	Profit (Loss)	Total equity	Total Equity
GSS Venture, S.L.	c/ Guzmán el Bueno, 133 (Madrid)	Communication and telemarketing services	EY	25.00%	-	25.00%	60	2,126	(281)	(144)	1,761	1,761
Metroagua S.A., E.S.P. ⁽¹⁾	Santa Marta (Colombia)	Integral water cycle operator	-	-	29.35%	29.35%	-	-	-	-	-	-
Avanzadas Soluciones de Acueducto y Alcantarillado, S.A. E.S.P.	Riohacha (Colombia)	Integral water cycle operator	AUREN	-	32.74%	32.74%	390	494	(1,104)	97	(123)	(123)

This Appendix forms an integral part of note 12 of the report on the Consolidated Financial Statements, in conjunction with which it should be read.

Figures converted exchange rate at closure, and presented under IFRS.

⁽¹⁾ Information not available. Company in liquidation.

EY: ERNST & YOUNG, S.L

ANNEX IV (1) DETAILS OF JOINT OPERATIONS AT 31 DECEMBER 2023

JOINTLY CONTROLLED OPERATIONS			% OF OWNERSHIP INTEREST			IN THOUSANDS OF EUROS	
NAME	CORPORATE	ACTIVITY	TYPE	DIRECT	INDIRECT	TOTAL	ORDINARY INCOME
UTE Aguas de Alcalá	C/ Federico Salmón, 13 - Madrid	Management of water supply and sanitation to the city of Alcalá de Henares		50.00%	-	50.00%	14,916
Unión Temporal de Sociedades A.A. Santa Marta ⁽¹⁾	Santa Marta (Colombia)	Water cycle consulting		-	44.77%	44.77%	-

ANNEX IV (2) DETAILS OF JOINT OPERATIONS AT 31 DECEMBER 2022

JOINTLY CONTROLLED OPERATIONS			% OF OWNERSHIP INTEREST			IN THOUSANDS OF EUROS	
NAME	CORPORATE	ACTIVITY	TYPE	DIRECT	INDIRECT	TOTAL	ORDINARY INCOME
UTE Aguas de Alcalá	C/ Federico Salmón, 13 - Madrid	Management of water supply and sanitation to the city of Alcalá de Henares		50.00%	-	50.00%	14,723
Unión Temporal de Sociedades A.A. Santa Marta ⁽¹⁾	Santa Marta (Colombia)	Water cycle consulting		-	44.77%	44.77%	-

Figures converted exchange rate at closure, and presented under IFRS.

⁽¹⁾ Information not available. Metroagua in liquidation.

Consolidated Directors' Report
for the Financial Year

2023

STATEMENT OF NON-FINANCIAL INFORMATION

Sustainability Report for 2023 of Canal de Isabel II, S.A., M.P.

Document drafted by the Board of Directors, in accordance with **Law 11/2018**, of 28 December, amending the Commercial Code, the Revised Text of the Spanish Companies Act approved by Royal Legislative Decree 1/2010, of 2 July, and Law 22/2015, of 2 July, and Law 22/2015, of 2 July, on Account Auditing, **on matters relating to non-financial information and diversity**, which form part of the **consolidated management report** for the financial year between 1 January and 31 January December 2023.

OUR MISSION

WE LOOK AFTER OUR COMMUNITY BY MANAGING THE WATER OF EVERYONE WITH TRANSPARENCY, EFFICIENCY AND SUSTAINABILITY.

GRI 2-23

OUR COMMITMENTS

1. To be the public company of reference and the economic and development engine of the Region of Madrid.
2. To work to manage the entire water cycle throughout the Madrid region.
3. To lead the sector's challenges and regulatory developments.
4. To maintain, innovate and plan our infrastructures and services, adapting them to the future needs of society.
5. To minimise the environmental impact in all our processes, favouring the circular economy, the efficient use of resources and energy and promoting renewable generation.
6. To increase the satisfaction of our customers and users, ensuring a level of excellence in the quantity, quality and continuity of service (C3).
7. To ensure progressive, affordable and solidarity-based tariffs that encourage savings in consumption and guarantee access for all to an essential good.
8. To strengthen digital transformation for closer and more efficient management.
9. To carry out rigorous and transparent financial management, ensuring the appropriate economic balance, financial autonomy and sustainability of the company.
10. To support our professionals by attracting, retaining and nurturing talent.

OUR VALUES

COMMITMENT

CLOSENESS

TRANSPARENCY

EXCELLENCE

SUSTAINABILITY

Canal de Isabel II in 2023

- 27 January** The municipality of **Alcorcón joins the SANEA Plan** to renovate 12.8 kilometres of its sewerage network. With this incorporation, 34 municipalities have now joined the plan.
- 16 February** The municipality of **Moralzarzal joins the shareholding of Canal**. This is the first incorporation since the company was created in 2012. In the course of the year, **Villaconejos** (June) and **Brunete** (at the beginning of 2024) will also be joining, bringing the total number of shareholder municipalities to 114.
- 17 February** **We have started to provide the remote meter reading service** to the first 50,000 supply points that can consult their consumption on a daily and hourly basis in Canal's Virtual Office. By the end of 2023, the number of customers with this service exceeds 360,000 and the goal is to reach 1.65 million meters by 2026.
- 23 February** The **Forum on Sustainable Water and Energy Solutions** was held at the Canal Foundation **in support of the circular economy**, organised by Canal and the United Nations Sustainable Water and Energy Solutions Network (**UNDESA**).
- 19 March** **40th edition of the Water Race** with almost **2,500 participants**. The race is held to commemorate World Water Day and the route limits the use of plastic containers and the refreshments are made with tap water from Madrid.
- 21 May** **We reopened the Tercer Depósito Park** at Avenida de Filipinas in Madrid. The park has over 1,000 new trees, 55,000 square metres of green areas and spaces designed for entertainment. The remodelling has taken into account the contributions made by the residents of the Chamberí neighbourhood and includes 40% more wooded areas.
- 22 May** The Governing Council of the Region of Madrid validates the 7.3 million euros award of the contract for the construction of the **first green hydrogen plant produced from reclaimed water** in Spain, located at the Arroyo Culebro Cuenca Media Alta WWTP (Pinto), which will come into service in 2025. This project will be financed by the European Regional Development Fund (ERDF) of the European Union.
- 29 May** We started to provide the **preferential service, without prior appointment**, aimed at those **people over 65 years of age or people with disabilities** who need to carry out formalities at our customer service office.
- 1 June** We held our **Ordinary General Meeting of Shareholders 2023**, where the financial statements, the statement of non-financial information, the management of the company's directors and the distribution of dividends were approved, among other resolutions.

- 1 June** Our board of directors awards for 27.7 million the **contract for the construction of 8 new photovoltaic plants** with a peak power of 13,686 kilowatts included in our **Solar Plan**. The investment will be co-financed by the European Regional Development Fund (ERDF) of the European Union.
- 24-25 June** **Canal Open Days** (24 and 25 June): almost 500 citizens were able to learn about the operation of some infrastructures such as the El Atazar dam, the Buried Tank in calle Santa Engracia, the Arroyofresno storm tank and the Loeches sludge treatment plant.
- 8 July** We signed an **agreement with the Complutense and Politécnica universities of Madrid** to collaborate for 4 years in the characterisation of the waters and the control of algae blooms in the reserves of the Region of Madrid.
- 17 July** We announced that during the first semester of 2023 **we received more than 800 representatives from some thirty national and foreign institutions** in 55 visits to see *in situ* how the urban water cycle is managed in the Region of Madrid.
- 20 July** Our Board of Directors authorises the **free transfer of two emergency portable water treatment plants** to the **association United for Ukraine**. The plants, with the capacity to produce 30,000 litres of drinking water per hour, will alleviate the water shortages of thousands of Ukrainians affected by the destruction of the Kakhovka dam in the south of the country.
- 10 August** The **results of our customer satisfaction surveys** indicate that at the end of the first half of 2023, we obtained a high score, **remarkable**, with an overall satisfaction of **8.68** points out of 10.

- 21 August** We presented our research on the improvement and monitoring of water quality using mathematical and 3D modelling at the **fortieth world congress of the International Association for Hydro-Environmental Engineering and Research (IAHR)**, held in Vienna.
- 2-4 September** We collaborate with the Town Councils of **Aldea del Fresno, Villa del Prado, Villamanta and Villamantilla**, among others, to **mitigate the effects of torrential rains** associated with an **Isolated High Level Depression (DANA)** that affected the southwest of the Region of Madrid. We supply water by means of tanker trucks, provide drinking water jugs and assist local councils with repairs to their water supply networks.
- 7 September** Mr **Carlos Novillo Piris**, Regional Minister for the Environment, Agriculture and the Interior of the Region of Madrid, is **appointed as the new Chair** of the Board of Directors of Canal.
- 13 September** We participated in **Efficient 2023**, the biennial event of the International Water Association, held in the French city of Bordeaux, about **good efficiency practices** in the management of the urban water cycle.
- 26 September** Within the framework of our **Solar Plan**, we completed the construction of our **first floating solar photovoltaic plant** in Torrelaguna. The installation has a total of 3,770 photovoltaic modules on a surface area of 11,680 square metres, has involved an **investment of 2.1 million euros** financed with European REACT-EU funds.
- 4 October** We held the second monitoring meeting of the **LIFE Rubies project** to develop and implement in the cities of Lille (France) and Madrid, a tool to assist in the operation of their urban drainage and wastewater treatment systems based on a Predictive Control Model.
- 9 October** We announced our collaboration in the **SeMAR project**, coordinated by the Department of Infectious Diseases of the **University of Gothenburg** (Sweden), to measure the antibiotic resistance rate of bacteria in wastewater.
- 23 October** Our **Meter Laboratory** has extended for a further four years the collaboration agreement we have had since 2019 with the **Spanish Metrology Centre (CEM)** to improve and develop metrological activity in the field of water meters and flowmeters.
- 2 November** The newspaper **LA RAZÓN** awards us the "**Award for the Sustainable, Intelligent and Efficient Management of the Most Important Resource for the Lives of the People of Madrid, water**", as part of the third edition of its Sustainability and Environment Awards.

- 17 November** The Resolution of the first call for subsidies on a competitive basis for projects to improve the efficiency of the water cycle is published (**PERTE digitalisation of the water cycle**), which includes our **Demonstrative project for the digitalisation of the integral urban water cycle in the Alberche basin**, for 14 municipalities and 36,622 inhabitants. The PERTE funding is 3.5 million out of the planned investment of 5 million.
- 27 November** The President of the Region of Madrid announced that **Canal had challenged before the Supreme Court the new Hydrological Plan of the Tagus Basin** on issues related, among others, to the prior administrative authorisations for transfers between reservoirs in the basin, to the regime of ecological flows and to some aspects related to wastewater discharges.
- 21 December** Our Board of Directors approved, among other relevant matters, the distribution of an **interim dividend of 70.43 million euros** for the financial year 2023; the commencement of the **modification of the current tariff structure** towards a **more progressive model that promotes efficiency and water saving**; and the awarding of the contract for the **first phase of the works for the new Colmenar Viejo DWTP**, which, with a awarding amount of close to 150 million euros, is one of the largest contracts awarded by our company in recent years.

1. Our Company

[GRI 2-1] [GRI 2-6]

Canal de Isabel II, Sociedad Anónima, M.P. is a 100% public company in which the Regional Government of Madrid, through the Public Entity Canal de Isabel II, and one hundred and fourteen municipal authorities of Madrid are currently shareholders. The company started its activities on 1 July 2012, assuming a large part of the competences and activities of the Public Entity Canal de Isabel II which, created in 1851, has been the public company of the Regional Government of Madrid responsible for the management of the integral water cycle in the region.

Canal de Isabel II, Sociedad Anónima, M.P. (hereinafter "Canal de Isabel II" or "Canal") is responsible for the management of the integral water cycle in practically the entire region of Madrid; that is, of all the processes aimed at an adequate administration of water resources and the conservation of the environment. These processes, which are the **catchment, treatment** and monitoring of **water quality, transport** and **distribution**, the **sanitation** and **treatment** of wastewater, and the **regeneration** of wastewater for subsequent reuse, are necessary for the development and maintenance of the quality of life of citizens.

Canal de Isabel II has accumulated more than 170 years of management experience which enables us to add value through other activities related to the water sector and in geographical areas other than the Region of Madrid. Since the 1960s, Canal de Isabel II has been integrating various investees that, together with our parent company, currently constitute the **Canal de Isabel II Business Group** (hereinafter, "Canal Group").

In 2023, the **Canal Group** supplied water to a total of **7.46 million people** (7.16 in Spain and 0.30 in Ibero-America), and employed 3,746 workers, in addition to generating close to 5,500 indirect jobs. We also supplied 568.53 million cubic metres of water in 2023 (545.05 in Spain and 23.48 in Ibero-America) and managed 40,269 kilometres of supply, sewerage and reclaimed water networks. At year-end, we had 1.83 million supply contracts (83% of which were domestic) in almost two hundred municipalities (198), with a degree of supply coverage of 99.37%.

Empresas del Grupo Canal

a 31 de diciembre de 2023
(no incluye sociedades tenedoras de acciones).



Further details on the companies and key figures of our corporate group at year-end 2023 can be found in section 3 of this report: "The Canal Group".

1.1. Key figures in the Region of Madrid 2023

6.63 million inhabitants served with water supply
(106,758 inhabitants more than in 2022).

6.85 million inhabitants served with sanitation
(109,467 inhabitants more than in 2022).

489.68 hm³ derived for consumption
(3.82 less than in 2022).

492.19 hm³ purified at WWTPs
(10.75 hm³ more than in 2022).

15.63 hm³ of reclaimed water for reuse
(1.42 hm³ less than in 2022).

91.53 hm³ of reclaimed water discharged into watercourses
(19.21 % of total discharges into watercourses in 2023).

17,946 kilometres of supply networks
(132 more than in 2022).

226.06 GWh of electricity generated
(49.19 GWh less than in 2022).

881.47 million euros in Turnover
(4.66 million less than in 2022).

348.81 million euros in investments
(164.24 million more than in 2022).

3,190 employees on the payroll (138 more employees than in 2022).

1.2. Technical information at year-end 2023

Supply	
Number of Canal-owned reservoirs	13
Capacity of the Canal reservoirs (hm ³)	943.51
Water extracted for consumption in reservoirs and abstractions (hm ³)	489.79
Number of catchment wells in operational status	78
Kilometres of network (adduction and distribution)	17,946
Number of drinking water treatment plants	14
Treatment capacity (hm ³ daily)	4.55
Number of large regulating tanks	34
Storage capacity of large tanks (hm ³)	3.3
Number of smaller tanks	290
Number of large lifting plants	22

Sanitation	
Kilometres of municipal sewerage networks managed	15,171
Kilometres of network of large sewers and outfalls	875
Number of rolling mills and storm tanks managed	73
Capacity of managed storm tanks (hm ³)	1.42
Number of wastewater pumping stations (WWPSs) managed	194
Number of wastewater treatment plants (WWTPs) managed	155
Nominal treatment capacity (million population equivalent)	16.25
Water treated at WWTPs (hm ³)	492.19

Reuse

Number of existing reuse plants	33
Kilometres of reclaimed water network	744
Reclaimed water tanks in service	64
Volume of reclaimed water produced for reuse (hm ³ annually)	15.63
Municipalities with reuse services with Canal	26
Golf courses with agreements or reuse contracts with Canal	11
Companies and organisations with a reuse service	15
Volume of reclaimed water discharged to watercourse (hm ³ annually)	91.53

Clients and population supplied in the Region of Madrid

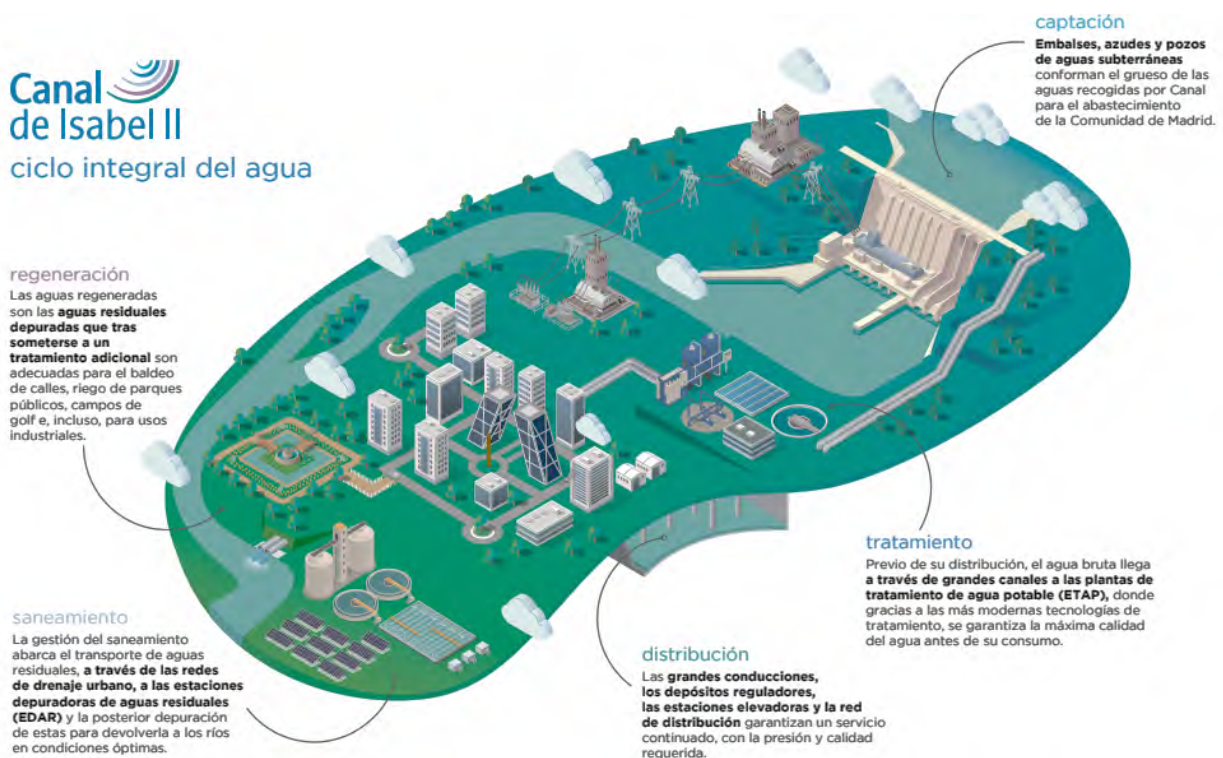
Number of contracts (millions)	1.59
Population supplied (millions of inhabitants)	6.63
Supply coverage (percentage of inhabitants)	96.70 %
Municipalities supplied by Canal de Isabel II	174
Population supplied in sewerage management (millions of inhabitants)	5.87
Sewerage management coverage (percentage of inhabitants)	85.50%
Municipalities managed in sewerage	137
Population supplied in wastewater treatment (millions of inhabitants)	6.85
Wastewater treatment coverage (percentage of inhabitants)	99.87 %
Municipalities managed in purification	178

1.3. Our activity

[GRI 2-6] [GRI 303-1]

The main activity of Canal de Isabel II is the management of the integral water cycle in the Region of Madrid.

The cycle consists of **two main phases, supply and sanitation**, which correspond to the actions necessary to bring drinking water to consumers, and to the collection and treatment of wastewater. A third phase can be added to this cycle, which is the **reuse** of this wastewater after appropriate treatment to guarantee its sanitary characteristics, and which can be used to irrigate gardens, clean streets, water sports areas and even for industrial use. Canal currently manages all the above phases and stages.



All the information on the integral cycle is available on our website:
<https://www.canaldeisabelsegunda.es/ciclo-del-agua>

SUPPLY: ADDUCTION (CATCHMENT AND TREATMENT)

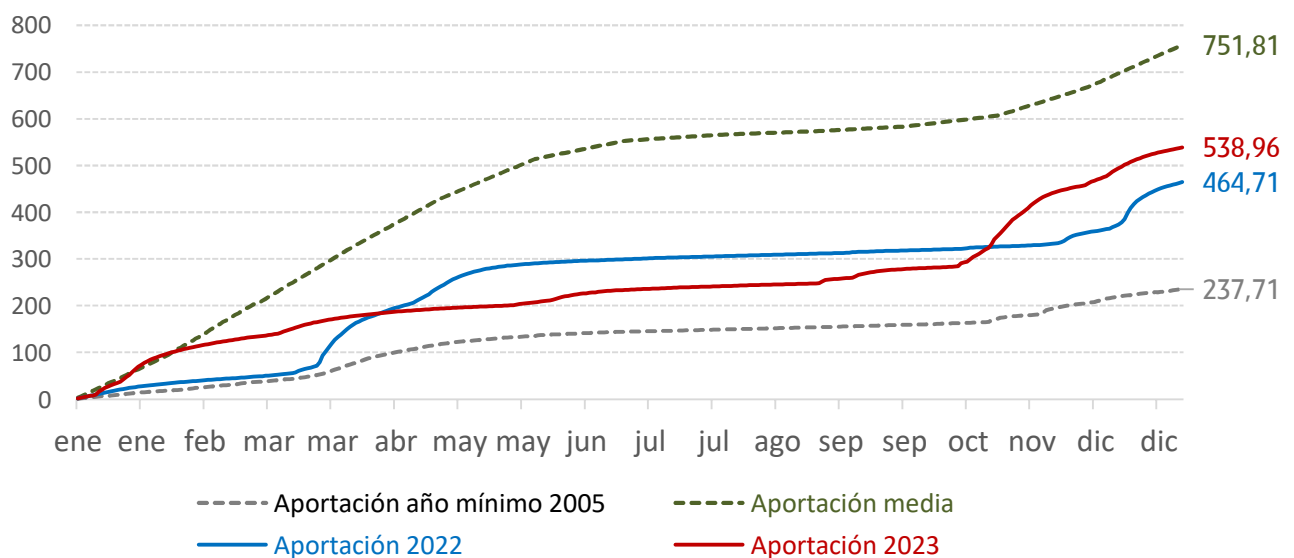
[GRI 303-3]

The supply system of the Region of Madrid is mainly based on the catchment of surface water, using the **13 reservoirs** that we manage, fed by the rivers Lozoya, Jarama-Sorbe, Guadalix, Manzanares, Guadarrama-Aulencia and Alberche. In 2023, we captured 77.31% of the water we supplied to the networks from them.

The water supplied by rivers to reservoirs varies greatly depending on whether the year is wet, dry or intermediate. The average **annual** inflow is **751.81 million cubic metres** per year, although on occasions it has reached more than 1,756 million cubic metres (in 1941) or 237.7 million cubic metres (in 2005). **2023 was a dry year**: with a water inflow of **538.96 million cubic metres, 28.3% lower than the historical average.**

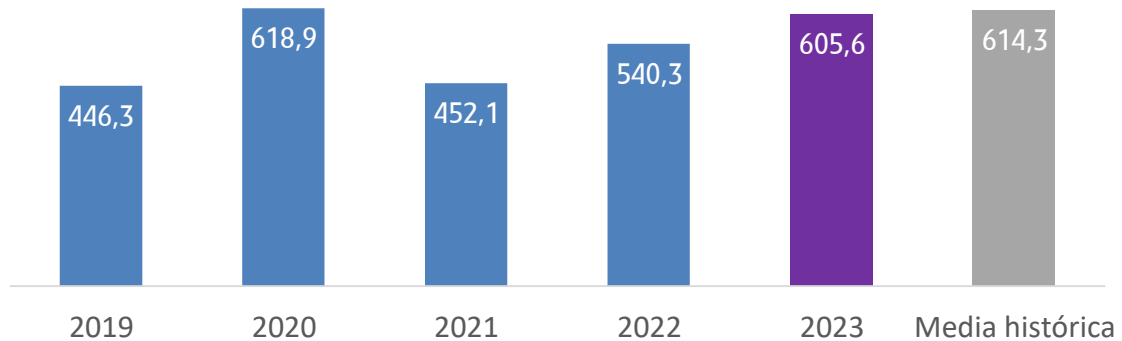
Cumulative natural river inflows to reservoirs

(million cubic metres)



As for the rainfall recorded in 2023, the rainfall recorded in the dams of the Canal reservoirs was also somewhat lower than the historical average (1.42% less).

Rainfall recorded in the Canal reservoirs (litres per m² per year)



The **13 reservoirs** that we manage at Canal de Isabel II have a total storage capacity of **943.51 million cubic metres**, 62.4% of which is located in the basin of the Lozoya river. The main reservoir in this region is **El Atazar** reservoir, with a storage capacity of over **425 million cubic metres**.

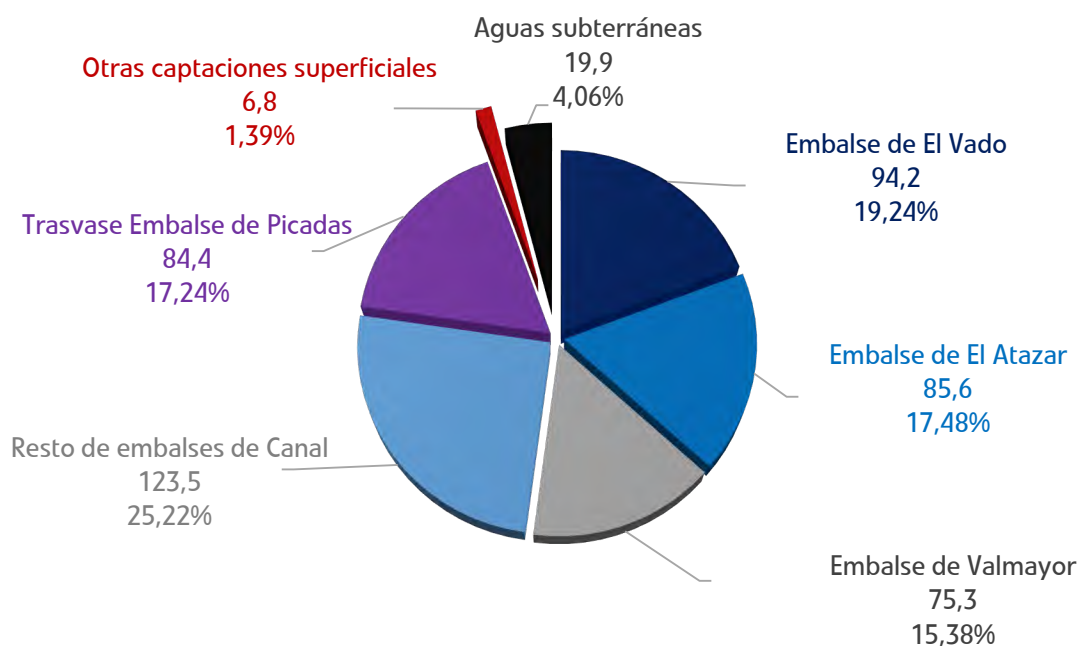
13 reservoirs of Canal de Isabel II

Reservoirs	Drainage Basin	River	Reservoir capacity (hm ³)	Reservoir volume at year-end 2023 (hm ³)	Reservoir volume at year-end 2023 (% of total)
Pinilla	Lozoya	Lozoya river	38.05	25.05	65.83%
Riosequillo		Lozoya river	50.01	38.96	77.91%
Puentes Viejas		Lozoya river	52.99	38.22	72.12%
El Villar		Lozoya river	22.39	18.52	82.73%
El Atazar		Lozoya river	425.27	264.68	62.24%
El Vado	Jarama	Jarama river	55.68	30.07	54.00%
Pedrezuela	Guadalix	Guadalix river	40.89	34.22	83.68%
Navacerrada	Manzanares	Samburriel river	11.04	6.22	56.36%
Manzanares el Real		Manzanares river	91.24	71.87	78.77%
Navalmedio	Guadarrama - Aulencia	Navalmedio river	0.71	0.38	53.80%
La Jarosa		Arroyo de La Jarosa	7.18	4.58	63.75%
Valmayor		Aulencia river	124.36	93.58	75.25%
La Aceña	Cofio	La Aceña river	23.70	15.20	64.13%
TOTAL			943.51	641.55	68.00%

Groundwater catchment, in support of surface water supply, is a key element in the management of the supply system during periods of drought or water scarcity, and can provide up to 90 million cubic metres per year of operation. To guarantee this volume we have **78 wells** in operational status. In 2023, the contribution was particularly significant, with a total of 19.23 million cubic metres extracted throughout the year.

We also have the possibility of **transferring water** from the San Juan, Picadas and Los Morales reservoirs in the **Alberche river** basin, and from the Guadarrama and Sorbe rivers via the Las Nieves and Pozo de Los Ramos dams. We can also supply water from the San Juan reservoir for treatment at the Rozas de Puerto Real DWTP and the Pelayos de la Presa DWTP. Finally, we can also take water from the Tagus river to supply the networks once it has been treated at the Tagus DWTP.

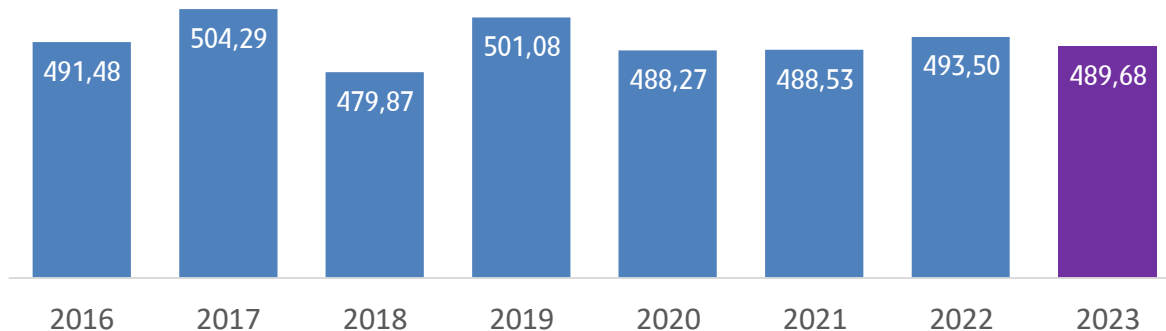
Origin of the water derived for consumption in 2023 (hm³ and % of total)



More details about our reservoirs and catchments can be found at this link: <https://www.canaldeisabelsegunda.es/es/captacion>

The total volume of water derived for consumption in 2023 was **489.68 million cubic metres**, almost the same as the average of the previous five years and 0.77% less than in 2022.

Water derived for consumption (million m³ per year)



From all the catchment possibilities described above, Canal obtains the resources that are subsequently sent to the treatment plants, through a network of large canals and raw water pipelines that, at the end of 2023, had a length of 224 kilometres.

Canal manages **14 drinking water treatment plants (DWTP)** with a total nominal capacity to treat 4.55 million cubic metres per day.

For more information about our treatment plants, please follow this link: <https://www.canaldeisabelsegunda.es/en/treatment>

SUPPLY: DRINKING WATER DISTRIBUTION

[GRI 303-3]

On the water's journey from the DWTP to the user's tap, we have a series of facilities that ensure that **the service is maintained: large pipelines, regulating tanks, drinking water lifting stations and the distribution network** guarantee a continuous service, with the appropriate pressure and quality. The networks managed by Canal in 2023 reached a total length of **17,946 kilometres**.

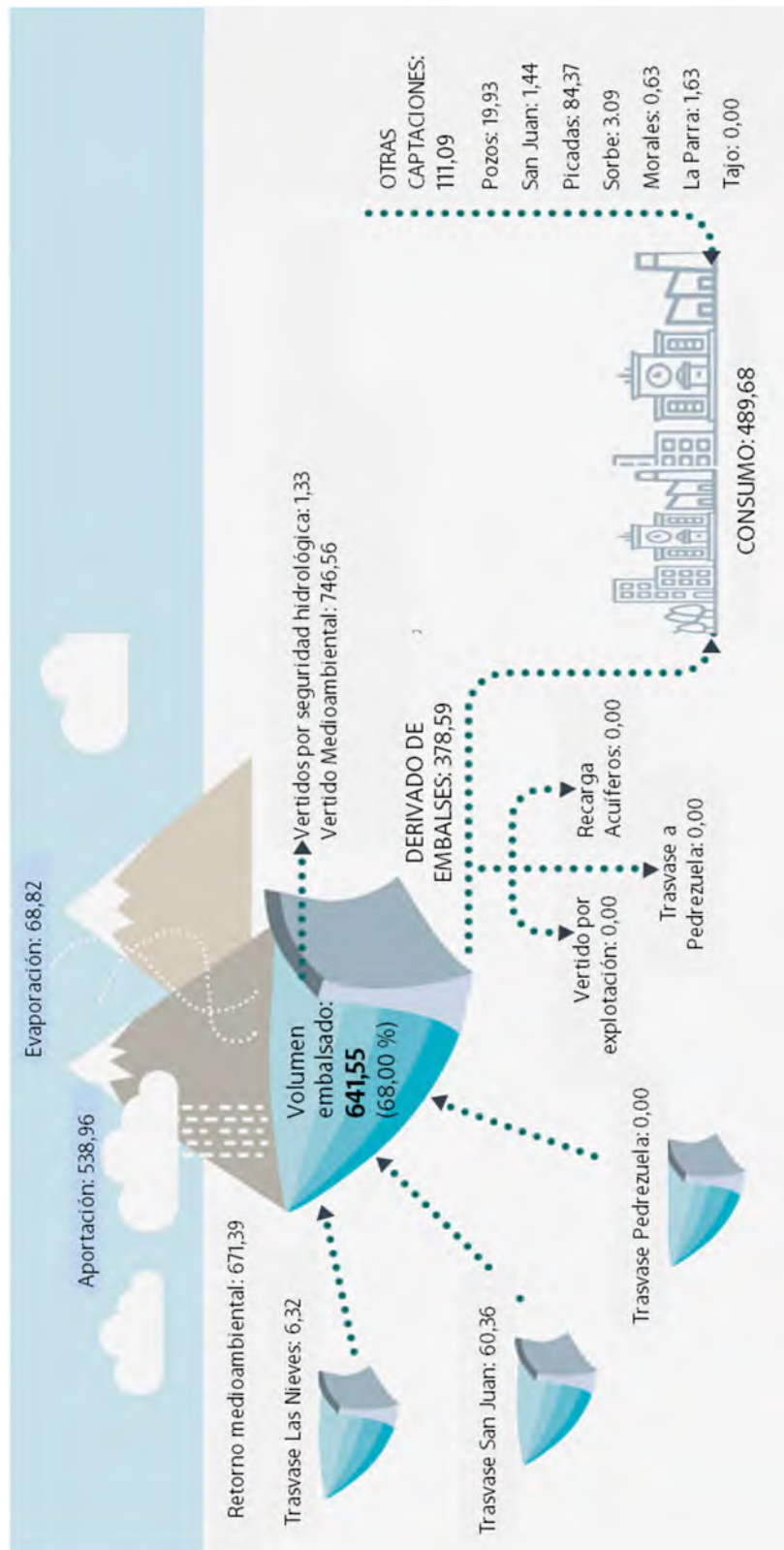
Regulating tanks are enclosures designed to store the water that supplies the population. We currently manage **34** of these large regulating tanks, with a total capacity of **3.26 million cubic metres**, in addition to 290 smaller capacity tanks distributed throughout the region.

In order to take the water from the corresponding tanks and lift it to a higher elevation, thus guaranteeing the water supply in the higher areas, Canal has **22 large lifting stations** and **109 smaller lifting stations**.

For more details on the distribution, please visit this link: <https://www.canaldeisabelsegunda.es/es/web/site/distribucion>

Supply scheme for the Region of Madrid in 2023

(in million cubic metres)



SANITATION: SEWERAGE AND URBAN DRAINAGE

[GRI 303-2]

The collection of wastewater and rainwater and its transport to wastewater treatment plants is the role of **sewerage and urban drainage networks**. Currently, Canal carries out the maintenance of these networks in **137 municipalities**, thus collecting the wastewater of **5.87 million inhabitants**.

The length of the municipal sewerage networks managed totals **15,171 kilometres**. In turn, Canal manages almost **875 kilometres of large sewers and supra-municipal outfalls**, pipelines that collect and transport wastewater from the municipalities to the corresponding WWTPs.

Other important facilities we manage are the **194 wastewater pumping stations (WWPS)**, whose mission is to lift wastewater when it cannot be conveyed to the WWTP by gravity. In addition, to prevent flooding, as well as to retain the first rainwater, which is the most polluting, we have **73 installations called storm tanks and rolling mills**, with a total capacity of 1.42 million cubic metres.

SANITATION: TREATMENT OF WASTEWATER

[GRI 303-2] [GRI 306-1]

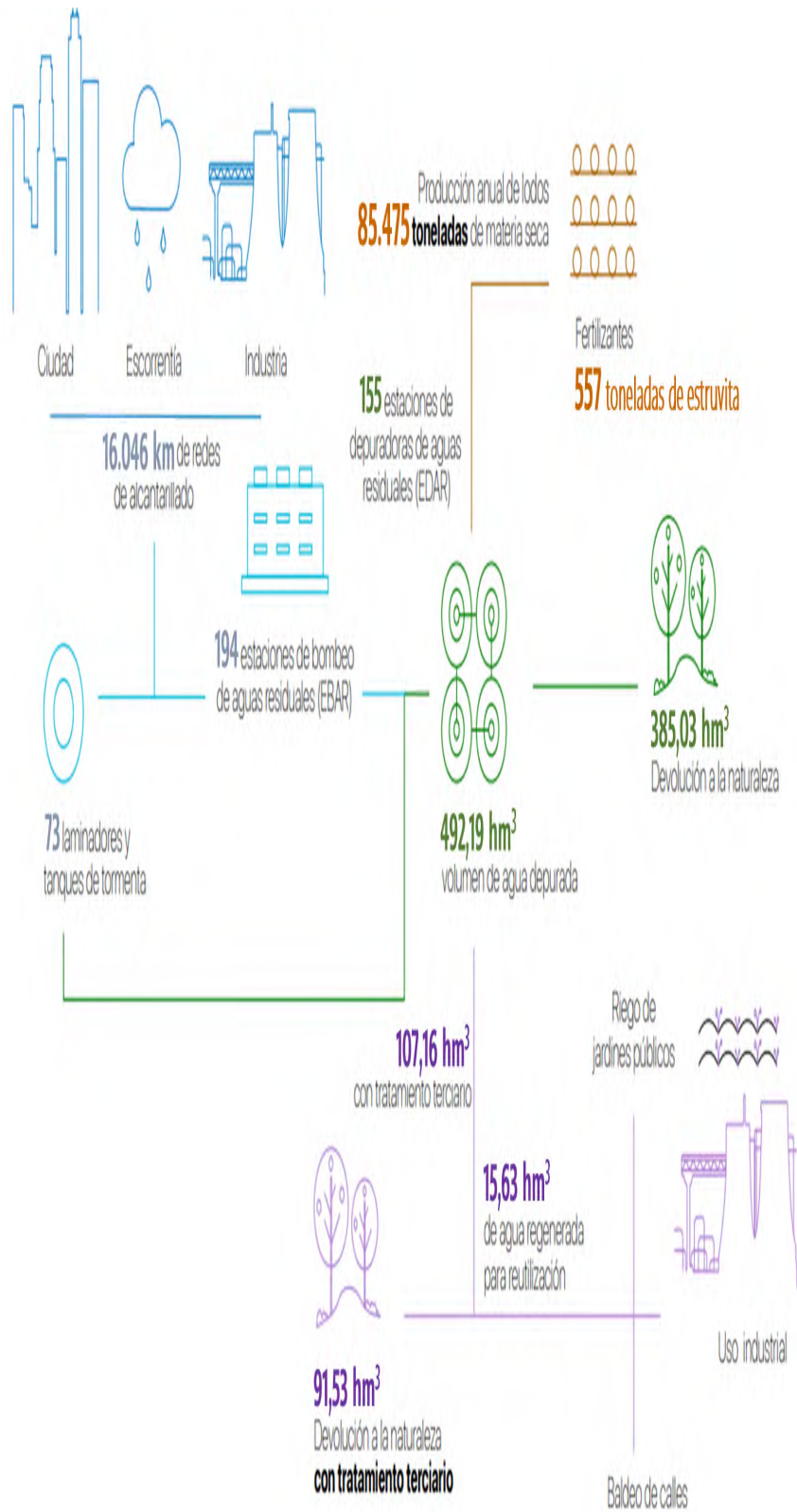
After the collection and transport of wastewater through the sewage systems of towns and cities, it is **treated** before being **discharged into natural watercourses**, in accordance with the quality standards set by the European Union and national, regional and local legislation, or for **subsequent reuse**.

At Canal, we carry out this task in 178 of the 179 municipalities of the Region of Madrid and the town of Ontígola in Toledo (179 municipalities in total) and we have excellent infrastructures that allow us to provide a continuous, quality, efficient and highly technical service. In 2023, the **155 wastewater treatment plants (WWTP)** managed by Canal, with a **nominal treatment capacity of 16.25 million inhabitants equivalent**, treated and discharged a total of **476.56 million cubic metres of wastewater (91.53 of them with tertiary treatment** to contribute to the improvement of river quality) and managed to remove 95.04% of suspended solids, 97.66% of BOD₅, 92.71% of COD, 91.14% of phosphorus and 65.30% of nitrogen contained in the wastewater.

In addition to the treated water discharged to watercourses, Canal's WWTPs in 2023 treated another **15.63 million cubic metres** that were destined for reuse.

More details on sewerage management and wastewater treatment are available at this link: <https://www.canaldeisabelsegunda.es/en/sanitation>

Sanitation scheme in the Region of Madrid in 2023



REGENERATION OF TREATED WASTEWATER FOR REUSE

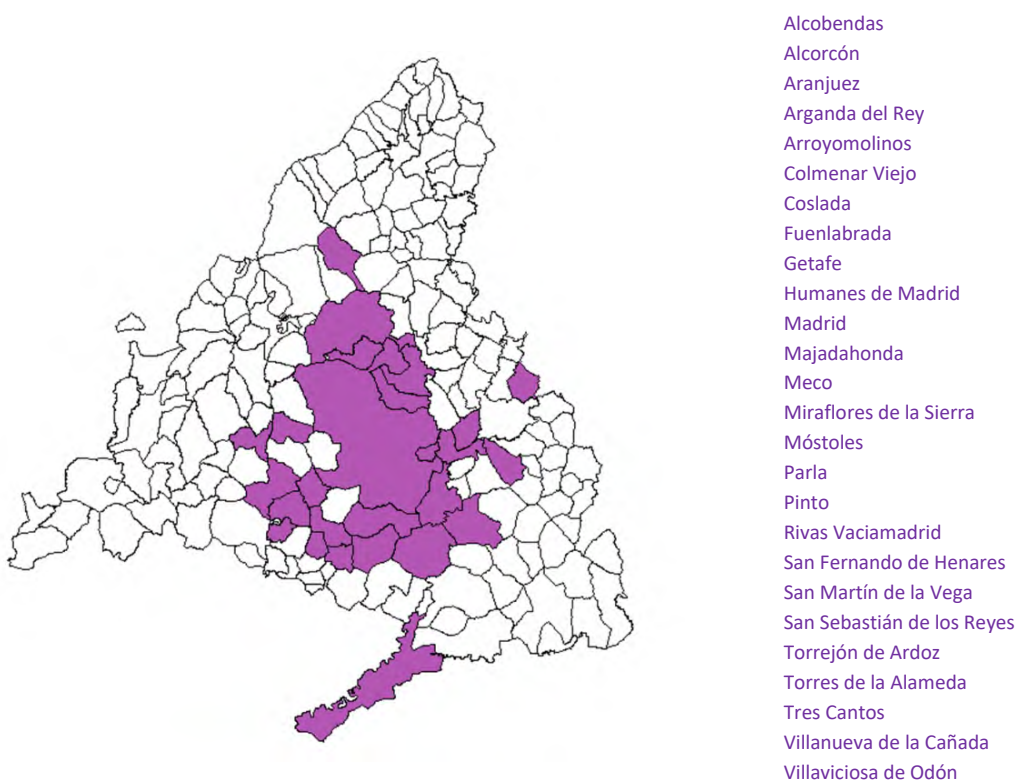
GRI 303-2]

The **reuse of treated wastewater** is an essential component of integrated water resource management because it contributes to the net increase of water availability in the region. For this reason, in recent years, we have increasingly developed the activity of distributing reclaimed water for uses that do not require drinking water, especially for **street cleaning** and **irrigation of public parks, golf courses** and even for some **industrial processes**.

At the end of 2023, we had **33** reclaimed water production **plants** (tertiary treatments) with capacity to produce **395,493 cubic metres per day** and **744** kilometres of reuse networks that supplied **15.63 million cubic metres** of reclaimed water to the **26 municipalities** that had this service and a population of more than 5.30 million.

With the reclaimed water produced by Canal, **3,060 hectares** are currently irrigated across **462 municipal green areas** in the region (2,042 ha), **11 golf courses** with a total surface area of **789 ha** and **15 companies and entities** that have contracted the reuse service (229 ha).

Municipalities with a reclaimed water reuse service in 2023



More details on reclaimed wastewater can be found at the link:

https://www.canaldeisabelsegunda.es/documents/20143/635007/Agua+regenerada_OK.pdf/be0baa6c-92ba-f7cf-0766-c11b46949288?t=1567753138898

1.4. Organisation of our company

[GRI 2-1]

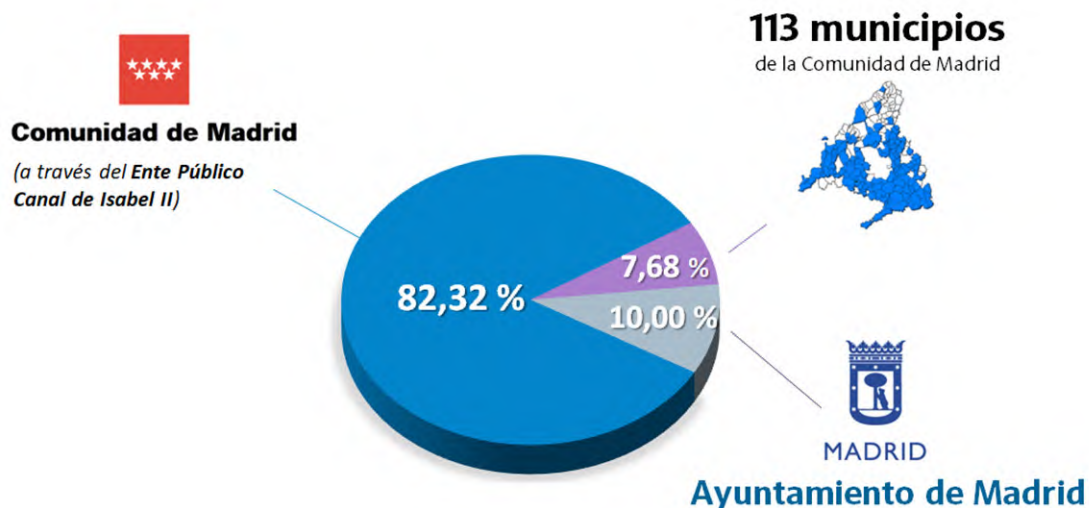
The corporate structure and governing bodies of our company are in line with the requirements of its legal status as a public limited company since its establishment in June 2012.

SHAREHOLDERS

The **share capital of Canal de Isabel II, Sociedad Anónima, M.P.** is represented by **1,074,032,000** ordinary shares with a face value of one euro each. The incorporation of the Company was authorised by a resolution of the **Governing Council of the Regional Government of Madrid on 14 June 2012**. The delivery of shares to the company's **first 111 shareholding local councils** was formalised in December 2012, in compliance with the agreement with these local councils.

With the approval in 2018 of *Law 8/2018*¹, the possibility of incorporating new local councils into the shareholding structure was opened up, as recently occurred with the municipality of Brunete,² bringing the number of shareholding local councils to 114, with a total population of **6,184,403 inhabitants** in 2023, that is, **90.15%** of the population of the Region of Madrid.

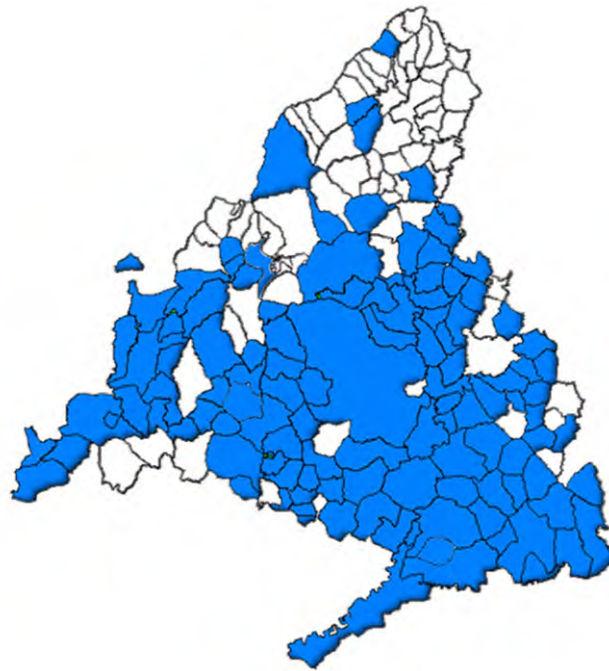
Current shareholding structure of Canal de Isabel II, Sociedad Anónima, M.P.



¹ Law 8/2018, of 26 December, amending Law 3/2008, of 29 December, on Fiscal and Administrative Measures, to guarantee the public nature of Canal de Isabel II

² The incorporation of the municipality of Brunete as a shareholder was authorised by the company's Board of Directors on 21 December 2023 and the membership agreement was signed during the first quarter of 2024.

Canal's 114 shareholding municipalities (17.68 % of the share capital)



Ajalvir	Cubas de la Sagra	Navalcarnero	Torrejón de Velasco
Alcobendas	Daganzo de Arriba	Navas del Rey	Torrelaguna
Alcorcón	El Álamo	Nuevo Baztán	Torrelodones
Algete	El Escorial	Paracuellos de Jarama	Torres de la Alameda
Alpedrete	El Molar	Parla	Tres Cantos
Ambite	Estremera	Pelayos de la Presa	Valdaracete
Anchuelo	Fresnedillas de la Oliva	Perales de Tajuña	Valdelaguna
Aranjuez	Fresno de Torote	Pinto	Valdemaqueda
Arganda del Rey	Fuenlabrada	Pozuelo de Alarcón	Valdemorillo
Arroyomolinos	Fuente el Saz de Jarama	Quijorna	Valdemoro
Belmonte de Tajo	Fuentidueña de Tajo	Rascafría	Valdeolmos-Alalpardo
Boadilla del Monte	Garganta de los Montes	Ribatejada	Valdepiélagos
Brea de Tajo	Gargantilla del Lozoya. And Pinilla de B.	Rivas-Vaciamadrid	Valdetorres de Jarama
Brunete	Getafe	Robledo de Chavela	Valdilecha
Cadalso de los Vidrios	Griñón	Rozas de Puerto Real	Valverde de Alcalá
Campo Real	Guadalix de la Sierra	San Fernando de Henares	Velilla de San Antonio
Carabaña	Humanes de Madrid	San Lorenzo de El Escorial	Villaconejos
Casarrubuelos	La Acebeda	San Martín de la Vega	Villalbilla
Cenicientos	Las Rozas de Madrid	San Martín de Valdeiglesias	Villamanrique de Tajo
Chapinería	Loeches	San Sebastián de los Reyes	Villamantilla
Chinchón	Los Santos de la Humosa	Santa María de la Alameda	Villanueva de la Cañada
Ciempozuelos	Madrid	Santorcaz	Villanueva de Perales
Cobeña	Majadahonda	Serranillos del Valle	Villanueva del Pardillo
Collado Mediano	Meco	Sevilla la Nueva	Villar del Olmo
Collado Villalba	Mejorada del Campo	Soto del Real	Villarejo de Salvanés
Colmenar de Oreja	Moraleja de Enmedio	Talamanca de Jarama	Villaviciosa de Odón
Colmenar del Arroyo	Moralzarzal	Tielmes	Zarzalejo
Colmenar Viejo	Morata de Tajuña	Titulcia	
Corpa	Móstoles	Torrejón de Ardoz	

GOVERNING BODIES OF THE COMPANY

[GRI 2-9] [GRI 2-12] [GRI 2-14]

The governing bodies of the corporate governance of Canal de Isabel II are the **General Meeting of Shareholders**, of which **all the shareholders** of the company are members, and the **Board of Directors**. Its composition and operation are set out in the **Articles of Association**, a document that describes the set of articulated rules governing the corporate operation of the Company.

Our Articles of Association can be consulted at this link:

<https://www.canaldeisabelsegunda.es/web/site/quienes-somos>

The Shareholders' Meeting

The Shareholders' Meeting, among other legally attributed powers, is responsible for **improving the corporate management, the accounts, the Statement of Non-Financial Information (NFI/Sustainability Report)** for the previous year and resolving on the **application of the profit** for each year.

Since the creation of the public limited company Canal de Isabel II, in 2012, and up to 2023 (including the interim dividend for the 2023 financial year), a total of **1,534.73 million euros** have been distributed in **dividends**: 1,264.57 correspond to the Regional Government of Madrid, 153.47 to Madrid City Council and 116.68 to the remaining Canal shareholding local councils. This means a contribution of **44.18 euros per inhabitant** in the shareholding municipalities.

Two shareholders' meetings were held in 2023, one ordinary (1 June) and one extraordinary (7 September). The main resolutions adopted at the three shareholders' meetings held were as follows:

- The **approval of the Individual Financial Statements** of the Company (Balance Sheet; Income Statement; Statement of Changes in Equity; Cash Flow Statement and Annual Report) and the Directors' Report, corresponding to the financial year 2022.
- The **approval of the Consolidated Financial Statements** of the Company and its Group (Consolidated Balance Sheet; Consolidated Income Statement; Consolidated Statement of Changes in Net Equity; Consolidated Cash Flow Statement, Consolidated Report) and Consolidated Directors' Report (including the Statement of Non-Financial Information), for the financial year 2022.
- The **approval of the Consolidated Statement of Non-Financial Information** included in the Consolidated Directors' Report of the Company and its Group for the financial year 2022.

- The **approval of the management of the Directors** of the Company.
- The **approval of the Application of the Result** for the financial year 2022.
- The **appointment of the External Auditor of the Company and its Group** for the financial years 2023, 2024 and 2025 (*ERNST & YOUNG, S.L.*).
- The **ratification of the appointment and re-election** of the Public Entity Canal de Isabel II as a proprietary director of the company for the statutory term of four years.
- **The appointment of two proprietary directors** (Mr Carlos Novillo Piris and Mr Pablo Cristobal Mayoral).

The Board of Directors and its committees

The **General Meeting of Shareholders** determines the number and appoints the members of the Board of Directors. The board currently consists of **fifteen directors**, plus a non-member secretary.

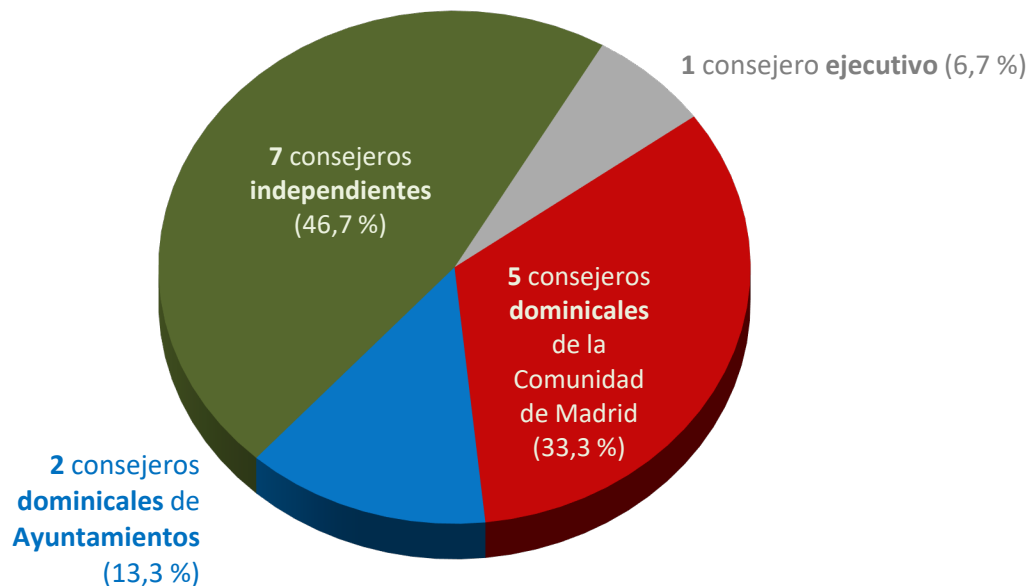
Persons declared unqualified to the extent and under the conditions established by *Law 14/1995, of 21 April, of the Regional Government of Madrid, Article 213 of Royal Legislative Decree 1/2010, of 2 July, approving the revised text of the Corporate Enterprises Law* and other applicable legislation, where appropriate, may not hold office in the Company.

[GRI 2-15]

Although **we are not a listed Company**, we are an issuer of non-convertible fixed-income securities on a regulated market. Furthermore, one of the priority lines of action for our Board of Directors is to **promote good governance**, and we therefore consider that the *Code of Good Governance for Listed Companies* of the Spanish Securities Market Commission (CNMV) should serve as a guiding document for our activity.

Therefore, at the end of 2023 we had **seven independent directors** (47% of the total), which means complying with Recommendation 17 of the CNMV code, which indicates that, for companies with a shareholder controlling more than 30% of the share capital, such as Canal de Isabel II, Sociedad Anónima, M.P., the number of independent directors must represent at least one third of the total number of directors.

Current structure of the Board of Directors



The **Board of Directors** generally meets once a month and when the Chair decides to convene it.

At the end of 2023, there were **three Board Committees**: the **Audit** Committee, the **Appointments and Remuneration** Committee and the **Sustainability** Committee, chaired and composed of a majority of independent directors as established in our Articles of Association.

Both the Board of Directors and its committees have **regulations** that determine, among other things, their composition and operation. In addition, the commissions issue an Annual Report on their operation, in which the main activities carried out by each of them during the year are described.

You can consult the regulations of the board and the committees and the annual reports of the committees at this link:

<https://www.canaldeisabelsegunda.es/web/site/accionistas>

Members of the Board of Directors and its committees during 2023³

[GRI 2-9] [GRI 2-11] [GRI 405-1]

CONSEJEROS	TIPO	CONSEJO DE ADMINISTRACIÓN	COMISIÓN DE AUDITORÍA	COMISIÓN DE NOMBRAMIENTOS Y RETRIBUCIONES	COMISIÓN DE SOSTENIBILIDAD
D ^a . Paloma Martín Martín	Dominical Comunidad de Madrid	Presidenta del Consejo (hasta el 6 de julio de 2023)			
D. Carlos Novillo Piris	Dominical Comunidad de Madrid	Presidente del Consejo (desde el 7 de septiembre de 2023)			
D. Pascual Fernández Martínez	Ejecutivo	Vicepresid. del Consejo y Consejero Delegado (hasta el 23 de febrero de 2023)			
D. Mariano González Sáez	Ejecutivo	Vicepresid. del Consejo y Consejero Delegado (desde el 23 de febrero de 2023)			
Ente Público Canal de Isabel II (representado por: D. Pablo José Rodríguez Sardinero (hasta el 28 de julio de 2023) D. Rafael García Gonzalez (desde el 28 de julio de 2023.)	Dominical Comunidad de Madrid	Vocal			
D ^a . Isabel Aguilera Navarro	Independiente	Vocal			Vocal Comisión
D ^a . Cristina Aparicio Maeztu	Dominical Comunidad de Madrid	Vocal	Vocal Comisión		Vocal Comisión
D. Fernando Arlándis Pérez	Dominical Comunidad de Madrid	Vocal (hasta el 6 de julio de 2023)	Vocal Comisión		Vocal Comisión
D. Antonio Javier Cordero Ferrero	Independiente	Vocal	Vocal Comisión		Vocal Comisión
D, Pablo Cristobal Mayoral	Dominical Comunidad de Madrid	Vocal (desde el 7 de septiembre de 2023)		Vocal Comisión	
D. Jaime García-Legaz Ponce	Independiente	Vocal	Presidente Comisión		
D. Guillermo Hita Téllez	Dominical ayuntamientos	Vocal (hasta el 30 de noviembre de 2023)			
D. Salvador Marín Hernández	Independiente	Vocal	Vocal Comisión		Vocal Comisión
D. Francisco Muñoz García	Dominical ayuntamientos	Vocal			
D ^a . Alicia Muñoz Lombardía	Independiente	Vocal		Presidenta Comisión	
D. Jaime Sánchez Gallego	Externo-otros (hasta el 7 de septiembre de 2023) Independiente (desde el 7 de septiembre de 2023)	Vocal		Vocal Comisión	
D. José Ignacio Tejerina Alfaro	Dominical Comunidad de Madrid	Vocal	Vocal Comisión	Vocal Comisión	
D ^a . Lourdes Vega Fernández	Independiente	Vocal		Vocal Comisión	Presidenta Comisión
D ^a . María del Carmen Tejera Gimeno		Secretaria, no consejera	Secretaria Comisión	Secretaria Comisión	Secretaria Comisión

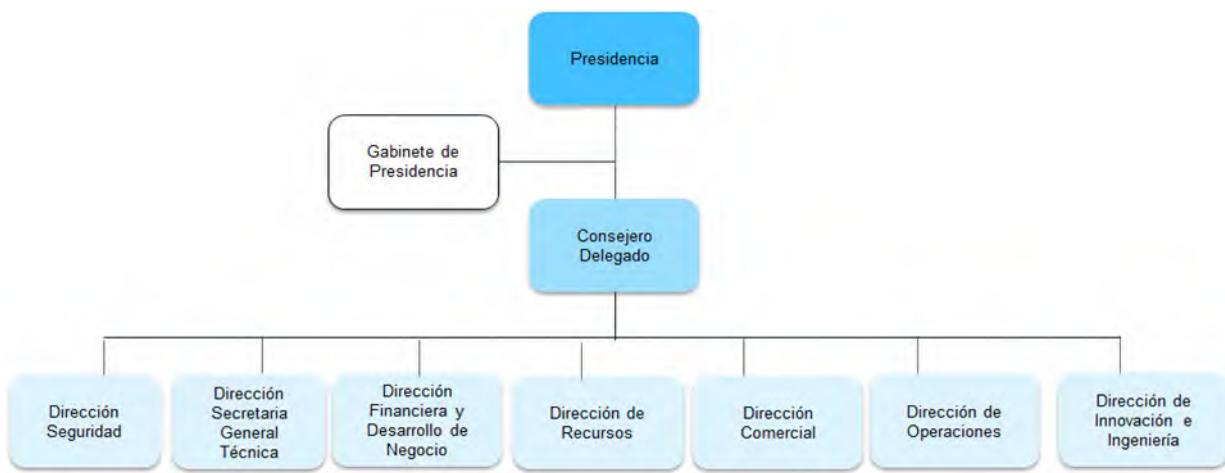
³ The Extraordinary General Meeting of Shareholders held on 29 February 2024 appointed Ms Judith Piquet Flores, Mayoress - Chair of the City Council of Alcalá de Henares and Chair of the Madrid Federation of Municipalities (FMM), as a proprietary director.

The professional profiles of the members of our Board of Directors are available at this link: <https://www.canaldeisabelsegunda.es/web/site/accionistas> [GRI 2-17]

ORGANISATION AND SENIOR MANAGEMENT

[GRI 2-12] [GRI 2-13]

Our organisation has a structure composed of directorates (7), sub-directorates (28) and operational areas (101). The organisation chart in force at the end of 2023 at directorate level is as follows:



Details of our new organisation down to area level can be found on our transparency portal at this link:

<https://www.canaldeisabelsegunda.es/documents/20143/1624670/Organigrama+de+estructura+organizativa.pdf/57bc86be-782b-da71-9cdc-f9c7f15cb8b8?t=1669628647095>

Canal has a **Management Committee, chaired by the CEO, which meets regularly** and is currently made up of 10 other members: all the **managers**, the submanager of Communication and the deputy to the CEO.

The Management Committee acts in an **advisory and consultative capacity to the CEO on relevant issues** affecting the company in any matter (analysis of economic, strategic, operational, commercial and/or environmental information). It also **coordinates the activities of the different directorates**, sub-directorates and areas of Canal and **regularly monitors the results** and deviations from the company's objectives. The agenda of items to be discussed by the Committee is set by the CEO and may also include any other substantial matters that may be proposed by any of its members.

In addition to the Management Committee, Canal regularly holds different committees and working groups composed of members of management. They deal with a wide range of issues

such as the **Supply Management Committee**, the **Information Systems Committee**, the **Compliance Committee** or the Tariffs Working Group.

You can find more information about our organisation and the members of the Canal de Isabel II Management Committee at this link:

<https://www.canaldeisabelsegunda.es/web/site/quienes-somos>

APPROVAL OF THE CANAL SUSTAINABILITY POLICY

[GRI 2-14] [GRI 2-22] [GRI 2-23]

Among the most relevant agreements approved in 2023 by our Board of Directors was the approval in September of the **Sustainability Policy** of Canal and its corporate group.

The approved policy is based on the assumption of the importance that aspects related to **corporate social responsibility** should have in the governance and management of our company in order to become a benchmark in sustainable development among the public companies of the Region of Madrid, as well as in the integrated management of water at a global level.

The approved policy, which is applicable to all the companies that make up the Canal Group, aims to achieve our active and voluntary involvement in the improvement of our environment, through the integration of ethical, social, environmental, good governance and human rights concerns. Thus, the **principles** followed in the policy are listed below:

1. **Rational use of water** in order to ensure a safe and quality supply.
2. **Protection of bodies of water and biodiversity** by adequately treating urban wastewater to return it to rivers in optimal conditions.
3. **Sustainable operation** and focus on the circular economy, with a firm commitment to reducing energy consumption and to recycling and reusing water.
4. **Climate change and clean energy** to contribute to the decarbonisation of the economy by mitigating our emissions and adapting to cope with extreme weather events. The generation of renewable energy in synergy with our integrated water cycle management is of particular importance.
5. **Alliances with other entities and support for their social and environmental initiatives**, being present in the most relevant national and international forums and associations. As a participant in the United Nations Global Compact, we aim to advance the UN Global Compact's Sustainable Development Goals.
6. **Good corporate governance, ethics and management transparency** by implementing the best available good governance practices and recommendations.

7. Relations with our stakeholders, placing our customers and users at the centre of our management and promoting social tariffs. We also support our professionals (attracting, retaining and enhancing their talent) and integrate people with disabilities into the labour market. Finally, we maintain relationships based on trust and mutual respect with our suppliers and partners, making sustainability a fundamental principle in our value chain.

8. Support to local entities, strengthening their participation in the improvement of water and sanitation management. This contributes to their development and to territorial cohesion and balance.

9. Culture and patronage, promoting educational and cultural activities, mainly through our Foundation. We are also committed to opening some of our facilities to the public for sporting, cultural, social and environmental activities.

10. Innovation and sectorial knowledge, providing the necessary resources in terms of technological development and innovation, in order to position and maintain us among the leaders in our sector.

The full text of our Sustainability Policy is available at this link:

<https://www.canaldeisabelsegunda.es/documents/20143/30492747/Pol%C3%ADtica+de+sostenibilidad.pdf/23446476-5662-98b6-2b7b-8da0a06e5bb5?t=1699018849389>

1.5. Our strategy

[GRI 3-3] [GRI 2-23]

CANAL'S 2018-2030 STRATEGIC PLAN

During 2016 and 2017, Canal de Isabel II undertook a process of strategic reflection that concluded in March 2018 with the start-up of our **2018-2030 Strategic Plan**. The main objective of Canal de Isabel II's process of strategic reflection consisted of defining where we wanted to position ourselves in the future, what our long-term objectives will be and to propose the necessary strategies to achieve them, facing the challenges of modernisation and sustainability of the company, and maintaining and promoting technological levels and service excellence. The process was carried out through the participation and collaboration of all stakeholders with whom we interact.

As a result of this reflection process, the implementation of our Strategic Plan began on 1 January 2018, articulated through 10 strategic lines, as follows:



1. Asegurar la garantía de suministro



Mantener el nivel de garantía de suministro actual en los escenarios previsible de cambio climático y con un aumento de población sostenido equivalente a la media de los últimos 15 años.

2. Garantizar la calidad del agua de consumo



Garantizar la calidad del agua desde su origen, preservando nuestras fuentes de suministro, hasta el punto de consumo.

3. Fortalecer la continuidad del servicio



Asegurar la continuidad del servicio ante posibles fallos que afecten a las redes, a la calidad del agua suministrada o a los sistemas de información de Canal.

4. Impulsar la calidad ambiental y la eficiencia energética



Fomentar la economía circular y el desarrollo sostenible, abordando los retos asociados al cambio climático mediante los planes de adaptación y mitigación correspondientes.



Each of the ten Strategic Lines is articulated in strategic plans, which in 2023 totalled 50, including 10 flagship plans (one per line). The plans we have been working on during 2023 are as follows (in bold the flagship plans):



LE 1 _Asegurar la garantía de suministro

PE 1	Plan para mantener el nivel de abastecimiento
PEst1	Plan-25/ reducir en un 25 % el volumen de agua derivada para consumo por habitante
PE 1.1	Plan para asegurar la máxima eficiencia de los recursos existentes
PE 1.2	Plan para extender y fomentar el uso de agua regenerada
PE 1.3	Plan para asegurar y fomentar una gestión eficaz de la demanda



LE 2 _ Garantizar la calidad del agua de consumo

PE 2	Plan para preservar la calidad del agua en la red de distribución
PEst2/ PE 2.4	Plan Red/ Plan para mejorar el mantenimiento preventivo en la red de abastecimiento
PE 2.1	Plan para mejorar la calidad del agua en origen
PE 2.2	Plan para potenciar el uso de nuevas tecnologías de tratamiento
PE 2.3	Plan para mejorar el proceso de operación de la red



LE 3 _ Fortalecer la continuidad del servicio

PE 3 / PEst3	Plan 365 días de continuidad del servicio / Plan de resiliencia de suministro a municipios
PE 3.1	Plan de seguridad física de las infraestructuras
PE 3.2	Plan de seguridad del personal
PE 3.3	Plan de seguridad de la información



LE 4 _ Impulsar la calidad ambiental y la eficiencia energética

PE 4	Plan para abordar los retos asociados al cambio climático
PEst4	PLAN 0,0 kWh: Alcanzar una generación eléctrica del 100 % de nuestro consumo
PE 4.1	Plan de excelencia en depuración
PE 4.2	Plan de eficiencia energética y desarrollo sostenible
PE 4.3	Plan de fomento de la economía circular
PE 4.4	Plan para desarrollo de las energías limpias



LE 5 _ Desarrollar la cooperación con los municipios de Madrid

PE 5	Plan de consolidación del modelo de gestión municipal
PEst5	PLAN SANEA: 100 % de las redes de saneamiento adecuadas a los planes directores
PE 5.1	Plan de acercamiento a ayuntamientos y urbanizaciones
PE 5.2	Plan de excelencia en el alcantarillado



LE 6 _ Reforzar el compromiso y la cercanía con el usuario

PE 6	Plan de acercamiento a los usuarios
PE 6.0	Plan de soluciones digitales: la factura electrónica
PE 6.1	Plan para fomentar y desarrollar la cultura de «experiencia cliente»
PE 6.2	Plan para analizar la Voz del Cliente
PE 6.3	Plan Smart-Region: instalación de contadores inteligentes y nuevos sistemas de facturación



LE 7 _ Potenciar la transparencia, el buen gobierno y el compromiso con la sociedad

PE 7	Plan para garantizar una gestión transparente
PE 7.0	Plan para potenciar la inversión en RSC
PE 7.1	Plan estratégico de buen gobierno
PE 7.2	Plan para potenciar la transparencia y reforzar las relaciones con los grupos de interés
PE 7.3	Plan estratégico de compromiso con la sociedad



LE 8 _ Fomentar el talento, compromiso y salud de nuestros profesionales

PE 8.0	Plan de gestión de plantilla / Plan para asegurar una plantilla adaptada a las necesidades y con los profesionales más adecuados
PE 8.1	Plan de Igualdad
PE 8.2	Plan para incrementar el compromiso y sentido de pertenencia de los empleados
PE 8.3	Plan para desarrollar y promover el desarrollo profesional sostenible de la estructura de Canal
PE 8.4	Plan de aseguramiento de entornos seguros para todos los empleados



LE 9 _ Liderar la innovación y el desarrollo

PE 9	Plan de desarrollo de las tecnologías y servicios del futuro
PE 9.0	Plan Innova 100 / Plan de soporte innovador a la estrategia
PE 9.1	
PE 9.2	Plan de innovación y desarrollo interno
PE 9.3	Plan de transformación digital de Canal de Isabel II (Canal 4.0)
PE 9.4	Plan de posicionamiento como empresa innovadora



LE 10 _ Asegurar la sostenibilidad y la eficiencia en la gestión

PE 10	Plan para realizar una gestión pública rigurosa, eficiente y transparente
PE 10.0	Plan para agilizar los procesos de contratación
PE 10.1	Plan para asegurar el uso eficiente de los recursos económicos
PE 10.2	Plan de adecuación progresiva del nivel de endeudamiento a la estrategia de desarrollo
PE 10.3	Plan para mejorar la eficiencia de los procesos

Each of the strategic plans has measurable annual objectives and one or more indicators to monitor them. The results of this monitoring are published quarterly and annually on our website, in the Strategic Plan section. In addition, the Management Committee and the Board of Directors are informed annually of the details of the fulfilment of each of these objectives.

[GRI 2-19] [GRI 2-20]

The degree of compliance with the objectives of the strategic lines and plans is reflected annually in the variable remuneration received by Canal's CEO, managers, management support staff and third level graduates.

MONITORING OF THE 2018-2030 STRATEGIC PLAN

[GRI 2-12] [GRI 2-14] [GRI 2-24] [GRI 3-3]

Canal de Isabel II's 2018-2030 Strategic Plan is a living and necessarily flexible tool, a lever of our company's sustainability strategy. Thanks to the participatory nature of the Plan since its design and creation, as well as the constant improvement to which it is open, our Plan has a quarterly monitoring and control system for results, as well as a continuous process of strategic review, which involves our entire organisation.

The implementation of our Strategic Plan involves the setting up of transversal projects that involve professionals from different areas of our company, so that, in addition to the formal and hierarchical structure of Canal, there is an *ad hoc* transversal structure responsible for the implementation of the plans and actions of each strategic line.

Each of the **10 strategic lines** is led by a member of the Management Committee and coordinated by a Line Coordinator, who in turn leads those responsible for the specific plans and actions associated with their line. In addition, the **Strategy Implementation and Monitoring Office**, an internal team specifically set up with the mission of promoting, coordinating and facilitating the execution of plans and actions, monitors all the objectives of the lines and plans as well as supporting decision-making.

In the financial year 2023, **the objectives of our 2018-2030 Strategic Plan have been met by 99.2%**, the highest annual value achieved since the start of the Plan in January 2018.

Further information on the 2018-2030 Strategic Plan can be found at the following link on our website:

<https://www.canaldeisabelsegunda.es/quienes-somos>

CUMPLIMIENTO ANUAL DEL PLAN		
AÑO 2021	AÑO 2022	AÑO 2023
90,0%	98,3%	99,2%

CUMPLIMIENTO DE LOS OBJETIVOS DE CADA LÍNEA ESTRATÉGICA



In 2023, on behalf of the Sustainability Committee of the Board of Directors, the process for the preparation of **Canal's Sustainability Plan** begun, which will include the specific actions to develop the 10 principles and areas of action that articulate our **Sustainability Policy** approved in 2023.

1.6. Our stakeholders

[GRI 2-29]

At Canal de Isabel II we consider it essential to engage with our stakeholders on a continuous basis. With them, and thanks in part to their direct involvement throughout the process of designing the Strategic Plan, we make specific commitments on a daily basis that we see as part of our responsibility as a public company.

Our main stakeholders include the following:

- **Regulatory bodies:** the European Union, the Ministry for Ecological Transition and the Demographic Challenge, the Tagus River Basin Authority and the Ministry of Health.
- The **Regional Government of Madrid, the Regional Parliament of Madrid** and the four parliamentary groups represented therein (Más Madrid, Partido Popular, Partido Socialista de Madrid - PSOE and VOX).
- **Our shareholders:** the Region of Madrid and the 114 local councils that currently form part of our shareholding structure.
- **Customers and users:** local councils in the municipalities we serve, as well as domestic, commercial and industrial customers and domestic users, commercial and industrial customers and users; large customers such as housing estates or homeowners' associations.
- Our **business partners:** the employees of our company, the suppliers and contractors we work with.
- **Other companies in our sector** with which we collaborate, as well as the **sector associations** in which we actively participate, such as the Spanish Association of Water Supply and Sanitation (AEAS), the Spanish Association of Urban Water Services Management Companies (AGA), the European association of our sector (EurEau - *European Federation of Water Services*) or the *International Water Association (IWA)*, among others
- **Society in general**, with special interest in certain sectors and agents of society, such as:
 - The school community (teachers and students) with whom we interact through Canal Educa's activities.
 - The media and opinion-makers.
 - The scientific community and innovation-focused entities.

- Business analysts and experts in our sector.
- Managers and persons responsible for the protection and improvement of our environment.
- Other social entities (NGOs, foundations and entities with which we collaborate).

The frequency with which we interact with different stakeholders is as follows:

- In addition to the bimonthly bill, we are in regular contact with our **customers and users** through our customer service centre and telephone campaigns. In addition, we have customer satisfaction surveys through which we contact our customers to find out what they think about our services.
- The company maintains a permanent relationship with its **employees** through personal contact and new technologies. A notable example of this is the daily update of our **Canal&Tú intranet**, which includes all the news that affect the day-to-day running of the company. In addition, regular meetings are held with employee representatives through the Works Committee or in other thematic forums such as meetings on training, overtime or the Occupational Health and Safety Committee.
- We also maintain constant and fluid contact with our **suppliers and contractors**. On a daily basis, through their telephone, e-mail and web enquiries, the management of offers, small orders and complaints through our SRM web system and our SAP ERP, in addition to the necessary direct engagement with each of the services that work with them. Annually, we contact them through the balance circulation required for the financial statements audit, and also when conducting the annual satisfaction survey.
- The main communication event with **shareholders** is the General Meeting, which is convened by the management body (Board) when it considers it in the best interests of the company. The Ordinary General Meeting, previously convened for this purpose, meets within the first six months of each financial year to approve, where appropriate, the management of the company, the accounts of the previous year and to decide on the allocation of profits, among other important resolutions.
- With the **rest of our stakeholders** (regulators, strategic partners or society in general), this engagement is continuous, constant and increasingly intense. Our intention is to continue to deepen the fluidity of our relationship with all our






stakeholders by intensifying engagement with them. We are convinced that we will only achieve our goals if we work in the same direction.

In order to open up this participation, which began in 2018, we have continued to conduct focus groups and several interviews to find out their opinions and expectations of the company.

In order to promote fluid communication with stakeholders, Canal de Isabel II also uses the communication channels available to us to learn about and respond to the demands and queries of society in the economic, environmental and social spheres.

Map of most common communication channels used by Canal

[GRI 2-16] [GRI 2-23] [GRI 2-24] [GRI 2-26]

CANAL DE COMUNICACIÓN		COMUNICACIÓN INTERNA		COMUNICACIÓN EXTERNA	
	Personal o presencial	Eventos conmemorativos para empleados y familiares (Bienvenidas, homenajes y días internacionales). Evento deportivo para empleados y familiares (Canal Deporte). Clases deportivas para empleados.	Visitas guiadas a instalaciones. Reuniones de conocimiento, estructura y colectivos específicos. Focus group.	Oficinas centrales de la empresa. Centro de atención al cliente. Servicio de atención al cliente. Visitas organizadas a las instalaciones. Campañas educativas (Canal Educa).	Áreas recreativas y de deporte. Participación y organización de congresos, foros y otros encuentros. Actividades de la Fundación Canal. Junta General de Accionistas. Oficina de atención al accionista.
	Teléfono, fax, correo	Teléfono, correo ordinario, buzón de sugerencias y buzones inteligentes.		Teléfono de atención al cliente. Teléfono de atención a proveedores.	Teléfono de contacto de las iniciativas educativas. Mensajes en la factura.
	Internet	Espacio colaborativo y de comunicación de Teams: - Para empleados (Canal Conectados). - Para jefes (Lidera Canal). Aplicación móvil para el empleado Canal Contigo (Portal web). Intranet (CanalItú). Evolucionando al Digital Workplace.	Canal de vídeos corporativos. Newsletter de Prevención (Prevenblog).	Oficina virtual de atención al cliente. Página web de la empresa. Portal de transparencia. Portal del accionista. Página web de Canal Educa. Página web de Canal Voluntarios. Página web de la Fundación Canal.	Canal en YouTube. Canal en Instagram. Canal en LinkedIn. Perfil en Facebook. Redes sociales de la Fundación Canal. Aplicación móvil de Canal de Isabel II para Android y iOS.
	Publicaciones / Informes técnicos	Campañas de comunicación. Informes y comunicados internos. Publicación de la newsletter semanal Seguimos Conectados. Difusión de la evolución del Plan Estratégico 2030.		Envío de información personalizada a los clientes. Informe de Sostenibilidad de Canal de Isabel II. Revista Canal&tú.	Publicaciones de la empresa. Publicaciones de la Fundación Canal. Cuadernos de I+D+i.
	Medios: TV, prensa, radio y medios digitales	Red de pantallas informativas en los centros de trabajo (Noticias, entrevistas, vídeos...).		Notas de prensa. Convocatorias a los medios. Sala de prensa en la web.	Campañas de concienciación dirigidas a la población. Blog de Canal de Isabel II.

In 2023, with regard to our relations with stakeholders, the **Canal Open Days** were held (24 and 25 June), in which almost 500 citizens were able to learn about the operation of some infrastructures such as the El Atazar dam, the Buried Tank in calle Santa Engracia, the Arroyofresno storm tank and the Loeches sludge treatment plant.

2. Our performance in 2023

[GRI 3-1] [GRI 2-23]

In an environment of greater uncertainty and global transition, at Canal we have the great challenge of consolidating the sustainable management of water and natural resources as a model of excellence with which to face the current challenges. These mainly involve guaranteeing the supply to the growing population of our region, mitigating the effects of climate change on the water cycle and preserving the environment, among other relevant issues.

Anticipation, innovation, circular economy and alliances are some of the guidelines included in our **2018-2030 Strategic Plan** to generate a positive impact on society and the planet.

It is just as important to act as it is to report on progress towards achieving our objectives together with our stakeholders (collaborators, suppliers, customers, shareholders and the general public). In this regard, we periodically analyse and assess, together with our stakeholders, what are the priority objectives for the company from a "**dual materiality**" perspective.

ANALYSIS OF THE MATERIAL ISSUES OF OUR MANAGEMENT

[GRI 2-29]

Throughout 2023, and in order to have an overview of the material aspects, both impact and financial, related to our performance, we have carried out an analysis exercise thanks to the **participation of more than 500 people**. It has allowed us to measure the impact that the environment has on Canal's operations in the Region of Madrid, and also to measure how the company's activity affects society, the environment and economic development.

The main figures for stakeholder participation in the analysis we have carried out are as follows:



As a result of this analysis, we have obtained a **new materiality matrix** (which replaces the one drawn up in previous years) that has been constructed based on the greater or lesser relevance that each of the sustainability issues defined as material (or of relative materiality) have for our

stakeholders and for our company, from a dual perspective in line with the new CSRD directive⁴, as the financial impact is considered a determining variable in the prioritisation of each issue.

From the analysis performed, we have identified the critical and relevant sustainability issues, considering the importance that stakeholders attribute to the material issues for Canal and their financial impact, obtaining the following:

CRITICAL material issues:

- Transparency, ethics and fight against corruption
- Customer satisfaction and commitment
- Transition to a circular economy and responsible consumption
- Service security and cybersecurity
- Generation of clean and renewable energy
- Innovation, new technologies and digital transformation
- Risk management

RELEVANT material issues:

- Climate change
- Supply chain sustainability
- Efficient resource management
- Safety, health and well-being
- Talent management
- Biodiversity
- Economic sustainability (including tariff scheme)

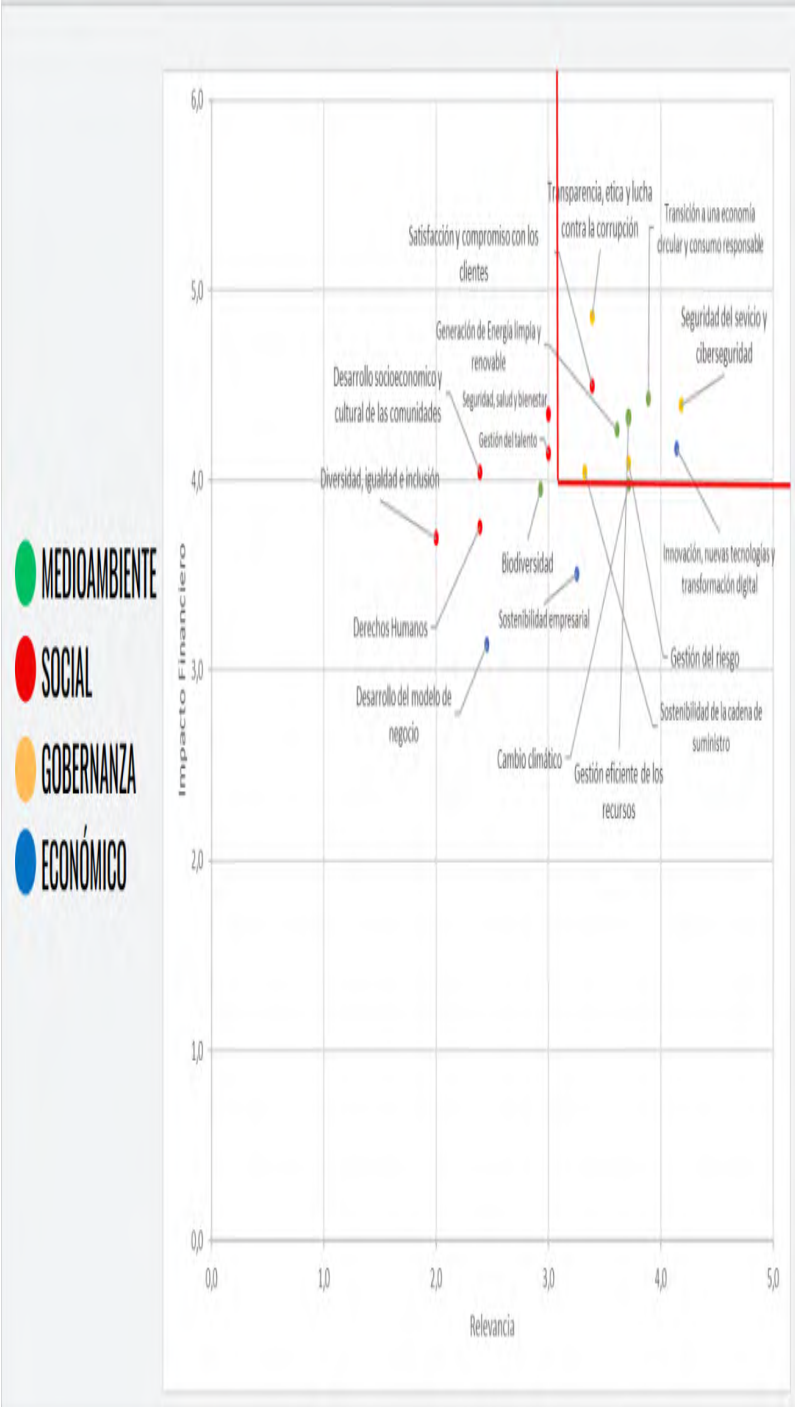
Other material issues:

- Socio-economic and cultural development
- Diversity, equality and inclusion
- Human rights
- Business model development

⁴ Directive (EU) 2022/2464 of the European Parliament and of the Council of 14 December 2022 concerning sustainability reporting by companies (CSRD)

Canal de Isabel II Dual Materiality Matrix

[GRI 3-2]



CONTRIBUTION TO THE SUSTAINABLE DEVELOPMENT GOALS OF THE UNITED NATIONS

[GRI 2-24]

Our implementation and monitoring model for the 2018-2030 Strategic Plan, thanks to a proprietary **measurement system**, allows us to assess the contribution of the company's plans and actions to the **Sustainable Development Goals** in a transparent and regular manner. To this end, a proprietary tool was designed to connect the Plan's performance indicators with the 17 SDGs. This system has been shaped by Canal's participation in working groups with other companies in the sector at European level, as well as by holding workshops with citizens or Canal's own employees, where we have been able to identify the issues to which we need to devote more attention in order to make progress on sustainability.

In this sense, we can highlight the role of **water** (and sanitation) as the great **accelerator** on the road to achieving the SDGs, which has already been emphasised by the United Nations. Its availability contributes in an integral way to the development of the other lines of action due to its impact on hygiene, health, education, equality, lifestyle and nutrition, among others. **Water is a vital resource for development.**

However, Canal's contribution to the United Nations 2030 Agenda has sought to go beyond the **SDG 6 objectives (clean water and sanitation)** directly related to our activities and has sought to take advantage of the aforementioned cross-cutting nature of water with respect to the rest of the SDGs. To achieve this from the outset, we established the correlation between the 17 SDGs and the **objectives of the 10 strategic lines** that make up our 2018-2030 Strategic Plan.

Thanks to the efforts of the people who work in each of the **10 lines of work of the Strategic Plan**, we are making progress in specific aspects of each of the **17 SDGs**. This progress is achieved by developing and implementing 45 plans and 100 actions included in the Strategic Plan and is monitored on a quarterly basis using more than 50 indicators developed to measure the degree of compliance with each strategic line of action.

Correlation between the objectives of the Canal Strategic Plan and the SDGs (2023)



All results are published on our website on an annual basis with the main achievements and progress of each of the actions of our Strategic Plan. In addition, this commitment also translates into part of the remuneration of Canal's employees, as it is linked to the achievement of the objectives of the actions included in the Strategic Plan.

Degree of compliance with the indicators of the Canal Strategic Plan associated with each of the SDGs in 2023 (% of target)



In the following sections of this report, we elaborate in more detail the description of our company's activities and achievements in 2023 in the plans and actions that correlate with each of the SDGs.

Correspondence of material issues for Canal with the lines of the 2018-2030 Strategic Plan and the SDGs (2023)

Asterisks (*) mark the priority strategic line to address each material issue [GRI 3-1]

	1	2	3	4	5	6	7	8	9	10
	Agua Cantidad	Agua Calidad	Agua Continuidad	Entorno	Ayos.	Cientes / Usuarios	Gobierno y Sociedad	Equipo humano	Innovación	Sostenibilidad Económica
Cuestiones materiales CRÍTICAS										
Transparencia, ética y lucha contra la corrupción							*			
Satisfacción y compromiso con los clientes					*	*				
Transición a economía circular y consumo responsable				*						
Seguridad del servicio y ciberseguridad			*						*	
Generación de energía limpia y renovable				*					*	*
Innovación, nuevas tecnologías y transformación digital								*	*	
Gestión del riesgo							*			*
Cuestiones materiales RELEVANTES										
Cambio climático	*			*						*
Sostenibilidad de la cadena de suministro							*			*
Gestión eficiente de los recursos	*			*		*			*	
Seguridad, salud y bienestar		*	*					*		
Gestión del talento								*	*	
Biodiversidad	*			*						
Sostenibilidad económica (incluyendo esquema tarifario)										*
Otras cuestiones materiales										
Desarrollo socioeconómico y cultural					*	*	*			*
Diversidad, igualdad e inclusión							*	*		
Derechos Humanos						*	*	*		
Desarrollo del modelo de negocio					*				*	*
ODS RELEVANTES										
	ODS 6	ODS 6/9	ODS 3/9	ODS 7/13/15	ODS 11	ODS 11/12	ODS 1/16/17	ODS 4/5/10	ODS 9	ODS 8

Once **the critical and relevant material aspects have been identified** and their **correspondence with the United Nations SDGs** has been established, the following sections of this report will describe in detail **the performance of our company in 2023** through the main activities that we have carried out in each of the lines of the **Canal de Isabel II 2018-2030 Strategic Plan**.



ENSURING SECURITY OF SUPPLY

2.1. Water for everyone, every day

[GRI 303-1]

The main responsibility of our company is to ensure the current and future supply of water to all our users. To do this, we need to have the right infrastructure and tools in place to manage the resource in an efficient and sustainable way.

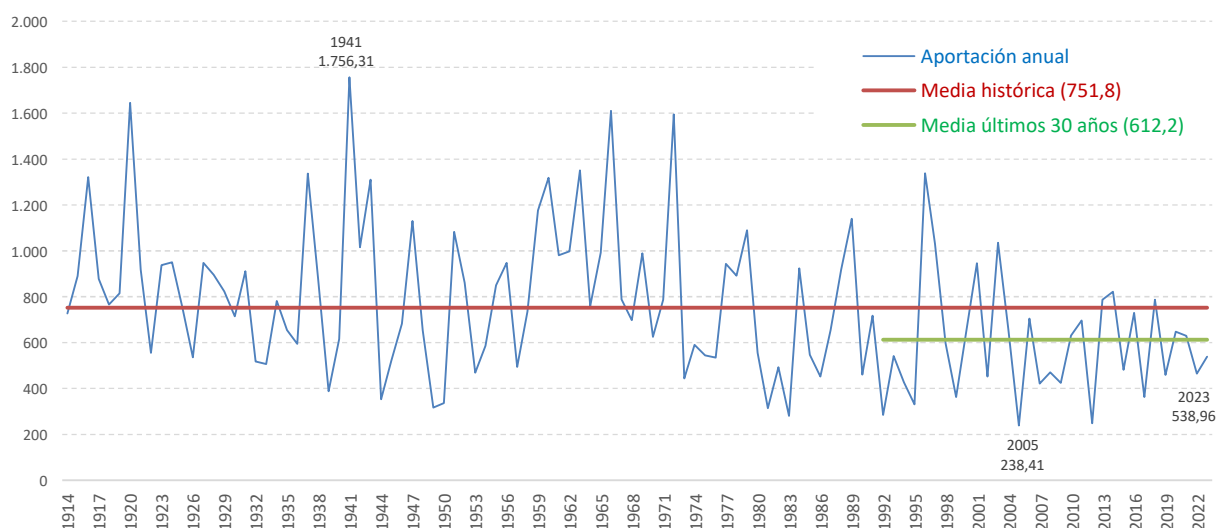
ENSURING ACCESS FOR ALL TO A QUALITY RESOURCE

[GRI 3-3]

Achieving maximum efficiency and continuing to provide quality and sustainable services over time is one of the main challenges we face. As a consequence of climate change, situations of water scarcity and "water stress" are expected to become increasingly frequent in Spain.

In the case of the Region of Madrid, we are already experiencing some of these risks. This is shown, for example, by the reduction of almost 20% in the average water inflow to our reservoirs over the last thirty years compared to the historical average since 1914.

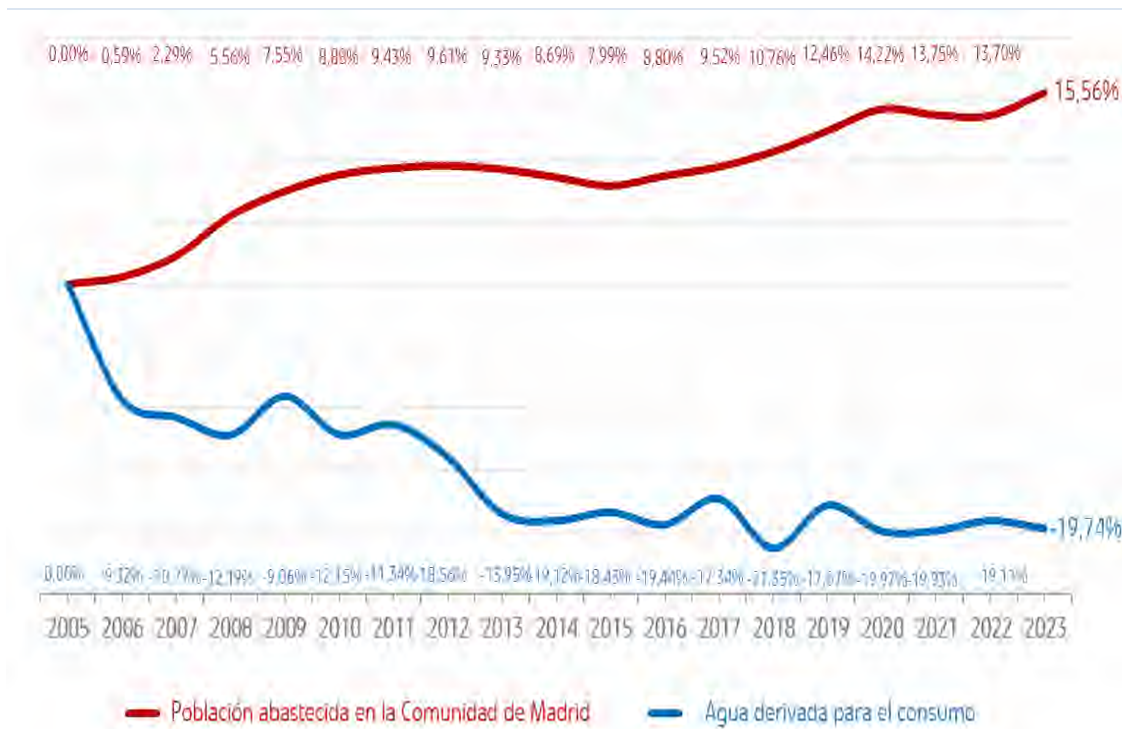
Natural river inflows to Canal reservoirs (1914-2023)
(million cubic metres per year)



Despite the lower inflows, since the extreme drought episode of 2005, Canal has been able to cope with a large population increase with the same reservoir capacity. In these 18 years our population supplied in the Region of Madrid has increased from 5.74 million

inhabitants in 2005 to 6.63 million inhabitants in 2023; this represents an increase of more than 15.5 % over 18 years, while consumption has decreased by almost 20 %.

Evolution of the use of the resource (derived water) and the population supplied 2005-2023 (% increase compared to 2005)



Tackling this challenge means acting in various ways, seeking solutions through the catchment of **alternative resources** and new infrastructures, through policies to promote **consumption savings**, through greater **efficiency in the management** of the resource and through the extension of the supply of **reclaimed water** for compatible uses.

Alternative sources of supply

In the area of supply, our objective is to have more resources that allow us to mitigate the effect of the **decrease in natural inflows** and, on the other hand, to have facilities that allow us to operate with sufficient flexibility from the different sources of supply available to us.

Among these resources, our capacity to transfer water from the Picadas and San Juan reservoirs and, to a much lesser extent, from the Los Morales reservoir, all of which are located in the **Alberche river basin**, where we have the corresponding concessions, stands out. With 2023 being such a dry year due to the lack of rainfall, it was necessary to transfer more than 146 million cubic metres from these reservoirs (25 less than in 2022).

We also have the possibility of exploiting **groundwater** through the exploitation of **78 wells**, an essential strategic reserve for drought situations. Our wells exploit the **Cretaceous carbonate**

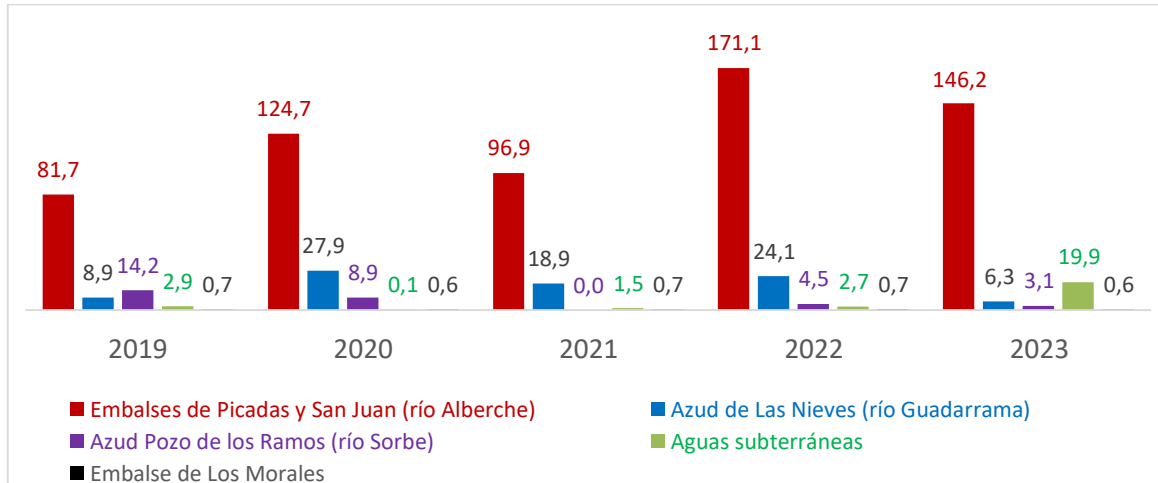
aquifer of Torrelaguna (Madrid) and, fundamentally, the **Tertiary Detritic aquifer of the Madrid Basin** (one of the most important in the Iberian Peninsula) in which we have **wells up to 800 metres deep**. In 2023, the usage of wells was the highest in recent years and brought us almost 20 million cubic metres (19.9).

On the other hand, we have the possibility of catching water from the **Guadarrama river**, transferring it to the Valmayor reservoir via the Las Nieves dam. We also have the possibility of obtaining water from the **Sorbe river** using the Pozo de los Ramos weir in the province of Guadalajara, which connects to the Jarama Canal. In 2023, between the two dams, we have obtained more than 9 million cubic metres.

Finally, since 2010, the **Tagus DWTP** has enabled us to provide the people of Madrid, if necessary, with resources from this river, thanks to the most advanced reverse osmosis and ultra-filtration technologies.

All these possibilities, together with **communication between the supply systems** of the Region of Madrid, give us great flexibility in operation and enhance our ability to guarantee the availability of water for users. In 2023, a dry year, the **volume provided** by these catchments was **176.1** million cubic metres, **13.3% less** than in 2022 (203.1 hm³).

Use of alternative resources to Canal reservoirs in the period 2019-2023 (million cubic metres per year)



Reclaimed water: a real alternative

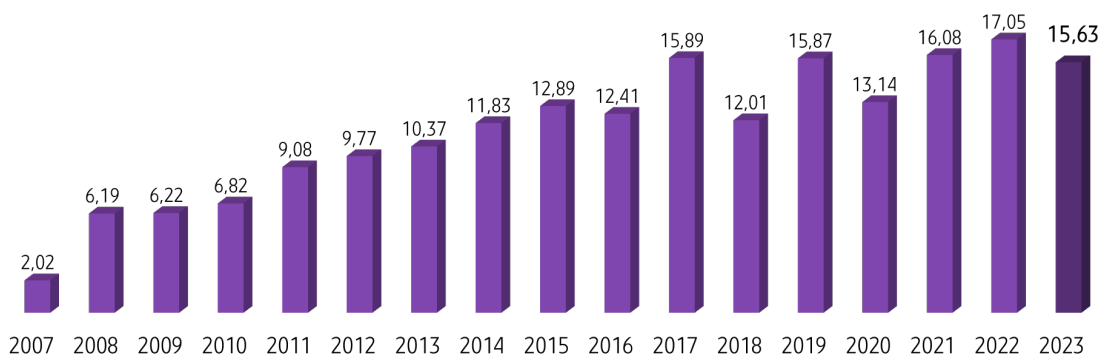
[GRI 301-2] [GRI 303-3]

The reclamation of wastewater for subsequent reuse is one of our major commitments for the future. Thanks to reclamation, we will be able to obtain a large volume of water **for certain uses not related to supply** for human consumption which, however, today represent an important part of the demand: irrigation of public parks and gardens, golf courses, street cleaning and even for certain industrial processes. By using reclaimed water we manage to **reduce the pressure on the resources stored in our reservoirs**, which means a more rational and sustainable management of these resources.

Canal manages **33 reclamation plants, 744 kilometres of reuse networks** and **64** reclaimed water **tanks**. With these infrastructures, we serve **26 municipalities** and **11 golf courses** (789 hectares), as well as one industry (International Paper) and **15 other entities** (229 irrigated hectares). Thanks to agreements signed with municipalities, 401 municipal parks and green areas in the region will be irrigated with reclaimed water by 2023.

In 2022, reused water in the Region of Madrid reached its **historical maximum with 17.05 million cubic metres** of reclaimed water reused. However, **in 2023, circumstances related to rainfall have not allowed us to reach more than 15.62** million cubic metres, as high rainfall has been recorded in some of the months in which the consumption of reclaimed water for irrigation is traditionally higher (June, September and October). The reused water consumed in 2023 is equivalent to **3.19% of total drinking water consumption** in the region (it was 3.46% in 2022), a volume similar to the consumption recorded in 2023 in all households in the cities of Getafe and Alcorcón.

Consumption of reclaimed water for reuse (million cubic metres per year)



In the last 17 years (from 2007 to 2023), 193.27 million cubic metres of reclaimed water have been reused in the Region of Madrid, equivalent to slightly more than the capacity of the Valmayor, El Vado, Navacerrada and Navalmedio reservoirs combined.

In addition to the water reused in 2023, our plants have produced a further **91.53 million cubic metres of reclaimed water, which have been discharged into riverbeds** to improve the quality of their water bodies.

In 2023, the **total volume of reclaimed water** produced in our tertiary treatment plants was **107.16 million cubic metres**, equivalent to **21.88% of the drinking water consumed** in the Region of Madrid. Our tertiary plants have operated at **95.36% of their nominal production capacity**.

Distribution by uses of reclaimed water produced in 2023 (hm³ and % of total consumption)

With regard to the consumption of reclaimed water in recent years, the significant increase in consumption by the company **International Paper** (located in Fuenlabrada and dedicated to the manufacture of cardboard from recycled paper) stands out, which has increased its consumption in 2023 to **2.9 cubic hectometres per year**, almost **7% higher** than 5 years ago (in 2019).

Distribution in % of water reused in 2023 by type of use (% of total water consumed)



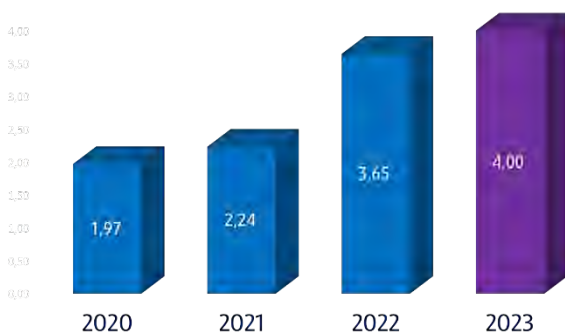
Fight against water fraud

Canal has a specific area dedicated to **combating water fraud**. The task of detecting fraud involves several stages, the final result of which is often channelled through a **complaint to the Judicial Authority**, as it is understood that we are dealing with activities that may be included in Chapter VI of the Criminal Code - *Fraud*. In other cases, the preventive condemnation of non-contracted connections is carried out to avoid their illegal use; occasionally, the result of the action is transferred to other Canal areas when it is understood that this case may be within their competence, due to its special characteristics.

Throughout 2023, as a result of our efforts in the fight against fraud, we have detected fraudulent situations involving more than **4 million cubic metres of water** (9.58% more than in 2022) and we have also recovered **512 thousand euros for the amounts of water defrauded** (46% more than in 2022). In addition, we have made **377 convictions** of fraudulent connections and **205 contracts** have been negotiated and signed to regularise fraudulent situations.

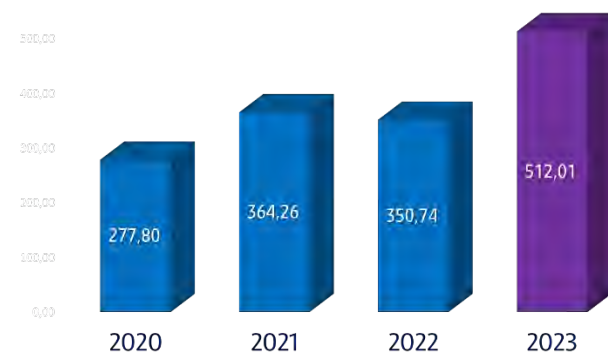
Fraudes de agua detectados

(valor acumulado anual del fraude detectado en hm³)



Resultados económicos de la lucha contra el fraude

(valor en miles de euros de los ingresos por fraude detectado a lo largo del año)



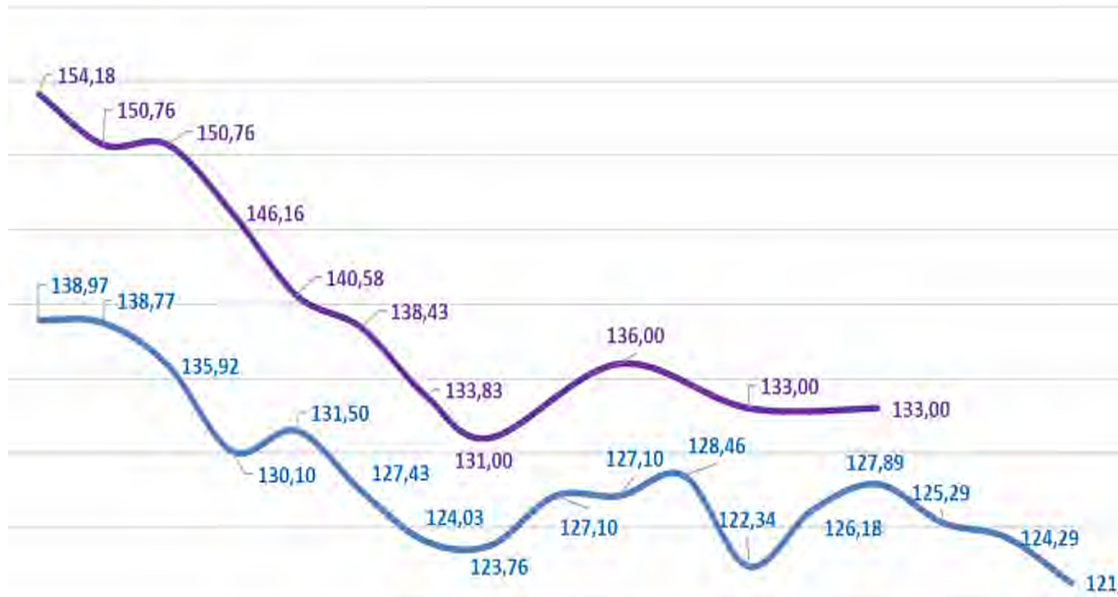
Awareness and communication campaigns

Caring for water and giving it the importance it deserves **is everyone's job**, and that is why at Canal we seek the collaboration of all citizens and entities to permanently care for this scarce resource. Our company has more than three decades of experience in the development of **communication campaigns** to save water and care for the environment. Campaigns that are recognised by communication professionals and their target audiences.

Our communication campaigns are permanent and their high impact has placed Madrid among the regions that have reduced water consumption the most in recent years, as shown by the evolution of household consumption in the Region of Madrid, which in 2023 (122.22 litres per

inhabitant per year) was almost 9% less than the national average⁵ (133 litres per inhabitant per year).

Domestic water consumption in the Region of Madrid and Spain (litres per inhabitant per day)



In 2022 and 2023, the person responsible for delivering our savings advice to households, residents' associations and businesses in Madrid has been "**Isabel, la del 2º**" (**Isabel, from the 2nd floor**) a friendly and likeable character, around whom our media campaigns have been created and which have had a high impact and acceptance.

For more details on our communication campaigns, follow this link:

<https://www.canaldeisabelsegunda.es/cuidamos-el-agua>

Raising awareness for future generations: Canal Educa

The **Canal Educa** programme, currently managed by our Foundation, celebrated its 30th anniversary in 2021 and its main objective is to promote responsible water consumption among the school community and to transmit values of environmental sustainability.

To this end, from the outset we set ourselves the goal of offering schools attractive activities and resources that would facilitate the important task of educating, by focusing on an action-oriented methodology, in which pupils not only learn new content and skills, but also acquire fundamental values such as solidarity, respect and coexistence.

⁵ Latest available data published in the *Statistics on water supply and sanitation* published by INE in 2022 with data at year-end 2020

Every year, Canal Educa adapts and expands its educational offering. The number of facilities in the integral cycle visited by schoolchildren has varied and increased, as well as the number of face-to-face activities in Madrid's educational centres. It also offers the possibility to carry out activities in English, and to receive them through webinars. It is worth highlighting the programme's dissemination of *STEM* professions through face-to-face activities and the availability of numerous resources on its website.

During 2023, the programme had **56,813 participants** in **school-based** activities and site visits. The number of online resource consultations reached **96,859** participants.

To keep up to date with all the activities we propose throughout the year, we encourage the educational community to subscribe to the programme's newsletter or follow us on our social media.

More information is available at this link: www.canaleduca.com

In addition to the Canal Educa activities, our Foundation has carried out **36 other environmental activities** throughout 2023, with **163,820 participants**. These include **scientific-environmental workshops for children**, the dissemination and awareness-raising through our **environmental video blog** and the production of a **practical guide on taxonomy, water and the environment**. Our Foundation also celebrated **Innovation Day** with an event dedicated to showcasing innovative environmental initiatives, including the experience of Canal's R&D&I area and three conferences on environmental issues held throughout 2023.

Collaboration with other entities in relation to the water cycle

[GRI 2-28]

In terms of urban water cycle management, Canal de Isabel II actively participates with external entities related to water and especially with its rational use and quality. In recent years, it has collaborated, among others, with the following entities:

- Ministry of Health.
- AEC (Spanish Quality Association).
- IMDEA Agua.
- SWAN - Smart Water Networks Forum.
- European Benchmarking Co-operation.
- IWA (International Water Association).
- Regional Ministry of Health of the Region of Madrid.
- Madrid City Council.
- Universidad Complutense de Madrid.
- Universidad Politécnica de Madrid.
- Chemical and Pharmaceutical Associations.
- AEAS (Spanish Association of Water Supply and Sanitation).

- AGA (Spanish Association of Urban Water Service Management Companies).
- EUREAU (European Water Suppliers Association).
- FELAB (Association of Testing, Calibration and Analysis Entities).
- Spanish Metrology Centre (CEM).
- University of Gothenburg (Sweden).
- UNDESA Sustainable Water and Energy Solutions Network - United Nations.
- Independent Business Confederation of Madrid (CEIM)

In 2023 we received recognition from *European Benchmarking Co-operation-EBC* for our company's participation, leadership and contribution to this initiative's programme.

The management of our company attracts the interest of many academic, scientific and urban water sector institutions. Proof of this is that throughout the year 2023 **we have received almost 2,000 visitors** spread over **107 visits**: 71 of them from the university or academic world, and 36 of an institutional nature with delegations from public bodies and other companies in the sector, both national and foreign. All of them were able to experience in situ, accompanied by Canal technicians, how the urban water cycle is managed in the Region of Madrid.

Improving the efficiency of our network

One of Canal's strategic priorities has always been to implement internal actions that allow water to be managed with the greatest efficiency in the distribution network, with the aim of reducing leaks and breaks in the network and at service connections.

The policy of renewal and improvement of the distribution network aims to minimise water losses due to leaks and breaks and to reduce damage to third parties due to flooding.

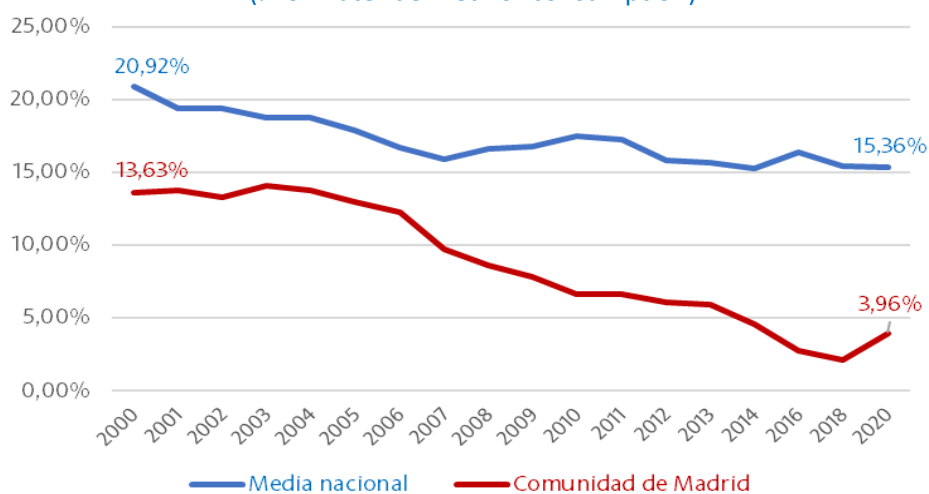
Canal's historical efforts have resulted in a significant improvement in our break rates over the past 18 years, with a **56% reduction in pipe breaks**. This is despite the growth of the network and the incorporation in 2012 of networks in new municipalities with a poor level of maintenance. In 2023, compared to 2022, the reduction was 5.7%.

Pipe breaks per kilometre of network



The result of all Canal's efficiency efforts is reflected in the efficiency data available for our network. In this way, real losses in adduction and distribution caused by leaks, breaks and breakdowns in the supply network, as well as apparent losses due to metering errors, fraud and unmeasured consumption, have been significantly reduced in recent years. In fact, **according to data published by the National Statistics Institute (INE), apparent losses in the Region of Madrid were 15% lower than the national average in 2020 and real losses were 76% lower.**

Actual losses in the water supply networks (2000-2020) (% of water derived for consumption)



Source: Statistics on water supply and sanitation published by INE in 2022 with data at year-end 2020.

Canal has achieved these results by approaching the situation from several perspectives. Given that its network has almost 18,000 kilometres of pipelines, the first action was to divide it into smaller parts (around 700 sectors) that are easier to control. Similarly, minimum night-time flow monitoring, combined with a comprehensive set of indicators from different information systems, has yielded excellent results in the early detection of leaks throughout the distribution network.

Canal is currently trying to improve leak detection by monitoring pressure and noise within the sectors, as well as by using methods based on satellite or fibre-optic imagery. As a result, the distribution network in the Region of Madrid is among the most optimised in the world.

In addition to these efficiency-related actions, in recent years we have also carried out actions to **renew the network through our RED Plan**. In this plan, we are particularly focusing on replacing obsolete pipelines with more advanced and modern materials. For example, ductile cast iron (iron alloyed with graphite), which has a higher strength and hardness and is used to renew networks with diameters of up to 800 millimetres.

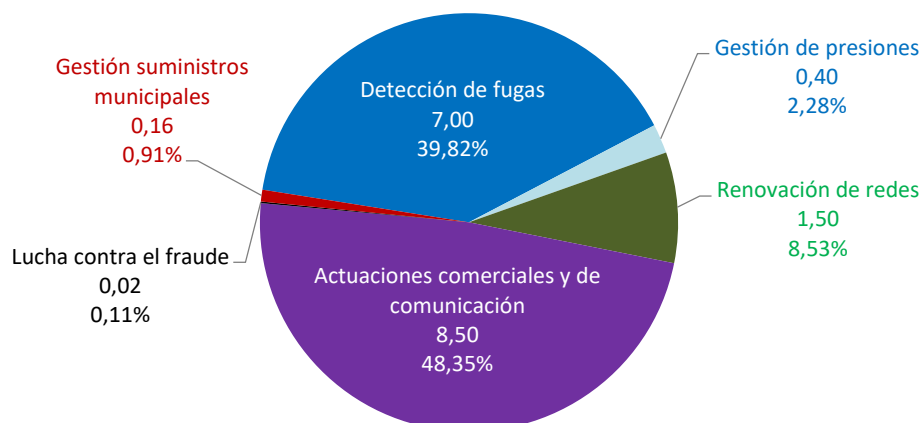
The **first phase of the RED Plan** initiated in 2021 is **one of the largest investments made by Canal** throughout its history to guarantee the quality and supply of water in the region and increase the efficiency of the distribution network. This phase includes the renovation of **1,200 kilometres** of water supply pipes in **163 municipalities**. Thanks to the effective start-up of the Plan, the **kilometres renewed have almost doubled** compared to our historical average, reaching **190 in 2022** and **257.5 in 2023**.

Results in terms of consumption reduction

Throughout the year 2023, we estimate that the combination of all the efforts we make in terms of efficiency in water use (renewal of networks, campaigns to detect leaks, pressure management, fight against fraud, communication and awareness campaigns...) has made it possible to avoid the consumption of 17.58 million cubic metres, equivalent to 3.59% of the water derived for consumption in 2023 or the water necessary to supply the total consumption for a year of 238,700 people (like the sum of the inhabitants of Móstoles and Paracuellos de Jarama).

Estimated savings from efficiency measures in 2023

(millions cubic metres and % of total)



RECOGNITION FOR OUR EFFORTS

Sustainability and Environment Awards of the newspaper LA RAZÓN

On 31 October 2023, the award ceremony for the third edition of the **Sustainability and Environment Awards** organised by the newspaper **LA RAZÓN** was held. These awards recognise leaders who promote a sustainable business model, energy innovation, intelligent planning and recycling.

The **ceremony was chaired** by the Regional Minister for the Environment, Agriculture and the Interior of the Region of Madrid and **Chair of Canal de Isabel II**, Mr. Carlos Novillo Piris, who was one of the presenters of one of the newspaper's numerous awards for environmentally and sustainability responsible business initiatives.

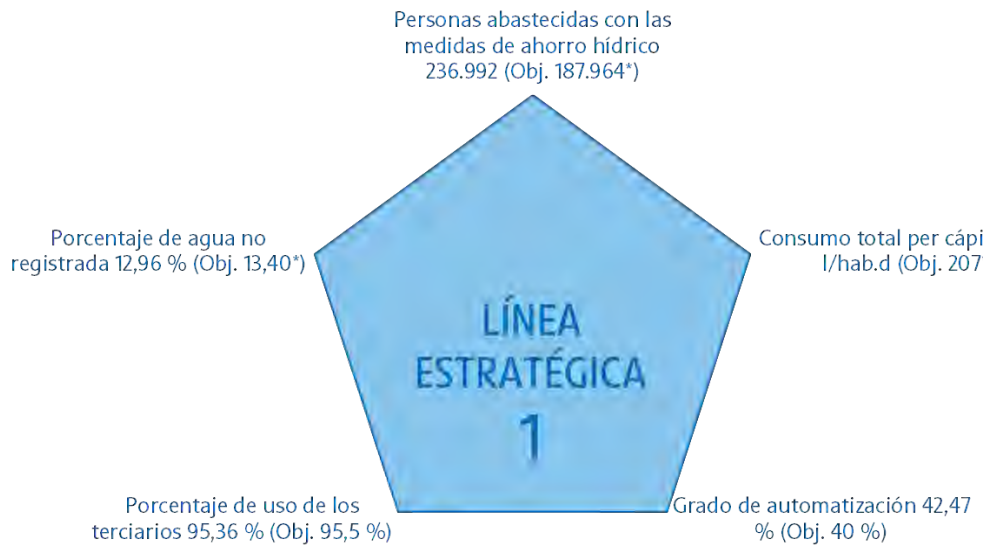
Carlos Novillo, Madrid's Regional Minister for the Environment, was also in charge of closing the ceremony in which he highlighted that "the awards that we have just presented reflect innovation in electric mobility, technology at the service of good business practices, the good use of the digital alternative, the commitment of spaces and tourism companies to the environment, responsibility in waste management with zero waste, urban excellence from the leadership of affordable housing and efficient management of the water cycle".

In this edition of the awards, Canal de Isabel II was honoured with the "**Award for the Sustainable, Intelligent and Efficient Management of the Most Important Resource for the Lives of the People of Madrid, Water**", which was accepted by our Chair and CEO.

The awards of the newspaper LA RAZÓN are just one more of the many awards that our company has received in recent years and that recognise the **progress made by Canal with the help of the people of Madrid** in terms of efficiency in the management of water resources, in which we are a benchmark company at national and international level.

Monitoring of indicators Strategic Plan. Strategic Line 1

Ensuring security of supply





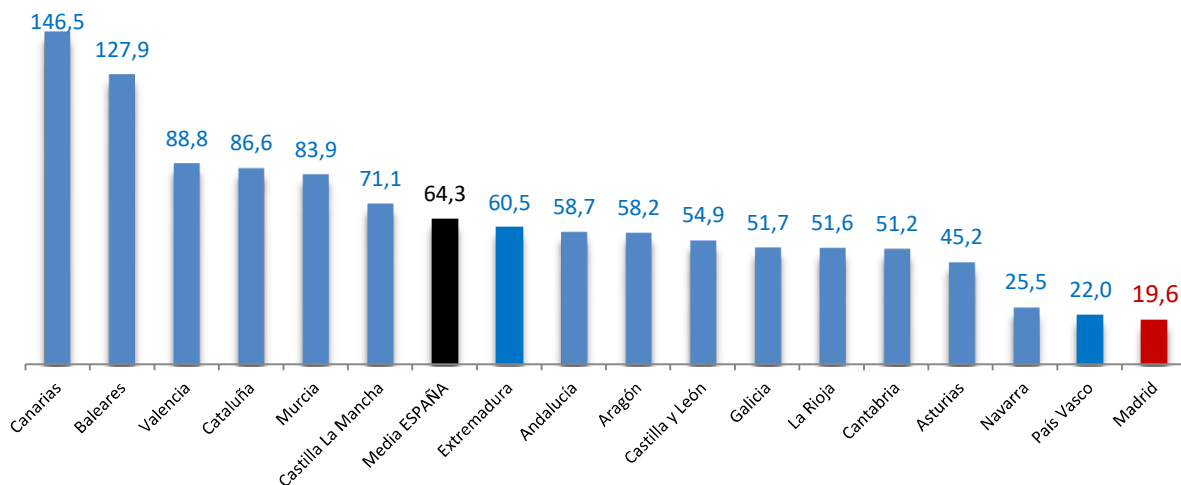
ENSURING DRINKING WATER QUALITY
2.2. The best water in Spain

[GRI 3-3]

The quality of the water that Canal de Isabel II serves to the people of Madrid is one of the hallmarks of the Region of Madrid.

Madrid's water is considered to be of the highest quality in Spain. For example, bottled water consumption in the region in 2022 (19.6 litres per inhabitant per year) is 69.5% lower than the Spanish average (64.3 litres). There are many reasons for this quality. We have excellent raw materials at source (our reservoirs and catchments), adequate and advanced treatment systems and the great effort we make to preserve and maintain the quality of the water.

Consumption of bottled water by Autonomous Communities
(litres per inhabitant per year 2022)



Source: Report on Food Consumption in Spain 2022. Ministry of Agriculture, Fisheries and Food (2023)

HOW WE GUARANTEE WATER QUALITY

[GRI 416-1]

In order to guarantee the quality and safety of the water, Canal has established a monitoring programme from the source of supply to its delivery to the consumer.

The analyses corresponding to the water supply water quality **monitoring and control programme** are carried out in five laboratories integrated in the Water Quality Subdirectorate and in another twelve laboratories integrated in the treatment areas. In them, the determinations required by the legislation on sanitary criteria for the quality of water for human consumption are carried out. Canal also manages the quality control of the effluents treated in the WWTPs and the quality of the reclaimed water used to irrigate green areas.

Throughout 2023, we have taken more than **3.38 million** water quality **samples** of the water managed by Canal and performed **20.86 million analytical checks** to ensure water quality. This means more than **9,000 checks per day** or almost **40 analyses per minute**.

Water control at source

The control of water at source considers the two possibilities of available resources: surface water and groundwater.

Surface water **monitoring** is carried out by means of a **limnological study of the reservoirs and rivers** used for catchment, while groundwater monitoring is aimed at the analytical characterisation of the resource, in compliance with the environmental conditions for groundwater established by the Regional Government of Madrid.

Surface water for drinking water production is usually of a high quality. **Most of the surface water captured** by Canal is **classified at the highest quality levels** established by current legislation. In 2023 we have carried out **111,388 water controls** at source.

Monitoring of distributed water

For the monitoring of treated and distributed water, we use two programmes based on classical manual sampling:

- **Systematic programme** at the inlet and outlet of DWTPs, header and regulating tanks, and official sampling points located throughout the network.
- **Ancillary programme**, without established programming for complaint handling and specific studies.

The manual sampling system is complemented by a network of **97 automatic monitoring systems (AMS)**, installed at the outlets of the DWTPs, the large tanks and the most important nodes of the supply network. All of them are equipped with sensors to measure a series of chemical parameters continuously and send the results in real time through Canal's own communication network to our Control Centre.

The parameters we measure in the AMSs are chosen specifically for their importance in **diagnosing water quality**. Their number is in the process of increasing through a multi-annual programme. Analytical determinations in AMSs include chlorine, ammonium, nitrites, pH and conductivity, among others.

Monitoring of waste and reclaimed water

Our company also manages the **quality control of effluents treated at WWTPs** and the **quality of reclaimed water** used for irrigation of green areas and street cleaning.

For this purpose, we have a **Purified Water Laboratory** located in Majadahonda (Madrid), which in its 2,200 square metres has a physicochemical laboratory, a microbiology laboratory, a laboratory for the analysis of organic pollutants and another for metals and solid samples, an incubation room and a data and microscopy room, among other facilities. In addition, we have three other laboratories for wastewater analysis at some of our WWTPs.

Our monitoring programme allows us to maintain a permanent alert system through an **AMS network consisting of 95 stations for treated water and 65 for reclaimed water**, which we also use for strict control of treated water from the entry into the WWTPs until it is returned to the rivers, and for the control of water from the reuse networks.

Compliance with drinking water regulations

In 2011, Canal **obtained for the first time, from the National Accreditation Entity (ENAC)**, the accreditation according to **standard UNE-EN ISO/IEC 17025** for the performance of **physicochemical and microbiological analyses** at our **Central Laboratory** and those located in **La Poveda**, Arganda del Rey and **Griñón**. The accreditation has been extended by the incorporation of new test methods and now includes inland and drinking water and reclaimed water in its scope.

Furthermore, all our laboratories and AMSs are included in the scope of application of the quality and environmental management systems implemented in the company and certified, since 1997, according to **UNE-EN ISO 9001** and UNE-EN ISO 14001 standards.

Our latest incorporation was in 2017, with the entry into service of the laboratory for drinking water analysis in **Collado Villalba**, which reinforces the control of drinking water in the northwest of the Region of Madrid.

Since 2009, we have also have accreditation for the **cold water meter verification laboratory in Majadahonda** (file 278/ LE1569), which was later extended to flow meters.

During 2023, the degree of compliance of the water distributed, in percentage of samples complying with the standard out of the total number of analysed samples sent and confirmed by SINAC (Sistema de Información Nacional de Agua de Consumo, National Drinking Water Information System) of the Ministry of Health, was **99.36%**.

In the field of drinking water quality in 2023, the entry into force of **Royal Decree 3/2023, of 10 January, establishing the technical-sanitary criteria for the quality of drinking water, its control and supply**, should be highlighted. This decree has increased the number of parameters to be analysed, both microbiological and physico-chemical.

Among the microbiological ones we have new ones such as *Legionella* and somatic coliphage viruses. In addition, the frequency of analysis of aerobic bacteria at 22°C and intestinal enterococci has been increased and will now be determined in all samples. Among the physico-chemical parameters modified by the entry into force of RD 3/2023 are uranium, organic

compounds such as 5 haloacetic acids, 20 polyalkylfluorinated compounds, other compounds of emerging concern such as acrylamide, N-dimethylnitrosamine and in the very near future, microplastics will be included.

Although our current quality levels are very high, Canal's medium- and long-term objective is to continue to maintain these levels and to adapt to new regulations that may arise in the future.

Monitoring of indicators Strategic Plan. **Strategic Line 2** *Ensuring drinking water quality*



CORONAVIRUS MONITORING - The Vigía System

Under the idea that wastewater provides a snapshot of the state of health of the population that generates it, and in the face of the pandemic caused by COVID-19, Canal de Isabel II launched an ambitious project for the detection, monitoring and visualisation of SARS-CoV-2 (the coronavirus that causes the disease COVID-19) in July 2020: **the Vigía monitoring system**.

Vigía is the largest COVID-19 tracking and early warning initiative that has been developed in Spain to date, both in terms of the large number of sampling points (289) and the population studied: the system covers the 179 municipalities of the Region of Madrid, with 6.8 million inhabitants. The system is made up of two fundamental components: on the one hand, the protocol for **taking samples** and their **physiochemical and genomic analysis**; and on the other hand, the **analysis of the results** and their subsequent communication, both to the health authorities on a daily basis and to the general public on a weekly basis.

The results obtained by Vigía have been so positive that we have created a permanent warning network with its own **genomics laboratory** that will play an important long-term role in predicting, analysing and anticipating possible future adverse situations.

Since its launch in July 2020, Vigía has become an effective element in the health authorities' management of the pandemic and **has managed to anticipate the 6 waves of the disease** in the region. For this reason, **in 2022, Canal registered the Vigía System with the territorial intellectual property register**, with the aim of guaranteeing the ownership of its economic and exploitation rights.

Since its inception, Canal de Isabel II has made available to citizens a freely accessible interactive map where they can consult the trend in each area, the date of the last validated analysis, the indicator of the presence of the virus and a comparative value of the latest data with respect to the previous ones at the same point. In addition to the map, Canal publishes summary reports with the general trend of presence in the municipalities of the Region of Madrid, the city of Madrid and the variation in sampling points. All this information is available on our website and has received hundreds of thousands of hits throughout the months of the pandemic.

In 2022, given the evolution of the COVID-19 pandemic, the frequency of SARS-CoV-2 related sewage sampling and the updating of the occurrence map was reduced to monthly. However, a small network is maintained which, on a weekly basis, carries out these same analyses as an early warning indicator and whose results are currently still published in the weekly report format.

Since its inception, Vigía has attracted the interest of institutions such as the United Nations and the European Union; medical events like *the World Pandemic Forum* as well as dozens of scientific publications such as *The Lancet* and *Environmental Research*, among others.

As a result of this interest, Canal de Isabel II was chosen by the EU-WOP programme to develop the Vigía System for tracking, monitoring and early warning of COVID-19 in wastewater in the metropolitan areas of Lima and Callao, which have more than nine million inhabitants (30% of Peru's population) and are managed by the Peruvian state-owned company SEDAPAL. In 2023 we have continued with the implementation of this project, highlighting the two training missions that have been carried out between both companies as well as the joint participation in the GWOPA International Congress in Bonn (Germany).

Evolution of the results of the Vigía System for the Region of Madrid (July 2020 - December 2023)





STRENGTHENING CONTINUITY OF SERVICE

2.3. Reliable service (24/7)

[GRI 3-3]

Canal must guarantee the security of service that allows continuous supply and contributes to the well-being of all the people of Madrid. To this end, we must have systems in place to ensure the security of our facilities, some of which are critical, our information systems and our personnel.

ENSURING THE SAFETY OF FACILITIES AND PEOPLE

In order to ensure the supply of drinking water to the citizens of the Region of Madrid, Canal de Isabel II must guarantee the management and control of the safety of all its facilities and premises.

To this end, we deal in a coordinated manner with key aspects such as building and facility security services, self-protection plans, security at large dams, coordination with the State Security Forces and the protection of customer-related data.

Operational security

[GRI 410-1]

Canal de Isabel II manages a large number of infrastructures susceptible of being considered of special risk, in addition to an important heritage that is subject to different pressures in some of the infrastructures we manage.

At the end of 2023, 355 people were responsible for Canal de Isabel II's security, guarding our 1,106 different facilities throughout the territory of the Region of Madrid. As of 31 December 2023, we had 90 fixed guard posts in place and 24 external monitoring and security patrols, which allow for increased surveillance when needed. All security personnel, as required by current regulations, have received **training** in the **fundamental rights of citizens**.

As of 31 December 2023, the existing coverage of electronic security systems includes CCTV surveillance, intrusion detection systems and card or electronic key access control to multiple facilities. Our closed-circuit television (CCTV) systems manage more than 1,100 cameras, many of which perform automated monitoring without human intervention, increasing operator efficiency and responsiveness.

Self-protection of buildings and facilities

During the year 2023, our company has continued to make progress in this area. The main actions carried out include the preventive maintenance of the self-protection systems in 52 of our buildings and the great effort made in the preparation or renewal of 33 self-protection plans (in previous years there were 2 in 2021 and 4 in 2022).

The implementation of self-protection plans is organised on two solid bases: training and involvement. For this purpose, the personnel who will be part of the teams are selected on a voluntary basis, and then all staff are trained. Since 2022, once the limitations of previous years caused by the last stages of the COVID-19 pandemic have been fully overcome, the number of evacuation drills in our premises and workplaces has increased to a normal frequency. In 2023 we conducted 102 such drills. We have also been able to fully resume face-to-face training for our employees and, for example, 56 fire training courses have been held, including live fire practice (8 more than in 2022 and 49 more than in 2021).

DATA PROTECTION IN RELATION TO CUSTOMERS AND SUPPLIERS

[GRI 418-1]

The **protection of the data** that our customers and suppliers, among other groups, make available to us to facilitate our work is a very important aspect for Canal and we manage it with special care.

In 2023 we have continued the process of continuous improvement and reassessment of all processes and procedures to ensure that they are compliant with the indications of *Regulation (EU) 2016/679 of the European Parliament and of the Council, of 27 April 2016, on the protection of natural persons with regard to the processing of personal data and on the free movement of such data* and with *Organic Law 3/2018, of 5 December, on the Protection of Personal Data and Guarantee of Digital Rights*.

In this regard, with the aforementioned objective in mind, the principles of data protection continue to be implemented in the different processes and procedures, applying technical, organisational, training and legal measures. During the year **2023, 162 exercises of data protection rights** have been **dealt with**. In addition, data protection clauses have been included in **173 contracts** and **13 suggestions and complaints from customers and users** have been resolved.

On the other hand, **data protection training** continues to be provided through induction sessions **for all employees** and specific training has been provided in the area of the contract relating to customer and user services.

You can consult our **Personal Data Protection Policy** at the following link on our website:

https://www.canaldeisabelsegunda.es/documents/20143/2458494/Política+de+Protección+de+datos_13022020_.pdf/e910105c-e05b-675e-2c73-f939c3baa3ae?t=1581675971614

INFORMATION SYSTEMS SECURITY AND BUSINESS CONTINUITY

In the area of information security at Canal, we seek to achieve a **higher degree of maturity** in cybersecurity management aligned with international standards and commonly accepted best practices in the field of information security such as those established by the National Centre for Critical Infrastructure Protection (CNPIC) and the Spanish National Institute for Cybersecurity (INCIBE).

In the area of Operational Technology (OT) assets, we work to increase **cybersecurity levels** by taking into account the nature of this technology and its specific requirements; to reinforce systems to prevent and detect cyber-attacks through better use of Threat Intelligence; to establish operational protocols for responding to cyber-attacks and through regular cybersecurity training and awareness-raising activities for all company employees.

Our objective is to position Canal de Isabel II among the companies in the sector with the highest rates of cyber-resilience.

GUARANTEEING SERVICES IN EMERGENCIES

Managing the consequences of the September 2023 DANA

In 2023, the passage of an Isolated High Level Depression (DANA) through our country between 2 and 4 September affected the southwest area of the Region of Madrid with particular severity. The most affected municipalities were Aldea del Fresno, Villa del Prado, Villamanta and Villamantilla, with a combined population of 15,031 inhabitants.

Despite the fact that some of the local councils most affected by the DANA, such as Aldea del Fresno, Villamanta or Villa del Prado do not have a water distribution agreement with Canal, our company paid the greatest attention to them from the first moment, collaborating with the affected local councils and the emergency services of the Region of Madrid to alleviate, as far as possible, the impact on the population affected by the shortage of drinking water or its inadequate quality.

To do this, we deployed our teams on the ground, mobilised our tanker trucks and provided pallets with jugs of drinking water produced at our emergency bottling plant at the Colmenar Viejo DWTP. Throughout the crisis, Canal supplied more than 30,000 litres of water to the residents of the most affected municipalities.

The situation in Villamanta was one of the most serious, as the main pipeline supplying the town, which is owned by the municipality, was completely destroyed by the flooding of Arroyo Grande, leaving all the inhabitants of the municipality without drinking water. Just one day after the DANA, Canal installed a new temporary pipe, subsequently assisting the local council in resolving other network problems, supplying pallets of bottled water and sending water tankers until the service was restored.

The case of Aldea del Fresno was unique because the collapse of the three access bridges to the town due to the flooding of the rivers made it impossible for our tankers to access. Therefore, bottled water had to be provided by lighter vehicles (vans), which were able to use a temporary access. With these vans, we were able to provide bottled water in jugs for the ERIVE (Immediate Logistical Response Team of Civil Protection Volunteers) to distribute to local residents.

In addition to the damage to the supply infrastructure, the DANA also caused serious damage to Canal sewerage facilities in 19 municipalities, almost all of which are located in the west of the region.

The case of Aldea del Fresno stands out, where the flooding of the Alberche river near the La Pedrera bridge ended up destroying it along with more than 40 metres of the sewerage outfall (sewer) that transported the wastewater from the municipalities to the WWTP. In Villamantilla, the WWTP was seriously damaged and was not operational because the electromechanical equipment was out of service, with no electricity supply due to flooding of the switching centre. The access road to this WWTP disappeared, occupied by the river. Something similar also occurred at the Navalcarnero WWTP, where severe damage was caused to the road and the access bridge to the plant was completely destroyed. In Chapinería, the access bridge to the WWTP was also seriously damaged.

The damage caused by the DANA to Canal's infrastructures, most of which has already been repaired, represents an economic cost that has been estimated at more than 2 million euros in total

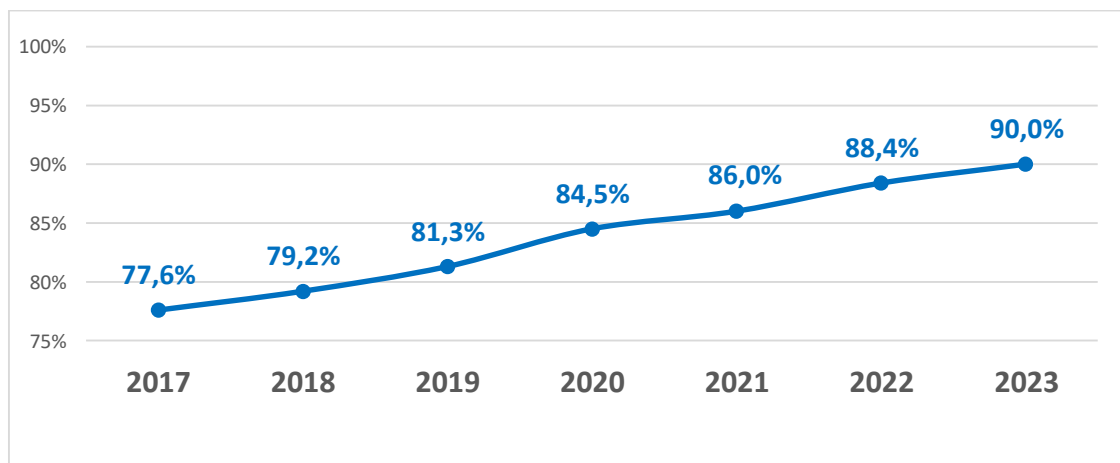
Monitoring of indicators Strategic Plan. Strategic Line 3

Strengthening continuity of service

The objectives set for strategic line 3 during 2023 have been **100% met**. For **security reasons Canal does not publish detailed information** on these targets, except for the one directly related to **continuity of supply**.

This indicator measures the percentage of contracts with customers who, in the event of an incident, have a supply alternative within 12 hours. Its evolution since the year prior to the start of the 2018-2030 Strategic Plan has been as follows:

INDICATOR OF STRATEGIC LINE 3
Percentage of contracts with a supply alternative within 12 hours





PROMOTING ENVIRONMENTAL QUALITY AND ENERGY EFFICIENCY

2.4. We care for your environment

The environment is in Canal de Isabel II's DNA. As managers of a natural resource that is essential for life and as those responsible for the treatment and proper discharge of wastewater from more than 7 million people into watercourses, it could not be otherwise. Therefore, conservation and protection of the environment is part of our mission and one of the main daily tasks at Canal.

THE ENVIRONMENTAL MANAGEMENT OF CANAL DE ISABEL II

Management System

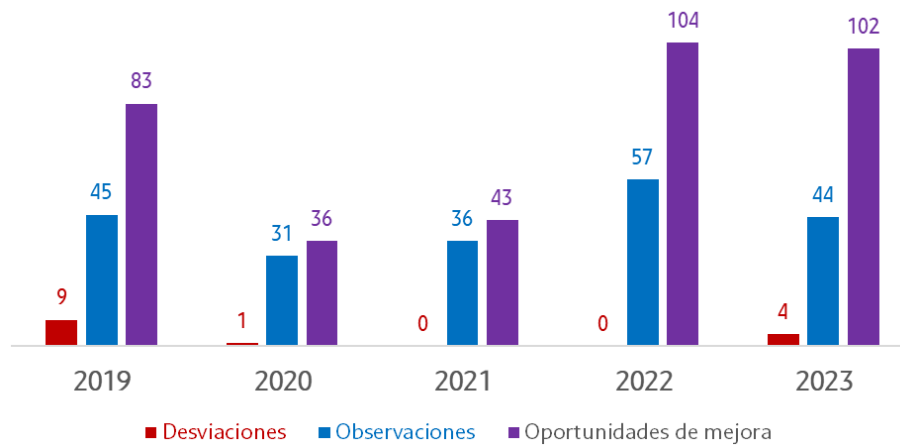
[GRI 2-24] [GRI 403-1]

At Canal de Isabel II we carry out all our activities contributing to the health and safety of people, the protection of the environment and the care for the quality of our services. To this end, we have a **management system certified to ISO 9001:2015 for quality, ISO 14001:2015 for the environment and ISO 45001:2018 for occupational health and safety.**

Our management system supports the accreditation of testing laboratories in the environmental sector and the meter laboratory by ENAC in UNE-EN ISO/IEC 17025:2017, as well as the **technical inspection activities of the measurement set** certified by ENAC in UNE-EN ISO/IEC 17020:2012. It also contributes to the implementation of the safety system at facilities subject to *Royal Decree 840/2015, of 21 September, approving measures to control the risks inherent to major accidents involving hazardous substances*, and the development of the **Water Health Plan (PSA)**, where Canal is a reference company.

In 2023, all 39 units covered by the annual internal audit programme were **audited**. As a result, a total of 150 findings were obtained

Results of management system audits (2019-2023)



With regard to the **identification and assessment of environmental and occupational legal health and safety requirements**, **239 new legal provisions** have been analysed of which a total of 15 are applicable. The **environmental aspects** of more than **650 Canal de Isabel II centres** have been assessed. During 2023, work has been carried out on the integration of Hidráulica Santillana's management system into Canal de Isabel II following the merger by absorption of this subsidiary company.

Innovative activities within the management system and contributing to Plan 10.3 "Plan to improve process efficiency" of the 2018-2030 Strategic Plan include:

1. **Coordination of improvement projects** and dissemination of the culture of improvement through 18 people who serve as liaisons in different units of the company.
2. The development of an **enterprise architecture** that contributes to **process management**.

At national and international level, Canal de Isabel II collaborates with the Spanish Quality Association (AEC) and participates in different committees of UNE (Spanish Association for Standardisation) and ISO (*International Organisation for Standardisation*).

You can consult all the information about our certifications and accreditations at the following link on our website:

<https://www.canaldeisabelsegunda.es/es/certificaciones-y-acreditaciones1>

Prevention of potential adverse impacts at source

[GRI 2-23]

Canal incorporates in its philosophy of action the **principle of prevention** ("*the best way to correct an environmental impact is to prevent it from occurring*"), with an approach based on the analysis of the life cycle of our processes and activities.

All projects drafted at Canal de Isabel II **are environmentally assessed** in accordance with the provisions of *Law 21/2013, of 9 December, on Environmental Assessment* and, where applicable, with *Law 2/2002 on Environmental Assessment of the Region of Madrid*, most of which has been repealed, or with the rest of the applicable legislation on environmental impact. In addition to aspects of the natural and **physical environment**, these assessments analyse **social and economic aspects** and, where necessary, any important impacts on **local communities**.

During 2023, a total of **19 projects** have been **submitted to different environmental impact assessment procedures** (including consultations on significant effects and environmental procedures initiated) and **26 resolutions** have been issued by the environmental authorities in relation to the environmental impact of our company's activities, including **two environmental impact statements** and **two strategic environmental statements**, as follows:

- Environmental impact statement for the Project for a new mini-hydroelectric plant at the El Atazar dam, 21EMP22. Municipal area of El Atazar.
- Environmental impact statement for the Project to renovate the distribution network in the north-west area of Miraflores de la Sierra, 16AA901R. Municipal area of Miraflores de la Sierra.
- Strategic environmental statement for the Project to renovate and increase the capacity of the pipeline from La Jarosa DWTP to El Escorial, 14AAP01P. Municipal area of El Escorial.
- Strategic environmental statement for the Northern Artery construction project for the supply of drinking water to the Madrid-Barajas Airport General System, 16AAP05O. Municipalities of Alcobendas, Paracuellos de Jarama and San Sebastián de los Reyes.

In addition, in 2023 we obtained **5 resolutions on environmental impact reports**, 3 resolutions on **strategic environmental reports** and **14 resolutions on consultations on the significant environmental effects** of Canal projects

Finally, in addition to the assessment of the environmental impact of projects, plans and programmes, our certified environmental management system contemplates the **principle of continuous improvement** of our performance and includes among its objectives the **prevention and minimisation of pollution**, the commitment to **comply** with applicable environmental **legislation** and the monitoring and control of significant environmental aspects.

MAIN ACTIONS APPLIED BY CANAL DE ISABEL II FOR THE PREVENTION AND REDUCTION OF ENVIRONMENTAL IMPACTS

Processes / facilities	Actions to prevent environmental impacts
Projects and works	Assessment of environmental aspects in planning and projects
	Completion of environmental impact studies
	Environmental protection clauses in specifications
	Adoption of preventive, protective and corrective measures
	Monitoring and surveillance of environmental aspects during and after the construction work
Reservoirs	Reservoir protection plans
	Monitoring of the ecological quality of the reservoir environment
	Dam emergency plans
	Maintenance of environmental flows.
	Hydroelectric power generation.
Wells	Sustainable exploitation of groundwater resources
DWTP	Efficiency in processing and reduction of rejects and wastage
Tanks and networks	Continuous quality monitoring
	Plan for sectorisation and control of network pressures
Drinking water distribution networks	Renewal of networks - RED Plan
	Non-billed water reduction plan
	Plan for new network technologies
	Electricity production with hydroelectric microturbines.
Sewerage networks	Improvement and renovation of networks - SANEA Plan
	Research on sustainable drainage networks
WWTP and WWPS	Upgrading treatment systems and increasing effluent with tertiary treatment
	Implementation of the National Water Quality Plan
	Discharge of surplus reclaimed water from tertiary to watercourses
	Monitoring of discharges
	Circular economy: Sludge recovery. Cogeneration. Struvite production
	Reuse of reclaimed wastewater
	Electricity generation from biogas, microturbines and solar photovoltaic. Biogas for vehicles
Management Commercial and support processes	Water saving communication campaigns
	Virtual office, electronic invoicing, remote reading and progressive tariffs.
	Environmental education (Canal Educa)
	Actions to save paper and other consumables
	Energy efficiency actions
	Low-emission, hybrid and electric vehicle fleet

Prevention and communication on environmental aspects of our operations

[GRI 413-1]

The prevention of potentially negative environmental effects of operations and facilities is integrated into our internal procedures and instructions for their identification, analysis and assessment and for their monitoring and control. The centralised management of the company's waste and the control of its emissions is carried out by the Circular Economy Sub-Directorate, while the control of discharges and the quality of effluents from the WWTPs is the responsibility of the Water Quality Sub-Directorate. In addition, **communication channels** have been established **with internal and external stakeholders**.

In the case of the **execution of projects** subject to the administrative procedure of **environmental impact assessment**, there are always bilateral communications between the autonomous administration responsible for the environment and our company, aimed at requesting and providing sufficient documentation for the correct definition of the works we carry out and the impacts they cause. In addition, other potentially affected entities are also consulted. Furthermore, within the framework of the management systems, there are documented internal procedures related to environmental stakeholder communications.

Although Canal de Isabel II has taken out an **environmental liability policy** for possible damages that may be caused to third parties or to the environment as a result of its activity, this policy expressly excludes from said cover the penalties that any regulatory body may impose as a result of non-compliance in this area.

Compliance with environmental legislation

[GRI 2-27]

At Canal we have procedures for the identification of, and access to, the requirements established in environmental legislation and for the periodic evaluation of their compliance within the framework of the environmental management system that we have implemented and certified.

In 2023, **40 sanctioning proceedings** were opened (6 more than in 2022 and 5 less than in 2021) by the Tagus River Basin Authority, most of them linked to unintentional discharges of wastewater from our 155 WWTPs. These files are at different stages of processing, most of them having been appealed through administrative channels or even by means of the corresponding contentious-administrative appeal. The accumulated amount of penalties associated with these cases amounted to **430,749 euros** at the end of 2023 (52,822 euros more than in 2022 and 575,608 less than in 2021).

Expenditure and investments in environmental management and activities

[GRI 201-1] [GRI 203-2]

Apart from the environmental expenses in relation to compliance with our legal obligations (waste management, sludge management, among others) or linked to the processes necessary for the management of the integral water cycle (water treatment expenses), Canal dedicates other **economic resources** to **voluntary aspects of environmental management**. These resources amounted to **14.36 million euros in 2023** (3.06 million euros less than in 2022) and account for **13.14%** of the **total expenditure associated with environmental management (264 million euros** in 2023).

The almost 18% decrease in voluntary expenditure in 2023 compared to 2022 is almost entirely due to the decrease in the activity of thermal drying of WWTP sludge with cogeneration, as the drying plant at the South WWTP has remained idle throughout 2023 (due to turbine failure) and the drying plant at the Loeches TLU has only operated at 40.6% of its nominal capacity (equivalent to 3,661 hours of the 8,760 hours of the year).

Among the main items of voluntary expenditure, **thermal drying of WWTP sludge** stands out, accounting in 2023 for **49.31%** of the total, followed by **reuse** (25.3%).

Given the intrinsically environmental nature of many of our processes (we manage a natural resource and deal with wastewater treatment), many of our investments have a focus on **environmental protection**. Thus, in 2023, the total investment made by Canal de Isabel II with an ultimately environmental protection objective was **36.9 million euros**.

OUR ENVIRONMENTAL PERFORMANCE

[GRI 3-3]

At Canal, we manage all our facilities with sustainable criteria, we try to rationalise the consumption of materials and energy, we avoid unnecessary discharges and emissions into the atmosphere and we manage our waste properly, periodically controlling the noise and odours we produce with our activities.

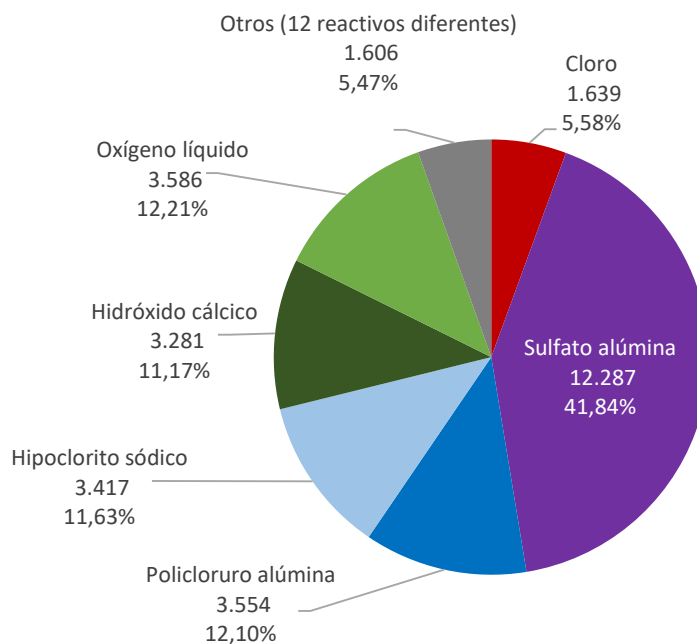
Consumption of reagents

[GRI 301-1]

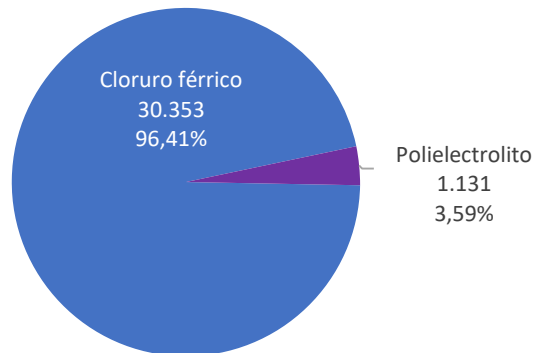
The main materials we consume by weight are the reagents we use in drinking water treatment plants (DWTPs) and wastewater treatment plants (WWTPs).

In 2023, we have recorded a total reagent consumption of **60,853 tonnes** (6.9% and 4,505 tonnes less than in 2022). Of these, **29,369** were earmarked for drinking water treatment and **31,484** for wastewater treatment and reclaiming.

Reagents used in 2023 for water purification in our DWTPs (tonnes consumed and % of total)



Reagents used in 2023 for wastewater treatment in WWTPs (tonnes consumed and % of total)



Paper consumption

[GRI 301-1] [GRI 301-2]

In administrative activities, commercial management activities and for sending bills, the most consumed material is paper.

Canal maintains, as a quality and environmental objective, the **reduction of paper consumption**, establishing for years a set of policies to promote electronic invoicing, printing and document management, as well as continuous monitoring by managers, which have resulted in a **cumulative reduction** in paper consumption of **41.34%** in the last 5 years.

Of the **13.66 tonnes of paper** used **internally** in the company in 2023 (0.47 t more than in 2022), **54.90%** was **recycled paper**. We aim to reduce paper consumption in internal administrative tasks and have managed to reduce paper consumption by almost 7% from 2020.

On the other hand, the printed documents we send to our customers, mostly consumption bills, are handled by a service provider with Forest Stewardship Council (FSC) certification, which guarantees the use of paper produced through responsible forest management.

In 2023 we used **67.7 tonnes of paper** for **shipments to our customers**, almost 13 tonnes less than in 2022, a reduction of 16% less than in 2022 and 32% less than in 2021. This reduction is mainly due to the progressive implementation of electronic invoicing (*e-invoicing*) among our customers, which was strengthened from 2021 through communication actions. As a result, at year-end 2023, more than **840,000 of our customers had switched to e-bill** (5.43% more than in 2022), thus avoiding the paper consumption associated with sending bills for more than 61% of contracts.

Water self-consumption

[GRI 303-5]

Apart from the water we distribute to our users, **like all companies we need to consume our own water** to carry out the different **processes related to our activity** (cleaning new pipes, cleaning tanks, purging the network, wastage in drinking water purification processes, water consumption for works or watering the gardens of our facilities and parks open to the public, among other examples).

The self-consumption of water necessary to provide our services to the people of Madrid was **4.69 million cubic metres**, 0.95% of the water derived for consumption in the last hydrological year (2022/2023). This consumption is **27% lower** than that recorded in the 2021-2022 hydrological year.

We apply the same efficiency and rational use measures to our internal water consumption for businesses and gardens that we advise our customers and users to apply. These can be consulted in the "We care for water" section of our website (www.canaldeisabelsegunda.es/cuidamos-el-agua).

Energy production and consumption

The situation of the energy markets in 2021 and 2022 clearly showed the absolute necessity for large energy consumers to be prepared to adapt to a changing and uncertain energy future. At Canal we have the firm vocation to be the first company in our sector in Europe to achieve self-sufficiency in electricity consumption by 2030.

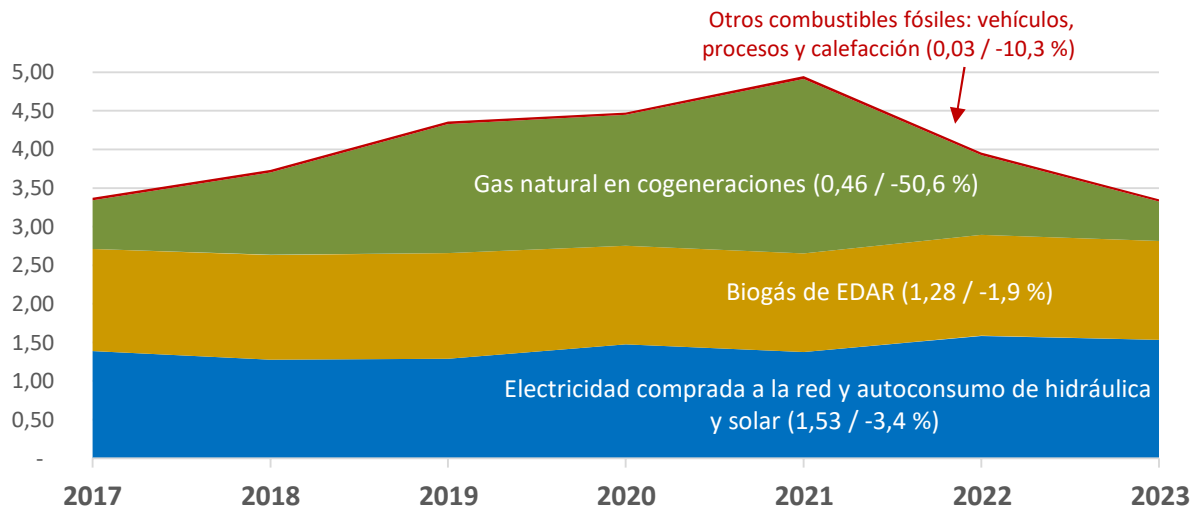
Our energy consumption

[GRI 302-1]

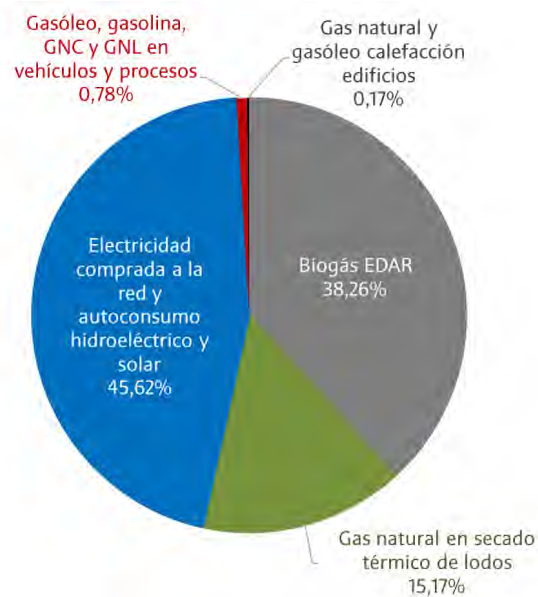
Canal de Isabel II needs to consume a large amount of energy to carry out all its processes. In 2023, the **direct energy consumption** for the operation of our facilities **has been reduced by 16.51%** compared to that recorded in 2022 and by 33.20% compared to that of 2021 (which was an all-time high) and amounted to **3,306,331 gigajoules**. This decrease is mainly due to the decrease in natural gas consumption in the cogeneration of the thermal sludge drying plants with cogeneration of the Loeches WWTP and the South WWTP (54.41% less than in 2022 and 79.64 % less than in 2021). This is because these plants, due to failures (South WWTP) and scheduled maintenance (Loeches TLU), only produced the equivalent to 18.10% of their combined nominal capacity in 2023, equivalent to 1,585 hours of operation out of the 8,760 hours of the year (2,842 hours in 2022).

Evolution of energy consumption 2017 - 2023

(million gigajoules and % change compared to 2022)



Percentage distribution of energy consumption in 2023



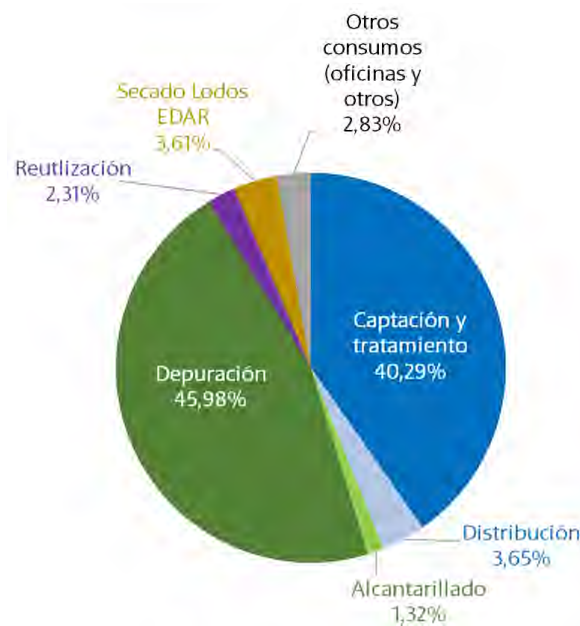
GRI 302-4

The reduced operation of cogeneration for thermal sludge drying means that in 2023 **our main energy consumption** was **electricity purchased from the grid and self-consumed hydroelectric and solar energy**, which accounted for 46.3% of the total.

Canal's total electricity consumption (including self-consumption from cogeneration, hydroelectric plants, hydraulic microturbines, photovoltaic plants and biogas from WWTP)

amounted to **536.30⁶ million kilowatt hours** of electricity in 2023. This consumption is very similar to that of 2022 (only **1.17%** less) as in both cases the years were dry in terms of river contributions to the reservoirs, a hydrological situation that makes it necessary to make high use of transfers from the Alberche river (San Juan and Picadas reservoirs). In 2023 we have consumed for these transfers: 147.55 million kilowatts, only 22.04 less than in 2022. Thanks to this consumption, which represents 27.52% of the total, we have been able to transfer 144.72 million cubic metres in 2023 (24.74 hm³ less than in 2022).

Percentages of electricity consumption by phases of the integral water cycle in 2023



Distribution in % of electricity consumption by facility in 2023



⁶ 2.52% of total electricity consumption in 2023 has been estimated.

Our **specific electricity consumption** for each activity varies greatly depending on the rainfall characteristics of the year. So, when river inflows are very low, it is necessary to use the well fields and make greater use of the lifting plants, which almost doubles energy consumption. The specific consumptions recorded in recent years have been as follows.

Specific electricity consumption by phases of the integral water cycle

[GRI 302-3]



In 2022 and 2023, the increase in the use of transfers from the Alberche river is clearly reflected in the increases in specific supply consumption compared to previous years. This increase is also reflected in the company's total specific consumption, which grows by 10.2% in 2023 compared to 2021 (in 2022 it was 12.4% higher than in 2021).

Generation of clean energy

[GRI 3-3] [GRI 302-5]

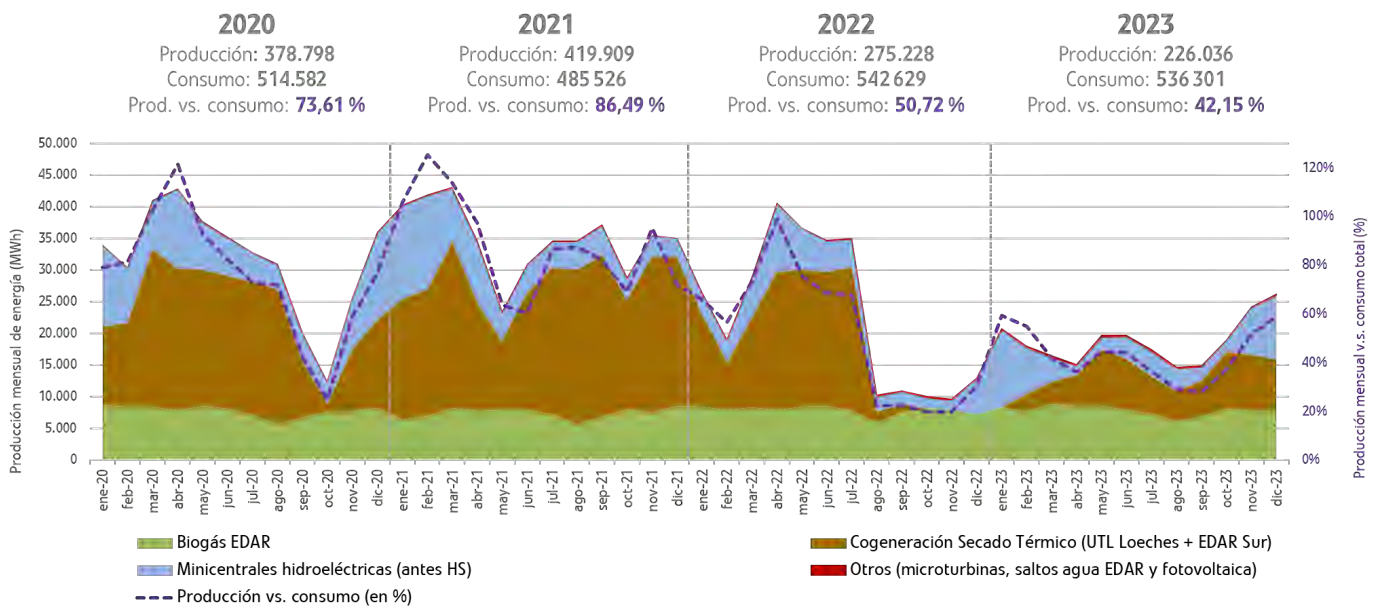
Aware of the importance of our electricity consumption, for decades Canal has been equipping itself with facilities for the **generation of electricity** through processes that are synergic with water management. At the end of 2023, we were the company with the **largest installed capacity** in electricity generation in the Region of Madrid, with a total of **111.95 megawatts** (2.64 MW more than at the end of 2022) in the following facilities:

- **9 hydroelectric power plants**, with a total installed capacity of **35.52 megawatts**.
- **19 WWTPs** equipped with **motor-generators** (41) and **turbines** (6) that generate electricity using the **biogas produced in the purification processes** as fuel, with a total installed capacity of **27.54 megawatts**.
- **9 microturbines** installed at different points in the **supply network** with a total installed capacity of **0.83 megawatts**.
- **2 cogeneration plants** (Loeches LWU and South WWTP), **associated with the thermal drying process of WWTP sludge**, with an installed capacity of **44.70 megawatts**.
- **3 small wastewater overflows** equipped with **hydroelectric microturbines** at the South WWTP (2) and the La Gavia WWTP, which take advantage of the difference in height at the discharge point with an installed power of **0.26 megawatts**.
- **10 solar photovoltaic installations**, 6 of them located in WWTP, one lifting plant, in the Loeches TLU, in the Torrelaguna Lower Tank (floating) and in some offices, with a total power of **3.09 megawatts**.

In 2023, two 420- and 350-kilowatt biogas motor-generators were commissioned at the Arroyo de la Vega and Soto-Gutierrez WWTPs as well as a 1,698-kilowatt floating solar photovoltaic plant at the Torrelaguna Lower Tank. This floating plant is the first to be installed in the Region of Madrid and will serve as a pilot experience to assess the extension of this technology to other Canal facilities in the future.

Thanks to the energy generated both in processes associated with supply and sanitation, Canal has a high **degree of electricity self-sufficiency** that in **2021** allowed us to generate up to **86.49%** of our consumption (410 million kilowatt hours produced). However, in the years 2022 and 2023, the reduced operation of cogeneration of thermal drying plants and the lower hydroelectric production has led to a significantly lower percentage.

Electricity production by Canal technologies 2020 - 2023 (production in MWh and % produced compared to total consumption)



Specifically, throughout 2023, our electricity production facilities generated **226.04 million kilowatt hours**, which is **17.9% less than in 2022** and **46.2% less than in 2021** (which was a record year). The energy produced is equivalent to only **42.15% of our total consumption** (536.30 GWh), almost 9 percentage points less than that recorded in November 2022 and more than 44 percentage points less than that recorded in 2021. The **causes** of this low production are **limited cogeneration** and **low hydropower generation** throughout 2023.

The cogeneration of the **thermal sludge drying plant at the South WWTP** has remained **idle due to a breakdown** since the summer of 2022 and that of the **sludge drying plant at Loeches** has only produced **40.6% of its nominal capacity** (equivalent to 3,661 hours of the 8,760 hours of the year).

In terms of **hydropower generation**, conditions throughout 2023 have generally been **very unfavourable**, with **reservoir inflows 28% below the historical average**. As a result, the cumulative **hydropower production** in 2023 (59.32 GWh) is **24% lower than the average of the last 10 years**, with 2023 being the **third worst year ever**, only surpassed by 2022 and 2012 (which was the second driest year in the entire historical record).

Throughout 2023, **405.51⁷ GWh purchased from the grid were consumed at our facilities, 4% less than in 2022** (422.42 GWh). In addition to the energy purchased from the grid, in 2023 **our facilities self-consumed a total of 130.79 GWh** generated in our own electricity production

⁷ 3.3% of electricity consumption purchased from the grid in 2023 has been estimated

facilities. Finally, **we sold a total of 95.25 GWh to the grid** (42.15 GWh from hydroelectricity and 53.10 GWh from cogeneration at Loeches). **The company's total consumption in 2023 was 536.30 GWh, 1.17% less** than the consumption in 2022 (542.63 GWh).

This low production, combined with very high consumption due to the increased use of the transfers from the Alberche river, means that the **energy produced in 2023** accounts for only **42.15% of the energy consumed**.

Despite lower electricity generation in 2023, our production has managed to avoid the emission of **22.60 thousand tons of CO₂**. In addition, by purchasing electricity with a 100% renewable energy guarantee, we have avoided the emission of **40.55 thousand tonnes of CO₂** in 2023.

CANAL DE ISABEL II SOLAR PLAN 2023

We are making progress in our commitment to electric self-sufficiency.

[GRI 3-3] [GRI 302-5]

As part of the sustainability-related actions included in our 2018-2030 Strategic Plan, Canal is developing its Solar Plan. This Plan is part of our company's actions to promote energy production through renewable and high-efficiency generation sources, reducing our grid consumption and helping mitigate our CO₂ emissions.

Our goal with the Solar Plan, and with the rest of the actions in relation to electricity production, to **be the first company** in our sector in Europe to **produce as much or more electricity than we consume**. Solar panels will be installed on the areas available to produce electricity and most of this production will be consumed on site, thus reducing the electricity demand from the grid for each of these infrastructures. Some of these facilities will also produce occasional surpluses that can be fed into the electricity grid, thus helping increase the share of renewables in the energy mix.

Furthermore, in some of these infrastructures, photovoltaic installations will be hybridised with pre-existing generation technologies (hydro and mini-hydro, biogas, biogas engines and turbines and cogeneration), thus increasing the possibilities for energy management and optimising the use of existing resources.

The **Solar Plan**, in its initial phases (0, 1 and 2), contemplates the installation of a total of **27 facilities with an installed capacity of 37.40 megawatts** and will involve an investment of around **55 million euros**, which will be partly financed by European Union funds (REACT-EU and ERDF). In addition, solar panels are being installed on the available surfaces of our facilities through maintenance contracts.

Throughout 2023 the works and technical assistance contracts for phases 1 and 2 together with the Majadahonda and El Pinar facilities (Colmenar DWTP) were awarded for more than 51.17 million euros. At year-end, two plants were in operation and 25 were in different stages of construction.

Status of the Solar Plan plants at year-end 2023

(kW installed

and % of total capacity).



Wastewater treatment

[GRI 303-4] [GRI 306-1]

100% of the urban wastewater and rainwater that Canal de Isabel II is responsible for is treated to the highest quality standards. Practically the entire population of the urban centres of the Region of Madrid is covered by the Canal's wastewater treatment system. To this end, we have **155 facilities** to treat water from a total of 178 municipalities in the Region of Madrid and one municipality in the province of Toledo.

Our wastewater treatment plants (WWTP) are located in the basins of different rivers that cross the orography of the Region: Alberche, Aulencia, Cofio, Guadalix, Guadarrama, Guatén, Henares, Jarama, Lozoya, Manzanares, Perales, Tajo and Tajuña. However, not all of them carry out each of the possible purification processes, but are adapted according to factors such as the size or number of inhabitants for which they are designed, economic imperatives, seasonal variations in river flow, the origin of the wastewater or possible industrial discharges of river flow. The type of processes that are followed in the purification process even determine the physical appearance of the facilities. Currently the Canal WWTPs have a design capacity of **16.25 million inhabitants equivalent⁸** and can treat a combined flow of up to **2.16 million cubic metres per day**.

⁸ An "equivalent inhabitant" is the biodegradable organic load with a 5-day biological oxygen demand (BOD5) of 60 grams oxygen per day. They are calculated for each of the WWTPs on the basis of the average daily value of biodegradable organic load, corresponding to the week of maximum load of the year, without taking into account situations caused by heavy rainfall or other exceptional circumstances.

To ensure compliance with the requirements for phosphorus removal, we have made the necessary adaptations to the treatment plants included in our **Nutrient Removal Plan** (nitrogen and phosphorus) from 2010 to the present day. The aim of this plan is to comply with the **Water Framework Directive**⁹ in relation to water discharge conditions in sensitive areas (practically the whole of the Region of Madrid) as per the **National Water Quality Plan** (PNCA).

Since 2015, Canal has been developing its Plan for compliance with WWTP discharge authorisations. The objective is to ensure that at least 80% of the samples taken for self-monitoring at the WWTPs are complied with in the discharges, and to carry out exhaustive monitoring of all discharges in order to minimise non-compliance. The main actions envisaged are as follows:

- Study of the discharges that reach the WWTPs.
- Amendment, extension or new construction of WWTP.
- Reduction of relieved flows in dry weather.
- Various operational improvements.

In **2023, work on the regulatory adaptation** of the **Arroyo de la Vega WWTP** was completed, in addition to equipping it with biogas cogeneration, making it a more sustainable facility that is ready for new environmental achievements. The **works to improve the Hoyo de Manzanares WWTP** were also completed.

In **2023, work continued** on the **El Endrinal, Arroyo El Plantío** and **Arroyo del Soto** WWTPs. In all of them, partial handovers will take place in 2024 in order to put the decisive improvements incorporated in these works into operation as soon as possible.

A **new biogas electricity production facility** has been installed at the **Soto Gutiérrez WWTP** and the **Aranjuez WWTP's** electricity production facility has been brought into full operation. Work is at a very advanced stage on the new electricity motor-generator at the **Navalcarnero WWTP**, which is due to start up in April 2024. At the Butarque and South WWTPs, 2 motor-generators have been completely renewed at each facility. Work has also been undertaken on the **new photovoltaic installations** at the Boadilla, Villaviciosa, Valdemorillo and Zarzalejo WWTPs, which will be commissioned in the first quarter of 2024.

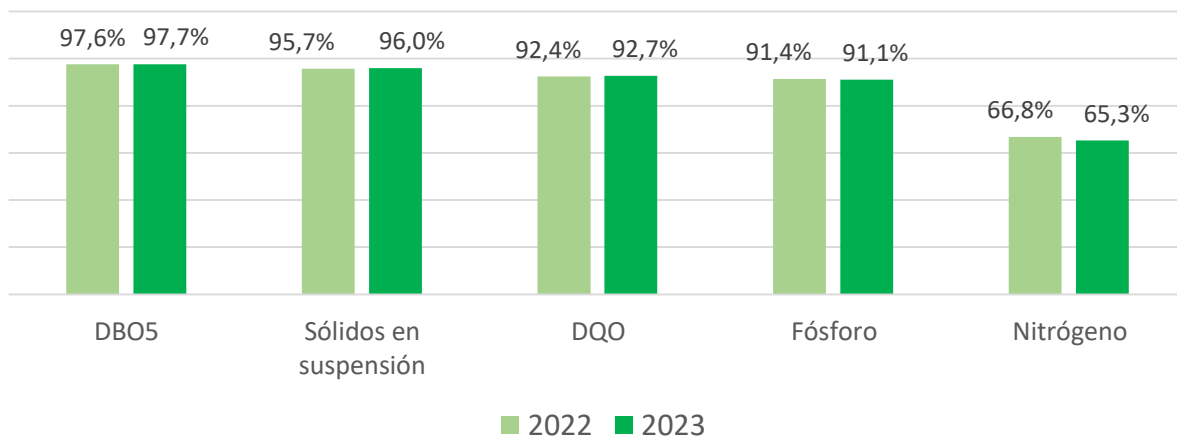
The commitment to the **electrical efficiency** of the processes has had as its main milestones: the renovation of the 60,000 diffusers of the **largest wastewater treatment plant in Spain** in terms of treatment capacity, the South WWTP in Madrid, and the renewal of the 16 biological lines of the oldest wastewater treatment plant in Madrid, the La China WWTP. The two treatment plants that treat wastewater from Getafe, Parla, Leganés, Humanes and a large part

⁹ Directive 2000/60/EC of the European Parliament and of the Council, of 23 October 2000, establishing a framework for Community action in the field of water policy.

of Fuenlabrada (Arroyo Culebro Cuenca Media-Alta and Arroyo Culebro Cuenca Baja WWTPs) have also had their air supply systems completely renovated for more than one million euros.

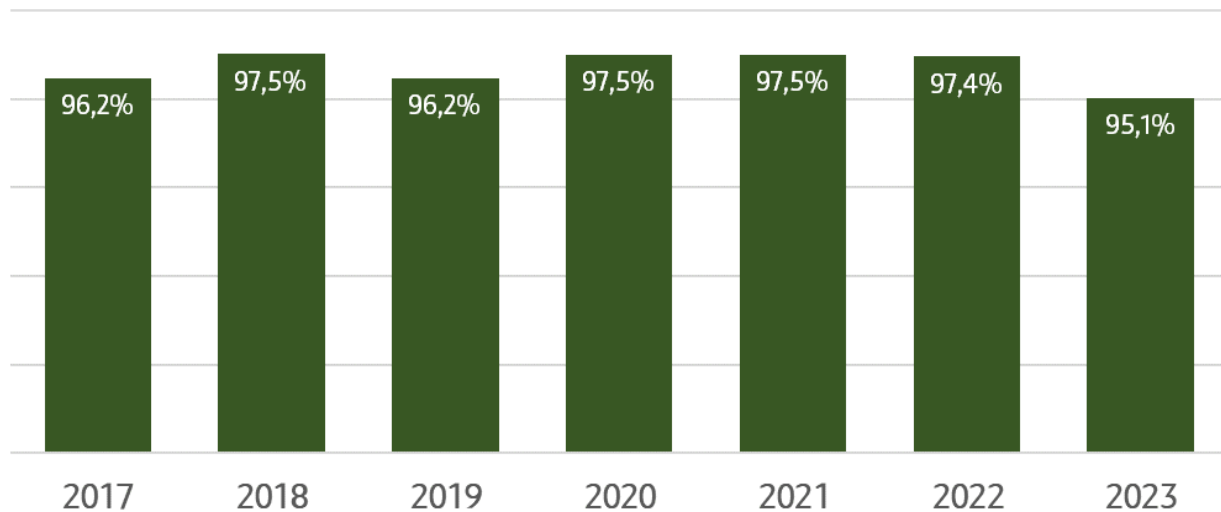
In 2023, our WWTPs have treated and **returned** a total of **476.56 million cubic metres** of treated wastewater and rainwater to the rivers, equivalent to **95%** of the water derived for consumption. The quality of the effluent treated in the plants managed by Canal maintains the high level that characterises the system. In addition, at certain treatment facilities, an additional treatment has been applied to the treated water, a **tertiary refining treatment**, which has allowed up to **91.53 million cubic metres** to be discharged into Madrid's rivers with reclaimed water quality (19.21% of the water discharged into watercourses). A further **15.63 million cubic metres** have also been produced for **direct reuse**, for a total of **107.16 million cubic metres reclaimed**.

Purification performance (in percentage of pollutant load removed)



As a result of Canal's commitment to quality and the environment, our indicator of the degree of excellence in the treatment of our WWTPs in 2023 remains at values above 95%.

Degree of excellence in purification 2017-2023 in %



In the normal operation of the facilities, Canal's activities do not produce any discharge of chemicals. There were no incidents of note in this regard in 2023.

Waste management

[GRI 306-2]

The control of waste management at the production centres and grouping points of Canal starts with the correct **separation of waste at source** and is complemented with the monitoring of the collection routes, scheduled fortnightly and carried out by **authorised waste managers**, ensuring compliance with the legislation in force.

In recent years, we have been actively working on the proper management of **non-hazardous waste** with the aim of increasing the amount going to **reuse** or **recovery**.

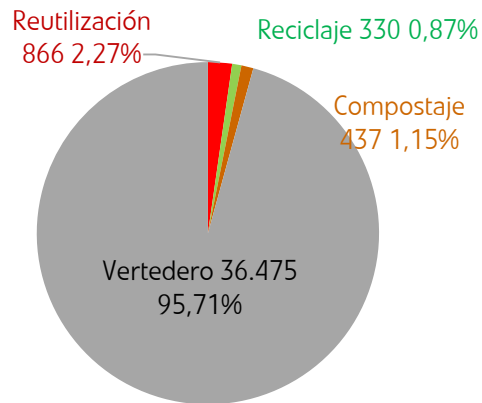
[GRI 306-3] [GRI 306-4] [GRI 306-5]

In 2023, excluding WWTP sludge and DWTP sludge, we generated and managed a total of **38,109 tonnes of non-hazardous waste** (6,414 tonnes more than in 2022), including **36,435 tonnes of pre-treatment waste from WWTPs and WWPSs** (95.61% of the total). Construction and demolition waste (354 tonnes) and pruning waste from parks and gardens (437 tonnes) were also used at the composting and thermal drying plant for WWTP sludge with cogeneration in Loeches as structural material for composting. A further 84.6 tonnes of paper and cardboard were also managed.

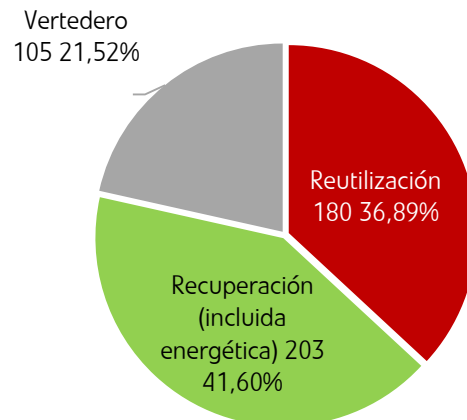
In terms of **hazardous and biohazardous waste**, **487.32 tonnes** of waste was generated in 2023, 61.03 more than in 2022. These include **117.5 tonnes of waste from our laboratories**, **124 tonnes of discarded electrical and electronic equipment** and **68 tonnes of motor oils and lubricants**.

Final destination of managed waste in 2023 (in tonnes and % of total)

Non-hazardous waste¹⁰



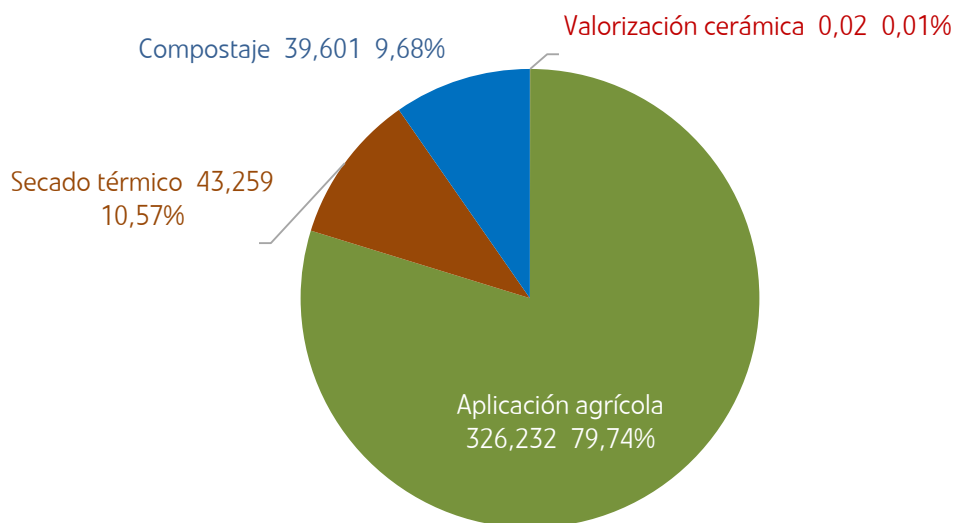
Hazardous waste



¹⁰ Not including WWTP sludge and DWTP sludge.

In addition to the hazardous and non-hazardous waste associated with our processes, the **sludge generated in the production of drinking water** at the DWTPs, a total of **25,132 tonnes** in 2023 (3,969 tonnes less than in 2022), and the **sludge generated in the treatment of wastewater at the WWTPs**, which in 2023 amounted to **409,116 tonnes** (10,620 tonnes more than in 2022), stand out in terms of volume.

Final destination of sludge produced at WWTPs in 2023 (thousand tonnes and % of total)



The final destination of the dewatered sludge from WWTPs in 2023 was mostly direct agricultural application (326,232 tonnes). Of the total 409,116 tonnes generated in 2023, only 24 tonnes have been sent for ceramic recovery. In 2023, a total of 43,259 tonnes of sludge were processed at the Loeches Sludge Treatment Unit and the one located at the South WWTP. In addition, 39,601 tonnes have been used in composting plants.

In the case of sludge from the DWTP, 98.76% was destined for agricultural use (24,821 tonnes) and only 1.24% was destined for ceramic recovery (311 tonnes).

CANAL AND THE CIRCULAR ECONOMY

[GRI 3-3] [GRI 306-2] [GRI 306-4] [GRI 306-5]

Preserving the environment and preventing the depletion of natural resources are the objectives of Canal de Isabel II; we are committed to the three Rs (reduce, reuse, recycle)

Along this line, we obtain alternative, recycled and reusable products from the waste we receive at our purification facilities. Reusing all these products is part of our strategy to promote the circular economy, which also **allows us to make progress in the decarbonisation of our activity.**

At Canal, **waste has gone from being a problem to being seen as an opportunity.** It is no longer the final link in the chain, but occupies an intermediate step by giving rise to new raw materials and forms of energy. In this regard, wastewater treatment plants are able to recover and transform waste and extract fuels, fertilisers, compost, reclaimed water or electricity and heating energy from it. To this end, we have incorporated various technologies in recent years:

- We currently have **the largest struvite production plant in Spain.** It is located at the South WWTP, where up to two tonnes per day of what is considered the "**white gold of waste**" can be produced, due to its high phosphorus content, an indispensable element for life, which is not renewable and cannot be replaced. Struvite is one of the by-products of water treatment. The phosphorus present in the liquid waste can be crystallised in a controlled manner to produce this high-value fertiliser. **In 2023 we have produced 557 tonnes of this fertiliser.**
- Agriculture benefits doubly from wastewater treatment. The **dehydrated sludge** extracted from them also acts as an organic fertiliser that fertilises and improves the structure of agricultural soils, where it can be applied to benefit crops. **In 2023,** although our plants have not been able to operate at full capacity, **we have treated 43,259 tonnes by thermal drying.**
- From the mixture of WWTP sludge and vegetable waste we also produce **compost** that is highly valued in gardening, among other applications. In 2023 we have composted more than **39,000 tonnes** of WWTP sludge for compost production.
- Another important use of the sludge carried by wastewater is to generate energy. The sludge that concentrates the pollution and is removed from the wastewater is treated in large digesters to produce a versatile **renewable energy**, biogas, whose calorific value can be used to produce heat, electricity or fuel for vehicles. Canal de Isabel II obtained almost 51 million cubic metres of biogas during 2023. From this gas, we have generated **93.30 million kilowatt hours** at the **19 WWTPs with biogas-fired power generation**

facilities. Our production in 2023 is equivalent to the annual electricity consumption of a town like Majadahonda, with more than 72,000 inhabitants.

- The possibilities of **biogas** are not limited to electricity generation. This biogas is composed of approximately 65% methane and 35% CO₂. **If we remove this CO₂ we can convert it into biofuel and use it in vehicles**, which is already being tested at the Viveros WWTP (Puerta de Hierro). There we have installed one of the facilities **known as 'gas stations,'** where more than twenty cars **can fill up with biomethane, a zero-emission fuel** with high calorific value. Vehicles using biogas do not emit particulate matter or sulphur dioxide and their CO₂ emissions are zero, as biogas, being of human origin, does not cause a greenhouse effect. In addition, their use reduces both nitrogen oxides released (by 85% less) and noise emissions (by 50%).
- But, in addition to using the elements carried by wastewater, **we can also recover the water itself, giving it a second life.** Apart from being subjected to a purification process to return it to the watercourses, it can be given **tertiary treatment** that makes it suitable for supply for uses that do not demand the highest quality. In this way, **reclaimed water allows pressure to be released on drinking water** when it is used to irrigate green areas and golf courses, to clean streets and even for industrial purposes. In 2023 we have produced 107 million cubic metres of reclaimed water in our 33 tertiary treatment plants. Of them, **15.63 cubic hectometres were reused** in an industry, in street cleaning and, mainly, in the irrigation of 11 golf courses and 462 green areas in 26 municipalities totalling almost 2,042 hectares, thanks to a distribution network of 744 kilometres.

Atmospheric emissions

[GRI 305-7]

Atmospheric emissions of greenhouse gases, **other than CO₂**, and other acidifying and tropospheric ozone precursor substances that can be attributed to Canal operations come from:

- Direct emissions from **existing combustion facilities at Canal's facilities**, particularly from the Sludge Treatment Unit (STU) with cogeneration at Loeches and the thermal sludge drying plant with cogeneration at the South WWTP.
- Emissions from the exhaust gases of our **777 vehicles and machines**, which in 2023 travelled **12.13 million kilometres**, as well as from diesel used in some processes.

The total of all these emissions (excluding CO₂)¹¹ was **710.29 tonnes** in 2023, 13% less than in 2022 (834.11), mainly due to the reduced activity of the cogeneration plants for WWTP sludge drying.

Distribution of atmospheric emissions (except CO₂) in 2023 (tonnes/year and % of total)

Noise and odour management

Canal manages all its facilities with sustainable criteria, periodically controlling the noise and odours produced by our activities.

In terms of **noise**, since 2004, our company has had a programme in place to **control the noise levels** generated at our facilities that may disturb the population or affect areas of particular sensitivity. In 2023, the number of installations monitored by the programme was **120**, and **694 acoustic measurements** were taken, of which only 26 exceeded the limits established in our internal standard in one of the monitored installations.

With regard to **odours** and **emissions** from our facilities, in 2023, we carried out **180 controls** (108 more than in 2022), of which 176 were for emissions and 4 for odours, and there were no reports of non-compliance.

BIODIVERSITY PROTECTION

[GRI 3-3]

The location of our reservoirs in the middle and upper basins of rivers and in places that were originally little frequented has boosted the local ecosystems associated with water and has

¹¹ CO₂ emissions are broken down in the section "THE CLIMATE CHANGE CHALLENGE" included in this report.

welcomed, in terms of birdlife, the emigration of species that have been displaced by the progressive pressure on wetlands.

Presence in protected areas

GRI 304-1] [GRI 304-2]

Since the origins of our company, **peculiar and very interesting ecosystems** have developed in and around **our reservoirs**, which have coexisted with the agricultural and livestock farming activities of the **Sierra de Guadarrama**. These ecosystems play an important role in the modulation of climatic conditions and the hydrological cycle, not to mention their landscape and socio-cultural value.

In the *Catalogue of Reservoirs and Wetlands of the Region of Madrid*, drawn up in accordance with *Law 7/1990*, 9 reservoirs belonging to the supply system managed by Canal are included among the reservoirs selected on the basis of their values and characteristics.

You can find the Catalogue of reservoirs and wetlands of the Region of Madrid at the following link: <https://www.comunidad.madrid/servicios/urbanismo-medio-ambiente/embalses-humedales-catalogados>

The surface area occupied by the facilities and infrastructures managed by Canal on land subject to some form of legal protection amounted to **6,507 hectares in 2023**. It represents **57.84%** of the total area occupied by our facilities, of which **14.43%** were **Special Protection Areas for Birds (SPAs)** and **86.30%** were **Sites of Community Importance (SCIs)** belonging to the **Natura 2000 Network** of the European Union's *Habitats Directive*¹².

Protected species present

[GRI 304-4]

The surroundings of Canal's facilities are home to high-value plant species that are included on the *Regional Catalogue of Threatened Species of Wild Fauna and Flora*. These include: *Ilex aquifolium* (holly), *Taxus baccata* (yew), *Arbutus unedo* (strawberry tree), *Corylus avellana* (hazel), *Fraxinus excelsior* (ash), *Ulmus glabra* (mountain elm), *Betula alba* (birch), *Sorbus aria* (mustard), *Sorbus aucuparia* (rowan), *Fagus sylvatica* (beech), *Quercus suber* (cork oak), and *Viburnum opulus* (guelder-rose).

Within the *Regional Catalogue of Singular Specimen Plants and Flora of the Region of Madrid*, there are 3 specimens of singular trees located on land owned by our company, which are:

- **In the category of remarkable trees:** a specimen of *Morus alba* (Valdehondillo mulberry tree), in El Vellón.

¹² Council Directive 92/43/EEC, of 21 May 1992, on the conservation of natural habitats and wild fauna and flora.

- In the category of outstanding trees: two specimens. An *Avies numidica* (Algerian fir) and a *Cedrus deodara* (the deodar) in the gardens of our Santa Lucía work centre in Torrelaguna.

Maintenance of the plant heritage

[GRI 304-3]

Every year Canal carries out a series of works and conservation and improvement works in green areas to achieve an optimal level of **maintenance of the extensive plant heritage**, both of the surfaces integrated in its facilities, and of the areas open to the public for use and enjoyment, such as the Cuarto Depósito Park in Plaza de Castilla in the city of Madrid; the Riosequillo recreational area in Buitrago del Lozoya; the La Marina sailing club in Cervera de Buitrago and other areas of great richness and diversity located in enclaves of high ecological value. In addition, since the implementation of our 2018-2030 Strategic Plan, we are opening our facilities to the public, such as the new Ríos Rosas and Bravo Murillo parks, both located at our headquarters, highlighting in 2023 the **reopening to the public of the Tercer Depósito Park** on Avenida Islas Filipinas.

The **clearing of spontaneous vegetation** for fire prevention has been carried out in 2023 on a total of **662 hectares**. In addition, throughout the year, the necessary phytosanitary treatments have been carried out to prevent pests and plant diseases with the application of chemical products with a low environmental impact. In addition, the elimination of invertebrates that could be harmful is promoted by installing "nest boxes" or "nesting boxes" for insectivorous birds.

Throughout 2023, we also carried out reforestation work, planting a total of **43,229 plants, trees and shrubs**, as well as other work for the conservation and improvement of **465 hectares** of land adjacent to our facilities.

Environmental flows

[GRI 304-2]

The ecological flows of rivers are those that allow to maintain, at least, the life of the fish that naturally inhabit them, as well as the vegetation of their banks. Thus, in the interests of environmental protection, the obligation to regulate and plan the hydrological resources of the different drainage basins was established, laying down a specific flow regime for each river according to its particular characteristics.

The hydrological plans, which establish this regime of ecological flows in rivers and transitional waters, are drawn up by the river basin authorities. There is a body responsible for monitoring these flows in each basin at the measurement points indicated in the regulations of each plan.

In 2023, the **environmental discharges to rivers** carried out by Canal de Isabel II for the conservation of river sections accounted for a total volume of **75.14 million cubic metres**. In 2023 it was also necessary to release 1.33 million cubic metres of water from our reservoirs due to **hydrological security** reasons (mainly to maintain a free capacity in the reservoirs to be able to cope with possible floods).

In relation to ecological flows, in 2023 the entry into force of the **revision of the hydrological plans**¹³ of the Spanish drainage basins and of the Spanish part of the Spanish-Portuguese drainage basins in force since 2014 is noteworthy. This revision includes the Spanish part of the Tagus river basin district, in which our reservoirs are located, establishing new environmental flows for the following bodies of water: the Jarama river downstream of the **El Vado dam**, the Lozoya river from the **El Atazar** reservoir to the Jarama river and the Manzanares river from the **Santillana reservoir** to the El Pardo reservoir. For the rest of the river sections, an environmental demand is set as a guideline.

Canal has filed **a lawsuit before the Supreme Court** against this revision, as our company disagrees with what has been established both with regard to the established ecological flows and to other aspects that negatively affect the management of the integral water cycle in the Region of Madrid that we carry out at Canal de Isabel II (transfers within the same drainage basin and wastewater discharges).

¹³ Through Royal Decree 35/2023, of 24 January, approving the revision of the hydrological plans of the Western Cantabrian, Guadalquivir, Ceuta, Melilla, Segura and Júcar river basin districts, and of the Spanish part of the Eastern Cantabrian, Miño-Sil, Duero, Tagus, Guadiana and Ebro river basin districts.

REOPENING OF THE TERCER DEPÓSITO PARK IN THE DISTRICT OF CHAMBERÍ

After two years of works and being partially closed, the new spaces for walking and recreation were opened to the public on Sunday 28 May 2023: the facilities of the Canal de Isabel II Tercer Depósito park located on Avenida Islas Filipinas, in the district of Chamberí in Madrid.

The site, which is also known as "*Santander Park*", has a surface area of **55.000 square metres** of **green and recreational areas** within a 12-hectare plot that sits on one of Canal's historic water storage tanks. Its opening will significantly improve the quality of life for all residents of the district.

The refurbishment, which began in 2021, has involved an investment of **10 million euros** and has been carried out taking into account the neighbourhood's demands, including the need to increase the number of trees. To this end, **more than 1,000 new trees** have been planted, which means that after the refurbishment the park now has **40% more wooded areas**.

In addition to the natural areas, there are also sports facilities and spaces for the development of cultural programmes. Thus, in addition to the perimeter running circuit, there will be another one for walking and new meeting points for recreational and cultural uses, such as a shaded walkway or the extension of the water area.

This park is fully accessible for people with reduced mobility and offers entertainment options for all ages, including a children's play area adapted for children with behavioural disorders or visual and hearing impairments. With 4,500 square metres for the youngest children (0-12 years old), it allows for all kinds of activities, both in groups and individually.

The surface area of the sports facilities has also been doubled to around 24,000 square metres. In addition to the existing football and paddle tennis courts, there are some new facilities, such as basketball and volleyball courts, a climbing wall, a bio-healthy circuit and the possibility of practising calisthenics.

More information about the new park is available on YouTube at this link:

<https://www.youtube.com/watch?v=vnaShHTsNEc>

THE CHALLENGE OF CLIMATE CHANGE

[GRI 3-3] [GRI 201-2]

Most experts in the international scientific community agree on the importance that the effects of climate change may have on a potential change in the distribution of water resources at the global level.

Here at Canal we cannot be oblivious to this concern about the future sustainability of our supply model and, therefore, we work both in the field of **mitigation of greenhouse gas (GHG) emissions** associated with our activities and in the field of **adaptation** to the consequences of climate change in order to be prepared to face the adverse effects.

Our greenhouse gas (GHG) emissions

[GRI 305-1] [GRI 305-2] [GRI 305-3] [GRI 305-4]

In 2023, our estimated greenhouse gas emissions will amount to **119,712 tonnes of CO₂ equivalent**. This represents a reduction in our GHG emissions of 21.33% compared to those recorded in 2022 and 35.55% less than the average of the previous five years (2018 to 2022). This decrease was mainly due to a significant decline in activity at our thermal drying facilities, which treated 50% less WWTP sludge than in 2022 and 82% less than in 2021 and consumed almost 165,408 megawatt hours less natural gas than in 2022 and 533,901 less than in 2021 (49.36% less than in 2022 and 77.46% less than in 2021).

Precisely, the only two facilities of Canal subject to the regulation on **greenhouse gas emission allowance trading** are those related to the thermal drying of WWTP sludge: the **WWTP Sludge Treatment Unit with cogeneration at Loeches (STU)** and the **South WWTP Sludge Thermal Drying Plant**. Both facilities will offset their emissions in 2023 by contributing the equivalent of **32,235 tonnes of CO₂** to the National Emission Allowances Register (approximately half of those contributed in 2022).

In terms of the origin of our emissions, three scopes can be distinguished:

- **Direct emissions**, originating from **processes and/or at Canal installations** (Scope 1), accounted for **46.66%** of the total in 2023. These include our main combustion activities, the cogeneration at the Loeches STU, the cogeneration of the sludge drying plant of the South WWTP (which in 2023, due to the breakdown of its turbine has not produced electricity), the sludge composting processes or those associated with emissions from our fleet of vehicles. Emissions from drying, which in 2021 alone accounted for 67 % of all our company's emissions and for 49% in 2022, will be limited to 49.97 % in 2023.
- **Indirect emissions**, associated with the **consumption of electricity we buy** from the grid (Scope 2), which since 2018 **are zero**, as all consumption **is guaranteed to be**

sourced from renewable sources. Otherwise, these emissions would account for more than 25.82% of our total emissions in 2023.

- **Indirect emissions**, associated with **supplies and services provided by third parties** (scope 3), which in our case include waste transport, reagent consumption and paper consumption. These accounted for **53.34%** of our emissions in 2023 and also include emissions associated with Canal employees travelling from their homes to the company's workplaces.

Historically, as in the rest of the companies in our sector, **our electricity consumption was one of the main sources of greenhouse gas emissions.** In dry years, which require higher electricity consumption to ensure adequate supply, emissions could almost double (as was the case in 2012). Canal has therefore focused its efforts on **reducing emissions, generating clean energy** and pursuing **energy efficiency.**

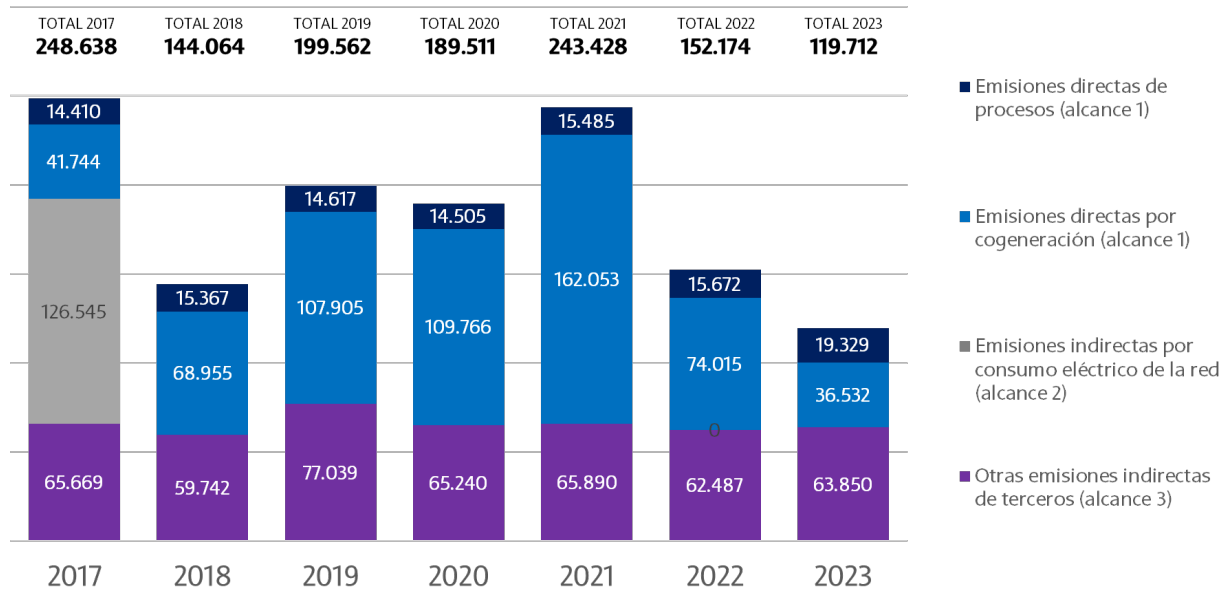
[GRI 305-4] [GRI 305-5]

In terms of **emissions specific** to our activity in 2023, **0.122 kilograms of CO₂ equivalent** were recorded for **each cubic metre of water managed**,¹⁴ 21.86% less than in 2022 and 50.90% less than in 2021.

¹⁴ Water managed: sum of the amount of water derived for consumption, the amount of wastewater treated in WWTPs and the amount of reclaimed water produced for reuse.

Greenhouse gas emissions by source (2017-2023)

(tonnes of CO₂ equivalent)



Mitigation actions

[GRI 302-5]

In addition to the actions directly related to our electricity consumption and generation, in recent years we have implemented other important measures to reduce our greenhouse gas emissions. These include the following:

Awareness-raising for water consumption reduction and rational water use

Efforts to raise awareness of water efficiency and rational use of water have a direct impact on GHG emission savings. With every cubic metre of water saved in **2023**¹⁵ we were avoiding emissions of 0.122 kilograms of CO₂ equivalent. In this way, the reduction of water consumption by our customers and users is reflected in a reduction of emissions. Considering the saving in consumption in **2023** compared to the average of the previous **10** years was **3.82** million cubic metres, this means that over **467** tonnes of CO₂ equivalent will no longer be emitted.

Reforestation actions

¹⁵ Specific emissions per cubic metre consumed vary depending on Canal's activity each year. Its average over the last 7 years (2017-2023) is 0.191 kilograms of CO₂ equivalent per cubic metre.

During the financial year 2023 **we have planted 43,229 units of plants, trees and shrubs**. Canal carries out such new planting and seeding that contributes to carbon sequestration every year. They are a useful short-term response to global warming caused by the accumulation of carbon dioxide in the atmosphere.

Promoting the use of public transport among employees

[GRI 302-5]

Canal finances nearly **80% of the cost of the Transport Pass** in the Region of Madrid for all employees who request it, promoting the use of public transport among its staff. In 2023, more than a third of Canal employees (1,109) used this annual transport pass to travel to work by train, metro or bus, which contributed to avoiding the emission of 887.7 tonnes of CO₂ equivalent.

Sustainable mobility

Canal promotes low CO₂ emission rates in its vehicle procurement tenders. In the specifications, one of the most important evaluation elements for the award of the contract is the CO₂ emission indexes, with the vehicles with the lowest index being rated positively. In these processes, the lower consumption of vehicles and the possibility of using biofuels are also particularly valued.

In the year 2023 we have continued with the renewal of our company's vehicle fleet with the progressive replacement of different vehicles with low eco-efficiency for new units that are much more eco-efficient or even with 100% electric mobility with zero emissions.

By the end of 2023, **almost one third of our vehicle fleet (213)** was 100% electric and we had **415 electric vehicle charging points** at our facilities, of which 17 (at 14 sites) are courtesy charging points for employees to charge their private vehicles. Thanks to our fleet of electric and hybrid vehicles, we have avoided the emission of more than **438.2 tonnes of CO₂** in 2023.

The quest for energy efficiency

Canal seeks efficiency in energy management from an integral point of view (operational, technological, economic and environmental), promoting coordination between the different areas of the company. Thus, in 2020, the **Canal de Isabel II Integrated Energy System (SIEC)** was launched. This platform's mission is to integrate information from the energy area with that of the integral water cycle operations in a common data repository to feed applications that support decision-making on energy efficiency, purchase and management of electricity contracts and investment in renewable energies.

In 2023 we have further improved the quality of the data represented by the SIEC, the reports and analyses carried out by the task force will be increased and energy efficiency measures based on these analyses will be promoted.

Biogenic emissions¹⁶ and emissions avoided in the 2017-2023 period (in t CO₂ eq.)

Biogenic emissions (t CO ₂ eq.)	2019	2020	2021	2022	2023
Emissions of a biogenic nature	102,691	96,669	97,447	99,611	103,087

GHG emissions avoided (t CO ₂ eq.)	2019	2020	2021	2022	2023
Avoided through self-consumption of renewable energies	21,413	14,995	14,518	17,190	13,079
Avoided through renewable energy generation sold to the grid	38,745	31,364	34,828	22,168	9,525
Avoided through the purchase of electricity with renewable electricity guarantees	56,226	48,299	42,673	60,264	40,551
Avoided through the use of hybrid vehicles	6.33	6.30	5.78	3.12	2.24
Avoided through the use of electric vehicles	117.96	79.71	322.68	438.39	435.94
TOTAL GHG EMISSIONS AVOIDED	116,508	94,743	92,348	100,063	63,593

¹⁶ **Biogenic emissions** result from the combustion of biogas associated with wastewater treatment processes and WWTP sludge composting processes. These emissions are considered neutral (equal to 0) from a greenhouse effect perspective, as they stem from the decomposition of products containing organic matter of animal or plant origin, which was previously captured by living organisms.

WE ARE COMMITTED TO DECARBONISATION

Hydrogen plant at Arroyo Culebro WWTP C.M.A. (Pinto - Madrid)

Decarbonisation is one of the main challenges we will have to face before 2050. For this, we will increasingly need to rely on alternative energy sources, such as one of the main renewable energy sources of the future, green hydrogen, which, with the support of European administrations, will help to replace fossil fuels. Canal de Isabel II's Strategic Plan establishes objectives that seek the decarbonisation of its processes and energy self-sufficiency.

At our Arroyo Culebro Cuenca Media-Alta WWTP, located in Pinto (Madrid), we will carry out the production of hydrogen, from reclaimed wastewater through electrolysis that uses photovoltaic solar panels as a source of energy which, in the future, can also be combined with the biogas engines produced at the WWTP itself.

We are currently finishing a pilot hydrogen production facility with an initial capacity of around 80,000 kilograms of hydrogen per year.

To power the electrolyser we will use solar energy, thanks to the nearly one megawatt photovoltaic installation recently built at the wastewater treatment plant (financed with REACT-EU funds). In the night hours without sun, the hydrogen plant will use the electricity generated through the biogas produced in the purification process. Everything will be renewable.

Moreover, thanks to the tertiary treatment with reverse osmosis at the WWTP, we will be able to supply reclaimed water, instead of drinking water, to cover the entire water demand required by the installed electrolyser.

This way, this plant will be unique because it will obtain all the energy necessary for its operation from renewable sources produced at the facility itself, and because it will be the first plant in our country (and possibly also internationally) to use regenerated water as a source of hydrogen generation. In addition, the oxygen produced during electrolysis will be used to enhance the aeration/ventilation of the treated wastewater in the plant and thus increase the treatment capacity and improve the quality of effluent.

This project links renewable generation and recycling technologies with circular economy measures that have a positive impact on the decarbonisation process.

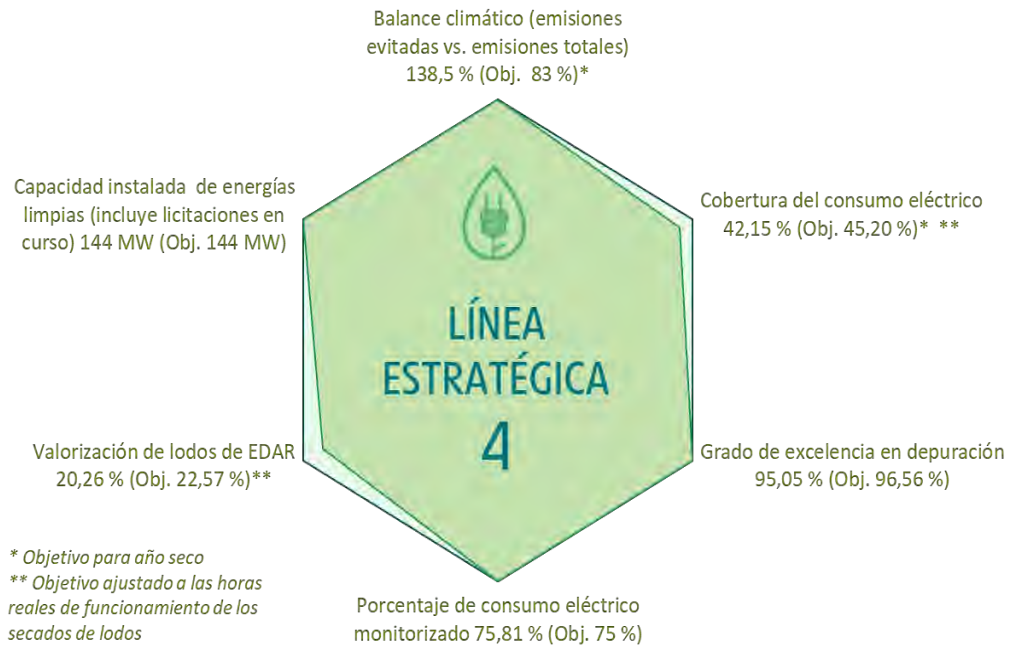
We started generating renewable photovoltaic energy in 2022 and in 2023, work will begin on the installation of the first electrolyser with a capacity of 1 megawatt.

The planned investment for this first pilot plant exceeds 7 million euros, which will be co-financed with ERDF funds from the European Union, as part of the ERDF 21-27 Programme of the Region of Madrid as a project of strategic importance.

Monitoring of indicators Strategic Plan. Strategic Line 4

Promoting environmental quality and energy efficiency

[GRI 305-5]





DEVELOPING COOPERATION WITH THE MUNICIPALITIES OF MADRID

2.5. Building our region

Canal de Isabel II's supra-municipal management model is based on long-term agreements signed with local councils for the operation of the different services in their municipalities.

The supply networks, which were the origin of Canal more than 170 years ago, are now managed with excellent results. However, municipal sewage networks, most of them recently incorporated into our management, present great needs for improvement and require specific plans and additional effort to achieve adequate conditions and prevent incidents affecting citizens and the environment.

We take a **supra-municipal approach** to our activities, generating **economies of scale** and **synergies in the operation**, representing important advantages for the municipalities.

CANAL AND THE MUNICIPALITIES OF THE REGION OF MADRID

The relationship with the municipalities is especially important for Canal de Isabel II, as it facilitates the provision of an efficient and quality service to all citizens. As every year, throughout 2023, we have held numerous meetings with the different town councils in the region to discuss different aspects of water management with a particular focus on everything related to the improvement of their sewerage networks.

To provide different types of services, Canal establishes management agreements and other types of agreements with municipalities and large customers. All agreements and commitments are negotiated and signed individually with each municipality.

[GRI 2-6]

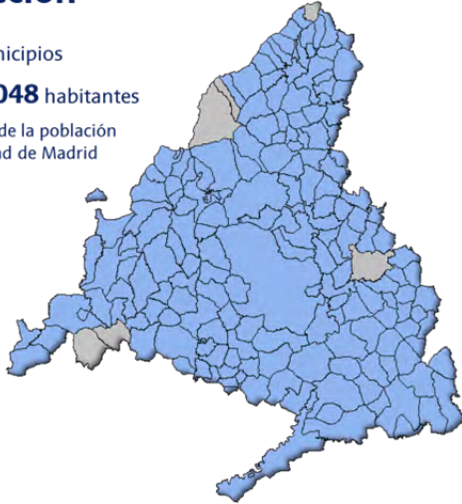
Through these agreements we currently provide water supply services (upstream, downstream or both) to a total population of **6,633,483 inhabitants** in 174 of the 179 municipalities of the Region of Madrid. This was equivalent to **96.70%** of the inhabitants of the region on 01 January 2023 according to the Municipal Register published by the National Statistics Institute (INE).

In terms of sewerage services, Canal currently manages the **sewerage of 137 municipalities** in the Region of Madrid, with a total of **5,865,225 inhabitants**, providing this service to **85.50%** of the region's population. In wastewater treatment, we manage the treatment of **178 municipalities** with a population of **6,850,969 inhabitants**, almost **100%** of the region's population (99.8%).

Municipalities of the Region of Madrid in which Canal provides its services in the different phases of the integral water cycle

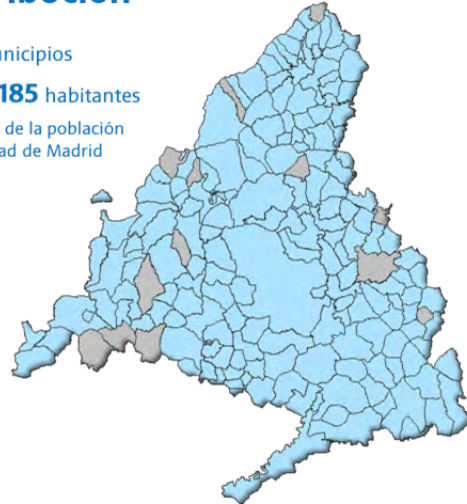
Aducción

173 municipios
6.627.048 habitantes
96,61 % de la población
Comunidad de Madrid



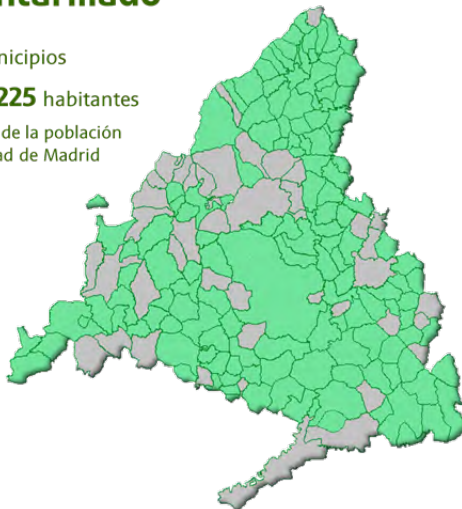
Distribución

166 municipios
6.578.185 habitantes
95,89 % de la población
Comunidad de Madrid



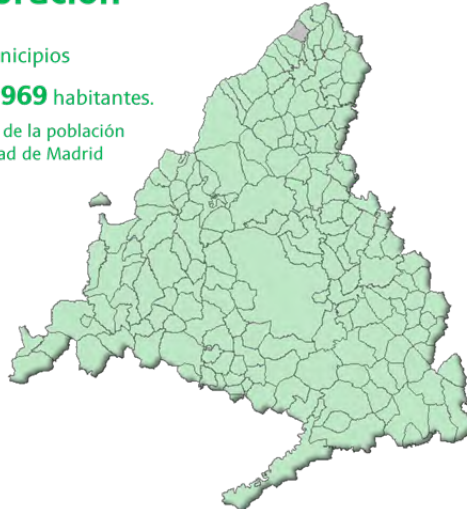
Alcantarillado

137 municipios
5.865.225 habitantes
85,50 % de la población
Comunidad de Madrid



Depuración

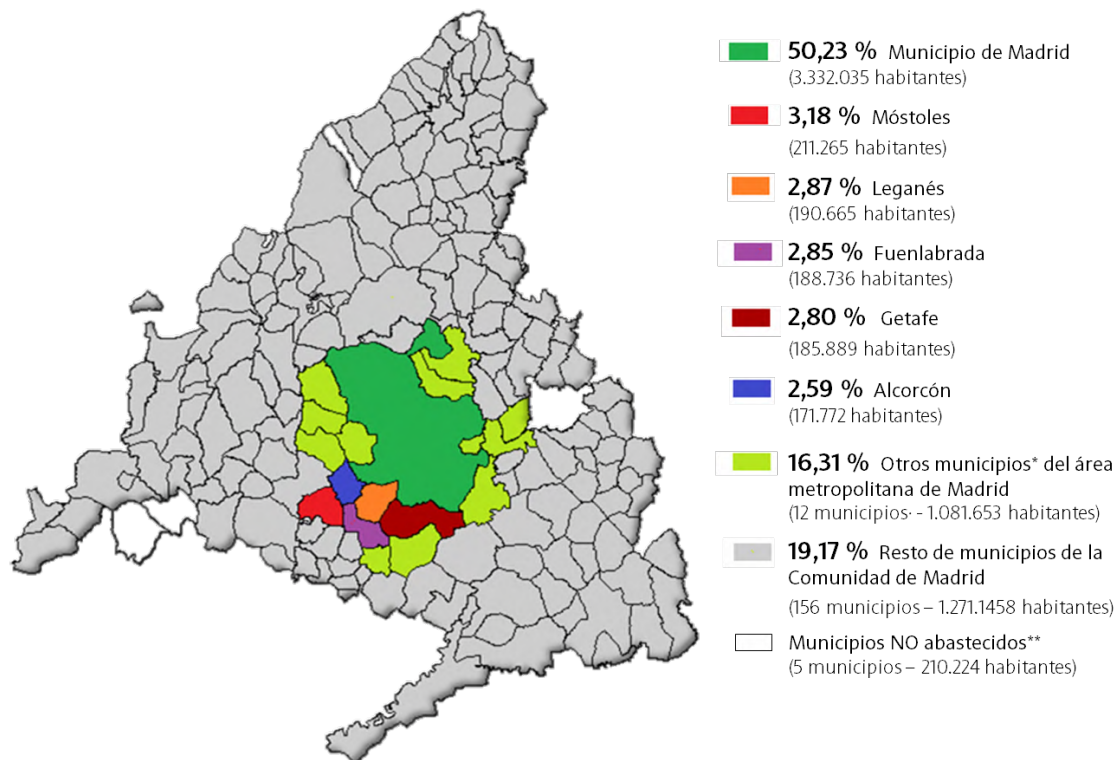
178 municipios
6.850.969 habitantes.
99,87 % de la población
Comunidad de Madrid



The population structure of the Region of Madrid means that there is **enormous variability in the population** of the municipalities in which we provide services related to the integral water cycle. Our services range from a city like **Madrid with 3.33 million inhabitants**, to a municipality of **6,675 inhabitants** like **La Acebeda** or municipalities like **Coslada** with a **population density of 6,711 inhabitants per square kilometre** to **Puebla de la Sierra** with a density of **1.78 inhabitants per square kilometre**.

Most of the population served in the Region of Madrid (**80.83%**) is located in the city of **Madrid** (over 50%) **and the 17 large municipalities** in its metropolitan area. The rest of the population is distributed among **156 municipalities**, which account for **19.17%** of the total.

Distribution in % of the population served in the Region of Madrid (2023)



* Alcobendas, Boadilla del Monte, Coslada, Majadahonda, Parla, Pinto, Pozuelo de Alarcón, Rivas-Vaciamadrid, Las Rozas de Madrid, San Fernando de Henares, San Sebastián de los Reyes y Torrejón de Ardoz.

** Alameda del Valle , Alcalá de Henares, Aldea del Fresno, Somosierra y Villa del Prado.

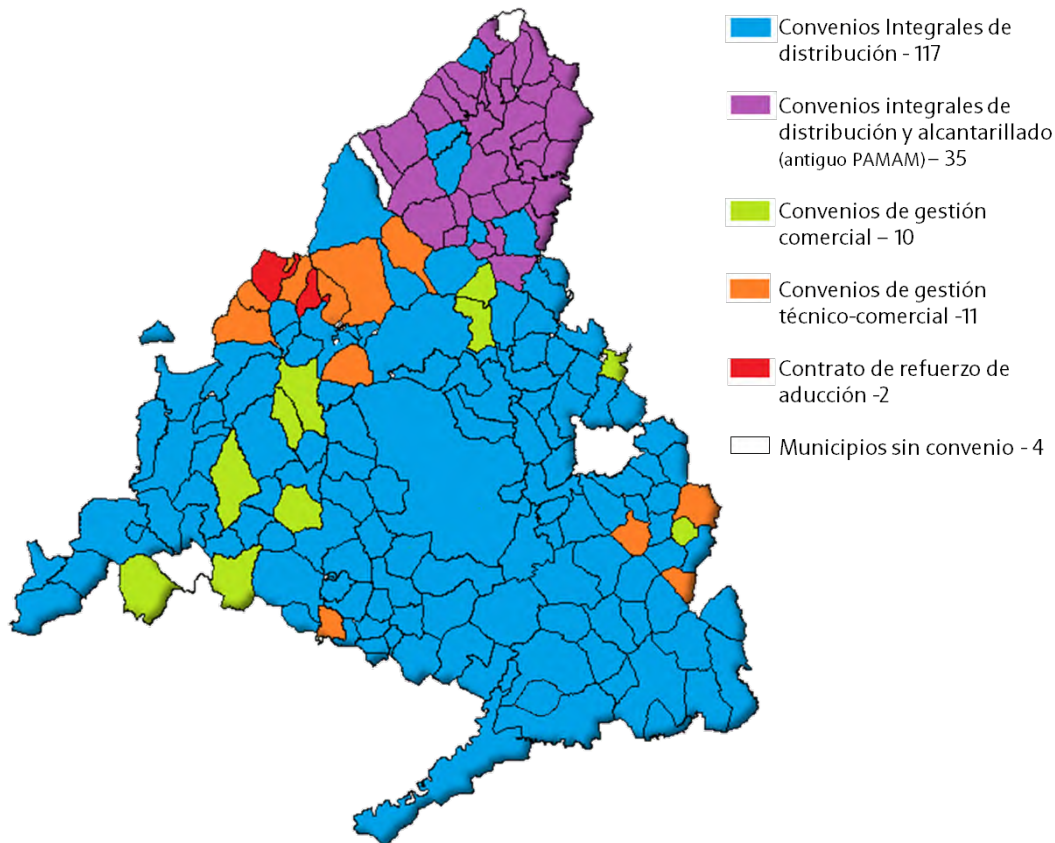
In addition to the municipalities of the Region of Madrid, by the end of 2023, the Canal system also supplied water to 8 neighbouring municipalities belonging to **Castilla-La Mancha** (Pioz, Pozo de Guadalajara, Tamajón, Tortuero, Uceda, Valdepeñas de la Sierra and Valdesotos, in the province of Guadalajara and Ontígola in the province of Toledo) and two in **Castile and León** (Navahondilla, in the province of Ávila, and a supply reinforcement in Sotillo de La Adrada). The population served in these municipalities in 2023 was **17,699 people**. In the case of Ontígola (Toledo) we also provide wastewater treatment services to its 4,916 inhabitants.

In the case of the municipalities of the Region of Madrid, the most common type of agreement we sign is for **integrated supply management**. Through this type of agreement, Canal carries out the maintenance, operation and renewal of the distribution network, with networks attached to the general supply system of the Region of Madrid.

There are also other types of agreements, such as **commercial management agreements**, in which Canal carries out such management (contracting, reading, invoicing and collection management), as well as the adaptation and maintenance of service connections. In the **technical-commercial supply** type where we carry out the maintenance and operation of the municipal distribution network: this includes the **renewal of the distribution networks** against a **supplementary distribution fee**, which is paid by the customers.

Apart from the municipal management agreements, Canal also enters into other agreements with local councils and urbanisations for specific issues.

Types of agreements between Canal and municipalities in the Region of Madrid



ENSURING SEWERAGE AND URBAN DRAINAGE MANAGEMENT

Sanitation management is absolutely vital for the maintenance of public health in urban environments, safety from floods and river flooding, and to ensure the protection of the environment and the maintenance of the region's water bodies in good condition.

The purpose of urban drainage networks is the collection of wastewater, domestic, industrial and runoff, for subsequent transport to wastewater treatment plants. Canal is currently responsible for maintaining the **municipal networks in the 137 municipalities** with a signed agreement. By the end of 2023, **these networks totalled 15,171 kilometres** and we also managed **875 kilometres of sewers and supra-municipal outfalls**. We also have **194 wastewater pumping stations (WWPS)**, which lift the water to enable it to be transported to the WWTP, and **73 storm tanks and laminators**, whose purpose is to prevent flooding and discharges into watercourses. Thanks to these facilities, **up to 1.42 million cubic metres** of the first rainwater, which is the most polluting water, can be **retained**.

The **maintenance work we carry out** consists of **monitoring the networks, inspecting and cleaning the pipes, cleaning the scuppers** and occasional spillages, resolving every warning and incident in the network and carrying out the necessary conservation and improvement work on the network. In 2023, **33,574 warnings** were received at Canal and **27,009 incidents** were attended to.

In addition to this work, we carry out cartographic updating and the preparation of network diagnostic studies, as well as the processing of technical conformity files for requests for connections or network modifications.

In recent years, and given the deficient state of the network in some municipalities, Canal has promoted the preparation of **diagnostic studies of the networks** and the development of **sanitation master plans for these municipalities**. Our objective is to ensure that all municipalities have their own master plan. In 2023 we have continued with the delivery of sewerage plans to municipalities. These actions will lead to an improvement in the network, a significant reduction in discharges and, in turn, an **improvement in the receiving watercourses**, while at the same time reducing the risk of flooding in the municipalities managed.

With regard to the **renovation of sewerage networks**, a total of **36.2 km** of sewerage networks **were renovated** in 2023 and we have continued to work on an advanced system for sustainable urban drainage management.

MOVING FORWARD WITH THE **SANEA PLAN**

Towards excellence in sewerage management in the Region of Madrid.

Adequate systems for the collection of wastewater and rainwater from urban areas through efficient **sewerage networks** and urban drainage systems are vital to ensuring quality of life for our citizens.

In order to manage sewerage without incident, avoiding the generation of blockages, odours and other nuisances for citizens, it is necessary to invest in networks that allow for adequate sizing and operation, especially in a scenario in which **climate change will cause extreme weather phenomena** such as torrential rains **with greater frequency and intensity** in the future.

However, the current reality is that many of the municipal sewerage networks, many of which have been incorporated into Canals management in recent years, require major improvement works which, in turn, require a considerable technical and investment effort.

To respond to these problems, the **2018-2030 Strategic Plan of Canal de Isabel II** included the **SANEA Plan**, an ambitious plan whose main objective is to improve the sewerage networks of the municipalities of the Region of Madrid to make them the most efficient and modern in our country, ensuring **sustainable water sanitation** and **preventing overflows** in the drainage systems.

Through this Plan, we want to ensure that all the municipalities in which we provide sewerage maintenance services have **sewerage and urban drainage master plans**, documents that establish the necessary measures and actions, setting priorities for network renovation actions and estimating the investments that will be necessary to avoid incidents and inconvenience to users, as well as to contribute to the protection and improvement of the environment.

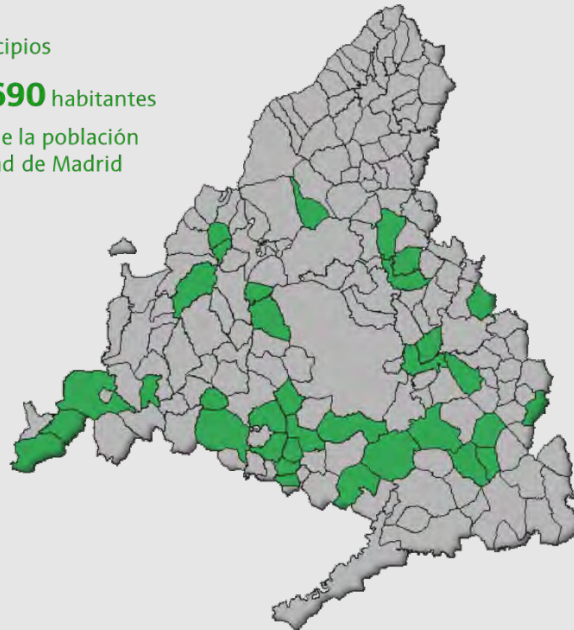
Once the master plans have been drawn up, a legal and economic analysis is carried out for each municipality, the feasibility of which leads to the signing of **specific municipal agreements for the SANEA Plan**. These agreements set out the deadlines and proposals for the execution and financing of priority actions, as well as the actual plans for the execution of investments in each municipality. **The initial disbursement of the investments is made by Canal** and is recovered through the sewerage tariff over the years of the agreement, with **no interest** applied to the financing.

Plan SANEA

34 municipios

1.439.690 habitantes

20,99 % de la población
Comunidad de Madrid



Alcorcón
Algete
Alpedrete
Ambite
Arganda del Rey
Cadaleso de los Vidrios
Cenicientos
Chapinería
Collado Mediano
Cubas de la Sagra
Escorial, El
Fuenlabrada
Fuente el Saz de Jarama
Getafe
Griñón
Humanes de Madrid
Meco
Molar, El
Moraleja de Enmedio
Móstoles
Navalcarnero
Perales de Tajuña
Rozas de Madrid, Las
San Fernando de Henares
San Martín de la Vega
San Martín de Valdeiglesias
Sevilla la Nueva
Soto del Real
Tielmes
Torrejón de Ardoz
Torrelodones
Torres de la Alameda
Valdemoro
Valdilecha

In the five years between **the start of the SANEA Plan** and the end of 2023, a total of **34 local councils** with **1.44 million inhabitants** in our region had signed up to the Plan. This means that **investments worth 398 million euros** have already been committed, which will allow **611 actions** to renovate **306 kilometres** of municipal sewerage networks.

Monitoring of indicators Strategic Plan. **Strategic Line 5** *Developing cooperation with the municipalities of Madrid consumption*





REINFORCING COMMITMENT AND PROXIMITY TO THE USER

2.6. By your side for whatever your needs may be

Customer and user satisfaction is one of the main objectives of our company. This satisfaction is obtained by providing reliable, quality services at fair tariffs, but it is also very important to provide adequate customer service, fulfilling their expectations and needs in a flexible and simple way. To this end, our company is equipped with the means and resources that make our commercial work one of the best valued in the sector in Spain.

[GRI 2-6] [GRI 3-3]

OUR CLIENTS IN THE REGION OF MADRID

Types of contracts with customers in 2023

In 2023, Canal de Isabel II has reached the figure of **1,594,298 active contracts** with customers, which represents an increase of **1.14%** compared to 2022.

Percentage distribution of types of contracts with customers in 2023



Our tariffs

[GRI 3-3]

Our tariff scheme (which is approved by the Regional Government of Madrid) is based on a series of basic principles such as the inclusion of the provisions of the transposition of the Water Framework Directive into Spanish law, the promotion of efficient consumption and the achievement of a fair and equitable tariff system. All this without forgetting that the citizens of Madrid enjoy some of the highest quality water in Europe.

Our tariffs are:

Progressive and subsidised: tailored to the particular situations and needs of citizens.

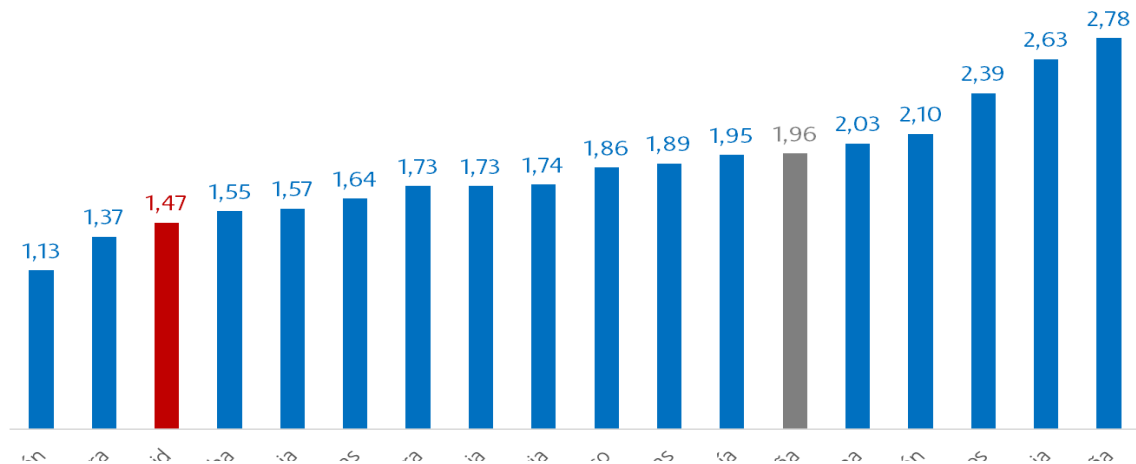
Seasonal: encouraging rational use in periods of scarcity and high consumption.

Committed to the environment: providing for a specific tariff for reusable water, which is an essential component of integrated water resources management in line with environmental sustainability.

To ensure better communication and greater understanding of the tariffs by customers, Canal conducts an annual campaign through explanatory documents that are made available to the public in our sales office and on our website www.canaldeisabelsegunda.es. More specifically, we publish a tariff document for dissemination in sales offices, which includes information on the general tariff for domestic use as well as the tariff for commercial and industrial use.

In recent years, Canal's tariff policy has been characterised by moderation. Thus, **our tariffs have remained frozen since 2015**, while the cumulative increase in the Consumer Price Index (CPI) between 01 January 2014 and 31 December 2023 was **21.3%** according to the INE. According to data published by the Spanish Association of Water Supply and Sanitation (AEAS) and the Spanish Association of Urban Water Services Management Companies (AGA), **our tariffs for the year 2023 were 33.33% lower than the average** for all Spanish autonomous communities.

Tariffs for supply and sewerage services by Autonomous Communities in 2023 (euros per m³).



Source: Study on water supply and sanitation tariffs in Spain (AEAS - AGA 2023)

Actions to ensure correct invoicing to the customer

Canal always seeks to guarantee the highest accuracy in the invoicing issued to our customers, based on their actual consumption, and to this end we carry out the following actions:

Meter reading: in 2023, we have performed **9.31 million readings** (0.5% less than in 2022) on **1.65 million meters**. The percentage of bills issued by estimate, as the meter reading could not be obtained, was only 3.84%.

Audit and analysis of consumption: in order to guarantee the correct issue of the consumption to be billed, we have a quality control system for reading and invoicing. The consumption audit, within the aforementioned system, is a tool to assist in the review of consumption that shows a significant variation. When deviations are detected, the customer is alerted to avoid possible interior leakage in their property.

Maintenance and verification of metering equipment: as an essential support for invoicing, actions are carried out to improve the accuracy of this equipment, mainly focused on the maintenance and constant renewal of the meter fleet.

To ensure their correct operation, we have a volume meter verification laboratory that meets all the requirements for verifying that its verifications and certificates are of the required quality and are recognised by national and international authorities. It has ENAC accreditation as a testing laboratory for the verification of meters and, since 2011, accreditation for the verification of flow meters. The control of the meters is carried out at the following levels:

- Control of new meters.
- Customer complaints.
- Carrying out studies to gain a better understanding of the operation of meters: verification of meters in use, evaluation of new technologies, influence of installation conditions, verification of the devices that measure the water derived from the network, among others.

During 2023, the **metrology laboratory** carried out **5,512 checks** of new meters (57.62% more than in 2022) and **5,141 checks** of the metering set for other reasons. On the other hand, **302,502 meters were renewed for maintenance and campaigns** (178% more than in 2022). A total of **21,277 meters** have been installed for **new contracts**.

Customer and user service

[GRI 2-23] [GRI 2-24] [GRI 2-25]

Canal's primary objective is to provide the best possible services to our users. We have an ISO 9001 certified quality system and, as part of our policy of maintaining the quality of the services we provide, we have made specific commitments to our clients. Thus, in 2019 we published our **Charter of Commitments to customers** with the aim of adapting to their needs and requirements. To this end, our company assumes a total of ten commitments ("*10 crystal-clear commitments*") in order to offer clear and transparent solutions to the needs of users. Failure to comply with any of these commitments can lead to automatic compensation ranging from 30 to 420 euros. We ended the year 2023 with a **high level of compliance** (91.44% on average) and **233,880 euros in compensation** payments.

The Charter of Commitments to our customers is available at the following link:
<https://oficinavirtual.canaldeisabelsegunda.es/diez-compromisos>

Communication channels with customers

We are a company committed to our environment and sensitive to the demands of our users. In recent years, we have made major efforts to improve accessibility to the various contact channels available for fast and efficient transactions in order to meet the needs of our customers. The main communication channels available to Canal's customers and users are:

Telephone helpline

The most widely used by customers, who can choose to speak directly with specialised agents or use automated solutions for their transactions. **In 2023, we have handled more than 1.14 million customer calls.**

Customer Service Centre

Located at Calle José Abascal 10, Madrid, the Customer Service Centre can be used to resolve any request related to commercial management. This centre remains a basic channel that builds trust with certain groups of customers who prefer face-to-face service. In 2023, **we provided face-to-face assistance to 22,517 people**, 11.14% more than in 2022.

Also in 2023 we started to provide **preferential customer care services, without prior appointment, to people over 65 years of age or people with disabilities** who need to carry out formalities at our Customer Service Centre.

Website, virtual office and Canal app for mobiles and tablets

Within the framework of new information technologies, and for greater convenience and simplicity in the management of self-service, Canal offers customers an Internet office that is available 24 hours a day. In 2023, this platform recorded more than **28 million interactions**, almost 10 million more visits than in 2022.

Customer service in writing

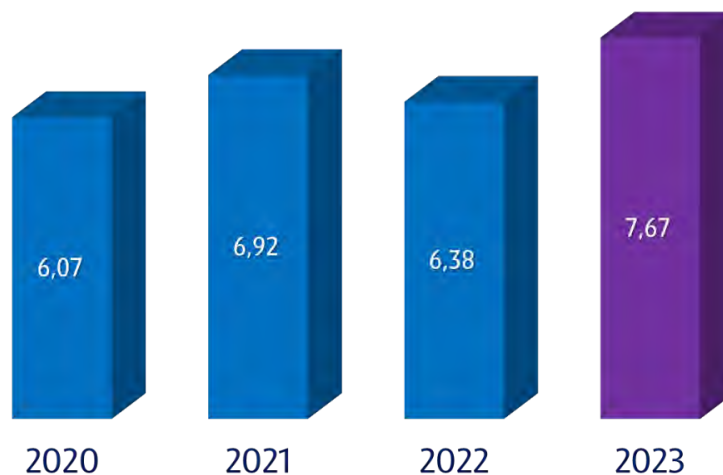
We also offer our clients a special channel of customer service in writing by letter or fax, with which any procedure can be carried out without waiting or travelling in person. Through this channel we received 3,358 communications in 2023.

Suggestions and complaints management

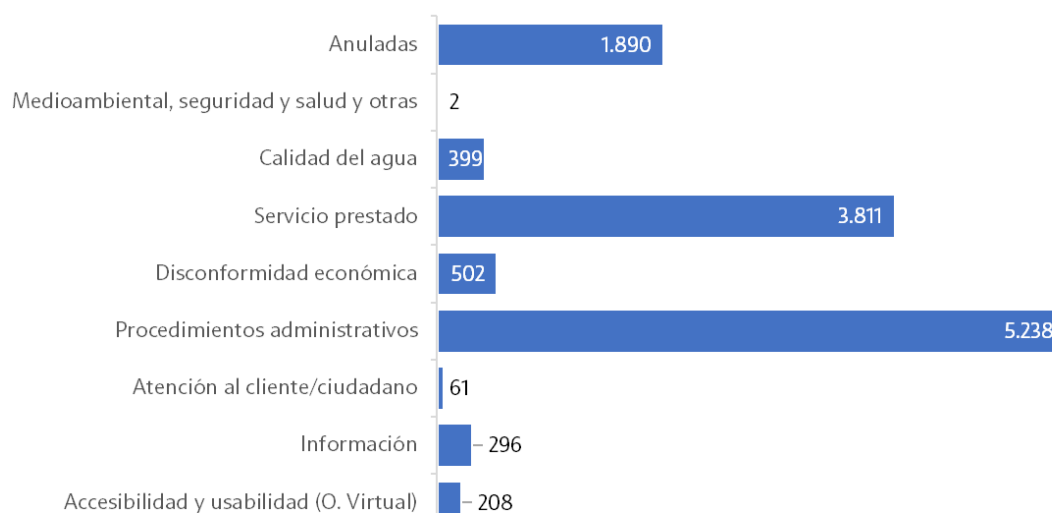
[GRI 2-25]

At Canal we have a complete system for the reception and processing of **suggestions, complaints and claims of bills** from our customers. In the case of complaints received, i.e. those disagreements related to the service provided to the customer, our **Complaints Office** is responsible for the personalised management of all of them. Using a communication number assigned to the complaint, the customer can track the progress of the complaint throughout the process. In 2023, a total of **12,235** complaints were received, i.e. about **7.67 complaints per every 1,000 customers**.

Evolution of the number of complaints received per 1,000 customers



Causes of complaints in 2023



In terms of **complaints received** regarding bills, this number fell 3.65% compared to 2022, standing at 27,602. This amounts to just over 17 complaints per 1,000 customers, affecting only 0.29% of the bills issued during the year (over 9.4 million). **63.81% of complaints** were **resolved favourably for the customer** in 2023.

Complaints received per 1,000 customers per year

Both bill claims and complaints have a **maximum processing time of 30 days**, which in 2023 was met in 72.49% and 57.98% of cases, respectively.

In addition to the claims and complaints received in the commercial sphere, we have a **service for dealing with incidents** related to the provision of the different services. In 2023, a total of **153,368 notifications** were received related to different incidents (quality, sewerage, continuity of supply, water pressure and other causes).

Distribution of causes of incidents in 2023 (Percentage of total)

The customer's voice in Canal: when they ask for help

[GRI 2-29]

At Canal de Isabel II we receive dozens of notifications every day from citizens reporting possible anomalies in the service. These incidents are recorded, processed and dealt with as efficiently as possible. This is a process that our company has been successfully implementing for decades and which, for a little over a year now, has incorporated an additional variable: the user (whether a customer or not) who has reported the incident can evaluate its correction and the attention received in the course of the incident.

By integrating two systems and two business units, a brief satisfaction survey is sent to the user once the problem has been resolved. This is an extension of the transactional measurement model, which is already applied to other interactions with customers, such as contracting, complaints, actions at the customer's premises or digital transactions through the virtual office and our mobile phone app (Canal app), and which we have now incorporated for the first time into this particular environment of incident reporting, with everything that this entails. This new scenario involves and requires the cooperation of three different divisions of the company: Innovation, Operations and Business.

Throughout 2023, Canal sent, through its Customer's Voice system, 59,948 surveys to citizens who had reported an incident to the company, of which some 11,449 were answered and integrated into the tool. Despite the context in which they respond to the survey (more than half had reported a supply cut, a break in the network or pressure problems), the satisfaction shown by these users with the service provided by the public company is remarkable: on average, it almost reaches a score of 7. 53.7% were very satisfied with how Canal de Isabel II had solved the incident; that is, more than half of the respondents rated the management with a score of 9 or 10.

Closing the loop

On the other side of the spectrum, though fewer in proportion, are those users who have not been entirely satisfied with the resolution of their complaints and have made this known in the survey. However, the company makes a special effort to reverse this feeling and improve the experience of these dissatisfied customers. Once the case has been analysed, the company tries to contact them to find out the reasons for their poor reviews and offer them new solutions. In short, to close the loop.

The alerts transmitted by the Customer's Voice system, which warns of those cases of dissatisfaction (i.e. those with a score between 0 and 5 or whose answer to any of the operational questions reflects that they still have a problem), allow Canal to address them in greater detail. The criterion for categorising dissatisfied users is not only numerical; several company professionals read the surveys and identify, through the open-ended answers, the cases in which the customer expresses, in their own words, their dissatisfaction with the solution.

Based on data from the first year of measurement of this environment, only one out of five surveys on incident resolution required subsequent *Close the Loop* actions. In absolute terms, of the 11,449 forms completed by users during the last year, 3,256 resulted in alerts for scores below or equal to 5 or reflecting an unresolved problem.



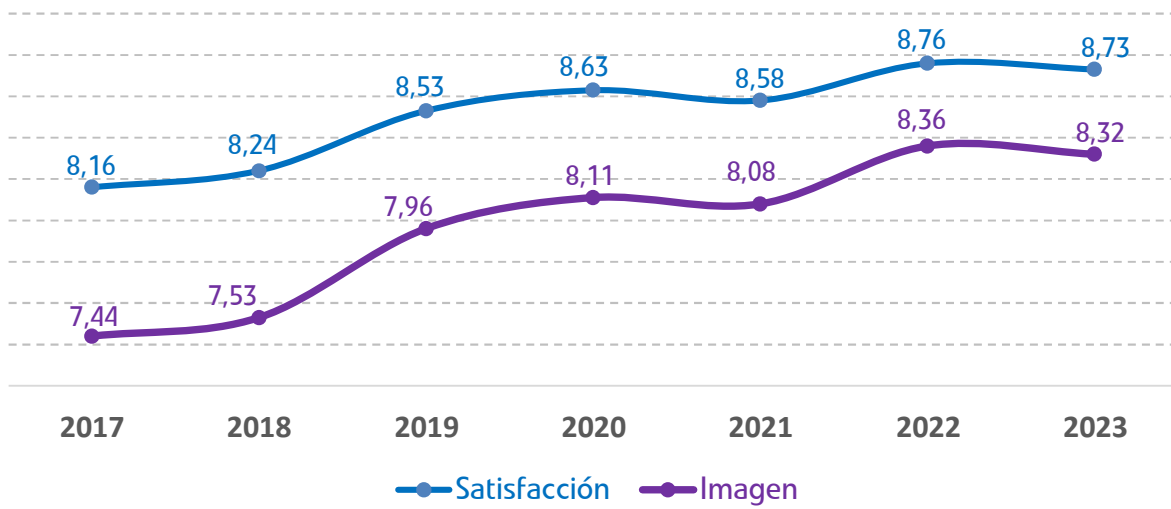
Besides these data, which represent a starting point for the new year, Canal de Isabel II believes that the most important priority is that the alerts of dissatisfied customers do not remain in limbo. Thanks to the coordination between the teams of Customer Experience, Control Centre and Conservation Areas, up to 10% of these dissatisfaction cases related to incident resolution could be addressed again in 2023 in order to reverse the negative feeling of users.

You can learn more about optimising our customer experience by following this link on our YouTube channel: <https://www.youtube.com/watch?v=87-JMreCd-8>

Canal's customer satisfaction

The overall satisfaction of Canal customers has been increasing steadily over time, overcoming in recent years situations such as the COVID-19 pandemic in 2020 (reading estimates, delay in works, call centre saturation, etc.), the *Filomena* storm in 2021, the cyber-attack on our Call Centre in 2022 or the transition to a new model and new providers of this same service in 2023. However, customer confidence in Canal is solid and sustained over time and, even if it rises and falls a few tenths of a point depending on the different circumstances, it closes its 2023 ratings close to the figure of 9 out of 10.

Evolution of the overall image and satisfaction 2017 - 2023 (score from 0 to 10)



OUR REMOTE METER READING PLAN

Our aim is to achieve a **friendlier and more efficient management** for our customers. The implementation of smart meters incorporating the latest technologies **in 100% of the supplies of the Region of Madrid** will allow us to obtain new services for our customers and new utilities for Canal, based on the advanced processing of meter data.

Thus, **with the massive implementation of the remote meter reading service**, which **we started in July 2023**, more than 300,000 customers can already consult, in their personal space of Canal's **Virtual Office**, their consumption up to the previous day, in daily and hourly frequencies. Our customers will be able to receive **alerts for continuous consumption** (a **sign of possible interior leaks**) and we are also working on the **integration of remote reading in the new YARA commercial system**.

This ambitious and innovative project will allow us to obtain more information about our customers' consumption in order to offer them better and new services and thus turn the Region of Madrid into a **Smart Region**. With the renewal of the pool of meters that are not compatible with this system, as well as with the installation of equipment for the integration of remote reading, by **2026, all of Canal de Isabel II's meters** (1,653,668 meters at the end of 2023) **will be integrated** into this innovative digital system.

With the implementation of remote reading, Canal will go from measuring meters every 2 months to **every hour 365 days a year**, which will multiply the available information by 1,460 times. The correct processing of this information will provide a very precise knowledge of customers' usual consumption and will allow, in the near future, to alert them if anomalous consumption, leaks or losses occur in their indoor installation, almost as soon as they occur, instead of detecting them several weeks later, when the next bill is generated.

Remote reading with smart meters is important not only for the customer, but also for our company, as it will **allow us to ascertain consumption patterns of all our customers** and group them by type and use. This way, we can personalise savings advice, provide comparisons or manage demand in certain areas more efficiently.

Moreover, in a context in which environmental and natural resource care is at the heart of our company's management, remote sensing will provide us with valuable information for the optimisation and efficient management of the supply network, which is nearly 18,000 kilometres long and divided into more than 600 sectors. Along these lines, smart meters and real-time metering will also lead to an optimisation of demand and a better estimation of consumption, resulting in more efficient planning and a reduction of greenhouse gas emissions. All this without forgetting the early detection of anomalous consumption.

Monitoring of indicators Strategic Plan. Strategic Line 6

Reinforcing commitment and proximity to the user



*El NPS es un indicador que mide la lealtad del cliente a la empresa en función de la probabilidad de que el cliente



FOSTERING TRANSPARENCY, GOOD GOVERNANCE AND COMMITMENT TO SOCIETY

2.7. The company of all the people of Madrid

[GRI 3-3]

As a public company providing an essential public service, we have an obligation to be excellent and rigorous in our corporate governance and in the behaviour of our employees. We owe it to citizens and we must be absolutely transparent in our management and, in the field of Social Responsibility, we must develop open and participative activities for all the groups with which we interact.

The corporate organisation and the governing bodies of Canal de Isabel II respond, on the one hand, to the requirements derived from our legal nature as a **public limited company** and, on the other hand, to the objective of achieving a level of excellence in **transparency and good governance**.

In this regard, we are working on the progressive incorporation of best practices in terms of good governance and transparency that go beyond the standards required of unlisted companies, as in the case of Canal. We are committed to a **Code of Ethics and Conduct**, and **Compliance, Sustainability and Internal Control policies**, all of which must be complied with.

RELATIONS WITH ADMINISTRATIONS AND TRANSPARENCY OF MANAGEMENT

[GRI 2-16] [GRI 2-66]

Canal's relationship is generally developed with three levels of public administrations:

Local Councils of the municipalities in which we provide our services.

Spanish **autonomous communities** in which we provide services, especially the Region of Madrid.

General State Administration in Spain and central administrations of the countries where we operate the service.

We maintain permanent channels of communication with all of them and they are promptly informed of the aspects of our management and operations that fall within their remit.

In addition, as a public company, we are obliged to respond to requests for information and auditing from all the political groups represented in our regional parliament: the **Assembly of Madrid**. These requests reflect the issues relevant to stakeholders in all aspects (economic, environmental and social) and, in addition to reporting on the performance of the company and

its Group, help us understand the principal concerns in terms of responsibility, solvency and sustainability.

The response to these requests is sent to the Regional Ministry of the Environment, Agriculture and the Interior of the Region of Madrid, through the CEO.

Requests made to Canal from the Assembly of Madrid (2019-2023)

		2020	2021*	2022	2023*
C	Appearance in Plenary or Committee	1	5	2	0
PCOP	Question for oral answer in Plenary	3	11	3	2
PCOC	Question for oral answer in Committee	14	27	8	4
PE	Question for written answer	26	32	100	41
IP	Request for Information	385	108	104	77
Other	Non-legislative proposal, Bill, Parliamentary Questioning...	1	0	0	3
SUM		430	183	217	127

(*) 2021 and 2023 were years with regional elections in which Parliamentary activity was lower.

Requests made by the parliamentary groups of the Assembly of Madrid in 2023 (number of requests and % of total)

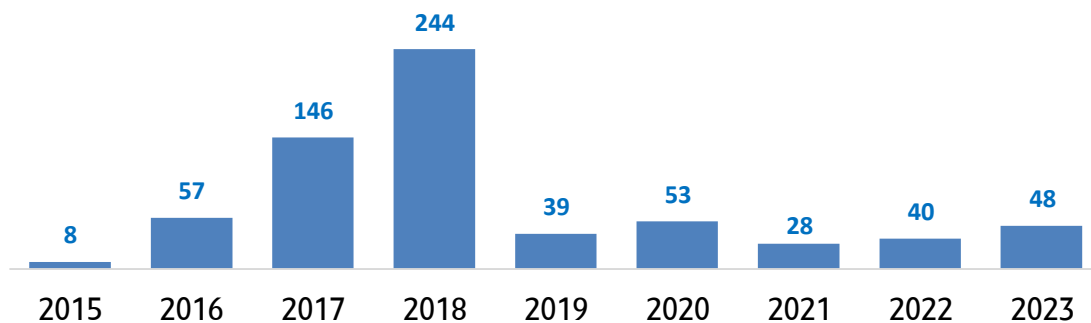


[GRI 2-26]

In 2015 we created an electronic communication channel on our website to receive and answer queries from citizens, the **Transparency Mailbox** created to comply with the provisions of the

legislation on transparency in the public sector¹⁷ regarding the exercise of the **right of access to public information**. This mailbox can be accessed through our **Transparency Portal**, a space on our website that contains all the information related to active publicity established by law. In 2023 we received and responded to a total of **48 requests for access to public information**. Of these, **27 requests have been considered**, the required information being provided, 17 requests **have been forwarded** to the competent administration or body, and **4 requests have been rejected with an express decision**. Since its launch on 28 October 2015 and until the end of 2023, the Canal Transparency Mailbox has handled more than **650 requests**.

Number of requests received annually in the Transparency Mailbox



In 2023, following the recommendations of the **Council for Transparency and Good Governance** for public administrations, we carried out, with the help of an independent company, an initial diagnosis of our transparency situation using the **MESTA methodology** (Methodology for Evaluating and Monitoring Transparency, for its Spanish acronym). MESTA is a methodology that goes beyond the assessment of compliance with the legislation on transparency, as it also evaluates the quality of the information published by the company, considering attributes such as accessibility, updating, clarity and the reusability of the information published, among others.

The result obtained in this initial diagnosis applying MESTA is 54.3%¹⁸ in relation to the contents laid down in the transparency legislation of the Region of Madrid and 46.4% in relation to the contents laid down in the legislation on state transparency.

¹⁷ Law 19/2013, of 9 December, on transparency, access to public information and good governance at state level and Law 10/2019, of 10 April, on Transparency and Participation of the Region of Madrid.

¹⁸ The percentage value obtained in the MESTA diagnosis does not correspond to compliance with legislation, but rather to the overall quality of the information published, considering aspects such as its accessibility or its updating level.

Other management audits

[GRI 207-2]

In addition to the aforementioned transparency actions, Canal de Isabel II has numerous **internal and external** audit and control **mechanisms** focused on ensuring that our management complies with the principles of legality, effectiveness, efficiency and economy. The main external audit mechanisms of our company, the results of which are in many cases public, include the following:

- The **Audit Chamber of the Region of Madrid** audits the economic and financial activities and operations of the Madrid public sector, including those of our company and the companies of our Group in Spain and Ibero-America. The results are published on the Chamber's website.
- Our **external auditor** (in 2023 the firm ERNST & YOUNG) issues a report on the true and fair view of the financial statements and the **Statement of Non-Financial Information (SNFI)** which we publish together with the financial statements for each financial year.
- Our financial statements are filed with **the Business Register**, which makes them available to the public, and are posted on our website.
- Although we are not a listed company, we are an issuer of negotiable securities (bonds) and this obliges us to publish all relevant information related to the corporate governance of our company on the website of the **National Securities Market Commission (CNMV)**, which contributes to the control and transparency of our activities.
- Our tendering procedures and practices are supervised by the **Administrative Procurement Court of the Region of Madrid**, when required. Its decisions are made public on the court's website.
- All documents relating to our tenders and minor contracts are published in the **Electricity Procurement Portal of the Canal de Isabel II Group** and in the **Public Procurement Portal of the Regional Government of Madrid**. On both portals in addition to consulting information, interested parties can bid electronically 24 hours a day, 365 days a year. They are also posted on our website on the **Canal de Isabel II Group's e-Tendering Portal**.
- We are also audited by the **Ministry of Finance and Public Administration**, the **Spanish Court of Auditors** and the **European Court of Auditors (ECA)**, especially in relation to the European funds we receive.

In addition to the aforementioned external control mechanisms, our company has also set up **internal control mechanisms**, including the following:

- The **Sub-Directorate of Internal Audit, Risk Management and Internal Control**, which carries out specific analyses of our company's practices.
- We have a **Risk Management system and corporate controls**.
- Our **Procurement and Coordination sub-directorates** ensure the correct application of tendering procedures in accordance with the law.
- We are committed to a **Code of Ethics and Conduct** and a mandatory **Compliance Policy**.
- Systems for the control of our **Quality and Environmental certifications** in accordance with the **ISO-9.000, ISO-14.001** and **ISO-45.001** standards, among others, which we publish on our website.
- We have an **Audit Committee of the Board of Directors**.
- A **hierarchical system of contract authorisations and payments** is also in place.
- Our SAP R3 system has **automated controls for the chain monitoring** of any payment authorisations that are made.
- We have a **System of Internal Control over Financial Reporting (ICSFR)** and a **System of Internal Control over Sustainability Information (ICSSR)** focused on **non-financial** information.
- Our **Compliance Department** analyses compliance risks, in particular those related to the criminal liability of legal persons.

CORPORATE GOVERNANCE AT CANAL DE ISABEL II

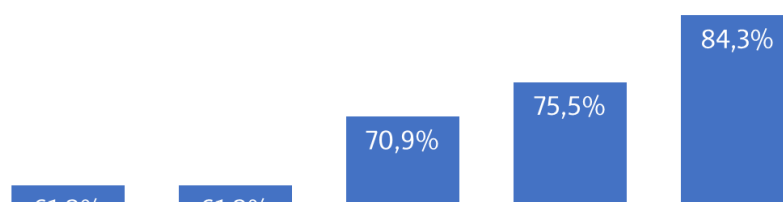
[GRI 3-3]

At Canal, one of our priority lines of action is to comply with all applicable **good governance** recommendations, both the mandatory ones applicable to us as issuers of securities and the voluntary ones included in the main codes in this area. The mandatory ones, of course, we comply with in their entirety and, as for the voluntary ones, we already follow many of them.

Our Board of Directors considers the **CNMV's Good Governance Code for Listed Companies** as the main guiding document for our activity.

For this reason, since the beginning of the implementation of the 2018-2030 Strategic Plan, we have measured the degree of progress in compliance with Good Governance practices through an indicator. In the first years of the Plan we managed to achieve a compliance rate of around 65% of these practices. In 2021, the approval by the Board of Directors of its operating regulations increased the number of Good Governance practices implemented by almost 10%, and in 2023 we have continued to make progress, with **more than 84%** implemented.

Degree of implementation in Canal of the voluntary recommendations of the CNMV's Code of Good Governance and other reference documents



Code of Ethics and Conduct

[GRI 3-3] [GRI 2-23] [GRI 2-24] [GRI 205-1]

The **Code of Ethics and Conduct**, approved by the Board of Directors, is an action guide that sets out the values, ethical standards and behaviours that all of us who are part of Canal de Isabel II are obliged to comply with in the performance of our professional activities related thereto, as well as what conduct is considered unacceptable by the Company.

The general principles of action and commitments to conduct set out in the Code of Ethics and Conduct are as follows:

- 1. Legality:** Compliance with and respect for the Law is one of the fundamental principles that will govern the actions of all the people who form part of Canal de Isabel II.
- 2, Business ethics:** Commitment to the principle of integrity means that we will all behave honestly, consistently and responsibly.
- 3. Respect for human, labour and social rights and civil liberties:** Canal de Isabel II declares its firm commitment to the human, labour and social rights set out in the Universal Declaration of Human Rights.
- 4. Collaboration:** All the people who form part of Canal de Isabel II will work together in a coordinated manner, contributing to cooperative work that fosters relations between professionals from different areas of the Company and the Group, achieving synergies and professional development.
- 5. Sustainable development:** Canal de Isabel II declares its firm commitment to the principles of sustainable development as an integrating framework for its actions with professionals, customers, suppliers, shareholders and other stakeholders with which the different companies of the Group relate, favouring the achievement of the Sustainable Development Goals (SDGs) approved by the United Nations (UN), and rejecting actions that contravene or hinder them.
- 6. Responsible and efficient management of the Company's assets:** All of us who form part of Canal de Isabel II undertake as an obligation the efficient and responsible use of the Company's goods and assets, given their public resource nature, following criteria of austerity and necessity in their use.
- 7. Protection of confidential and proprietary information:** Canal de Isabel II is committed to establishing the necessary measures to achieve the highest level of security of its information and operational systems through the implementation of appropriate measures to prevent, detect and respond to the risk of cyber-attacks.

8. Protection of intellectual and industrial property: Canal de Isabel II is firmly committed to knowledge and innovation, and therefore we will protect the intellectual and industrial property rights of the Company, while respecting the analogous rights of third parties, for which specific control procedures will be in place.

9. Exemplarity and safeguarding the image and reputation of Canal de Isabel II: Canal de Isabel II requires an extra ethical commitment from all the members of the Company in the performance of their duties, as it may be subject to public scrutiny.

[GRI 205-2]

Throughout 2023, all Canal employees received training related to the principles of our Code of Ethics and Conduct.

Ethics and Compliance Committee

The Ethics and Compliance Committee is responsible for the supervision of the operation and compliance with the crime prevention model in place, as well as for ensuring compliance with the Code of Ethics and Conduct and promoting a culture of ethics and integrity within the Company.

The Ethics and Compliance Committee held nine ordinary meetings during 2023, on dates previously agreed by the Committee itself. In these sessions, in addition to promoting initiatives to improve ethics and integrity in our organisation, it has also carried out a review of the elements of the existing crime prevention model.

The **Regulations of the Ethics and Compliance Committee** approved by the Board of Directors on 20 July 2023 regulate the composition and operation of the Committee.

In this regard, the Ethics and Compliance Committee consists of five members, one of whom will be the Head of the Compliance Unit. The Committee shall have a Chair and a Secretary, who shall be appointed by the Board of Directors from among its members. The members of the Ethics and Compliance Committee, at year-end 2023 were as follows:

Chair - Head of **Compliance** Area

Member and Secretary - Head of **Corporate** Area

Member - Submanager for **Commercial Services**

Member - Submanager for **West Zone Infrastructure Conservation**

Member - Head of **International Legal Department**

Internal information system of Canal de Isabel II. Ethical Line

Canal de Isabel II has an internal information system called **Ethics Line** to promote compliance with the provisions of the **Code of Ethics and Conduct**, the law and other internal rules by its directors, managers and employees.

[GRI 2-16] [GRI 2-26]

Through the Ethics Line, queries may be raised and possible breaches of the principles and values of our Code of Ethics and Conduct may be reported, both anonymously and by name. These will be processed by the Ethics and Compliance Committee and confidentiality will be guaranteed, in accordance with the terms of the Regulations of the Ethics and Compliance Committee.

Queries or complaints may be submitted anonymously through the web form available on the intranet and on the corporate website. <https://www.canaldeisabelsegunda.es/linea-etica>

The Ethics Line is available to the members of the Board of Directors, managers and employees of Canal de Isabel II, as well as to suppliers and contractors, who have a relationship with the company, shareholders and holders of other securities issued by the Company.

The Ethics and Compliance Committee is responsible for ensuring the proper functioning of the internal information system, and for managing the communications or complaints received through the means established for this purpose.

The contents of Canal de Isabel II's Code of Ethics and Conduct may be developed to ensure its effectiveness and compliance.

Canal's Code of Ethics and Conduct is available at the following link:

https://www.canaldeisabelsegunda.es/documents/20143/734868/Codigo_de_Conducta_Canal.pdf/

Compliance System

[GRI 2-27] [GRI 205-1] [GRI 205-2]

During 2023, the organisation's **compliance system** was reformed as a result of internal organisational changes and to adapt it to new legal requirements. As a result of this reform, on 20 July 2023, the Board of Directors approved the **Compliance Policy**, the **Code of Ethics and Conduct** and the **Regulations of the Ethics and Compliance Committee**. This Code of Ethics and Conduct replaces the Code of Conduct adopted on 8 January 2015.

The **Compliance Policy** is enforceable not only internally, as it applies to the members of the Board of Directors, managers and all employees of Canal de Isabel II, but also for those involved in the company. This Policy explicitly sets out the Company's commitment to the exercise of due diligence required to minimise the risk of malpractice or non-compliance with regulations in the conduct of its business. Meanwhile, it projects a strong message of rejection and zero tolerance of any conduct that constitutes an illegal act or contravenes its internal rules.

The purpose of the Compliance Policy is to define the basic principles and the general framework of action in Canal de Isabel II in compliance matters, under the supervision and responsibility of the Board of Directors. The aim is to promote those strategic, operational and organisational lines that allow it to achieve its business objectives, within a framework of rigour and excellence in the development of all its activities.

This Policy **has superseded the previous Compliance Policy** and the **Crime Prevention Policy** of Canal de Isabel II of 24 November 2022.

Similarly, since 2019, Canal de Isabel II has had a **compliance function**, with the aim of reinforcing the organisation's existing "three-line model" by improving the organisation's existing control systems.

In this regard, the criminal risks that apply to the Company have been identified, the controls that mitigate them have been established, and the Ethics and Compliance Committee of Canal de Isabel II has been constituted as the body in charge of supervising the operation and compliance with the crime prevention model implemented, as well as of ensuring compliance with the Code of Ethics and Conduct and promoting a culture of ethics and integrity within the Company.

The Code of Ethics and Conduct, the Compliance Policy and the Regulations of the Ethics and Compliance Committee of Canal are available at the following link: <https://www.canaldeisabelsegunda.es/web/site/accionistas>

Internal Control Systems for Financial Information (ICSFR), Sustainability (ICSSR) and Internal Rules of Conduct

We aim to incorporate best practices in corporate governance, ethics and integrity into our organisation. Among others, the Audit Committee is responsible for supervising the effectiveness of the company's internal control. In this regard, Canal de Isabel II has an **Internal Control System for Financial Information (ICSFR) and for Sustainability Information (ICSSR)**. These management systems, which identify and manage financial and sustainability reporting risks, are in place in the Group.

The objectives of the ICSFR and the ICSSR are: to improve the efficiency and security of the financial and sustainability support processes, minimising possible errors; to anticipate new regulatory requirements; and to position Canal as one of the leaders in its sector in terms of internal control and good corporate governance.

These internal control systems ensure transparency with regard to the activity carried out by the company, ensuring that its processes are duly coordinated and that all of them operate jointly to prevent, detect, compensate, mitigate or correct errors with a material impact on, or fraud in, financial and sustainability information.

On 30 November 2023, Canal de Isabel II, Sociedad Anónima, M.P. approved the **Internal Control System on Financial Information and Sustainability Information Policy**, as well as the procedure that develops it. Thus, this policy constitutes a mandatory compliance framework for all the entities that make up the Canal Group and their respective governing bodies.

The new Internal Control System on Financial Information and Sustainability Information Policy allows us to adapt our actions in this area to **national and international best practices** and to anticipate possible new regulatory requirements regarding internal control on financial information and sustainability information. Canal is the only Spanish public urban water utility that has approved both policies. We are also the only company that has an integrated ICSSR and ICSFR policy in the Region of Madrid.

The new ICSSR and ICSFR policy is available at the following link:

<https://www.canaldeisabelsegunda.es/web/site/accionistas>

Finally, as Canal is an issuer of marketable securities (bonds), we have an **Internal Code of Conduct on Securities Markets**. The Regulation provides for a corresponding Register of Obligated Persons. During the year 2023 we have updated the Register.

Remuneration and incentive policy

[GRI 2-19] [GRI 2-20] [GRI 404-3]

By resolution of the General Shareholders' Meeting, the **members of the Board of Directors of Canal**, with the exception of the Chief Executive Officer, **do not receive any remuneration**

except for the allowances for attending meetings of the Board and its committees for those directors who are not incompatible by virtue of *Law 14/1995 of 21 April on Incompatibilities of Senior Officers of the Regional Government of Madrid*. These allowances were fixed by the Shareholders' Meeting at 600 euros per meeting

The Chair of the Board and the other members of the Board who are proprietary directors do not receive any remuneration for their position in the company, as they are senior officers.

The salaries of senior management and their annual increases are regulated, as for the rest of the staff, by the regulations of the Regional Government of Madrid, and must be approved by the **Regional Ministry of Economy, Finance and Employment**. This regulation expressly prohibits the agreement of severance pay clauses of any kind for termination of the employment relationship outside those established by law.

On the other hand, as an incentive policy, we have defined a **variable remuneration system** that is mainly linked to the **annual fulfilment of the objectives corresponding to Canal's 2018-2030 Strategic Plan**, a large number of which measure the environmental, social and Corporate Governance performance of our company over the course of each year (ESG criteria¹⁹). This variable remuneration system is established for all staff with management responsibility in any area of activity, including employees with recognised higher education qualifications.

The 2023 remuneration of senior officers is published on the Transparency Portal of the Region of Madrid.

<https://www.comunidad.madrid/transparencia/organizacion-recursos/altos-cargos>).

Pension commitments to senior management are developed on the same terms and conditions as for the rest of the workforce. In 2023, the company has not made contributions in accordance with the provisions of *Law 3/2014 of 22 December on the General Budget of the Regional Government of Madrid* since 2015.

Corporate risk management, audit and internal control

[GRI 2-12]

Canal de Isabel II has a Sub-Directorate of Internal Audit, Risk Management and Internal Control, reporting organically to the Chief Executive Officer and functionally to the Audit Committee of the Board of Directors.

¹⁹ ESG principles (Environmental, Social and Governance) are those applied by companies in their management of environmental protection, relations with society and good corporate governance.

Internal Audit Activity

During 2023, the Internal Audit function continued at Canal as an independent and objective assurance and consulting activity, designed to add value and improve the organisation's operations, constituting a benchmark within Spanish public companies.

On February 2022, the Audit Committee approved the **2022-2024 Internal Audit Plan**, which determines the projects to be carried out in the coming years. The Plan is based on the company's risks, the strategic objectives, the requests of the Audit Committee, the needs of our stakeholders, the processes detected by the Internal Audit area itself, as well as the follow-up of the recommendations arising from the audits already carried out. The Plan is reviewed annually to form the Annual Internal Audit Plan.

The total number of **recommendations for improvement** issued was **246**, of which 211 were completed by the end of 2023.

It is worth noting that in 2023, the Sub-Directorate renewed for the second time the Quality Assurance Certificate, awarded by the Institute of Internal Auditors, with the highest rating. This result shows that the Internal Audit of Canal de Isabel II follows the standards and procedures aligned with the best international practices of the IIA Global, recognised and accepted by the most important international organisations, such as the OECD, the International Monetary Fund or the World Bank. It has a Sub-Directorate of Internal Audit, Risk Management and Internal Control, under the organic dependence of the CEO and the functional dependence of the Audit Committee of the Board of Directors.

Corporate risk management

[GRI 3-3]

Risk Management is a control activity permanently linked to the risks that may condition the fulfilment of the strategic objectives of the organisations.

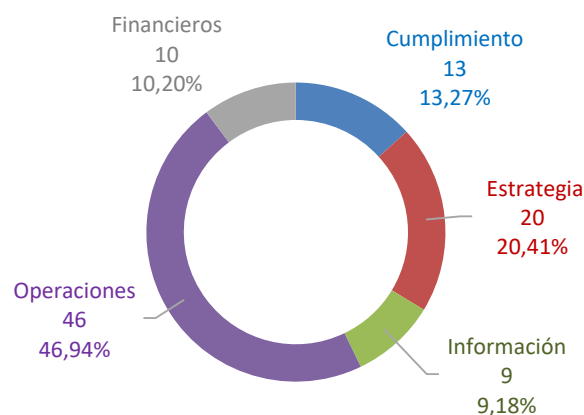
The **Risk Management Policy** at Canal de Isabel II was reviewed and approved by the Board of Directors in January 2020 and its correct application requires the involvement of all the company's staff. Canal conducts Risk Management based on the internationally recognised **COSO (Committee of Sponsoring Organization of the Treadway Commission)**, **COSO Internal Control** and **COSO ERM (Enterprise Risk Management)** frameworks, adapted to the characteristics of our company.



The risks that may affect the fulfilment of the company's objectives are classified on the basis of the categories used in COSO, adapted to the reality of the company, with the following Risk Taxonomy, in line with best practices:

- **INFORMATION RISKS.** Referred to data and information of a financial, non-financial, internal and external nature of the company.
- **COMPLIANCE RISKS.** Referred to regulatory compliance. Those related to the objective of offering maximum confidence to the regulator and to society in general, with respect to the Company's activity.
- **OPERATIONS RISKS.** Concerning the organisation's operational processes. These relate to processes, people and services provided.
- **STRATEGY RISKS.** Referred to the set of decisions made by the organisation to achieve its mission.
- **FINANCIAL RISKS.** These relate to the organisation's economic and financial processes.

Typology of active risks in Canal at year-end 2023 (number of risks and % of total)



We have a **Risk Map**, with the three levels of consolidation (Submanagement, Management and Company) assessed mainly by the Managers and Submanagers, which has been **updated twice in 2023**, increasing the frequency recommended in the *CNMV Technical Guide 3-2017 on audit committees of public interest entities*.

The main risks to the company, in terms of impact and probability, are managed through the monitoring of key risk indicators (KRIs) and the effectiveness and design of the controls that mitigate them, by the company's risk managers and risk officers.

The situation at the end of 2023 is that **83 risks** associated with **307 indicators** and **125 controls are managed**.

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 line, connected to Risk Management, Canal de Isabel II uses controls and/or measures to mitigate or maintain such risks, whose design and effectiveness are assessed according to the periodicity established by its manager. In 2023, **111 design tests** and **235 effectiveness tests** were launched.

In the area of Internal Control and adaptation to the COSO Framework, with the aim of verifying that the principles and components are present, in operation and coordinated with each other, in 2023 the assessment of the applicable transversal controls that affect the entire company has continued, using the SAP-GRC tool, increasing the number of controls.

In addition, areas with specific COSO controls (not cross-cutting) have been encouraged to perform the analysis as part of their specific objectives. There are specific controls for the Internal Control over the Financial Reporting System (ICSFR) and Compliance, the Crime Prevention Model (CPM), identifying 17 and 8 controls respectively.

The Internal Audit, Risk Management and Internal Control Sub-Directorate has only assumed the role of facilitator of the process of loading and launching controls in the SAP GRC tool, the Internal Control System for Financial Information (ICSFR), the Internal Control System for Sustainability Information (ICSSR) and the Crime Prevention Model (CPM), a task entrusted by the Audit Committee so that controls are performed by a single unit.

In 2023, the Sub-Directorate of Internal Audit, Risk Management and Internal Control conducted a review of the Assurance Map. This combined assurance is an effective mechanism to advance coordination, avoid control gaps, duplication and inefficiencies. It makes it possible to focus on the most critical risks, for which there must be an integrated management that provides a cross-cutting and coordinated vision, following the internationally accepted framework of the "Three Lines Model"

Communications to the National Securities Market Commission (CNMV)

[GRI 205-2]

Although Canal is not a listed company, we are an issuer of non-convertible fixed income securities in a regulated market (AIAF) and this implies the obligation to **communicate the facts and other relevant information** based on the principle of complete information, as well as the obligation to publicly provide true and updated information, in accordance with the Securities Market regulations.

The publication of this information allows investors to make an informed judgement on the actual situation of the company, on the one hand, and, on the other hand, to maintain the proper functioning and transparency of the securities market.

During the year 2023, Canal de Isabel II made **20 submissions of relevant information** to the National Securities Market Commission (CNMV) which, together with the rest of the information published by our company, can be consulted on the website of the CNMV at the following link:

<https://www.cnmv.es/portal/Consultas/DatosEntidad.aspx?nif=A86488087>

SOCIAL COMMITMENT

[GRI 3-3]

Canal de Isabel II has traditionally been a benchmark for the citizens of the Region of Madrid as a very active agent in everything related to social issues. As a public company, our commitment to society is a very important element in our management and this is reflected in our 2018-2030 Strategic Plan.

For years, Canal has had the firm vocation of being a benchmark in the field of culture, sport, leisure and support for social initiatives. To this end, we carry out numerous activities and make some of our facilities and technical, human and economic resources available to society.

Social tariffs: our greatest contribution

[GRI 3-3]

Poverty goes beyond the lack of income and resources to ensure sustainable livelihoods. **Poverty** is a **human rights** problem and its different manifestations include hunger, malnutrition, lack of decent housing and limited access to basic services such as education or health, **water and sanitation**²⁰. At Canal de Isabel II we are aware of this problem and, for this reason, in recent years we have created new formulas to subsidise the tariff that can affect the most sensitive groups.

Canal has the responsibility to adapt to the needs of each person, family or household, especially if they are going through a difficult period or if they are large families or households. We have therefore established **four** different types of discounts:

- **Large family** discount.
- **Large household** discount (from 5 persons).
- **Social exemption** discount (in situations of need).
- **Widow's or widower's pension** discount.

We group the four different discounts under the concept of **social tariff**. It highlights the **social exemption** whereby the user will pay only 50 % of the fixed service fee. The variable part is fully subsidised up to 25 cubic metres per two-month period, i.e. 417 litres per day free of charge. This means that, for a bill of 40.87 euros per two-month period, applying this discount, the total sum due would be 8.71 euros.

In addition, in October 2022, a new type of **discount** was created for **owners and users of illegally occupied dwellings**, covering up to 100% of the amount of the services provided by our company for the duration of the illegal situation.

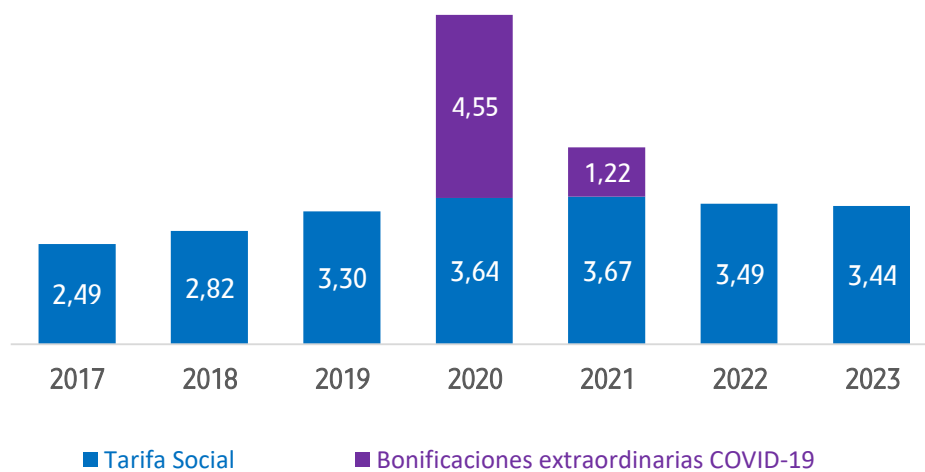
²⁰ To address these shortcomings, the United Nations established the *Resolution adopted by the General Assembly on 28 July 2010. The human right to water and sanitation.*

The **social** exemption discount can be applied for by all those who receive the **Minimum Living Income**, the **Minimum Insertion Income** of the Region of Madrid, the **Active Insertion Income**, any type of **non-contributory pension** or when the **social services** of the **local council** certify that the applicants have difficulty or cannot pay the full bill for the services provided by Canal. This type of discount can also be applied for by **non-profit organisations** managing **supervised apartments or community housing** for people at risk of exclusion or for other reasons.

The **discount for widow's and widower's pension** is applicable to all persons who are beneficiaries of such pensions and whose total income does not exceed 14,000 euros per year.

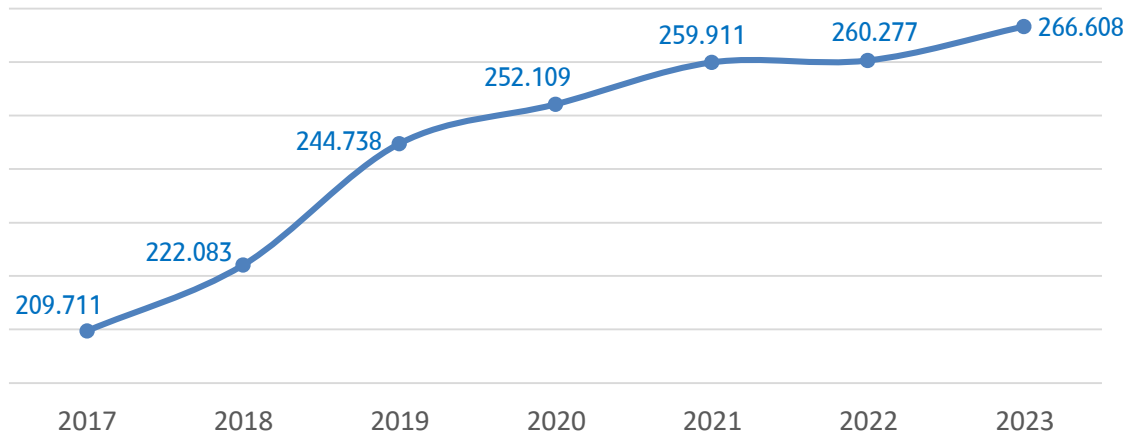
In addition to the above, in 2020, due to the circumstances caused by the **coronavirus pandemic**, Canal designed and urgently approved a new discount for all groups that have suffered the economic consequences of COVID-19 affected by an ERTE, self-employed or employed by SMEs that have seen their business reduced by at least 30%. These discounts were also extended to 2021 and ceased to exist in 2022, with more than 15,000 contracts been subsidised in this way.

Evolution of the economic resources allocated to discounts (in millions of euros per year)



In 2023, we have subsidised a total of **63,001 contracts, 4.78% of Canal's total** contracts with its customers. This means that **266,608 people benefited from our social tariff** at the end of 2023 and in some months of the year, the number exceeded 277,500. Taking into account registrations and cancellations, a total of 307,268 people have benefited from discounts on a bill during the year 2023. The number of beneficiaries has grown more than **27%** since the start of the 2018-2030 Strategic Plan until 2023.

Evolution of the number of persons benefiting from social tariffs (not including COVID-19 pandemic bonuses)



Canal Colabora

All this social work is led by Canal's group of social workers under the name of **Canal Colabora** in the commercial sphere, providing specialised attention to the most vulnerable users and seeking to bring them closer together. In addition to our social workers, the team is also made up of administrative staff who carry out all the support work to achieve the objectives.

Since the beginning of Canal Colabora, dozens of visits have been made, holding joint meetings with professionals from Social Services Centres and Associations, as well as the Municipal Housing and Land Company of the Madrid City Council and the Social Housing Agency of the Regional Government of Madrid. The aim is, on the one hand, to provide information on and explain the social tariff among professionals working directly with the most vulnerable groups and to establish two-way coordination channels for the most complicated cases. During the visits carried out, the bonuses are explained in detail, clarifying any doubts that may arise. The initiative is generally well received and after each visit we maintain fluid coordination and communication.

In January 2020, we started running workshops on consumption savings, targeting two profiles:

- **Vulnerable population.**
- **Coordinators** work on a daily basis with those in difficult situations, with the aim of making them our "water ambassadors" so that they can spread the word about social tariffs and responsible consumption in their environment, and so that they can help with the procedures for subsidies.

These are environmental talks and workshops, adapted and aimed at the public we work with, with the aim of explaining, in simple and understandable terms, the water cycle, the importance

of responsible consumption, saving measures, the main leaks in our homes and how to manage discounts.

Canal has also promoted alternative means to minimise disconnection due to non-payment. Under no circumstances is water cut off to families in economic difficulties. Because of the pandemic, from March 2020 to February 2021 all supply cuts were suspended.

You can find more details about the bonuses and how to apply for them at the following link: <https://oficinavirtual.canaldeisabelsegunda.es/informacion/tarifas-y-bonificaciones>

Our support for culture

In the cultural field, our efforts are led by our Foundation. The Canal Foundation began its activities in 2001 on the occasion of the 150th anniversary of Canal de Isabel II. Since then, Canal and the Foundation have been working together for a double mission: to promote knowledge and to encourage water care. During this time we have helped to translate this commitment into thousands of activities involving more than 6 million people. The trademark of the Canal Foundation in all its activities is to bring quality content to society, presented in an attractive and accessible way.

Through its environmental programmes, the foundation contributes to the disclosure of the integral water cycle and solutions to climate change, both mitigation and adaptation, and develops studies and applied research projects in collaboration with Canal de Isabel II and prestigious organisations. From the artistic and cultural sphere, culture is used as a tool for the dissemination of knowledge, mainly through the work of the great masters of music and modern and contemporary art. All its activities seek innovation, both in their content and in the formats and processes for carrying them out.

Throughout 2023, the Canal Foundation has organised **86** scientific, environmental, social and cultural activities of various kinds, with a total of **377,843** participants (**34.6%** online). In addition, the Foundation's website has had more than **588,000 visits** and its social media, more than **140,000 followers**.

Among the most relevant activities organised by the Foundation in 2023 are thirteen classical music concerts, including the **Canal Foundation Chamber Music Series**, which, with over twenty years of life, has become one of the great events for lovers of chamber music in Madrid.

The exhibitions organised in 2023 at the Foundation's headquarters at Calle Mateo Inurria 2 in Madrid were attended by **168,049 participants** and were the following:

- **Lartigue, el cazador de instantes felices** [Lartigue, the hunter of happy moments]. **Fotografías a color** [Colour photographs]

- **Madrid: crónica creativa de los 80 [Madrid: a creative chronicle of the 1980s]**
- **Artistas y modelos [Artists and models] Historias de pasión, creación y destrucción [Stories of passion, creation and destruction]**

For each of these exhibitions, a conference on its theme, guided tours and family workshops were organised, and teachers' guides and virtual content were produced to complement them.

In addition to the exhibition facilities of the Foundation, Canal has the **Arte Canal Exhibition Centre**, located in the Fourth Underground Tank, with a structure dating from the first half of the twentieth century and offering a surface area of 2,000 square metres for exhibitions. This space, located at number 214 Paseo de la Castellana in Madrid, has hosted fourteen major thematic exhibitions since 2004, which have attracted more than 3.5 million visitors, making it one of the city's cultural venues in recent years.

In 2023, this exhibition space hosted two major exhibitions: until June, the exhibition "**Somos Agua** [We are Water]" (<https://www.fundacioncanal.com/somosagua>), which opened in 2022 and closed in 2023, highlighting the power and importance of water in the sustainability of the planet, and, from 9 November 2023, the exhibition **El Muro de Berlín, un mundo dividido** [The Berlin Wall, a divided world].

The "**Somos agua**" exhibition was an unprecedented project in environmental exhibitions. A 2,000 square metres super-production with more than 80 audiovisuals in which visitors could understand the importance of water for the planet, discover unusual facts about our water footprint and learn how to contribute to sustainability in their daily lives. In addition to **more than 70,000 visitors** to the exhibition, its digital content attracted more than **457,000 online views**.

You will find more information about the Canal Foundation's activities on its website: <http://www.fundacioncanal.com>

"EL MURO DE BERLIN" EXHIBITION

The exhibition "**El Muro de Berlín. Un mundo dividido**", organised by the Canal Foundation and Musealia, opened on 9 November 2023. This exhibition traces the history of this icon born at the height of the Cold War: a global conflict between capitalism and communism that brought the world to the edge of nuclear destruction. A must-see exhibition that tells the stories of life, resistance and escape, often punished by death, on each side of the Wall, through more than 300 original objects, including sections of the wall, archival material and numerous testimonies from direct witnesses of the tragedy it entailed.

Visitors to the exhibition will be able to see 20 metres of the Berlin Wall, 3.5 metres high and weighing 2.6 tonnes, in front of them. This section of the wall was the same one that divided East Berlin from West Berlin from 1961 to 1989, and is considered one of the greatest representations of the Cold War.

Five thematic areas throughout the tour

The 2,500 square metres of the Arte Canal Exhibition Centre, located at Paseo de la Castellana 214 in Madrid, are divided into five thematic areas, which allow visitors to discover in detail the secrets, stories and original objects of this symbol of the division of the 20th century. Overall, with a vision that surpasses traditional narratives and that impresses by revealing the arduous research and effort behind the exhibition, the tour draws on elements such as the section of a tunnel that ran through underground Berlin, a pram used for smuggling or secret Stasi files.

- A divided world: in the post-World War II context, you will learn how the United States and the Soviet Union, in their struggle to determine the social and political order, ended up creating what is known as the Cold War.
- Before the Wall: Berlin's deep crisis and growing insecurity led to the construction of the Berlin Wall in 1961 in order to prevent the migration of citizens from the East to the West.
- Division: this section depicts one of the cruellest aspects of the construction of the wall, the division of society and of the citizens who had to face this barrier.
- Everyday life in a divided Berlin: you can immerse yourself in the reality of citizens who had to work to survive in a city that gave no respite. Through different testimonies you will be able to listen to life stories that give different perspectives of the time.
- Global transformation and the end of the Cold War: in this area you will see how the world radically changed, how dictatorships were abolished and how the fall of the Berlin Wall came about. It took place in a peaceful manner, where images of citizens celebrating and embracing each other are the best reminder of the end of years of division and the beginning of a new era.

In order to bring knowledge closer to the people

Canal de Isabel II and the Canal Foundation have been working together for more than two decades for a double mission: the generation of knowledge and the promotion of water care. During that time we have helped to translate this commitment into hundreds of activities involving nearly seven million people.

This exhibition, created through company-foundation collaboration, is the result of this mission and aims to bring quality content presented in an attractive and accessible way, the hallmark of the Canal Foundation in all its activities

Also located in the city of Madrid is the **Canal De Isabel II exhibition hall** (First Water Tower). Built in 1911, it is now a unique space that houses exhibitions of contemporary photographic

and audiovisual creation, managed by the Regional Ministry of Culture of the Region of Madrid. It collaborates annually with the ARCO and PhotoEspaña events. In 2023, this hall hosted some outstanding exhibitions such as ***Cristina de Middel. Cartas al director [Letters to the editor]***, ***Joana Biarnés. Madrid / Moda a pie de calle [Street fashion]*** and ***Sybilla. El hilo invisible [The invisible thread]***.

All the information about the activities of the Canal de Isabel II exhibition hall can be found at this link:

<https://www.comunidad.madrid/centros/sala-canal-isabel-ii>

Both Canal de Isabel II and the Canal Foundation have editorial lines. The Canal Foundation focuses its publications on the publication of exhibition catalogues and other activities, while Canal has a wider publishing collection, compiled throughout its years of existence, ranging from technical studies to more informative editions, whose central theme is water.

Promoting leisure and sport

Canal provides the people of Madrid with various recreational facilities and sports areas in the Region of Madrid.

In the urban area of Madrid, we have twelve hectares located on the **surface of the Tercer Depósito de Agua [Third Water Tank]**, dedicated to football, paddle tennis and running, as well as for leisure and walking for users. Also in the urban area, there are swimming pools and various sports facilities in the **Depósito del Campo de Guardias (Canal de Isabel sports facilities)**, which are currently managed by the Regional Government of Madrid.

It is worth mentioning the **Bravo Murillo park** inaugurated in late 2020, which is located in the vicinity of the Head Offices of Canal de Isabel II. This construction is located in the western area occupied by the Head Office, adjacent to Calle Bravo Murillo and has play area adapted for children with different abilities, a **sports area**, a vertical garden made up of 15 different species with an efficient irrigation system, as well as a walking area with sustainable paving, 50 trees, nearly 1,000 shrubs and landscaped areas not only with grass, but also with low water consumption species.

Also next to our Head Offices is the **Ríos Rosas park**, a 2,500 square metre space located in pleasant surroundings, at the foot of the **First Water Tower** (Canal de Isabel II exhibition hall). The park has 1,800 square metres of gardens with various shrubs such as bamboo, rosemary, santolina and lavender, as well as walking areas with benches and drinking fountains. But perhaps the most important feature upon opening in late 2018 was the creation of a children's play area adapted for children with disabilities.

In 2023 we completed the remodelling and refurbishment of the area formerly occupied by the golf facilities at the **Tercer Depósito Leisure and Sports Centre** on Avenida Islas Filipinas, work on which began in 2021.

These three facilities will involve the provision of more than **123,000** square metres of Canal de Isabel II space for the use and enjoyment of citizens and an investment of some **18 million euros**. To these would be added the more than 45,000 square metres of the **Fourth Water Tank at the Plaza de Castilla** park. Making part of our facilities available to the public is one of the objectives set out in our 2018-2030 Strategic Plan to broaden our commitment to society.

In addition to the facilities located in the urban area of Madrid, we also have two other non-urban recreational areas, one in the El Atazar reservoir, managed by the Cervera de Buitrago Town Council and focused on sailing, rowing and canoeing; and another at the Riosequillo reservoir, managed by the Buitrago del Lozoya Town Council, which features one of the largest swimming pools in the Region of Madrid, which received 78,411 visitors. El Atazar area received

more than 10,969 visitors in 2023. The total number of visitors to the two recreational areas has grown by **20.7%** in 2023 compared to 2022.

Both recreational areas and urban parks, as well as the rest of Canal and our Foundation's facilities open to the public, are adapted to meet the accessibility requirements for people with disabilities established in the current regulations.

40TH EDITION OF THE WATER RACE

Nearly **2,500 runners (6% more)** than the previous year) participated in the 40th edition of the traditional Water Race organised by Canal de Isabel II on Sunday 19 March 2023.

The Regional Minister for the Environment, Housing and Agriculture of the Region of Madrid, Paloma Martín, was in charge of kicking off the race in the vicinity of the Fourth Tank, located in Plaza de Castilla, Madrid.

Two routes were organised: 10 kilometres and 5 kilometres. The finish line of both routes was also next to another of Canal de Isabel II's facilities, the Tercer Depósito, on Avenida de Filipinas in Madrid.

The Water Race began more than 40 years ago as an initiative to highlight the importance of water as a scarce and essential resource. In 2023, it was again held on days close to **World Water Day** (22 March).

This last edition once again had a strong **sustainable and environmental** character. With the aim of limiting the use of plastic containers, the organisation offered tap water from Madrid in recyclable cardboard cups at the refreshment areas. In addition, the official race vehicles, including the timing car, were electric in order to reduce the carbon footprint of the event.

The Water Race is one of the **most traditional popular races in Madrid**. Throughout its history, more than 50,000 people have run in all its editions.

Cooperation in water and sanitation and other social initiatives

[GRI 2-28]

On 28 July 2010, through *Resolution 64/292*, the **United Nations General Assembly** explicitly recognised the **human right to water and sanitation**. This resolution calls on states and international organisations to provide financial resources, capacity building and technology transfer to assist developing countries and to provide healthy, clean, accessible and affordable drinking water supply and sanitation for all.

In this area, Canal supports the Sustainable Development Goals on water and sanitation, adopted by the United Nations General Assembly in September 2015. We are aware of the importance of achieving these goals and, in order to contribute to this, we develop **cooperation projects** in other places.

WOP Project with Sedapal (Lima, Peru)

In 2021, Canal Isabel II's proposal was chosen by the **EU-WOP programme** to develop the **Vigía System** for tracking, monitoring and early warning of COVID-19 in wastewater in the metropolitan areas of **Lima and Callao**, which together have more than nine million inhabitants (30% of Peru's population).

The EU-WOP programme is a collaborative initiative between water operators, led by UN-Habitat's Global Water Operators' Partnerships Alliance (GWOPA) and funded by the European Commission DEVCO.

The Alliance has chosen Madrid's Vigía system to monitor the Peruvian sanitation network, with the aim of anticipating coronavirus waves and also to fight climate change through reclaimed water.

The project was submitted in **collaboration with Sedapal** (Lima's water and sewerage operator) and was selected, out of more than 140 proposals, to be implemented under the EU-WOP programme of the European Union. This action manages to leverage the ability of utilities to help each other achieve the Sustainable Development Goals (SDGs), in particular SDG 6 on improving water and sanitation services.

The main activities planned between the two companies have continued during 2023. Of particular note was the training week held in Lima in April on performance indicators related to EBC international benchmarking. At the same time, knowledge and good practice exchange sessions have been held on the reclaimed water line of work. November saw the second technical mission of a technical delegation from the Peruvian public company to Madrid to see Canal's facilities first hand and to hold follow-up and training meetings within the framework of the project.

On this occasion, Sedapal professionals were able to visit the floating solar plant at the Torrelaguna hydroelectric plant, the El Atazar reservoir, the phosphorous recovery plant at the South WWTP and the Aranjuez WWTP, among others.

UNDESA's sustainable water and energy solutions network

In 2022, Canal de Isabel II joined the **United Nations Sustainable Solutions Network for Water and Energy**, specifically the Office of Economic and Social Affairs (DESA) responsible for leading the implementation of the 17 Sustainable Development Goals of the 2030 Agenda worldwide. This UN department is also responsible for the follow-up of major UN summits and conferences, as well as for assisting countries in setting their agendas and taking decisions to address economic, social and environmental problems.

The agreement reached between Canal and the United Nations in this network has as its main objective the creation and improvement of technical capacities at all levels, to foster an integrated and cross-sectoral approach to SDG6 (water) and SDG7 (energy) and their interrelationships with other SDGs, in order to accelerate progress towards a correct implementation of the 2030 Agenda for Sustainable Development.

The expected achievements of this agreement include improved **knowledge management** and **best practice sharing** on the **water-energy** nexus and interconnections with other SDGs, as well as global advocacy and outreach on the water-energy nexus and other Sustainable Development Goals.

During this second year of the agreement, Canal has collaborated and actively participated in the different activities and events organised by the Network, such as the **Circular Economy Workshop** held in Madrid in February, the **World Water Conference** in March, organised by the United Nations in New York (the first in more than forty years) or the **High-Level Political Forum** on Energy, also held in New York in July. Canal's participation in the **COP28** held in November in Dubai also stands out.

In turn, this agreement with the United Nations contemplates the publication of several **articles and case studies** by Canal's technicians in the different communication platforms of the network, as well as in the United Nations' own academic journal dedicated to Sustainable Development (**National Resources Forum**). In 2023, five articles of interest were published on the different UN platforms.

Collaboration with other social entities

[GRI 3-3] [GRI 2-23] [GRI 2-28] [GRI 408-1] [GRI 409-1]

Canal is a signatory and **participating partner** of the **United Nations Global Compact** and annually prepares its progress report, which is submitted to this organisation.

In addition, Canal de Isabel II is one of the **founding partners of the Spanish Global Compact Network** since March 2006. The Global Compact, which has been joined by 15,000 companies in 160 countries, is a freely adhered-to United Nations instrument that promotes the implementation of 10 universally accepted principles to promote corporate social responsibility. These principles are grouped into four areas: **human rights, labour, environment and anti-corruption**.

Canal is also a partner of the **Fundación Sociedad y Empresa Responsable (SERES Foundation)**, in which our Foundation had been present in previous years. Among the aims of this Foundation are to promote a more relevant role of business in the improvement of society, focusing on encouraging companies to help create value and assume their role as a key agent in solving social problems.

Within this area of collaboration with social entities, our Board of Directors authorised in July 2023 the **free transfer of two emergency portable water treatment plants** to the association **United with Ukraine**. The plants, with the capacity to produce 30,000 litres of drinking water per hour, were intended to alleviate the water shortages of thousands of Ukrainians affected by the destruction of the Kakhovka dam on the Dnieper river in the south of the country.

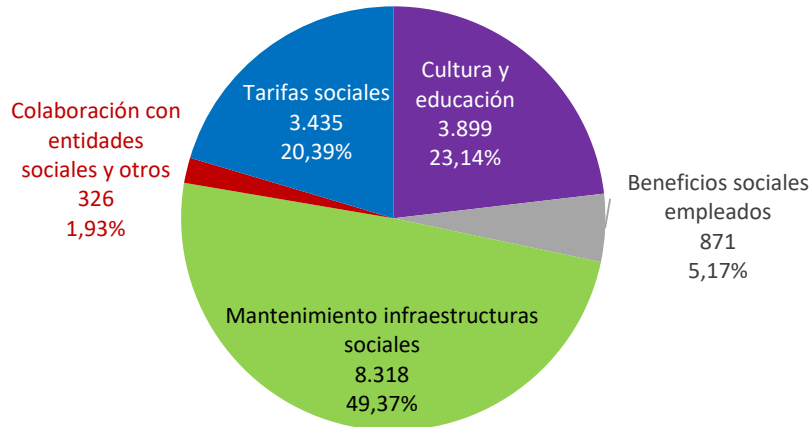
Finally, every year Canal participates in activities of social entities organised with the participation of employees. In 2023 we collaborated with initiatives of the **Spanish Red Cross**, the **Spanish Cancer Association** and the NGO **Save the Children**.

Financial resources earmarked for society

[GRI 201-1] [GRI 203-2]

During 2023, Canal de Isabel II has allocated for activities related to its social commitment to employees, society and customers, a total of **16.85 million euros** (3.76 more than in 2022), **equivalent to 10.9% of our profit** after taxes. Most of the difference in expenditure was mainly due to the expenses related to the remodelling works of the Tercer Depósito Park in the district of Chamberí.

Expenditure related to Canal's social commitment in 2023
(thousands of euros and % of total)



Expenditure on **social infrastructure** in the year 2023 amounted to **8.31 million euros**.

Creating value for our stakeholders: our "social dividend"

As a public and socially committed company, Canal's vocation is to provide its stakeholders with more than just the services we provide. Therefore, in many cases we go beyond what is established in the regulations in order to favour them.

Creamos valor para nuestros grupos de interés

MEDIO AMBIENTE

- Producción eléctrica en 2022: 226 GWh con tecnologías renovables o de alta eficiencia (más del 42% de nuestro consumo. Mayor productor eléctrico del sector en Europa).
- Primera planta de obtención de estruvita de aguas residuales de España (557 t).
- Para mejorar la calidad de nuestros ríos, casi el 20% de los vertidos a cauce son con tratamiento terciario (91,53 hm³ en 2023).
- En 2023 hemos plantado 43.229 unidades de plantas, árboles y arbustos

SOCIEDAD

- Empleo (directo, indirecto e inducido): más de 8.600 personas trabajando para nuestro Grupo.
- Innovación: 5,9% de los ingresos destinados a I+D+i.
- Gasto en actividades sociales: 16,85 mill. Euros (equivalente al 11,2% del Resultado después de impuestos).
- En 2023 más 377.000 personas han participado en las actividades de nuestra Fundación.

MEDIOS DE COMUNICACIÓN

- Transparencia e inmediatez informativa con los medios.
- Colaboración constante y actitud proactiva.
- Amplias campañas de comunicación (Matilda - Isabel, la del 2°).

EQUIPO HUMANO

- 361,5 miles de euros invertidos en formación (27 horas por empleado).
- Integración laboral de personas con discapacidad (2,7% de la plantilla).
- 32% de mujeres en plantilla, 8 puntos porcentuales más que la media en nuestro sector. El 34% de los directivos son mujeres.



PROVEEDORES

- En 2023 hemos adjudicado a nuestros proveedores 368 contratos, que suman 1.304 millones de euros (43% más que en 2022).
- Un 94% del importe adjudicado por procedimiento abierto.
- 54,17% de adjudicatarios eran pymes.
- Periodo medio de pago a proveedores 24,4 días.

ACCIONISTAS

- Dividendos a ayuntamientos y Comunidad de Madrid de más de 1.534 millones desde 2012 hasta de 2023.
- Hemos repartido a los municipios accionistas 42,5 euros por habitante en dividendos desde la creación de la Sociedad.
- Contribuimos a las haciendas municipales con 24 millones de impuestos y tributos en 2023

ORGANISMOS REGULADORES

- 127 solicitudes del parlamento respondidas.
- Transparencia institucional (Cámara de cuentas, auditor externo, Registro mercantil, CNMV, Trib. Admin. Contratación, Tribunal de Cuentas...).
- Buen gobierno: implantadas el 84,3% de las recomendaciones voluntarias la CNMV.

CLIENTES

- Nota media de un 8,73 sobre 10 en satisfacción de clientes.
- Tarifa social más amplia de nuestro sector, que supera el 75% de bonificación, con más de 266.000 personas beneficiarias
- Décimo año consecutivo sin incremento de las tarifas, que son más de un 25% inferiores a la media de España.

Monitoring of indicators Strategic Plan. Strategic Line 7 *Strengthening Transparency, Good Governance and Commitment to Society*





FOSTERING TALENT, COMMITMENT AND HEALTH OF WORKERS

2.8. Empowering our people

Human resources management is a strategic aspect of our processes, as it deals with one of Canal's main assets: our people.

Achieving service excellence and customer satisfaction, within a framework of responsible and efficient management of water resources, are objectives that can only be achieved with the cooperation and qualification of each and every one of the workers that make up our company

Structure of our staff

[GRI 3-3] [GRI 2-7] [GRI 401-1]

The total number of Canal workers has grown by **10.8%** in the last five years despite the restrictions on hiring established in the General Budget Laws of the Regional Government of Madrid, which prevent permanent hiring. At the end of 2023, the total workforce of the company (Region of Madrid plus Cáceres) was **3,190 people**.

We are very aware of the great importance of reducing the percentage of **temporary** staff (talent retention is part of our Strategic Plan), which reached almost 45% in 2018. Reducing this temporary nature and ensuring the continuity of our professionals and the stability of the workforce is a key element for the quality of the service provided and sustainability over the medium and long term. Canal has worked over the last few years to obtain Community approval for the creation of new public employment positions.

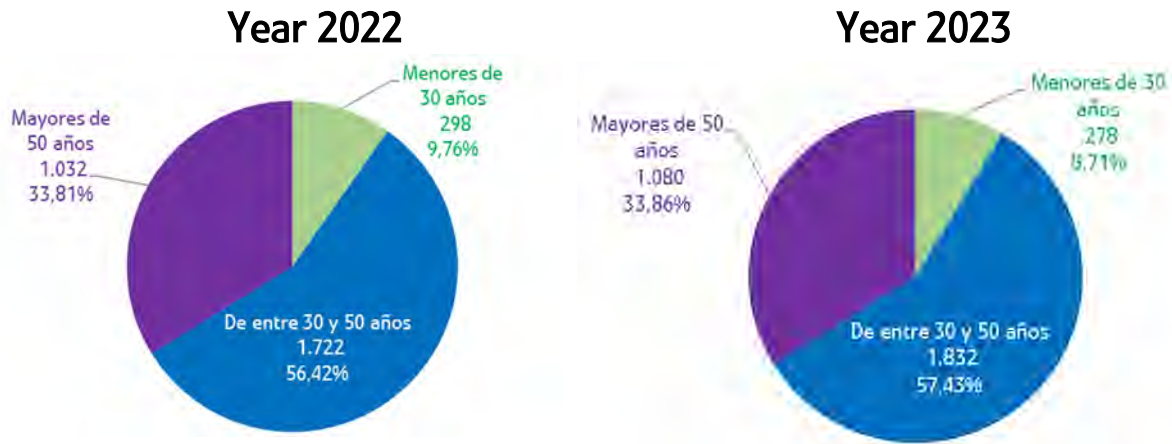
In 2023 we continued with the process undertaken years ago to **reduce temporary employment** and **improve the stability** of the workforce. Throughout the year, a large part of the calls for applications published in 2022 that were pending closure were finalised and other complementary selection processes were initiated. The challenge was, in two years, to **incorporate 396 workers with permanent contracts, 195 in 2023** and 201 in 2024, to replace part of the temporary contracts, the replenishment of permanent leave and structural vacancies. We have ended 2023 with **243 new permanent contracts**.

It is worth mentioning that, in these calls for permanent employment, the company has promoted the socio-occupational integration of people with functional diversity, for whom a higher quota than that legally established (2%) is reserved. At the end of 2023, **the percentage of people with some degree of disability** in our workforce was **2.7** (86 people). All of the company's main work centres, where they carry out their activities, are adapted to facilitate their accessibility.

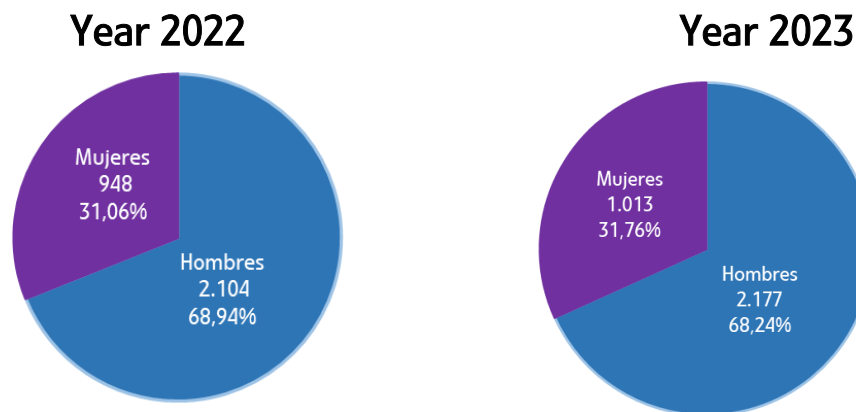
In 2023, **the average age** of Canal's workforce was **45.61 years**. The **average seniority** of the workforce in 2023 was **13.66 years** and more than half of the workforce is in the 30-50 age bracket.

[GRI 405-1]

Distribution of staff by age (number of persons and % of total)



Distribution of staff by age (number of persons and % of total)



Over the course of 2023, the company had a net increase in the workforce of **131 people**, with a **turnover rate of 22.61%**.

	TOTAL	Hombres	Mujeres	< 30 años	30-50 años	> 50 años	Nacionales	Extranjeros
Incorporaciones totales	835	465	370	267	503	65	816	19
Bajas totales	704	402	302	223	384	97	689	15
Bajas voluntarias	50	30	20	9	35	6	50	

The **number of departures** (704 people in 2023) were due to different circumstances such as the **termination of temporary contracts** (substitution due to temporary incapacity, circumstances relating to production or training, among others) as well as **retirements**,

voluntary departures or any other reason for which the employees leaving the company ended their employment relationship with the company. However, with regard to turnover, it is worth noting that **many of the employees who had a temporary employment relationship have finally joined the company on a permanent basis** in 2023. Furthermore, if we analyse **voluntary departures**, the turnover is **0.40%** in 2023, which shows that the willingness of our employees to leave the company is very low.

Of all the departures from the company's workforce in 2023, only 2 were dismissals of a man and a woman, both managers and both over 50 years of age.

The breakdown of the **roles performed** by employees is as follows:

Distribution by roles of Canal de Isabel II employees in 2023



At the end of 2023, 28.37% of Canal's employees had a university degree.

Statistics on temporary employment in 2023²¹

Average annual number of PERMANENT contracts by job classification (role)

Senior management	134.00
Management support staff	353.33
Third level graduates	229.33
Second level graduates	96.25
Middle management	174.83
Technical personnel	227.92
Administrative and auxiliary staff	453.33
Tradespersons	878.17

Average annual number of TEMPORARY contracts by job classification (role)

Senior management	1.00
Management support staff	6.08
Third level graduates	85.75
Second level graduates	49.67
Middle management	2.75
Technical personnel	50.08
Administrative and auxiliary staff	134.75
Tradespersons	153.92

Average annual number of PART-TIME contracts by GENDER

Women	17.75
Men	83.33

Average annual number of PART-TIME contracts by AGE

Under 30 years old	1.83
Between 30 and 50 years	0.58
Over 50 years old	98.75

Average annual number of PART-TIME contracts by job category (role)

Senior management	0.00
Management support staff	1.08
Third level graduates	8.08
Second level graduates	0.17
Middle management	4.67
Technical personnel	9.75
Administrative and auxiliary staff	19.25
Tradespersons	58.00

²¹ These indicators have been calculated for the first time for the 2023 Sustainability Report and there are no calculated data available for previous years.

Ensuring the health and safety of all

[GRI 3-3] [GRI 403-8] [GRI 403-3] [GRI 403-9]

Making Canal a safe environment and making it safe for everyone is the goal we have set ourselves. To this end, we rely on the collaboration not only of the areas most exposed to risks, such as operations and engineering, but also of all Canal employees coordinated from our Prevention, Safety and Health Area.

In 2023, the total number of *in labore* accidents decreased by **10.34%** compared to 2022, as did the number of *in labore* accidents with medical leave, which continued their downward trend in 2023, decreasing by 3.77%. This decrease is also reflected in other indicators such as the number of days lost, the average duration of medical leaves and the severity rate. In addition, the type of accidents and the injuries sustained have also led to shorter leaves.

	2021	2022	2023		Toda la plantilla
	Toda la plantilla	Toda la plantilla	Hombres	Mujeres	
Accidentes de trabajo <i>in labore</i> (excluido <i>in itinere</i>)	106	116	85	19	104
Accidentes con baja (excluido <i>in itinere</i>)	64	53	42	9	51
Duración media de la baja	23	16	17	12	16
Jornadas perdidas	1.480	846	703	112	815
Índice de Frecuencia accidentes con baja (exc. <i>in itinere</i>)	12,69	10,76	12,47	5,80	10,37
Índice de Frecuencia de accid. totales (excl. <i>in itinere</i>)	21,01	23,55	25,24	12,25	21,14
Índice de Gravedad excluido <i>in itinere</i>	0,29	0,17	0,21	0,07	0,17
Índice de Incidencia accid. con baja (excluido <i>in itinere</i>)	2.067	1.743	2.017	923	1.668
Víctimas mortales (número)	0	0	0	0	0

However, despite the lower accident rate, **absenteeism** in 2023 has increased slightly from 6.10% in 2022 to **6.11%** of lost hours in 2023 for the total workforce.

At Canal, the reporting of occupational accidents is carried out in accordance with a procedure that complies with the regulations in force on occupational risk prevention. All accidents are analysed and, if necessary, lead to corrective or preventive measures. Workers' representatives also receive information about accidents that occur.

[GRI 403-10]

So far, **Canal has not recorded the existence of any occupational disease** associated with its facilities or the activities carried out in the company **in 2023, nor in previous years.**

Within the scope of the **Occupational Risk Prevention Plan**, annual safety inspections are carried out at the facilities, aimed at detecting possible deviations in the fields of safety, industrial hygiene and ergonomics.

Ensuring occupational health has a real impact on our employees and their human rights by providing them with a safe and healthy environment, promoting physical and mental well-being, fulfilling the right to health, promoting equal opportunities, and encouraging participation, thus improving the quality of life of our people and protecting their fundamental rights.

[GRI 403-2] [GRI 403-5] [GRI 403-6]

Canal's prevention service addresses the most important characteristics of the elements that must be contemplated in the preventive activity, such as training and information, emergency measures, health monitoring, preventive resources and coordination of business activities with our contractors and suppliers.

In 2023, a total of **21,376²² training hours** (including specific prevention training and content in other courses) were given to our company's employees in matters related to **Occupational Risk Prevention**, with special emphasis on the training of employees who have recently joined the company, those who are promoted or transferred to new work centres or those who begin to work in higher category jobs. During 2023, **first aid training** also continued to be provided in different workplaces.

Canal has its **own medical service** that carries out many actions in the company in terms of health surveillance and management of temporary incapacity due to professional contingency, among which are the attention to the injured, health examinations, medical consultation, medical protocols according to risk assessment, a smoking control programme and disease prevention programmes.

Working for equality

[GRI 3-3] [GRI 405-1]

Non-discrimination is one of the fundamental policies in the management of people in our company and a fundamental aspect of guaranteeing **equal opportunities** is to do so from the moment people join our company. For this reason, the **rules for recruiting and hiring new people** in our company ensure the absence of any kind of discrimination, expressly including the **principles of equality, merit and ability**.

The **percentage of women in our company's workforce**, which had traditionally been on an upward trend since the establishment of the limited liability company in 2012 with a growth of almost 10 percentage points, was reduced in the years 2021 and 2022 from a peak of almost 33 % in 2020 to 31.4% in 2021 and 31.1% in 2022. This decrease was mainly due to the incorporation into our company of the workforces of the subsidiaries absorbed by Canal in 2021 and 2022 (Hispanagua, Canal de Comunicaciones Unidas, Ocio y Deporte Canal and Hidráulica Santillana), in which the presence of women was lower in percentage terms. Despite this decrease, in 2023 we resumed the growth trend, slightly increasing the number of women in

²² This includes 19,395 hours of specific prevention courses and 1,981 hours of prevention courses on other subjects.

the workforce to **31.8%**, a percentage that is **significantly higher than the average for our sector**²³, which in 2020 (latest available data) was 24%.

The percentage of **women holding managerial positions** within the organisation (heads of area, submanagers and managers) is higher than the average for the workforce and has increased by 9.56%, standing at **34.07% of the total workforce** in 2023.

Another noteworthy aspect is the **percentage of women with university degrees** which in the case of our company is **almost 42%**, seven percentage points above the average for our sector in 2020 which was 35%. Among our **male** staff, the percentage of **university graduates** is **25.82%**.

Evolution of the percentage of women in the workforce and of female managers since the creation of Canal de Isabel II in 2023



Equality was the highest rated aspect (75 out of 100 %) by Canal employees among all those included in the **Engagement and Satisfaction Survey** conducted in 2022, in which all employees of our company could participate.

Fixed annual remuneration²⁴ of Canal employees in 2022 and 2023

Minimum wages

	2022	2023
Annual initial minimum wage for an internship contract	19,222	22,534
Annual minimum inter-professional wage for the year	14,000	15,120
Initial minimum wage / Minimum inter-professional wage	137%	149%

²³ According to the *17th National Study on Drinking Water Supply and Sanitation* prepared by the Spanish Association of Water Supply and Sanitation (AEAS) and the AEAS and Spanish Association of Urban Water Services Management Companies (AGA) published in 2022 with data from the sector for the year 2020.

²⁴ In addition to the fixed remuneration, Canal's Collective Bargaining Agreement establishes that all employees of the company in the Region of Madrid may receive an annual variable remuneration of up to 11.5% of their gross annual salary. In the case of third level graduates, structural support staff and area managers, this remuneration may reach a maximum of 21.5%. Managers outside the scope of the Collective Bargaining Agreement are paid variable annual remunerations of up to 23.5% of their gross annual salary for submanagers and 25.5% for managers.

Average annual remuneration by GENDER and professional category

Women	2022	2023
Management	89,209	87,304
Management support	52,677	49,980
University graduates	37,954	32,147
Middle graduates	33,808	28,725
Middle management	31,532	26,087
Technical personnel	30,104	27,005
Administrative and auxiliary personnel	27,577	23,216
Tradespersons	26,992	23,177

Men	2022	2023
Management	90,617	89,024
Management support	54,029	51,118
Third level graduates	38,495	31,684
Second level graduates	34,392	29,126
Middle management	31,876	27,341
Technical personnel	30,567	26,507
Administrative and auxiliary staff	27,888	22,557
Tradespersons	27,260	23,148

Average annual remuneration by AGE groups

	2022	2023
Less than 30 years old	30,528	25,586
Between 30 and 50 years old	34,392	30,000
Over 50 years old	34,809	32,524

[GRI 405-2] [GRI 202-1]

In terms of wages, our **Collective Bargaining Agreement ensures equality between men and women**, with equivalent salaries existing for both groups and in all professional categories. The **average salary of women** in the workforce in 2023 was **6.33% higher than the average salary of men** (in 2022 it was 4.88% higher than that of men).

At the end of 2023, the **lowest salary** of a Canal de Isabel II employee **was equivalent to 149.03% of the minimum inter-professional wage** in Spain in 2023 (14 payments of 1,080 euros gross per year) and the **minimum salary upon incorporation** was also equivalent to **149.03 %**. These percentages improved significantly following the implementation in 2022 of the company's **II Collective Bargaining Agreement**, which included a process of homogenisation of salaries for permanent and temporary staff.

The first company collective bargaining agreement applied in Canal incorporated, already in 2016, the **Equality Plan** with a committee for its preparation and monitoring. The purpose of this Committee was to establish the measures and action plan for each objective set out in the Collective Bargaining Agreement: staff selection, job classification and promotion, training, remuneration, work-life balance, prevention of sexual and gender-based harassment, and information and communication.

[GRI 406-1]

Subsequently, the collective bargaining agreement that came into force in 2022 also included an **anti-harassment protocol**. The scope of the Equality Plan includes the company's workforce in the Region of Madrid and in our Cáceres office, but has not yet incorporated the employees of the companies absorbed in 2021 and 2022 (they will be included in the future).

The associated action plan will be carried out during the four years of the Equality Plan. In 2023 we completed all of the actions planned for the year, which accounted for 85% of the action plan of the Equality Plan. These include:

- Legal study of the application of the guidelines of the National Institute for Safety and Health at Work in relation to the assessment and **prevention of risks** associated with the **handling of loads for women**.
- **Awareness-raising activities in officer and middle management** positions to raise awareness of **work-life balance** management
- **Training for the workforce in equality** and prevention of harassment in the workplace.
- Dissemination and **awareness-raising** actions for the **eradication of gender stereotypes**.
- Internal **dissemination** of the **Equality Plan**.

In 2023, the Monitoring Committee was also set up to analyse the implementation of the plan and the degree of achievement of the actions set out, as well as a new joint Negotiating Committee between the company and workers' representatives, which will review the current plan over the course of 2024 to include in the diagnostic analysis the subsidiaries merged in recent years. As a result, our Equality Plan will be redefined, and actions will be adjusted where necessary.

[GRI 401-3]

Under the law, all Canal employees have the right to request **maternity or paternity** leave. Return to work and retention rates after maternity and paternity leave are also 100% for both sexes. The number of Canal employees benefiting from this entitlement in 2023 amounted to **99 persons** (28 women and 71 men).

Finally, and in addition to the work-life balance measures incorporated in the Equality Plan, the 2nd Collective Bargaining Agreement includes an additional provision in relation to the right of all employees to digital disconnection.

Throughout 2023 all employees of the company have received specific training in diversity and equality.

EMPLOYEE ENGAGEMENT AND SATISFACTION SURVEY Follow-up in 2023

The Canal de Isabel II **Employee Engagement and Satisfaction Survey** was carried out in December 2022, in which 67 questions grouped into 19 dimensions and one open question for comments were asked in order to measure the degree of engagement and the feeling of belonging of the employees. Participation in the survey was 40% and resulted in an engagement rate of 53%. In addition, it revealed 9 categories with a favourable situation, 4 that could be improved and 6 dimensions that required analysis and tailor-made actions to achieve an improvement in their results.

With this data, our action plan for 2023 had three main objectives: to **communicate the data obtained** to the entire workforce, to **analyse the data by dimensions and groups** to determine the areas of work and to **design an action plan** with an impact on the most relevant elements to be developed during the 2023/2024 period.

Having analysed the comments, as well as the quantitative analysis of the responses obtained, the **Engagement Survey Action Plan** was designed, with a target of 30% compliance in the first year, and 70% by 2024.

This Action Plan consists of 6 major measures which aim to respond to the more general demands of employees and others aimed at improving the dimensions with the worst results in the survey. The 6 lines were:



Throughout 2023, the main focus has been on actions 1, 2, 4 and 5, to reach the 30% progress target set for this year. Our goal for 2024 will be to finalise the action plan to improve the least favourable dimensions and to initiate a transition to the employee experience model that will help us to focus on and improve key moments in the employee journey and increase employee engagement and pride of belonging.

Union representation

[GRI 2-30]

The **2nd Collective Bargaining Agreement** agreed by the company and the workers' representatives in 2021 and which came into force in 2022 clearly establishes a framework of stable labour relations aimed at achieving the company's optimal level of productivity based on the best use of its human and material resources and on the mutual collaboration of the parties in all those aspects that may have an impact on the best performance that enables development.

[GRI 403-4]

The **Works Committee** is the representative body of Canal's employees and has the functions and powers established by the *Workers' Statute*, including those related to the monitoring of health and safety at work.

At year-end 2023, our company collective bargaining agreement covered **94.55%** of the workforce (3,016 employees), leaving out of its scope of application only some company managers (35 managers and submanagers), the staff of the Cáceres office (**105** employees), whose labour relations are governed by the collective bargaining agreement for our sector, and some of the employees from the subsidiaries absorbed in 2021 and 2022 that were subject to agreements other than Canal's, but which have been progressively incorporated, as shown by the fact that this group has gone from 375 employees at the end of 2021 to **only 34** at the end of 2023. In 2022, the percentage of the workforce covered by the Collective Bargaining Agreement was 94.46% (2,883 people).

By the end of 2023, a total of **615** employees were members of the **trade union sections represented at Canal** (21.7% of the total workforce).

2023 TRADE UNION ELECTIONS IN CANAL

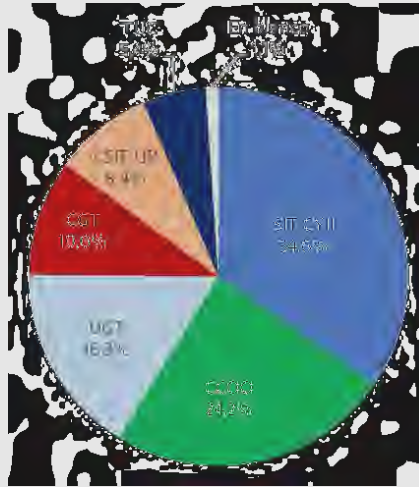
On **31 May 2023**, as every four years, the **trade union elections** were held in our company to elect the **23 members of the Works Committee** who will represent the employees of Canal de Isabel II for the next four years. A total of 1,773 employees exercised their right to vote in the elections, a figure that is well over 50% of the workforce

In 2023, a total of six candidacies from different trade union organisations stood for election.

The results obtained by each candidacy in terms of votes received and allocation of Works Council members were as follows:

TRADE UNIONS	Votes obtained	Representatives on the Works Committee
Sindicato Independiente de Trabajadores de Canal de Isabel II - SIT CYII	609	10
Comisiones Obreras - CCOO	425	6
Unión General de Trabajadores - UGT	287	4
Confederación General del Trabajo - CGT	175	2
Coalición Sindical Independiente de Trabajadores-Unión Profesional - CSIT UP	148	2
Sindicato de Trabajadores Unidos de Canal - TUC	95	1
Blank votes	19	
Valid votes	1,758	
Null and void votes	15	
Total participation	1,773	

2023 Trade Union Elections - Percentage of votes by candidates



Internal communication

The year 2023, as the previous one, continued to be characterised by direct and close communication. All our channels encourage digital transformation.

Currently, our main means of communication is "**Canal Contigo**", a **web portal** for employees which is available 24/7 from any place and device and which was created in 2020 as a result of the needs caused by the COVID-19 pandemic. This means has different functionalities (face-to-face and remote work clocking, news, medical appointments, payroll consultation, information on reservoirs, calendar of events, etc.) that facilitate management and information for employees (its users), especially for staff in the field or who do not have a physical workstation with a computer. In 2023, we incorporated the "Vehicles" section, which includes access to the "Pool of vehicles" available for use by employees, the "Recharge your vehicle" section, to manage the charging of employees' electric vehicles on the company's premises, and "Canal Maps", a tool to geographically locate the dozens of Canal facilities distributed throughout the territory of the Region of Madrid. Canal Contigo is a continuously growing tool.

In addition, our **Canal&tú intranet** gathers all information, communication sites, applications and corporate documentation repository. Throughout the year, work has been done to transform it into a new SharePoint environment, a Digital Workplace for employees.

Canal's latest news comes from the **weekly newsletter "Seguimos Conectados"** [We stay connected], prepared by the company's Resources Department, to inform all employees of the latest news (news, events, courses, milestones, projects...) each week.

With the aim of informing and having an impact on all groups (working in the field or in offices), Canal launched in 2020 **digital information screens in the different work centres** located in transit areas and strategic places in the facilities. The project started with 14 screens and there are currently 49 in operation. Its purpose is to disseminate relevant information about the company (milestones, projects...) and to publicise and recognise the work of our professionals.

Another objective of internal communication is collaboration between teams and getting to know their opinions. To this end, we rely on the **Teams public team "Canal Conectados"** to inform and get their feedback and the **Teams private team "Lidera Canal"** to share relevant topics and foster collaboration between Canal heads of department, submanagers and managers.

On the other hand, the **Engagement and Satisfaction survey** allows us to assess the working environment in our company. In 2023, 15-minute **flash meetings** via Microsoft Teams were also used to promote closeness between units.

Finally, it is important to highlight the great communicative work that is carried out in the different **corporate events** such as: sports competitions between employees (Canal Deporte) and the promotion of company sports teams such as runners; the celebration of international days, including Women's Day; employee solidarity events with the participation of organisations such as the Red Cross and the Spanish Cancer Association; events to welcome new recruits and to pay tribute to employees who retire during the year; the Christmas party for employees and their children; the Children's Drawing Competition for employees' children, and many other events in which, in addition to employees, their families also play a leading role. The vast majority of these events are attended by the CEO, the Management Committee and the company's structure, in order to promote cross-cutting, upward and downward communication, as well as closeness with all the people who belong to Canal.

CANAL EMPLOYEES AND SPORT (CANAL DEPORTE 2023)

Canal Deporte is a series of internal competitions in multiple sports disciplines held among Canal employees. It has received a great level of acclaim, as evidenced by the fact that this 2023 edition has once again broken the record for participation in the **17 sports organised**, with **1,935 registrations**. Although the majority of the participants were employees (1,046), company retirees and family members of employees were also able to participate in certain sports.

With Canal Deporte, the aim is to increase the **intercommunication** of people in the company and **fair play** among co-workers, promoting healthy competition and **healthy habits**.

The competitions in 2023 were chess, athletics, basketball, mountain biking, darts, fronton, table football, indoor football, golf, mus, paddle tennis, party, canoeing, tennis, table tennis, clay pigeon shooting and volleyball.

Canal has provided the necessary means for participants to practice sport in the best conditions, providing modern facilities, as well as sports equipment and materials in an environment conducive to communication and the exchange of experiences in each of the seventeen competitions.

As every year, Canal Deporte 2023 concluded with a **party open to all employees of the company**, in which, in addition to the awarding of trophies and a fun video with the best images of the competitions, we organised games for the employees' children and raffles for everyone.

In addition to Canal Deporte, the tradition and passion for sport shown by employees drives Canal de Isabel II to participate in **external sporting events**, such as the Companies' Race or through **teams** that compete in popular runs, mountain bike races or 7-a-side football and basketball competitions.

Social benefits for employees

[GRI 201-3] [GRI 401-2]

Since 2015, in application of the budgetary regulations in force for all public sector employees in the Region of Madrid, **the social benefits established for employees** of Canal (included in the company's collective bargaining agreement) and of the Canal Group's subsidiaries in Spain **have been suspended**, including the company's contribution to the employees' pension fund.

However, a **financing system is maintained for transport expenditure** and, specifically, for the purchase of the Transport Pass of the Regional Transport Consortium of the Region of Madrid.

Employees also have the possibility to take out a group medical and dental policy for themselves and their family members at advantageous conditions and also enjoy some discounts and benefits on access to certain sports, recreational and cultural facilities of Canal de Isabel II and our Foundation.

Training and development of our employees

[GRI 3-3] [GRI 404-2] [GRI 404-3]

At Canal we believe that the **training and development of** current and future **employees** is a **strategic element** that requires optimal management to achieve the greatest efficiency in the service we provide to citizens

We **firmly believe that training plays an important role** in contributing to sustainable growth, improving competitiveness and the organisation's ability to adapt to an ever-changing business and social environment.

Our **commitment to training** is reflected in the actions we carry out at training level, which pursue various objectives, including: **improving individual and collective performance** and, therefore, productivity; **adaptation to change**; promoting an **innovative culture**; attracting and **retaining talent**; the **professional development** of people; improving the **employee experience** and generating an **organisational culture** based on a **humanistic and ethical leadership** that derives from our values and our Code of Ethics and Conduct.

In the area of employee training and development, our strategy is based on the **70/20/10 learning** model, where 70% of the efforts are focused on practical learning in everyday life, 20% on social and collaborative learning with colleagues and 10% on formal courses. This approach seeks to go beyond course participation, transforming us into a continuous learning organisation in collaborative environments.

Our training planning process operates on an annual time dimension. We created a plan that covers all actions necessary for the optimal performance of our employees' roles, as well as

those that may be beneficial for their future personal and professional development, called "**development courses or the Water Journey**". These courses are voluntary, open to all employees and take place outside working hours. We equip our professionals with the necessary tools to be the best professionals of the present and the future, focusing on their co-responsibility.

The **Training Plan** addresses current technical needs, without losing sight of market trends in terms of new techniques, methodologies and more innovative content, as well as the necessary skills, seeking the methodology that best adapts to each of them and to each group.

It is also worth highlighting the efforts made to **strengthen the internal knowledge** of our organisation, recognising that the development of internal skills is the basis for sustainable success. The diversity of methodologies (face-to-face, online and streaming) plays a crucial role in this process, allowing training to be approached in a flexible way and adapted to the needs of the workforce.

In this context, we cannot overlook the **strategic importance** of addressing key issues such as **cybersecurity, governance and digitalisation**. Cybersecurity stands as a key element in the protection of our digital assets, while the effective implementation of governance practices ensures consistent and accountable leadership. Meanwhile, digitisation is becoming an imperative to stay ahead in an increasingly technological business world. These issues that we have addressed at training level in 2023 are, together with training in **Equality and Health and Safety**, the most relevant lines of action.

We also focus on skills development within our workforce, recognising that human capital is an essential asset. In this sense, we design and implement professional development programmes focused on strengthening leadership skills and abilities. These programmes include sessions outside the working hours, inter-sessional work and conclude with an individual action plan, where each participant defines how to apply the behaviours associated with our values in their daily lives. This holistic approach reflects our commitment to the continuous growth and professional excellence of our employees

GROUPS PARTICIPATING IN DEVELOPMENT PROGRAMMES IN 2023	MEN	WOMEN	TOTAL
Middle management	28	0	28
Management support staff	14	16	30
Structure (management staff)	22	5	27

Throughout 2023, a total of **95,663 hours** (an average of almost **30 hours per employee**, including trainees) were provided in the company and **3,263** employees and trainees received training. The **net cost of employee training**, less income from training subsidies received by the company, amounted to **350.92 thousand euros**.

Training by area in 2023	No. of hours	% vs. total
Languages	17,561	18%
Computer systems administration and management	7,976	8%
Quality	2,669	3%
Business and customer relations	1,722	2%
Skills/Expertise development	4,288	4%
Technical training	13,554	14%
Legal and economics training	2,423	3%
Office automation and software	4,394	5%
Occupational health and safety	19,395	20%
Fight against corruption and human rights	5,914	6%
Other + Internship	15,767	16%
Total hours	95,663	100%

In relation to training by specific areas of knowledge, as shown in the table above, it is worth highlighting the weight in the training plan of subjects such as occupational risk prevention, languages or specific technical training for the position. In terms of hours taught on anti-corruption, **5,913 hours** were taught during 2023 **compared to 110 hours in the previous year**, which reflect the effort made to make progress on this issue.

[GRI 2-24] [GRI 205-2] [GRI 404-1]

Regarding the average number of hours of training received according to the professional category of our employees:

Average hours of training	2021	2022	2023		
	Total staff	Total staff	Men	Women	Total staff
Management	45	27	44	46	44
Management support	55	35	39	42	40
Third level graduates	47	44	36	43	39
Second level graduates	47	38	44	44	44
Middle management	27	22	18	18	18
Technical personnel	38	34	36	21	31
Administrative and auxiliary staff	27	19	22	29	27
Tradespersons	22	19	21	36	21

Training future professionals in the water sector

[GRI 404-2]

In 2023, we have continued our policy of **collaboration with academic and training institutions** in order to facilitate contact with the business world for young people and students. To this end, and with the aim of complementing their academic training, we promote different programmes, formalised through Workplace Training and Dual Vocational Training programmes.

As for the Workplace Training programmes, in 2023 a total of 16 students (7 men and 9 women) from various secondary schools in the Region of Madrid were taken on during the year 2023.

Likewise, within the activities included in our 2018-2030 Strategic Plan, we include the solution to a growing concern in our sector: the shortage of professionals with expertise in water management, both at the intermediate and higher vocational training level, as well as university postgraduates of all types (engineers, scientists, lawyers and economists). In order to seek solutions, at Canal, we are developing a Centre for Advanced Water Studies to specialise future water professionals in Spain and other countries. In 2023, we have continued with the agreement established between the Regional Ministry of Education, Universities, Science and Spokesperson's Office; the Virgen de la Paloma Secondary School (IES) and Canal, resulting in the Centre for Advanced Water Studies.

As of 31 December 2023, 236 students (18 women and 218 men) have been or are being trained at IES Virgen de la Paloma in the two degrees of Dual Vocational Training in the integral water cycle. In addition to the areas of the integral water cycle, Canal welcomes students from IES Virgen de la Paloma from other vocational training areas in their second year of training. It does so with students of higher vocational training in electrotechnical and automated systems and, as of this academic year, it has also done so with students of intermediate vocational training in electromechanical maintenance and higher vocational training in analysis and quality control laboratory.

In addition, Canal plays the role of coordinator/advocate of the sector to ensure that all students of the vocational training cycles can take their second year of training in companies of our sector. At this point, every year we achieve our objective thanks to the high level of commitment shown by all parties.

Monitoring of indicators Strategic Plan. Strategic Line 8

Fostering talent, commitment and the health of our professionals





LEADING INNOVATION AND DEVELOPMENT

2.9. At the forefront of our sector

Canal de Isabel II, since its origins, has always been a company that has been committed to innovation and technological development to face the challenges posed by the management of the integral water cycle. We were pioneers in many areas, including remote control, communications and information technology and today we are one of the companies in our sector that invests the most in innovation.

WE CONTRIBUTE TO THE DEVELOPMENT OF R&D&I IN OUR SECTOR

[GRI 3-3] [GRI 201-1] [GRI 215-1] [GRI 203-2]

Our company's continuous innovative efforts in recent years are reflected in the steady growth of our project portfolio, with **32 new R&D and innovation activities** initiated in the course of the 2023 financial year.

The figure used for the **R&D&I expenditure budget** in 2023 associated with contracts, agreements and minor expenses, amounts to more than **1.57 million euros**. Adding the internal costs, arising from the dedication of the Canal staff involved, and the activities and investments of other areas related to the projects, including the implementation of remote reading of water consumption, the total figure allocated to R&D&I projects amounts to **52.2 million euros** (part of which are subsidies received). This is **equivalent to 5.9% of our turnover** for the financial year 2023.

The R&D&I projects and agreements that we develop in Canal are framed within the following lines of work:

- Ensuring a balance between water availability and demand.
- Ensuring the strategic continuity of the supply service.
- Strategic infrastructure management.
- Drinking water and health.
- Environmental integration and sustainability.
- Efficiency in management.

Among the new developments in the 2023 R&D&I project portfolio, we highlight the following:

What's new in the 2023 project portfolio
Construction and commissioning of an industrial plant for the production of green hydrogen from reclaimed water
CORSARIO, Redundant Operations Processing Centre for the Operational Infrastructure Services, Applications and Networks
Dating of the tertiary detritic aquifer of Madrid through the water extracted in the wells of Canal de Isabel II
Development of analytical methods for the measurement of different chloramine species by chromatography
Development of 3D hydrodynamic models with non-Newtonian fluid for the optimisation of the design and operation of scrubber digesters
Treatment strategy for the removal of monochloramine by-products
Supply digital twin from the real-time mathematical hydraulic modelling of the Canal de Isabel II supply system.
Towards a comprehensive system for the warning and management of cyanobacterial bloom in inland waters
Hydrodynamic and process model of nitrification / denitrification and phosphorus removal at La Reguera WWTP
Mathematical model of odour dispersion in wastewater treatment plants
Comprehensive monitoring of losses, transients and water quality in an upstream water supply system
Industrial-scale pilot of a biofilter for DWTP
Project to improve the management of reservoirs with data processing using artificial intelligence
Pilot project for the study of the variables that condition the presence of nitrites in the Canal de Isabel II supply network
Distributed fibre optic sensing (DFOS) in supply systems
Corporate IoT signal integration system at Canal de Isabel II
Optimal location of fixed sampling points and automatic monitoring systems in the distribution networks
Validation of a new design and manufacturing method of lamellae for decanting in drinking water treatment, full-scale experience with the Accelerator decanter at the La Jarosa DWTP.
Material recovery of the products from the hydrothermal treatment of sewage sludge

The dissemination of the knowledge generated and the results of the most relevant research projects have led to the publication of titles in the **R&D&I Notebooks** collection, completing those published in previous years to a total of **30 notebooks**.

In the R&D&I notebook number 30 **EFFICIENT MANAGEMENT OF BIM²⁵ MODELS IN THE WATER SECTOR** we introduce the BIM objects classification systems and present the pilot project developed at Canal de Isabel II. It is based on the analysis of the applicability and potential of the parameterisation of objects in BIM models.

All the R&D&I notebooks published by Canal are available at this link:

<https://www.canaldeisabelsegunda.es/publicaciones-idi>

We also have the **Canal Innovation Community**, made up of a large group of Canal employees with an interest in innovation. In 2023, the internal digital platform supporting the Community has been redesigned with a modernised structure and content. Any company employee with an interest in innovation can belong to this Community where:

- Information on **INNOVATION** is received, both from Canal de Isabel II and from outside the company.
- Participation in visits to innovative facilities.
- Members are encouraged to attend innovative congresses and forums.
- Priority is given to innovation-related training.
- Subscriptions to innovation-related journals and websites are facilitated.
- Experiences, knowledge and discussions with other innovators are shared.

The best thing about belonging to the community is **having the opportunity to share, debate, be inspired and collaborate** in order to identify and, of course, implement innovative initiatives and projects.

²⁵ BIM (*Building Information Modelling*) is a collaborative working methodology used in the construction, engineering and architecture sectors worldwide. Its approach and functionalities make it possible to create, manage and visualise everything included in a project, from the management of financial resources to the storage of plans and designs.

Its most outstanding feature is that it provides an overview of all the areas involved in a work or project, as well as facilitating collaboration between professionals through the cloud.

Positioning as an innovative company

Throughout 2023, **Canal has participated in the most important events on water management, research, development and innovation in the sector**, as well as new technologies applied to the different phases of the integral water cycle.

In 2023, Canal's presence at the following events is noteworthy:

- *GORDON Research Conference on DBP. Boston*: Project on porous materials for Chlorate control
- JIA 2023. 7th Water Engineering Conference. Cartagena, with 5 lectures and the facilitation of 2 workshops.
- *Smart Water Metering*. London: Remote Reading Project.
- Innovation Day. Canal Foundation. Madrid: PERTE for the digitalisation of urban water.
- 6th Conference on professional challenges in the water sector. Madrid: Innovation challenges in the water sector.
- 40 *IAHR World Congress*. Vienna, with 2 lectures.
- IWA Efficient Urban Water. Bordeaux, with 1 lecture and 1 poster.
- *IWA Digital Water Summit*. Bilbao, participation with oral lecture.
- EurEau EU2 Committee as representative of AEAS. Luxembourg.

In addition, the following publications were promoted throughout 2023:

- Innovation Notebook number 30: "BIM - Systems for the classification and parameterisation of objects in the water sector".
- *New innovative eco-friendly drinking water treatment based on one-step chemical technology using a multifunctional natural polymer - LIFE SAFE_T_WATER (WICC 2023)*.
- Innovation Brief number 19, for internal dissemination: "Advanced oxidation in the face of emerging pollutants".
- Innovation Brief number 20, for internal dissemination: Vermicomposting of sewage sludge. It has been completed and is awaiting publication.

TECHNOLOGY AT THE SERVICE OF THE CUSTOMER: INTERNAL AND EXTERNAL

[GRI 3-3]

At Canal de Isabel II we apply technologies that promote the efficient use and management of resources, demands and infrastructures in all its processes. In this respect, the application of advanced information and communication technologies (ICTs) stands out.

Operational actions in the field of technologies focus on advancing technological innovation and enhancing advanced information, communication and remote control systems and technologies. Canal's net ICT expenditure in 2023 amounted to 27.05 million euros (12% more than in 2022) and the investments made amounted to 11.13 million euros (13% less than in 2022). The most important ICT projects carried out in 2023 were the following:

- Improved communications at 16 Wastewater Pumping Stations with the *Starlink* satellite network
- 115 kilometres of fibre optics were installed to connect all Canal dams with broadband to the communication centres.
- Redundancy in the services of the TETRA digital trunking system, used by the emergency services of the region and for which Canal acts as Own Means of the Region of Madrid. Replacement and reprogramming of 2,000 portable terminals and 250 mobile terminals.
- Implementation of the infrastructure and services necessary to incorporate the telephone solution integrated in Microsoft Teams with the Canal communications platform with high availability.
- In order to ensure the availability of the devices of the personnel executing the critical processes of the Continuity Plan, their equipment was virtualised.
- Implementation of a system for proactive monitoring of the user experience in the use of Information Technologies.
- First certification process by the business areas of user access to information systems, carried out by the business areas.
- Implementation of firewalls for the segmentation of the internal network for server access and of a centralised network policy management system.
- Analysis of the evolution of Canal SAP systems to the SAP RISE platform in the private cloud.
- Implementation of the new Occupational Health and Safety system on SAP EH&S.
- Implementation of a file storage optimisation system to store less frequently used information on lower cost devices.
- Provision of continuous consumption alerts to customers based on remote reading information.

- Subscriptions in the Virtual Office so that large customers and public entities can periodically receive a file with hourly consumption for processing.
- Launch of the YARA project for the evolution of the current commercial system to a new customer information system in a private cloud with the SAP platform.
- Within the laboratory management system (LIMS), the system has been migrated to the latest version, the system has been adapted to the changes required by Royal Decree 3/2023 and the publication of water quality data on the Canal website has been enabled.
- Reinforcement of security mechanisms and assistance to employees against phishing threats.
- Creation of the Azure Landing Zone, which is the environment that will allow Canal to use *Microsoft* cloud services in a secure, efficient and scalable way.

In 2023 **our Smart Water solution**, which we have developed together with the company specialising in digital transformation **Telefónica Tech** and the water meter manufacturer **Contazara**, has been granted the **Award for the best IoT and Industry 4.0 project** at the **15th Comunicaciones Hoy Awards** organised by the specialised magazine *Interempresas*.

REMOTE CONTROL AND COMMUNICATIONS: KEY TO MODERN WATER MANAGEMENT

Canal de Isabel II pioneered the development of **remote control systems** for the management of the integral water cycle as early as 1995. We currently have a complete remote control system that allows us to know **in real time** the hydraulic situation of the supply and sanitation infrastructures, the state of water quality, groundwater abstractions and other parameters.

By the end of 2023, the remote control network monitored a total of **2,233 remote stations** from our Control Centre (79 more than in 2022) and managed a total of **28,797 measuring instruments**. In addition, we had **160 installations with remote control** (23 more than in 2022) from which a large number of manoeuvres are carried out in the installations and networks (almost 10,800 in 2023).

The **fibre optic** network in the Region of Madrid grew by 86 kilometres in 2023 to **1,373 kilometres**. We also have **152 radio links distributed throughout the region**.

Thanks to these means, since 2021 our company has fully assumed the provision of the integral technical management service of the **TETRA²⁶ digital trunking system for emergencies** as the Region of Madrid's own means.

Monitoring of indicators Strategic Plan. **Strategic Line 9**

Leading innovation and development



²⁶ Previously, the TETRA service was provided to the Regional Government of Madrid by our subsidiary Canal de Comunicaciones Unidas, S.A.U. which was taken over by Canal.



ENSURING SUSTAINABILITY AND EFFICIENCY IN MANAGEMENT

2.10. A solvent and profitable company

The economic and social sustainability of public organisations is an increasingly relevant aspect of our growth and welfare model.

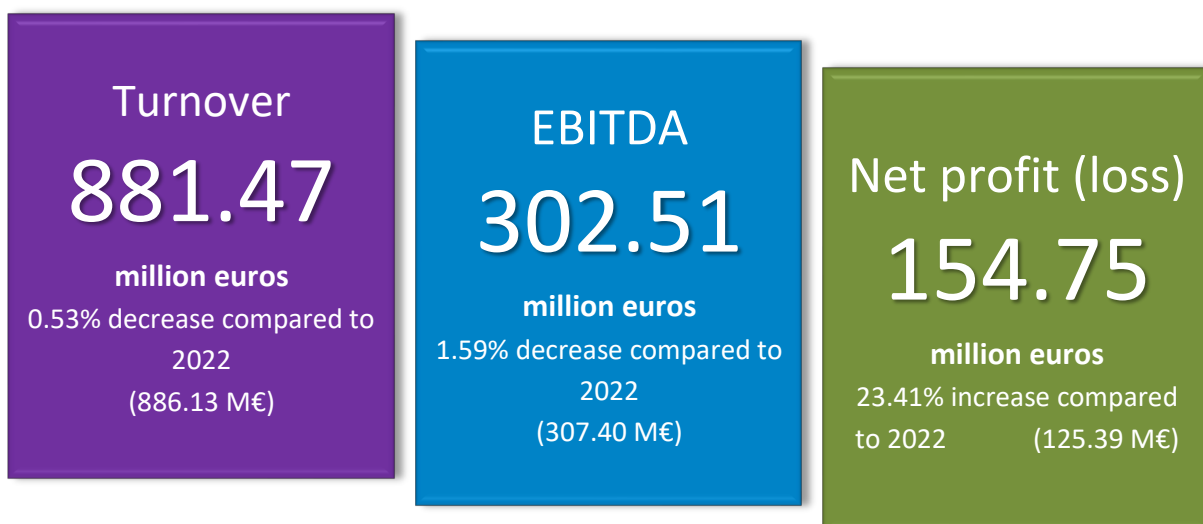
OUR ECONOMIC PERFORMANCE

[GRI 3-3] [GRI 201-1]

At Canal de Isabel II, as a 100% public company, we must guarantee its economic sustainability to support confidence in the economic recovery and foster economic growth and job creation. We must be an efficient company in all our actions and offer society a social and environmental return.

Context and turnover

In 2023, the **Turnover** and the volume of water billed has been reduced compared to 2022, mainly due to the impact of the weather, which is associated with a **decrease in consumption** (1% compared to 2022) **and in our revenues**. Also, **our tariffs have not been increased** during 2023, **for the tenth consecutive year**.



Natural river inflows to reservoirs, which are inversely related to demand, despite remaining below the average of recent years, have increased by 16% compared to 2022. As a result, the volume of water billed decreased by 0.8% and has done so to a greater extent in the blocks with a higher tariff, **decreasing the average tariff** per cubic metre consumed.

Also noteworthy in 2023 is the recovery of commercial and industrial consumption, which have increased by 1.7% compared to 2022 and 10% compared to 2021, although these consumptions are still below the levels of 2019, the year before the COVID-19 pandemic. In addition, during 2023, the resources allocated to our social tariffs, which represent lower revenues, amounted to 3.4 million euros.

Main financial indicators for Canal 2020-2023

Business figures (millions of euros)	2021	2022(*)	2023
Turnover	856.89	886.13	881.47
EBITDA	355.35	307.40	302.51
Amortisation and depreciation	-178.38	-167.20	-165.44
Operating Result	189.91	142.26	150.02
Financial Result	-11.44	-14.74	8.25
Net profit (loss)	173.23	125.39	154.75
Other financial indicators	2021	2022	2023
Net financial debt (million euros)	203.23	121.04	240.34
EBITDA/Turnover	41.47%	35.28%	34.32%
Net financial debt/ EBITDA	0.57	0.39	0.79
Average term of collection (days)	48.59	47.15	49.15
Average term of payment (days)	25.49	23.79	24.4

(*) Restated information. Reclassification of expenses for additional contribution and for the homogeneous treatment of the financial restatement of the Provision for Infrastructure Actions (section 2e of the Financial Statements).

Operating expenses

Operating expenses above EBITDA are little changed compared to 2022. **Expenditure on electricity has decreased by 51 million euros** as a result of falling prices, which reached record highs in 2022. This has offset the **increase in the prices of reagents and materials**, the increase in the costs of own and subcontracted personnel due to the salary revisions included in the different applicable collective bargaining agreements, the adaptation to new and increasingly demanding regulations and the implementation of new activities and other improvements in the quality of the processes, within the framework of the 2018-2030 Strategic Plan.

Furthermore, the accounting for the additional contribution expenses²⁷ was 8.5 million euros higher than in 2022, given the higher volume of investment and interest rates.

However, **we have not transferred to tariffs, which have not increased since 2013**, the increase in operating costs, as we consider that the company has the capacity to absorb them, guaranteeing not only the coverage of these costs, but also the generation of a margin that

²⁷ In the Financial Statements, these expenses have been reclassified under external services and the amount for 2022 has been reclassified to allow for a correct comparison. They were previously listed as financial expenses

allows us to undertake the investment plans and the remuneration foreseen for our shareholders.

EBITDA and Results

EBITDA decreases by 4.9 million euros compared to 2022, slightly worsening operating profitability in percentage terms compared to 2022.

The **Operating Result**, on the other hand, is higher by 7.8 million euros, as it includes profits from the sale of investment property of 11.9 million euros in 2023, compared to 3.3 million euros in 2022.

The **Financial Result** improved significantly compared to the previous year, 22.9 million euros, becoming positive, thanks to the higher financial yield obtained from bank deposits and loans granted to other group companies, linked to the Euribor.

Net profit improves by 29.4 million euros compared to 2022 for the reasons mentioned above.

Net financial debt

During the financial year 2023, financial indebtedness has continued to be reduced in accordance with its maturities. In addition to the bond issue for 500 million euros, the average debt in the year with financial institutions through the Mirror Debt with the Public Entity Canal de Isabel II was 189 million euros, 8% lower than in 2022 (204 million euros).

In 2023, no new debt has been taken on, but the total debt has been reduced by the amount to be repaid in the year, 14.8 million euros (also 14.8 million in 2022).

With regard to Cash, the high cash generation capacity of the business, as well as some delays in the start-up of investment projects envisaged in the 2018-2030 Strategic Plan, enabled it to meet all its commitments during the year and pay out dividends amounting to 81.7 million euros, ending the year with a Net Financial Debt of 240 million euros.

Financial risks

Our business is subject to the following financial risks:

Interest rates: after issuing 500 million euros in ordinary insubordinated bonds in February 2015, Canal increased the percentage of fixed-rate debt, standing at 100% at the end of 2023, which reduces the Company's exposure to the risk through interest rate variation to zero.

Liquidity risk: we have a stable activity and moderate indebtedness, which allows to have a solid financial position and our financial indebtedness on an annual basis. With the aim of controlling the liquidity risk, we engage in long-term financial planning and constantly monitor and control cash flows. The Company also has credit facilities for the sum of 102 million euros maturing in December 2023, from which no amount was drawn down at year end. At year-end 2023, **Canal had a cash balance of 441.8 million euros.**

Also at year-end 2023, the Canal de Isabel II Group was rated by the **rating agencies Fitch** (BBB+, with a stable outlook) and **Moody's** (Baa1, with a stable outlook).

Pressure on prices: another risk factor inherent to the Company's activity is the possible pressure on prices, as it provides a service of prime necessity such as the management of the integral water cycle. Exposure to this risk is evidenced by the tariff, which has not increased in the last 10 years.

Credit risk: due to Canal's highly atomised customer population, credit risk is not a significant factor.

Tax information

[GRI 207-4]

With respect to the corporate income tax paid by Canal, as well as withholdings, the corresponding information is shown below:

Corporate income tax payments (in thousands of euros)	2021	2022	2023
Total payments in instalments and withholdings Canal de Isabel II Group	7,370	5,827	6,962
Total payments associated with Canal de Isabel II S.A., M.P.	5,515	2,793	1,465
Final amount of tax declared Canal de Isabel II Group	1,399	3,099	N/A
Final quota Canal de Isabel II S.A., M.P.	2,662	2,166	N/A

CORPORATE TAX POLICY OF CANAL AND ITS CORPORATE GROUP

[GRI 207-1]

On 28 September 2023, the Board of Directors of Canal de Isabel II, aware of the company's **social responsibility** and the **social value of its tax contributions** in all the countries where it operates, approved the **Corporate Tax Policy**, which includes the Canal Group's tax guidelines and its commitment to the application of the best existing tax practices.

This policy applies to all the companies that make up the Canal Group, with the aim of contributing value to its stakeholders and promoting its economic, social and environmental sustainability, giving priority to the management of social and human rights, the environment and biodiversity.

Best practices followed in this policy include the following:

- To prevent all conduct likely to generate tax risks by establishing an adequate tax risk management and control system.
- Not to use opaque structures or shell companies that seek to conceal the company's activity in order to optimise the tax impact.
- Not to incorporate or acquire companies domiciled in "tax havens".
- To collaborate with the Tax Authorities of the countries in which the company operates, providing any information of tax relevance or importance and facilitating their inspection work.
- To detect and seek solutions to fraudulent tax practices of which the company is aware.
- To ensure the timely filing of all tax returns required by the tax regulations in each country.
- To request the services of independent and reputable tax experts to review the tax criteria applied and verify compliance with all tax obligations.
- To adopt adequate control mechanisms to ensure compliance with tax regulations.
- To establish a procedure for dealing with investments with special tax implications, which must be submitted for the express approval of the Board of Directors.

The full text of our Tax Policy is available at this link:

<https://www.canaldeisabelsegunda.es/documents/20143/30492747/Pol%C3%ADtica+fiscal+corporativa.pdf/d957301c-83ed-d534-470c-8495a7e73674?t=1699018930970>

Other financial information

Own shares: during the year ended 31 December 2023, the Company did not acquire any treasury shares.

Financial instruments: during the year, the Company did not use financial instruments that are relevant to the measurement of its assets, liabilities, financial position or results.

Events after year-end: events after year-end are shown in note 29 to the consolidated financial statements of the Company.

You can find more financial information about Canal and our audited financial statements at the following link:

<https://www.canaldeisabelsegunda.es/es/informacion-economica>

OUR INVESTMENTS

[GRI 3-3] [GRI 201-1] [GRI 203-1]

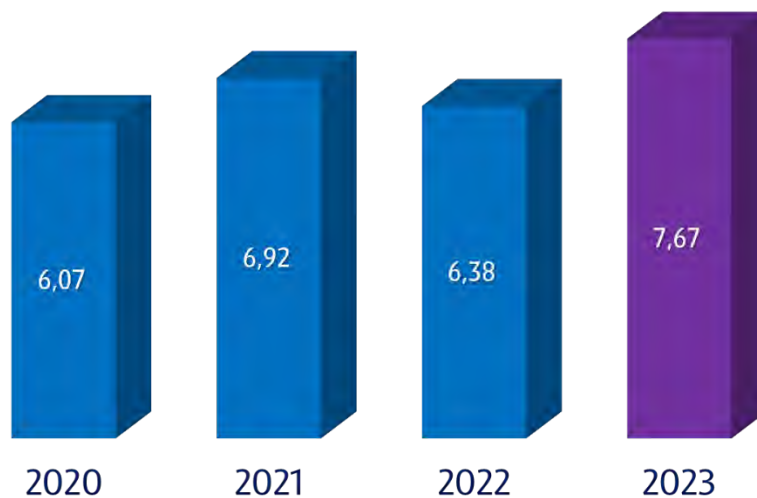
Maintaining an adequate pace of investment is vital to ensure the quality of service provision.

The investments we are currently making will ensure this quality for decades to come. The investments set out in our **2018-2030 Strategic Plan** are worth around 2 billion euros over the next five years, providing value through the generation of employment and facilitating the territorial development and economic growth of the Region of Madrid.

In 2023, cash flows generated from operating activities were largely used to **cover the investment volume implemented** during the year, which amounts to **348.8 million** euros on works and projects (184.6 million more than in 2022).

It should be noted that this figure includes investments considered to be replacement investments in accordance with the standard adapting the Spanish National Accounts Plan for Public Infrastructure Concessionaires and which, in application of this standard, have not been capitalised by the Company as an increase in the value of fixed assets. In 2023, Canal executed investments of this kind amounting to 173.4 million euros (87.6 million euros in 2022).

Investment implemented in the Region of Madrid
2020-2023 in millions of euros²⁸



Furthermore, **Canal is undertaking refurbishment and improvement works in the municipality-owned distribution and sewerage networks.** The sum associated with these works is generally recovered through a **supplementary charge on users' bills** and is therefore classified as a financial asset for accounting purposes. In 2023, projects of this kind amounted to 54.8 million euros (27.9 million euros in 2022).

²⁸ The figures do not include investments in the renovation and improvement of municipally owned distribution and sewerage networks, which are financed by supplementary fees.

The most significant investments made by the Company are those focused on the aforementioned targets of **guaranteeing a satisfactory level of operation**, maintaining the levels of productive efficiency and competitiveness, the expansion of automation and remote control of facilities, 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 shows the volume of investment in each of these categories:

Investment by category (millions of euros)	2021	2022	2023
Security of supply	50.23	87.47	169.43
Quality assurance	10.8	6.49	9.24
Environmental commitment	53.75	54.51	83.98
Technological innovation	18.44	18.72	24.85
Adequacy of Canal's general services	5.23	7.3	10.34
Other investments	4.05	10.09	8.45
Price revision R.D.L. 3/2022 Canal ownership	-	-	42.51
TOTAL	142.5	184.57	348.81
Works in distribution and sewerage networks owned by third parties	17.86	27.89	45.47
Price revision R.D.L. 3/2022 third party ownership	-	-	9.29
TOTAL INVESTMENTS AND PROJECTS OWNED BY THIRD PARTIES	160.36	212.46	403.57

The implementation of Canal's 2018-2030 Strategic Plan requires a significant investment effort and the results of the measures undertaken by the company to carry it out can already be noted in 2023. The company's investment volume has increased by 90% compared to 2022 and 151.7% compared to 2021, and it is expected to maintain this volume in the coming years, with an estimated investment of close to 2,000 million euros over the next 5 years.

Among the actions of Canal's 2018-2030 Strategic Plan that involve a major investment effort are the following:

- The **SANEA Plan**, to modernise and improve sewerage networks.
- The **RED Plan**, to standardise distribution network materials and thus improve water quality.
- The **Smart-Region Plan**, with the objective of achieving 100% smart metering by 2030.
- The **Solar Plan** which focuses mainly on the creation of new photovoltaic plants in the company's infrastructures to promote the generation and self-consumption of clean energies.

Among the investments made in 2023 aimed at guaranteeing supply, the most important are the investments aimed at renewing the distribution network and the deployment of remote reading. In the case of those aimed at environmental commitment, the most significant investments are related to the "Plan for the adaptation of the purification system and the extension of the reusable water supply".

In addition, **R.D.L. 3/2022²⁹** allows for an extraordinary revision of the prices of public sector works contracts that meet certain conditions. This has led to a higher cost of the investments made since 2021 associated with several contracts and therefore to a higher amount of the investment for the year.

Investments completed in 2023

Among the most significant additions to the **investment recorded** as of December 2023 are in the area of **supply**:

- The **RED Plan** works for the renewal of networks in the pipelines of different municipalities in the Region of Madrid, replacing obsolete materials with more technologically advanced ones, to guarantee the quality and increase the efficiency of the distribution network; as well as the installation of meters and connections of the Plan to implement and integrate the water meters of the Region of Madrid in the remote reading system.
- In adduction, the rehabilitation of the **San Fernando Artery** at the junction with the M-40; and of the left branch of the **Main East Artery** in the gallery as it passes under the A-2; as well as improvements to the facilities of the **Santillana DWTP**.
- In **drinking water supply**, the adaptation of the roof of the **Second Getafe Tank** for its waterproofing and the subsequent installation of photovoltaic panels on the surface; the construction of **regulating tanks** in the municipalities of **Redueña and Torrelaguna** with the necessary piping to increase the security of supply.
- In the **sewerage networks**, the construction of a **WWPS in Redueña** and pumping to the Venturada WWTP; as well as those arising from the **SANEA Plan** to improve the efficiency of the sewerage network in the Region of Madrid with the renovation of municipal sewerage networks.
- In **wastewater treatment**, the adaptation of the **Arroyo de la Vega WWTP** to the National Water Quality Plan; biological treatment at the **La Poveda WWTP**; improvement works at the **Morata de Tajuña, Tres Cantos, Alcalá Este and**

²⁹ Royal Decree-Law 3/2022, of 1 March, on measures to improve the sustainability of road freight transport and the functioning of the logistics chain, and transposing Directive (EU) 2020/1057, of 15 July 2020, laying down specific rules with regard to Directive 96/71/EC and Directive 2014/67/EU on the posting of drivers in road transport, and on exceptional measures concerning price revisions in connection with public works contracts.

Casaquemada WWTPs; and the construction of a new Workplace at the **El Endrinal WWTP** in Collado Villalba.

- In relation to **reclaimed water for reuse**, the supply of reusable irrigation water in Algete from the tertiary treatment plant of the **Algete Oeste WWTP**; and in the reuse network of **Torrejón de Ardoz**.
- Within the **automation plan**, the installation of new TETRA base stations to strengthen the **telecommunications network**, improve coverage and the final quality of the service provided is noteworthy, as well as continuous measuring equipment based on smart sensors to control water quality in the distribution network.
- Within the framework of the **Solar Plan** for the commissioning of new photovoltaic installations in the company's infrastructures, floating photovoltaic panels have been installed in the lower tank of the **Torrelaguna** hydroelectric plant for the production of electricity with connection to the plant's existing installations.

Ongoing investments

The most relevant actions that were underway at the end of 2023 are:

- Work to bring the El Plantío WWTP into line with the National Water Quality Plan (PNCA).
- Improvements in the South WWTP.
- The adaptation of spillways at the Arroyo Culebro Cuenca Baja WWTP.
- The supply network renovation actions associated with the **RED Plan**.
- Improvement works at the Torrelaguna DWTP.
- The refinement treatment at the Griñón DWTP.
- New photovoltaic energy installations associated with the development of the **Solar Plan**.

R&D&I Investments

Canal actively contributes to research and innovation studies in order to increase scientific and technical knowledge in the sector. We want to responsibly promote innovative activity in the sector and to this end, the investment made in 2023 amounted to **48.96** million euros, **5.6%** of our turnover. Investment in R&D&I was significantly increased in 2023, mainly due to the implementation of remote reading and the automation of our company's infrastructure.

The information on the R&D&I activities carried out by Canal during 2023 is further developed in section 2.9. of this Report (*Leading Innovation and Development - At the forefront of our sector*).

EUROPEAN FUNDS AND CANAL

[GRI 201-4]

The financing of our investments through **European Union funds** has traditionally been a tool used by Canal. **Since 2000**, Canal has obtained **more than 200 million** euros in European subsidies through the Cohesion Fund and, fundamentally, the ERDF.

Moreover, in the aftermath of the COVID-19 pandemic, the European Union created the *NEXT GENERATION EU funds* as a time-limited, one-off emergency instrument, used as a response and recovery measure by the European Union, to help repair the economic and social damage caused by the pandemic. At Canal, since 2021, we are managing several grant programmes with these funds through **their two main financing instruments**: the RRF and *REACT-EU*

ERDF 2021-2027

These European Funds are programmed in multiannual periods of seven years, the last one being the period 2014-2020 (ending on 31 December 2023) and **2021-2027** (current programme). In 2023, Canal was granted an investment of **345.7 million euros** through the **ERDF Programme 2021-2027**, to be implemented by 31 December 2029 under **Policy Objective 2: Greener, Low Carbon Europe**. These projects have a grant rate of **40%**, which represents **138.3 million euros** of funding, accounting for **more than 28%** of the total funds allocated to our region within the ERDF 21-27 programme.

This grant will be used to finance actions in our RED Plan, for the modernisation of the distribution network; the start-up of our **Green Hydrogen plant** at the Arroyo Culebro Cuenta Media Alta WWTP, considered a **project of strategic importance** within the ERDF 21-27 programme of the Region of Madrid, as well as a series of actions to continue with our **renewable energy generation** plans: our **Solar Plan** and other projects in the development of **hydraulics or biomethane**.

The projects, their investment and the planned grant are shown in the table below:

SPECIFIC OBJECTIVE	LINE OF ACTION	CANAL PLANNED INVESTMENT	FINANCIAL ALLOCATION OPERATIONAL PROGRAMME	PLANNED GRANT (40%)
2.2 - Promotion of renewable energies in accordance with Directive (EU) 2018/2001, in particular the sustainability criteria detailed therein	Green hydrogen plant: hydrogen production project using reclaimed water and renewable energy at WWTP.	24,550,000	18,329,177	7,331,671
	Solar Plan: Implementation of renewable energy infrastructure	16,000,000	11,670,823	4,668,329
	Generation of renewable energies in urban water cycle processes (e.g. projects in progress of solar thermal, geothermal, photovoltaic and hydraulic power, and biomethane)	12,000,000	12,000,000	4,800,000
2.5 - Promoting access to water and sustainable water management	RED Plan: Modernisation of the Supply Network	366,084,000	303,669,295	121,467,718
TOTAL		492,470,000	345,669,295	138,267,718

NEXT GENERATION EU

The recovery and resilience facility

The cornerstone of the *Next Generation* funds is the **Recovery and Resilience Facility (RRF)**, which accounts for **80% of the budget**. It aims to support investment and reforms for a sustainable and resilient recovery, while advancing climate and digital priorities. The mechanisms by which Canal de Isabel II has accessed these funds are implemented through Sector Conferences and through the Strategic Projects for Economic Recovery and Transformation (**PERTE**) for the **Digitalisation of the Urban Water Cycle**.

Through the **Sectoral Conference on the Environment**, the cooperation body made up of the Ministry for Ecological Transition and the Demographic Challenge (MITECO) and the regional ministries for the environment of the autonomous communities are managing funds for two initiatives:

- The **improvement and reduction of losses in the drinking water supply networks in 3 municipalities** of the Region of Madrid with less than 15,000 inhabitants (Villaconejos, Miraflores and Orusco de Tajuña), with which the relevant distribution agreements have been signed. The **grant awarded amounts to 2,901,139 euros** (equivalent to **3,626,423 euros of eligible cost** with **80%** financing) and the deadline for implementation is **1/06/2025**.

- The **digitalisation of the water cycle in small municipalities** with which we will digitalise the water cycle in as many as 50 municipalities with less than 20,000 inhabitants with actions aimed at automation and remote control of operations, and installation of meters with remote reading. The **grant awarded amounts to 3,002,940 euros**, the planned investment is over 6,000,000 euros and the deadline for implementation is **1/06/2026**.

Within the framework of the Strategic Project for Economic Recovery and Transformation (**PERTE**) for the **Digitalisation of the Water Cycle**, the company Canal de Isabel II has submitted projects on a **competitive basis** to the first and second calls for proposals:

- **First call for proposals on a competitive basis**, a grant facility of 200 million euros for the improvement of the digitalisation of urban water uses, with which projects of between 3 and 10 million euros were financed with a deadline for implementation until 31 December 2015.

For the first call for proposals, in February 2023, the company Canal de Isabel II presented four unique transversal digitalisation projects, which involved the digitalisation of more than 50 municipalities and an estimated investment of more than 40 million euros, and, once resolved, in November 2023 we were awarded a grant of 3 million euros for the ***Project for the digitalisation of the water cycle in the ALBERCHE basin***, which consists of digitalising 14 municipalities and 36,622 inhabitants, with a maximum budget of 5.2 million euros to carry out the following actions:

- Digitisation of distribution and process control, with an emphasis on sensing and instrumentation, involving the installation of sensors at different stages of the water cycle.
 - Characterisation, adaptation and monitoring of spillways.
 - Integration and processing of this information, together with other remote control data, to be made available to the Ministry.
- **First call for proposals on a competitive basis, an additional grant facility of 200 million euros for the improvement of the digitalisation of urban water uses, with which projects of between 0.5 and 10 million euros are financed with a deadline for implementation until June 2026.**

For this second call for proposals, in December 2023, Canal has submitted two projects:

- ***DIGIMAD.-Integrated Digitisation of Urban Water in the North Guadarrama basin.*** This project is based on one of the projects we submitted to the first call, but improved and adapted to the new requirements, and consists of digitising 12

municipalities and 164,000 inhabitants, with a maximum budget of 15 million euros and a 10 million grant application.

- ***DREINCAM.- Intelligent urban drainage management system for the Region of Madrid.*** This project aims to digitalise and optimise the operation and management of the urban drainage system in the Region of Madrid. The project has a maximum budget of 30 million euros and will affect 164 municipalities (all except the City of Madrid and Cuenca del Alberche municipalities already included in other projects) and almost 3.5 million inhabitants.

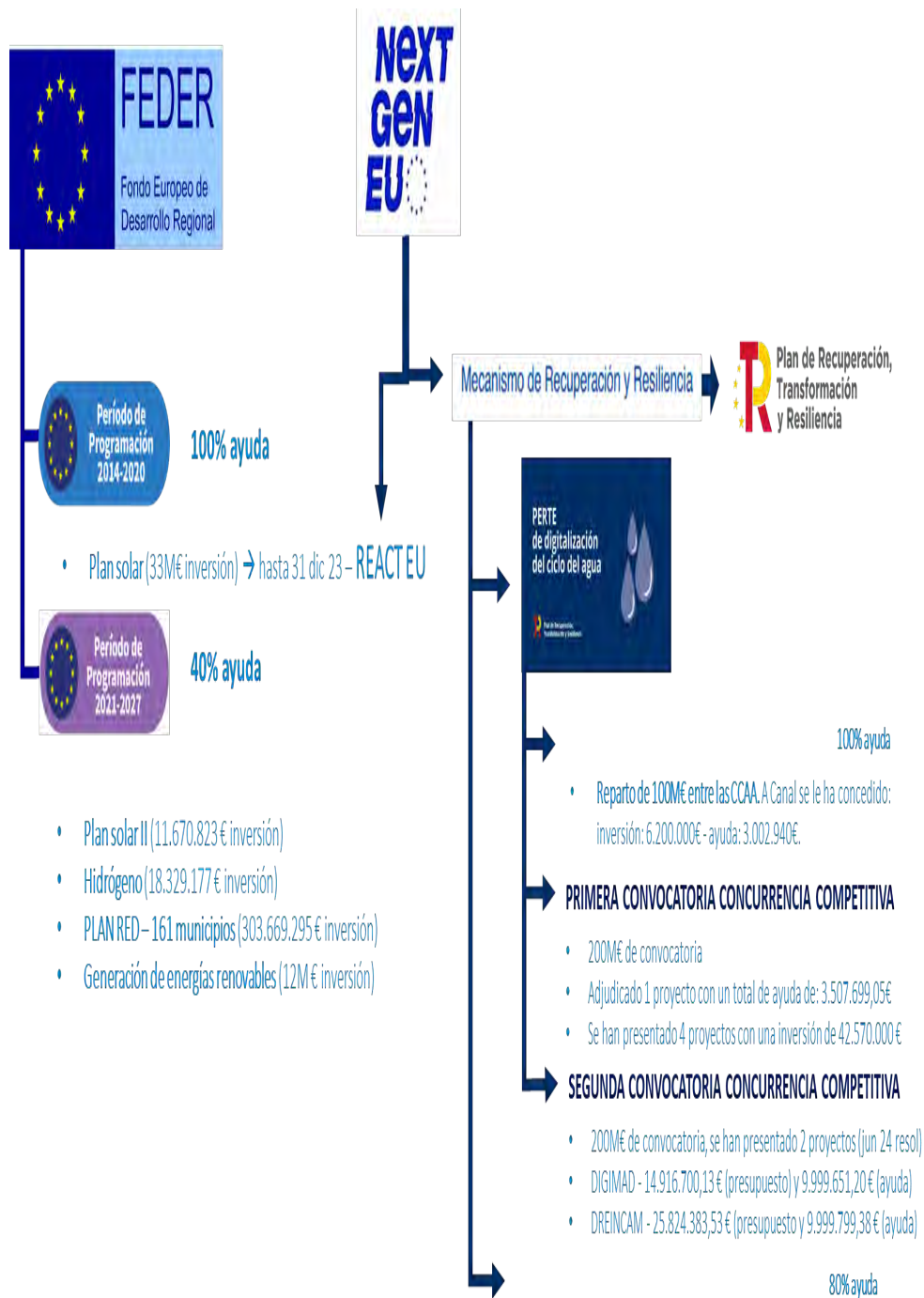
REACT-EU

The **Next Generation** funds included the **REACT-EU** programme to assist territories in the aftermath of the impact of the COVID-19 pandemic.

In the Region of Madrid, these additional resources were articulated through the Operational Programme (OP) ERDF 2014-2020 but with an exceptional funding rate of 100%.

As of 31 December 2023, the end date of the 2014-2020 ERDF period, we have been funded under the REACT programme a total of **12.36 million euros** for the Torrelaguna, Arroyo Culebro, Soto del Real Tank and Phase I of our Solar Plan photovoltaic installations.

Scheme of the European Union Funds managed by Canal



Gestionamos fondos para dos programas de ayudas repartidos en Conferencia Sectorial a la Comunidad de Madrid. Estos fondos se transfirieron inicialmente al Ente Público Canal de Isabel II (que es el órgano instrumental de la Comunidad de Madrid), que a su vez los transferirá a Canal de Isabel II, Sociedad Anónima, M.P. ya que se trata de actuaciones a ejecutar por nuestra empresa.

WITH OUR SUPPLIERS

[GRI 3-3] [GRI 2-6] [GRI 204-1] [GRI 407-1]

Like all companies, in order to fulfil our mission we need the support of suppliers and contractors, our "business partners" with whom, in compliance with all the provisions of public sector procurement legislation, we maintain relationships based on closeness and mutual respect.

At **Canal de Isabel II, as a public company**, we carry out our contracts under the **regulations applicable to public sector contracts** that came into force in 2018 (*Law 9/2017, of 8 November, on public sector contracts*). Similarly, in some procedures, due to their characteristics or sum, *Law 31/2007, of 30 October, on procurement procedures in the water, energy, transport and postal services sectors*, applies.

[GRI 308-1]

The objectives behind these laws are to achieve **greater transparency in public procurement** and better value for money. Specifically, Law 9/2017 seeks greater **legal certainty** and aims to ensure that public procurement is used as an **instrument to implement European and national policies** on social, environmental, innovation and development, **promotion of SMEs and competition**. To this end, in recent years the specifications for our tenders have increasingly incorporated more advanced and demanding environmental and social requirements into the criteria for assessing the solvency and bids of bidders.

[GRI 403-7] [GRI 408-1] [GRI 409-1] [GRI 308-2] [GRI 414-1]

With regard to the objective of promoting small and medium-sized enterprises in the **2022 financial year, 57.14% of the awarded companies were SMEs**.

Canal's contractors, in addition to complying with the current environmental and occupational risk prevention regulations in force, must comply with the environmental policy and the occupational risk prevention policy implemented in our company and with Canal's **Code of Ethics and Conduct**. Furthermore, in order to promote diversity and the incorporation of persons with disabilities into the labour market, contractors who employ more than 50 workers during the term of the contract are required to ensure that at least 2% of staff is made up of persons with disabilities, in accordance with the provisions of *Royal Legislative Decree 1/2013, of 29 November, which approves the revised text of the General Law on the Rights of Persons with Disabilities and their Social Inclusion*.

The compliance on the part of the bidders with the requirements is reviewed before the award is made. In addition, once the contract is awarded, the unit responsible for the contract ensures compliance with the specifications.

Service and supply contracts of **less than 15,000 euros** and works contracts of less than 40,000 euros are carried out under the regulations governing **minor contracts**. For minor works of between 15,000 and 40,000 euros, the authorisation of the deputy councillor is required. Minor

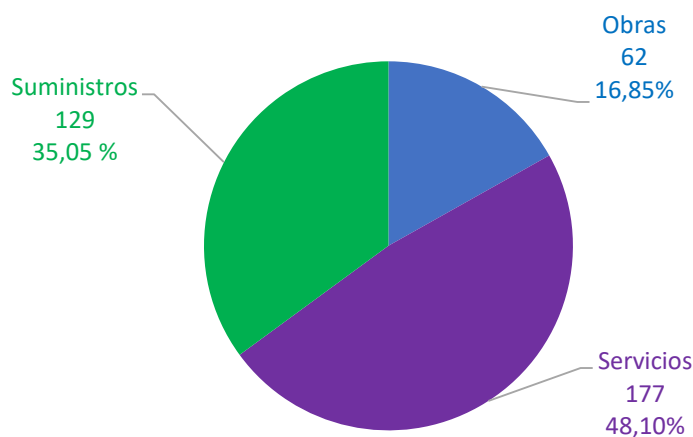
contracts, except for supply contracts managed by the Purchasing Area, are processed through the specific IT tool. In 2023, a total of **6,653 minor contracts (18.62 less than in 2022)** totalling **8.96 million euros** (0.69% of the amounts contracted by Canal) were made.

In general, **subcontracting is permitted** under the terms established in the legislation in force and in the specifications of each contract. The procurement system ensures that subcontractors comply both with the legally established obligations and with the requirements for contracting with the public sector.

Award of contracts in 2023

In 2023 we have awarded a total of **368 contracts** (74 more than in 2022), totalling **1,303.71 million euros**. This **143.4%** increase is due to the fact that in **2023, large projects were tendered**, such as the **SANEA Plan**, the **RED Plan** and the **Solar Plan**, all of which are included in our Strategic Plan.

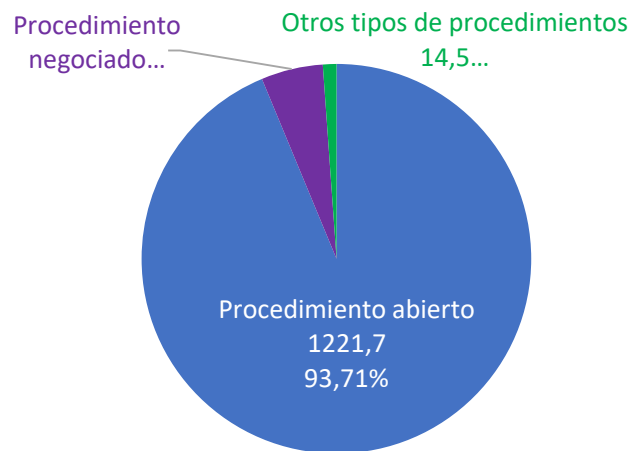
Breakdown by type of contracts awarded in 2023 (number of contracts and % of total)



The **open procedure** is the one we use the most. In this procedure, any interested entrepreneur may submit a proposal, excluding any negotiation of the terms of the contract with the bidders. This procedure was used for **314 contracts** processed in 2023, **85%** of all contracts awarded. The amounts awarded under this procedure total **1,221.7 million euros** in 2023 (93.71% of the total).

Sums awarded by type of procedure used in 2023

(millions and % of total)



23 contracts were also awarded **using the negotiated procedure**, 6.25 % of the total number of procedures completed. The total sum of these procedures amounted to **66.9 million euros**. The negotiated procedure is used when one of the conditions laid down in the legislation is met.

In addition to the two aforementioned procedures, in 2022 a total of **30 contracts** awarded by Canal, representing 8% of the tenders processed in 2023, were carried out using **procedures** other than those set out in the public sector procurement legislation. The sum awarded in these contracts was **14.5 million euros**.

We have only executed 1 **own resources contract** in the financial year 2023 for an amount of 659,010.93 €.

Canal has several channels through which it offers its suppliers support services: in person, by email atproveedores@canal.madrid or through a specific portal for this purpose on our website (www.canaldeisabelsegunda.es/portal-de-proveedores), where suppliers are offered real-time information on the status of their invoices, thus improving the relationship we maintain with them and increasing productivity. The electronic exchange of data results in lower transaction costs and faster and simpler procedures. Among other functions, the tool allows the management of minor procurement for material supply suppliers.

In 2023, the **average term of payment to suppliers** of Canal de Isabel II was **24.40 days (0.6 more than in 2022)**, with payments made throughout the year amounting to 454.4 million euros (a total of **454,038** payments throughout the year (3.97% more than in 2022)).

Processing of Canal procurement dossiers

Our internal recruitment procedure encompasses the following phases:

PHASE I	Necessity and suitability report	The proposing area approves a contract Necessity and Suitability Report (NSR) which describes the need to be covered and the type of procedure to be followed.
PHASE II	Approval of the specifications or letters of invitation	The CEO approves, on the proposal of the Procurement Sub-directorate, the specifications or the letter of invitation in simplified and negotiated procedures.
PHASE III	Publication of tenders	<p>Canal's open procedure tenders are published on the Region of Madrid's Procurement Portal (the company's contracting profile) and in the corresponding official means, depending on the nature and value of the contract: Boletín Oficial de la Comunidad de Madrid [Official Gazette of the Region of Madrid], Boletín Oficial de Estado [Official Spanish State Gazette] and Diario Oficial de la Unión Europea [Official Gazette of the European Union]. They are also published on the corporate website of Canal de Isabel II, Sociedad Anónima, M.P. (licitaciones.canaldeisabelsegunda.es)</p> <p>The award and formalisation Of the contract, including negotiated and simplified procedures without prior tendering, are published on the Region of Madrid's Procurement Portal (the company's contracting profile). The formalisation of contracts for amounts exceeding 100,000 euros are also published in the Boletín Oficial de la Comunidad de Madrid [Official Gazette of the Region of Madrid].</p> <p>Information on the contracts of Canal de Isabel II, S.A. is periodically sent to the Contracts Register of the Region of Madrid.</p>
PHASE IV	Receipt and analysis of tenders	<p>The Procurement Sub-Directorate reviews the administrative documentation of the tenders submitted by the bidders. Bids that do not meet these requirements are not taken into consideration and this fact is communicated to the bidders at the opening of the envelopes (at the opening of the technical envelope, if the award is made on the basis of multiple criteria; at the opening of the financial envelope, if the award is made on the basis of the lowest price).</p> <p>In tendering procedures awarded on the basis of multiple criteria, before the opening of the financial proposals, the technical envelopes are opened for the purpose of assessing the criteria that cannot be quantified by the mere application of formulas before the opening of the financial proposals.</p> <p>Finally, the bidders' financial bids are opened in a public ceremony. In tendering procedures awarded on the basis of multiple criteria, the technical scores obtained are read out in public before the opening of tenders.</p>
PHASE V	Assessment of bids and award of the contract	The proposing department draws up the report on bids initially presumed to be of abnormal or disproportionate value and the final evaluation report on the bids . The contracting committee analyses both reports and issues an award proposal that is submitted to the contracting authority awarding the contract.
PHASE VI	Formalisation of the contract	The contract is formalised within 15 days of notification of the award of the contract and once the successful tenderer has provided the corresponding guarantee .

You can find out more about our contracts on our company's e-Tendering Portal at the following link: <https://licitaciones.canaldeisabelsegunda.es>

Monitoring of indicators Strategic Plan. Strategic Line 10

Ensuring Sustainability and Efficiency in Management



3. The Canal Group

Our accumulated experience of more than 170 years has enabled us to contribute to the improvement of urban water services in other regions and countries through the integration of investee s. As a result, Canal Group currently provides services in five Spanish regions³⁰ and in four Ibero-American countries³¹.

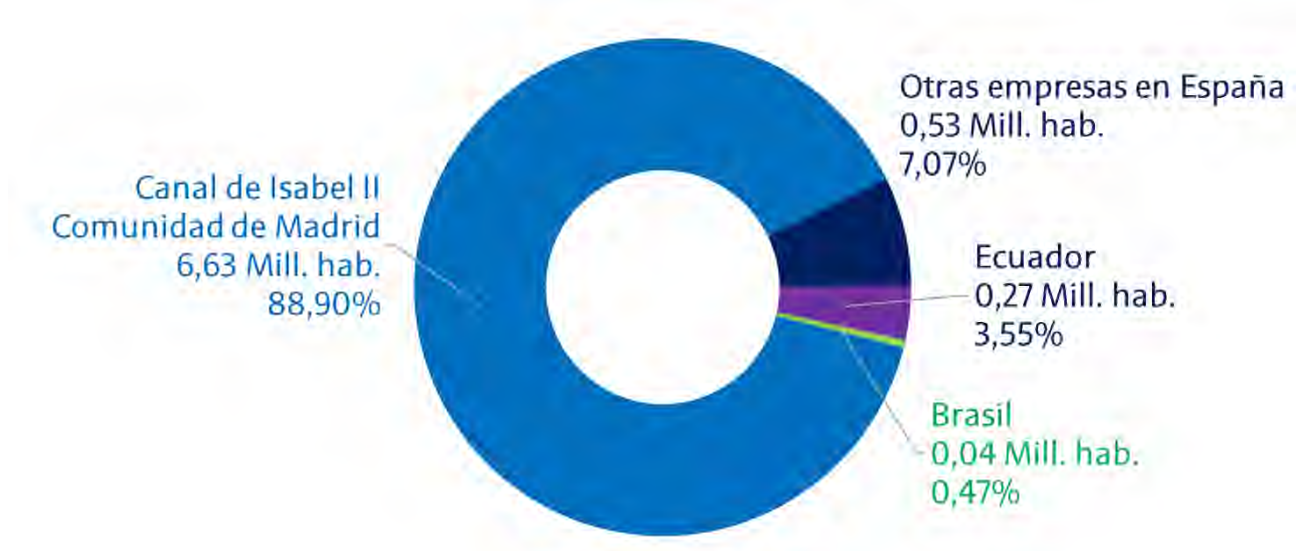
[GRI 2-2]

Since the 1960s, Canal has absorbed various investees that, together with the parent company Canal de Isabel II, Sociedad Anónima, M.P., currently comprise the **Canal de Isabel II Business Group**.

In 2023, the Canal Group companies supplied water to a total of **7.46 million** people (**7.16** in Spain and **0.30** in Ibero-America) and we will employ **3,746 workers**, as well as generating over to **5,500 indirect** jobs. In 2023, we also supplied **568.53 million cubic metres of water** (545.05 in Spain and 23.48 in Ibero-America) and managed **40,269 kilometres** of supply, sewerage and reclaimed water networks.

At year-end, we had almost 1.83 million supply contracts (83% of which were domestic) in almost two hundred municipalities (198), with a degree of supply coverage of 99.37 %.

Population supplied by country in 2023 (million inhabitants and % of total)



³⁰ Madrid, Castilla y León, Castilla La Mancha, Extremadura and the Canary Islands.

³¹ Colombia, Ecuador, Dominican Republic and Brazil.

3.1. Canal Group: activities and geographical location

[GRI 2-1] [GRI 2-6] [GRI 3-3]

The Canal de Isabel II Business Group engages in three main activities:

- **Integral water cycle management**, in five Spanish regions in Ecuador and Brazil.
- **Support services for the management of the integral cycle**, such as sectoral advice and consultancy; civil engineering; works and installation of connections and meters; commercial management of supply and sanitation or management of call centres. To carry out these activities, the Canal Group has companies in Colombia, the Dominican Republic, Ecuador and Brazil.
- **Other activities that share synergies relating to integrated water cycle management**, such as electricity generation, telecommunications or information technologies. These activities are carried out by Group companies located in Spain and Colombia.

Empresas del Grupo Canal

a 31 de diciembre de 2023
(no incluye sociedades tenedoras de acciones).



The **shareholding of the parent company**, Canal de Isabel II, Sociedad Anónima, M.P., in the **main Group companies** that were active in 2023 was as follows:

Companies	Countries	Ownership %
Aguas de Alcalá UTE*	Spain	50.00 %
Canal Gestión Lanzarote S.A.U.	Spain	100.00 %
GSS Venture, S.L.	Spain	25.00 %
Canal Extensia S.A.U.	Spain	100.00 %
Canal Extensia América, S.A.	Colombia	81.84 %
Amerika Tecnologías de la Información, S.A.S.	Colombia	81.84 %
AAA Ecuador Agacase, S.A.	Ecuador	82.02 %
Aguas de Samborondón Amagua C.E.M.	Ecuador	57.41 %
Soluciones Andinas de Agua, S.R.L.	Uruguay	90.92 %
Emissão, S.A.	Brazil	68.19 %
Fontes da Serra Saneamiento de Guapimirim Ltda.	Brazil	66.83 %
AAA Dominicana S.A.	Dominican Republic	53.20 %

*Aguas de Alcalá is a joint venture between Canal and Aqualia.

Some of the main key figures of the Group at the end of 2023 were as follows:

7.46 million inhabitants served in supply.

7.32 million inhabitants served by sanitation.

568.5 hm³ captured for consumption.

505.5 hm³ treated at WWTP and discharged into water-courses.

24 hm³ of reclaimed water for reuse.

93 hm³ of reclaimed water discharged to waterways.

21,389 km of supply networks.

18,880 km of sewerage and reuse networks.

945.5 million euros of income.

354.8 million euros of investments.

3,746 employees (3,492 in Spain and 254 in Ibero-America).

3.2. Canal Group: population served and capacities in the full water cycle

[GRI 2-6]

In 2023, for the provision of this type of services, our Group had five companies and a temporary joint venture (UTE) located in Spain (2 companies and 1 UTE), Ecuador (1) and Brazil (1). These companies and joint ventures are:

Canal de Isabel II, Sociedad Anónima, M.P. is the parent company of the Group and is responsible for the **integral water cycle management** in the Region of Madrid (179 municipalities), eight municipalities in Castilla-La Mancha, two in Castilla y León and through our branch in Cáceres (**Canal Cáceres**) of that city and of three municipalities close to it.

Aguas de Alcalá UTE is a temporary joint venture involving Canal (50 % of the shares) and the company **Aqualia**. It is responsible for the **supply** and management of **sewerage** networks in the city of Alcalá de Henares (Madrid).

Canal Gestión Lanzarote, S.A.U., which started its activities on 1 June 2013, is responsible for the integral water cycle management on the islands of Lanzarote and La Graciosa, in the Region of the Canary Islands (Spain). It serves the population of 7 municipalities.

Aguas de Samborondón Amagua C.E.M. has the mission of providing **drinking water distribution** services, **sewerage** management, wastewater **treatment** and **reuse** of reclaimed wastewater in Samborondón and Daule, towns near Guayaquil (Ecuador).

Fontes da Serra, Saneamento de Guapimirim Ltda. is a company belonging to our subsidiary Emissão, which joined the Group in 2013. Fontes de Serra **supplies water** to the inhabitants of the town of Guapimirim in the State of Rio de Janeiro (Brazil).

Population and municipalities served in Spain

	Supply		Sewerage		Treatment	
	Municipalities	Population served	Municipalities	Population served	Municipalities	Population served
Region of Madrid	174	6,633,483	137	5,865,225	178	6,850,969
Castilla - La Mancha	8	15,085			1	4,916
Castile and León	2	2,614				
Province of Cáceres	4	103,220	2	97,114	2	97,114
Alcalá de Henares (Madrid)	1	199,184	1	199,184		
Lanzarote and La Graciosa (Canary Islands)	7	207,684	7	147,042	7	147,042
TOTAL, ESPAÑA	195	7,161,270	147	6,308,565	188	7,100,041

Population and municipalities served in Ibero-America

	Supply		Sewerage		Treatment	
	Municipalities	Population served	Municipalities	Population served	Municipalities	Population served
Ecuador: Samborondón and Daule	2	265,193	2	215,375	2	215,375
Brazil: Guapimirim	1	35,105				
TOTAL, IBERO-AMERICA	3	300,298	2	215,375	2	215,375
SUMA CANAL GROUP	198	7,461,568	149	6,523,940	190	7,315,416

Canal Group: technical information at the close of 2023

Supply	Spain	Ibero-America	Total Group
Number of reservoirs or catchments in rivers	18	1	19
Number of operating wells	79	-	79
Number of seawater abstractions	6	-	6
Sum of funds under management	102	1	103
Number of DWTPs and desalination plants under management	20	1	21
Treatment capacity in million cubic metres per day	4.69	0.009	4.70
Kilometres of supply network managed	20,405	984	21,389
Number of municipalities supplied	195	3	198
Population supplied (millions of inhabitants)	7.16	0.30	7.46
Drinking water quality (% samples in compliance)	98	99.26	98.63

Sanitation	Spain	Ibero-America	Total Group
Kilometres of sewerage networks managed	17,071	750	17,821
Number of wastewater pumping stations (WWPSs) managed	201	130	331
Number of wastewater treatment plants (WWTPs) managed	166	114	280
Design flow of WWTP (hm ³ /day)	2.21	0.06	2.27
Number of municipalities served by sewerage management	147	2	149
Population served by served by sewerage management (millions of inhabitants)	6.31	0.21	6.52
Number of municipalities served for wastewater treatment	188	2	190
Population supplied in wastewater treatment (millions of inhabitants)	7.10	0.21	7.31

Reuse	Spain	Ibero-America	Total Group
Number of wastewater water regeneration plants	38	21	59
Kilometres of reclaimed water network managed	1,059	-	1,059
Number of municipalities served by reclaimed water supply service	31	2	33
Volume of reclaimed water produced (million cubic metres)	110	5	115

3.3. Canal Group: companies with other activities

Companies that provide water management support services

[GRI 2-6]

This category includes the Group companies that carry out activities related to the integral water cycle management, such as engineering and sectoral consultancy, works and installation of connections and meters, commercial management of supply and sanitation, management of *call centres* or the collection of duties.

To carry out these activities, the Group has companies in Spain, Colombia, Panama, the Dominican Republic and Brazil at the end of 2023. These companies are:

- The **Canal Extensia América, S.A.** acquired in December 2001, under the name Sociedad Interamericana de Aguas y Servicios S.A. (INASSA), was established in 1996 as a company to provide services related to the integral water cycle in Colombia and other Ibero-American countries. CEAM offers consultancy in utility processes and comprehensive and innovative IT solutions to water and wastewater utilities in Ibero-America.
- **AAA Dominicana S.A.**, which began its operation in the Dominican Republic with the contract for the commercial management and installation of meters in the western area of the city of Santo Domingo, is currently responsible for the commercial management of the Drinking Water Supply and Distribution Services served by the Corporación de Acueducto y Alcantarillado de Puerto Plata (CORAAPPLATA), including the supply and installation of meters, customer service and bill collection, among other services provided in the Province of Puerto Plata.

- **GSS Venture, S.L** is an investee in which Canal de Isabel II has a minority shareholding (25%). Its corporate purpose is the provision of telemarketing and customer care services, developed through the telephone network or any other telematic means.
- **Emissão, S.A.** based in Rio de Janeiro, provided commercial management services for supply services, carried out consultancy and engineering work and currently operates the supply to the municipality of Guapimirim (Rio de Janeiro State) through the company Fontes de Serra.

Other activities carried out by the Group that are synergistic with the integrated cycle

Apart from the activities directly related to the integral water cycle management or with support activities for the management of said cycle, the Canal de Isabel II Group carries out synergic activities with the management of the integral cycle with five of its companies. These activities are hydroelectric power generation, information technology, waste management and urban cleaning, and engineering and construction. These activities are carried out by Group companies located in Spain, Colombia and Brazil:

- **INFORMATION AND COMMUNICATION TECHNOLOGIES:** **Amerika Tecnologías de la Información, S.A.S.** is dedicated to the development and commercialisation of **Amerika Software**, a product that provides a definitive and integral solution to public utilities, designed from the water sector and which covers commercial management, technical management, administrative and financial management and management control with its different modules.

In Spain following the merger in 2021 of our former subsidiary Canal de Comunicaciones Unidas, **Canal de Isabel II, Sociedad Anónima, M.P.** is responsible for the operation of its own telecommunications network with which, in addition to supporting our operations, we provide digital trunking service (**TETRA**) as the **Region of Madrid's in-house resource** for the emergency services that operate in our region (fire brigade, local police, medical vehicles and forestry agents, among others).

- **ELECTRICITY GENERATION:** in 2022, following the merger by absorption of our former subsidiary Hidráulica Santillana, **Canal de Isabel II, Sociedad Anónima, M.P.** has taken over the operation of the hydroelectric power plants managed by that subsidiary. With this incorporation, the installed capacity for the production of electricity in synergic processes with water management that the Group's parent

company has in 2023 has grown to 111.95 Gigawatts, having generated 226.04 million kilowatt hours during the financial year, of which 130.79 were self-consumed in Canal's facilities and 95.25 were sold to the electricity grid.

Group companies with other activities

In addition to the above companies, the Canal Group has three other companies that are mainly shareholding companies.

- **Canal Extensia, S.A.U.** , incorporated in 2001 and located in Spain, is the holding company of the shares of all Latin American companies of the Canal Group. Canal de Isabel II, Sociedad Anónima, M.P.'s shareholding in this company is 100 %.
- **Soluciones Andinas de Aguas, S.R.L.** located in Uruguay, was incorporated in 2013 to hold 75 % of the shares held by Canal Group in Emissão. Canal de Isabel II, Sociedad Anónima, M.P.'s shareholding in this company is 90.92 %.
- **AAA Ecuador Agacase, S.A.**, located in Ecuador, is the holder of 70 % of the shares of the company Amagua. Canal de Isabel II, Sociedad Anónima, M.P.'s shareholding in this company is 82.02 %.

Main changes in the structure of the Canal Group in 2023

[GRI 2-2] [GRI 2-6]

The main changes during 2023 were as follows:

- On 31 May, the concession agreement of the subsidiary **Avanzadas Soluciones de Acueducto y Alcantarillado S.A. E.S.P.**, known as **ASAA**, expired and the said company ceased its activities. It joined the Group in 2013 and has provided water supply and sewerage services in the District of Riohacha, capital of the Department of La Guajira (Colombia). As the company had no activity for seven of the twelve months of the year and was inactive at year-end, it has been excluded from the scope of this report
- In 2023, the company **GESTUS Gestión & Servicios S.A.S.** ceased its activities. It provided consultancy and commercial management services, billing and collection management, updating and assembly of databases and software, contact human centre services, among others, to different companies of the Canal Group in Ibero-America.
- Regarding **Sociedad de Acueducto, Alcantarillado y Aseo de Barraquilla S.A. E.S.P.**, known as **Triple A Barranquilla** and responsible for the management of the integrated water cycle in Barraquilla and 14 other municipalities in the Department of Atlántico, on 3 October 2018, the Colombian Attorney General's Office adopted an agreement ordering the suspension of the power for disposal, **seizure and sequestration of Canal Extensia América's shares** in said company. CEAM's shares constituted 82 % of its share capital and were handed over for safekeeping to Sociedad de Activos Especiales de Colombia (SAE). This agreement has been appealed by the Canal Group before the corresponding judicial bodies, and to date there has been no ruling on the matter.

[GRI 205-3]

On 26 December 2022 Canal de Isabel II, through our subsidiary Canal Extensia, filed an **investment arbitration** application against the Republic of Colombia before the **International Centre for Settlement of Investment Disputes (ICSID)**, a body of the World Bank. The application for arbitration showed that the Colombian administrations, through various state actions, including the early disposal of Triple A, **have not respected the provisions of the Agreement between the Kingdom of Spain and Colombia for the Promotion and Reciprocal Protection of Investments (APRI)**, signed by the parties in 2005.

3.4. Workforce of the Canal Group companies

The data of Canal de Isabel II include our Office in Cáceres

[GRI 2-7]

At the end of the financial year 2023, the aggregate workforce of all Group companies with own activities and amounted to **3,746 people** in 5 countries. Of these, **3,492** worked in Spain and **254** in Ibero-America. The workforce of the Group's parent company (Canal de Isabel II, Sociedad Anónima, M.P.) accounts for **85.16%** of the total.

SPANISH COMPANIES	Employees	AMERICAN COMPANIES	Employees
Canal de Isabel II (Autonomous Region of Madrid and Cáceres office)	3,190	Canal Extensia America (Colombia)	14
Aguas de Alcalá UTE	79	Amerika TI (Colombia)	34
Canal Gestión Lanzarote	221	Amagua (Ecuador)	91
Canal Extensia	2	AAA Dominicana (Rep. Dominicana)	82
SUMA SPAIN	3,492	Emissão and Fontes da Serra (Brazil)	33
		SUMA AMERICA	254

Group staff by function (persons)

	Canal de Isabel II	Other investees Spain	Investees Ibero-America	Group
<i>Senior management</i>	135	17	17	169
<i>Management support staff</i>	364	1	11	376
<i>Third level graduates</i>	336	4	50	390
<i>Second level graduates</i>	148	7	13	168
<i>Middle management</i>	172	6	6	184
<i>Technical personnel</i>	293	19	30	342
<i>Administrative and auxiliary staff</i>	633	47	82	762
<i>Tradespersons</i>	1,109	201	45	1,355
SUM	3,190	302	254	3,746

Canal Group workforce by contract, gender and age

[GRI 2-8] [GRI 405-1]

	Año 2022			Año 2023		
	Canal de Isabel II	Resto participadas España	Participadas Iberoamérica	Canal de Isabel II	Resto participadas España	Participadas Iberoamérica
Número total de trabajadores	3.052	304	310	3.190	302	254
Becarios y estudiantes en prácticas	14	4	7	19	1	2
Según tipo de jornada						
Jornada completa	2956	296	304	3.076	302	248
Jornada reducida	96	8	6	14	11	6
Según tipo de contrato						
Indefinido	2.358	256	305	2.642	256	250
Temporal	765	44	8	435	46	4
Según género						
Mujeres	948	52	137	1.013	51	103
Hombres	2.104	252	172	2.177	251	151
Discapacidad						
Trabajadores con algún grado discapacidad	74	3	2	86	2	2
Externos						
Nº de trabajadores externos	4.395	166	388	5.062	177	282
Desglose PERSONAL INDEFINIDO						
Género						
Hombres	1.811	218	187	1.801	215	150
Mujeres	744	42	118	841	41	100
Edad						
Menores de 30 años	121	2	75	148	1	70
De entre 30 y 50 años	1.446	137	206	1.567	124	164
Mayores de 50 años	988	129	25	927	131	16
Desglose PERSONAL TEMPORAL						
Género						
Hombres	293	34	6	280	37	1
Mujeres	204	10	2	155	9	3
Edad						
Menores de 30 años	177	9	1	130	8	0
De entre 30 y 50 años	276	28	5	265	26	3
Mayores de 50 años	44	7	2	40	8	0

Canal Group remuneration by country, gender, position and seniority (euros)

[GRI 202-1] [GRI 202-2] [GRI 202-2] [GRI 405-2]

	Spain	Brazil	Colombia	Ecuador	Dominican Republic
Initial annual salary without seniority of lower grade	19,992	3,332	3,941	4,993	4,374
Annual minimum wage in the country	15,120	2,932	2,975	4,993	4,374
Initial Annual Wage / Minimum Inter-professional Wage [%]	132	114	132	100	100
Average ANNUAL Remuneration by gender and professional category					
Women					
Management	79,561	7,090	35,950	38,254	56,768
Management support	49,980		25,085	14,562	
University graduates	32,411	3,519	13,206	10,414	16,452
Middle graduates	29,110	1,999		7,766	4,374
Middle management	26,930				8,942
Technical personnel	27,381			15,089	
Administrative and auxiliary personnel	23,377	3,155	7,495	6,387	131,211
Tradespersons	23,032				
Men					
Management	86,357	10,620	32,492	35,475	120,636
Management support	51,284	4,693	13,036		
Third level graduates	31,843	3,386	10,017	11,428	21,732
Second level graduates	29,099	3,448		6,657	26,242
Middle management	28,253	4,589			9,878
Technical personnel	28,464	3,144	5,597	11,785	
Administrative and auxiliary staff	23,300			6,244	48,111
Tradespersons	24,149			7,605	131,654
Average ANNUAL remuneration by age					
Less than 30 years old	21,050	3,083	6,140	6,473	5,263
Between 30 and 50 years old	28,603	4,028	19,688	11,242	6,580
Over 50 years old	34,151	3,061	18,643	9,320	11,046

[GRI 2-21]

The fixed remuneration of the highest paid person in the organisation (CEO) was in 2023 equivalent to **4.7 times** that of the lowest paid person in Spain and **54 times** that of the lowest paid person in the Group (in Brazil).

[GRI 2-30]

Collective agreements and trade union representation

	Canal de Isabel II	Other investees Spain	Investees Ibero-America	Group
Workforce covered by own company collective bargaining agreement	3,016	0	0	3,016
Workforce covered by sectoral collective bargaining agreement	105	300	33	438
Other agreements	34	2	0	36
Workforce not covered by collective bargaining agreement	35		221	256
SUM	3,190	302	254	3,746
Workers affiliated with Trade Union organisations	693	105	0	798

[GRI 401-1]

Turnover of Canal Group staff by age and gender

	Canal de Isabel II	Other investees Spain	Investees Ibero-America	Group
Total additions	835	17	37	889
<i>Men</i>	465	13	20	498
<i>Women</i>	370	4	17	391
<i>Less than 30 years old</i>	267	5	14	286
<i>Between 30 and 50 years</i>	503	12	19	534
<i>Over 50 years old</i>	65	-	0	65
Total departures	704	27	34	765
<i>Men</i>	402	18	21	441
<i>Women</i>	302	9	13	324
<i>Less than 30 years old</i>	223	7	8	238
<i>Between 30 and 50 years</i>	384	14	24	422
<i>Over 50 years old</i>	97	6	2	105
Voluntary departures	50	12	19	81
<i>Men</i>	30	8	10	48
<i>Women</i>	20	4	9	33
<i>Less than 30 years old</i>	9	6	7	22
<i>Between 30 and 50 years</i>	35	6	12	53
<i>Over 50 years old</i>	6			6

[GRI 3-3] [GRI 404-1]

Average hours of training by functions and sex

	Canal de Isabel II	Other investees Spain	Investees Ibero-America	Group
Management				
Men	44		21	43
Women	46	2	15	40
Total	44	2	17	42
Management support				
Men	38		31	38
Women	42	-	134	45
Total	40	-	95	41
Third level graduates				
Men	36	2	30	35
Women	43	2	107	48
Total	39	2	61	41
Second level graduates				
Men	44		39	44
Women	44	4	24	42
Total	44	4	35	43
Middle management				
Men	18	6		17
Women	18			18
Total	18	6		17
Technical personnel				
Men	36		31	36
Women	21		49	22
Total	31		33	31
Administrative and auxiliary staff				
Men	22	8	24	22
Women	29	5	23	28
Total	27	6	23	26
Tradespersons				
Men	21	4	37	20
Women	36			36
Total	21	4	37	21

Canal Group prevention information

	Canal de Isabel II		Investees Ibero-America		Other investees Spain	
	Men	Women	Men	Women	Men	Women
Occupational accidents and diseases						
Workers exposed to occupational hazards	2,082	975	154	103	251	51
Accidents at work <i>in labore</i> (excluding commuting accidents)	85	19	0	0	24	2
Accidents with leave (excluding commuting accidents)	42	9	0	0	12	2
Average duration [days]	8	6	0	0	28	22
Lost days	703	112	0	0	675	44
Lost time injury frequency rate	12	6	0	0	28	23
Total frequency of accidents index (excluding commuting accidents)	25	12	0	0	57	23
Severity Index	0.21	0.07	0	0	1.60	0.51
Incidence rate of accidents with medical leave	2,017.37	923.29	0	0	4,819.28	3,921.57
Fatalities	0	0	0	0	0	0
Number of cases of occupational diseases	0	0	0	0	0	0
Rate of occupational illnesses	0	0	0	0	0	0
Hours worked						
Hours worked	3,368,028	1,550,545	219,960	154,440	421,607	85,778
Hours worked by employees with permanent contracts	2,910,739	1,240,308	219,960	154,440	364,814	70,222
Hours worked by employees on temporary contracts	457,288	310,237			56,793	15,556
Absenteeism						
Hours lost due to absenteeism of permanent employees	195,711	104,604	1,584	2,824	74,629	16,689
Hours lost due to absenteeism of temporary employees	175,327	89,854	1,584	2,824	69,963	13,819
Total absenteeism	20,384	14,750			4,666	2,870
Absenteeism of employees with permanent contracts	6	7	1	2	18	19
Absenteeism of employees with temporary contracts	6.02	7.24	0.72	1.83	19.18	19.68

3.5. Canal Group operational data

Canal de Isabel II includes its delegation in Cáceres

Supply

	Canal de Isabel II	Other investees Spain	Investees Ibero-America	Group
Natural river inflows				
Natural inflows (hm ³ per year)	555	-	-	555
Surface catchments				
Number of reservoirs or surface catchments from the river or sea	18	6	1	25
Reservoir and/or surface catchment capacity (hm ³)	965.40	1.89	37.84	967.29
Number of dams	6	1	-	7
Underground catchments				
Number of operational groundwater abstractions	79	-	-	79
Capacity of groundwater (hm ³)	93.00	-	-	93.00
Water derived for consumption				
Water derived for consumption (hm ³ per year)	499.43	45.62	23.48	568.53
Treatment				
Volume entering DWTP (hm ³)	482	68	3.21	552.93
Water volume-consumption treated (hm ³)	482	30	3.15	515.14
Number of drinking water treatment plants	15	5	1	21
Treatment capacity (hm ³ /day)	4.60	0.09	0.009	4.70
Number of rechloraminers or rechlorination stations	76	1	-	78
Distribution				
Kilometres of supply network (including aduction)	18,371	2,034	984	21,389
Number of large regulating tanks	34	2	-	36
Storage capacity of large tanks (hm ³)	3.29	0.03	-	3.32
Number of smaller tanks	299	67	2	368
Small tanks storage capacity (hm ³)	0.55	0.11	1.5	2.16
Number of large lifting plants	25	4	-	29
Number of minor lifting plants	111	26	3	140

GRI 303-4

Sewerage

	Canal de Isabel II	Other investees Spain	Investees Ibero-America	Group
Kilometres of sewerage networks	18,371	2,034	984	21,389
Number of WWPSs	195	6	130	331
Number of rolling mills and storm tanks managed	73	4	0	77
Capacity of managed storm tanks (hm ³)	1.424	0.002	0	1.425
Spillways in the entire sewerage network	22	26	0	48

Treatment

	Canal de Isabel II	Other investees Spain	Investees Ibero-America	Group
Number of sewage treatment plants	158	8	114	280
Total volume treated at WWTP (hm ³)	487.69	4.38	13.45	505.51
Volume purified compared to volume derived for consumption (%)	98	15	68	92
Design flow rate (hm ³ /day)	2.19	0.02	0.06	2.27

Reuse

	Canal de Isabel II	Other investees Spain	Investees Ibero-America	Group
Kilometres of sewerage networks	744	315	-	1,059
Number of reclaimed water plants in service	33	5	21	59
Number of reuse tanks in service	64	4	-	68
Reused water volume (hm ³)	16	2	5	24
Total irrigated area [ha.]	1,876	347	-	2,223
Reclaimed water discharged to waterways (hm ³)	92	1	-	93

Efficiency in the supply network

	Canal de Isabel II	Other investees Spain	Investees Ibero-America	Group
Water metered at end users (%)	87	57	92	386
Estimated actual network losses (%)	4	42	8	7
Hidden losses distribution network (%)	3	10	8	4
Percentage of self-consumption	0.92	0.40	0.61	0.87

Breaks in the supply network

	Canal de Isabel II	Other investees Spain	Investees Ibero-America	Group
Breakage rate per 1,000 km	97.98	3,735.95	755.83	472.17
Breakage rate per 1,000 service connections	7.72	25.43	39.43	12.01

GRI 302-1

Electricity production and consumption

	Canal de Isabel II	Other investees Spain	Investees Ibero-America	Group
TOTAL ELECTRICITY CONSUMPTION (kWh)	552,492,449	99,694,181	12,152,545	664,339,172
Supply	249,676,166	93,759,003	1,066,037	344,501,206
Sanitation (includes reuse and sludge drying)	287,569,636	5,844,472	10,671,383	304,085,491
Other areas	15,246,646	90,704	415,125	15,752,475
<i>Consumption per m³ managed water</i>	<i>0.505</i>	<i>1.917</i>	<i>0.908</i>	<i>0.559</i>
TOTAL ELECTRICITY PRODUCTION (kWh)	226,131,880			226,131,880
Self-consumption	130,883,126			130,883,126
Sale to the electricity grid	95,248,754			95,248,754

GRI 302-1

Fossil fuel consumption

	Canal de Isabel II	Other investees Spain	Investees Ibero-America	Group
Fuel consumption for heating: buildings and facilities				
Natural gas in building boilers (m ³)	56,700			56,700
Gasoil in building boilers (litres)	88,500			88,500
Fuel consumption in processes				
Diesel fuel for generating sets (litres)	11,289			11,289
Natural gas in cogeneration (MWh PCS)	161,209			161,209
Fuel consumption in automotive				
Gasoil consumption in vehicles and machinery (litres)	541,584	52,128	74,163	667,876
Gasoil consumption in vehicles (litres)	158,359	11,210	57,206	226,775
Liquefied petroleum gas consumption in vehicles (litres)	26,441	6,151		32,592
Consumption of compressed natural gas in vehicles (kg)	2,002			2,002

GRI 301-1

Reagent consumption (tonnes)

	Canal de Isabel II	Other investees Spain	Investees Ibero-America	Group
Drinking water supply reagents	30,880	1,889		32,769
Waste water purification reagents	31,792	953	125	32,870
Total	62,673	2,842	125	65,639

GRI 306-3

Waste production (tonnes)

	Canal de Isabel II	Other investees Spain	Investees Ibero-America	Group
WWTP sludge and DWTP sludge (non-hazardous)	460,941	8,571	308	469,820
Other non-hazardous waste	38,363	1,793	280	40,436
Hazardous waste	493	3	8	503
Total	499,797	10,367	596	510,760

Paper consumption

	Canal de Isabel II	Other investees Spain	Investees Ibero-America	Group
Internal paper consumption	13,662	1,962	2,926	18,550
Administrative and management activities	12,135	1,932	1,907	15,974
White paper (virgin fibre)	5,024		1,907	6,931
Recycled paper	7,111	1,932		9,043
Commercial and other activities	1,527	30	1,019	2,576
Envelopes	5	30	127	162
White paper (virgin fibre)	1,133		892	2,025
Recycled paper	389			389
External paper consumption	67,684	2,418	4	70,106
Envelopes	36,462	1,717	1	38,180
White paper	31,222	701	3	31,926

Spending and investment in CSR (euros)

	Canal de Isabel II	Other investees Spain	Investees Ibero-America	Group
Customers	3,435,079	169,283	931,466	4,535,828
Employees	801,345	25,981	1,077,433	1,904,760
Culture/society	3,463,250		47,761	3,511,011
Environment	33,078,524		18,279	33,096,803
R&D&I	45,796,889		19,873	45,816,762
Maintenance of social infrastructures	8,317,722			8,317,722
TOTAL CSR EXPENDITURE	98,356,058	195,264	2,094,813	100,693,897

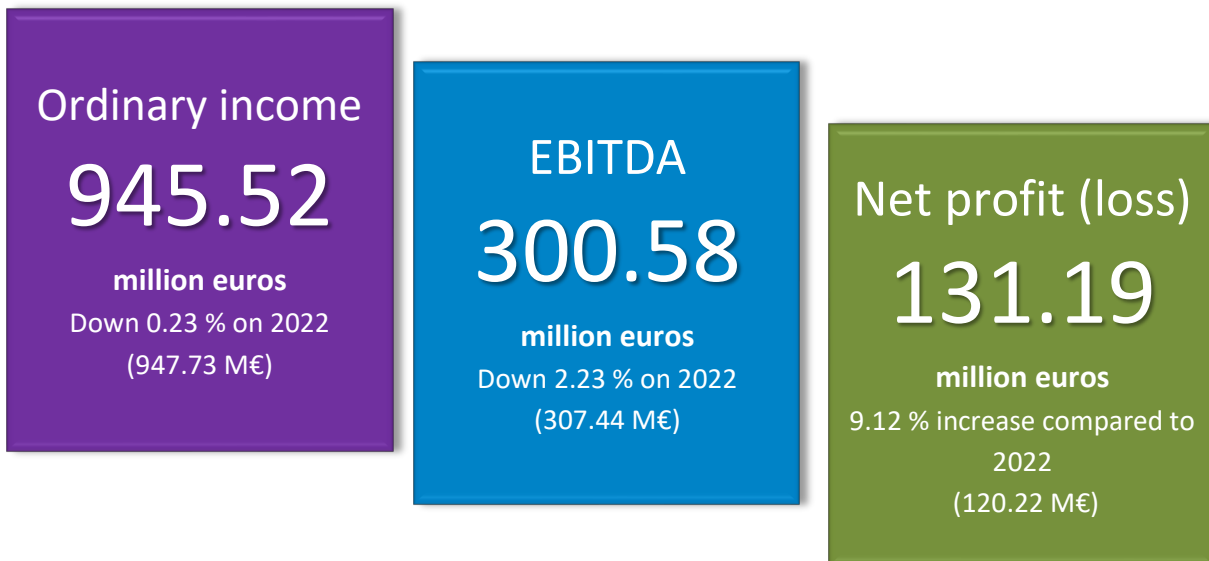
Bills claims

	Canal de Isabel II	Other investees Spain	Investees Ibero-America*	Group
Number of bills issued	9,645,139	799,115	860,073	11,304,327
Percentage of complaints received on bills issued	0.29	0.22	0.09	0.27
Percentage of complaints in favour of customer	64	68	70	64

Complaints received and resolved

	Canal de Isabel II	Other investees Spain	Investees Ibero-America	Group
Complaints received	12,242	236	23,081	35,559
Complaints resolved				
<i>Accessibility and usability (virtual office)</i>	208			208
<i>Information</i>	296	7		303
<i>Customer/citizen service</i>	61	19	11	91
<i>Administrative procedures</i>	5,240			5,240
<i>Financial dispute</i>	503	13		516
<i>Service provided</i>	3,815	127	4,239	8,181
<i>Water quality</i>	399	2	130	531
<i>Environmental, health and safety and other</i>	2	23	2,573	2,598
<i>Cancellations</i>	1,890			1,890
<i>Referred to the Customer Ombudsman</i>		2		2

3.6. Consolidated financial results of the Group in 2023



KEY FINANCIAL FIGURES FOR THE GROUP IN 2023

[GRI 3-3] [GRI 201-1]

In 2023, the euro average exchange rate depreciated, against the foreign currencies in which the Group operates compared to 2022, except for the Uruguayan peso and the Brazilian peso, compared to which it increased slightly in value. This implies an **increase in the value of the income and operating costs** from activities in foreign currencies. However, due to the low weighting of these activities in the Group, the impact on the consolidated figures was not material.

The Group's **consolidated income decreases very slightly by 0.2%** compared to 2022 and increases compared to 2021. Compared to 2022, the parent company's income decreases slightly, due to the impact of the weather on consumption. In addition, it is important to remember that **tariffs in 2023 have not increased** for the tenth consecutive year.

Income contributed by the parent company, 93.2 % of consolidated income, is, as mentioned above, slightly down on the previous year. Natural river inflows to reservoirs, which are inversely related to demand, despite remaining below the average of recent years, have increased by 16% compared to 2022. As a result, **the volume of water billed decreased by 0.8%** and has done so to a greater extent in the blocks with a higher tariff, decreasing the average tariff per cubic metre consumed.

It is worth noting the recovery of commercial and industrial consumption, which have increased by 1.7% compared to 2022 and 10% compared to 2021, although these consumptions are still below the levels of 2019, the year before the COVID-19 pandemic

A relevant aspect to be considered in relation to income is that the parent company has earmarked a total of **3.4 million euros** in 2023 for the application of **social discounts** on its tariffs (3.5 million euros in 2022).

Canal Gestión Lanzarote's income, **3.8% of consolidated income**, continue the trend shown in 2022, with an increase in the volume of water billed (+3.2% in cubic metres), thanks to the higher tourist/industrial consumption, which is also the block with the highest average tariff (+6.3% increase in euros).

Furthermore, **Amagua's income**, **2.7% of consolidated income**, also increased compared to 2022 due to two positive effects: the **revaluation of the US dollar against the euro** and the **increase in income from the provision of services** (drinking water and sewerage).

Consolidated operating expenses above EBITDA have decreased very little compared to 2022, only 0.2%, primarily due to lower electricity prices, which in 2022 had reached all-time highs. This fact has been materially offset with the increase in the prices of reagents and materials, the increase in the costs of own and subcontracted personnel due to the salary revisions of the different applicable agreements and the adaptation to new and increasingly demanding regulations and the implementation of new activities and other improvements in the quality of the processes, within the framework of the 2018-2030 Strategic Plan. Also contributing to the offset of the reduction in electricity prices were higher costs for supplementary charge in the parent company, reclassified from financial expenses to external services for 2022 and 2023.

Moreover, note that the tariffs applied by Canal de Isabel II and Canal Gestión Lanzarote were not increased in 2023, whereas the companies of the industry did incur increased costs of supplies, of their own and subcontracted personnel, as well as of adapting to the new and increasingly stringent regulations.

Finally, the Group company **Emissão**, despite having practically no activity during 2022 and 2023, significant expenses associated with severance payments for restructuring of own personnel, tax liabilities, obligations with suppliers and impairment of accounts receivable have been recorded in the year.

Consolidated financial figures of Canal Group (millions of euros)

Business figures (millions of euros)	2021	2022*	2023
Ordinary income	915.02	947.73	945.52
EBITDA	353.89	307.44	300.58
Amortisation and depreciation	-129.6	-131.83	-134.09
Operating Result	177.53	131.28	137.05
Financial Result	-17.12	-8.07	-1.90
Consolidated net profit/loss	154.64	120.22	131.19
Other financial indicators	2021	2022	2023
EBITDA/Turnover	36.68%	32.44%	31.79%
Average payment period Canal de Isabel II (days)	48.59	46.82	49.15
Average payment period Canal de Isabel II (days)	25.49	23.79	24.4

(*) Restated information. Additionally, Reclassification of expenses for supplementary charge and for the homogeneous treatment of the financial restatement of the Provision for infrastructure actions. (see Note 2f of the Group's Consolidated Financial Statements).

As a result, **consolidated EBITDA fell by 6.87 million euros** on the 2022 figure, with operating profitability in percentage terms going from 32.44% in 2022 to 31.79% in 2023. The **consolidated Operating Result**, on the contrary, is **higher by 5.78 million euros**, as it includes profits from the sale of investment property of the Parent Company of 11.9 million euros in 2023, compared to 3.3 million euros in 2022.

The **Financial Result** improved compared to the previous year, by **6.18 million euros**, thanks to the higher financial yield obtained from bank deposits and loans granted to other group companies, linked to the Euribor in the controlling company. The financial loss of **Canal Gestión Lanzarote** (opposite effect to that of the parent company) and **Emissão** have partly mitigated the effect on the parent company.

At the end of 2023, and as a result of the changes explained above, the Canal Group has recorded a **corporate income tax expense of 0.88 million euros higher than in 2022**.

Net profit rose by 10.97 million euros compared to 2022 for the reasons mentioned above.

Segmented economic information of the Group (millions of euros)

	2022			2023		
	Canal de Isabel II	Spanish investees	Canal Extensia Group (Investees Ibero-America)	Canal de Isabel II	Spanish investees	Canal Extensia Group (Investees Ibero-America)
Ordinary income	886.37	33.24	28.11	881.47	35.47	28.59
EBITDA	313.08	-7.49	1.86	307.87	-1.16	-6.13
Consolidated profit(loss)	127.39	-12.73	5.56	158.02	-13.52	-13.31

Canal's contribution represents 93.2% of total **consolidated income**, **102.4% on EBITDA** and **120.4% on the result**, with a higher weight in the consolidated result than in 2022, due to the parent company's better consolidated result.

The absorption by Canal de Isabel II, Sociedad Anónima, M.P. of the Canal Group companies that operated in the Region of Madrid **has virtually reduced the activity of the Spanish investees** to the activity of **Canal Gestión Lanzarote**. Its contribution to the consolidated result is negative for a significant amount in 2023 and 2022, as a result of the material impact of the electricity costs on Canal Gestión Lanzarote's business. The improvement of the tourism sector on the islands of Lanzarote and La Graciosa has eased the negative impact of the contribution to the consolidated result.

Lastly, the **Canal Extensia Group** also contributes **losses to the result**, impacted by the decline in its activity in recent years. The loss is greater than in the previous year, due to the activation of loss carryforwards for corporate income tax at Emissao.

Group Net Financial Debt

	2021	2022	2023
Net financial debt (million euros)	188.00	115.77	236.31
Net financial debt/ EBITDA	0.53	0.39	0.79

In the analysis of the net financial debt, it should be taken into account that **99.9%** of this debt corresponds to the **indebtedness of Canal de Isabel II, Sociedad Anónima, M.P.** (the parent company), which was 99,8 % in 2022. **In addition to the bond issue for 500 million euros**, the average debt of the Parent Company with financial institutions through the **Mirror Debt with the Public Entity Canal de Isabel II** was **190 million euros, 7% lower than in 2022** (204 million euros).

In 2023, net financial debt continued to decrease in accordance with its programme of maturities, from **697 million euros** in 2022 to **682 million euros at the end of 2023**.

With regard to treasury, the high cash generation capacity of the business, along with the replanning of some investment projects set out in the 2018 -2030 Strategic Plan, has allowed us to tackle all our commitments and distribute **dividends** for the sum of **83.8 million euros** during 2023, ending the year with a balance sheet, taking into account cash and financial investments in short-term deposits, of **445.9 million euros**, with a **Net Financial Debt of 236.3 million euros**.

Financial risks

Our Group's business is subject to the following financial risks:

Interest rates - After issuing 500 million euros in ordinary subordinated bonds in February 2015, Canal increased the percentage of fixed-rate debt, standing at 100 % at the end of 2023, which **reduces the company's exposure** to the risk through interest rate variation **to zero**.

Liquidity risk – Our Group has a **stable activity** and **moderate indebtedness**, which allows us to enjoy a solid financial position and reduce financial indebtedness on an annual basis. With the aim of controlling the liquidity risk, the Canal Group engages in long-term financial planning and constantly monitors and controls its cash flows. The parent also has credit facilities for the sum of 102 million euros maturing in December 2023, from which it has not had to draw down any amounts at the end of the year. At year-end 2023, the Canal Group had a **cash balance of 445.2 million euros**.

At the end of 2023, the Canal de Isabel II Group was rated by the **rating agencies Fitch** (BBB+, with a stable outlook) and **Moody's (Baa1, with a stable outlook)**.

Furthermore, in the last few years, the Group's Latin American companies have had trouble renewing their borrowings from financial institutions and have experienced some payment collection difficulties, generating a degree of liquidity stress in some of the Group companies. As a result, subsidiaries' debts with financial institutions have fallen and intergroup financing has been extended using cash flow surpluses of Canal Extensia, in an initial phase, and providing financing by Canal, through Canal Extensia, once exhausted.

Pressure on prices - another risk factor inherent to the Group's activity is the possible pressure on prices, as it provides a service of prime necessity such as the management of the complete water cycle. Exposure to this risk is evidenced by the freezing of the tariffs programmed in the services provided by the Parent Company in the past seven years, and so it will continue in 2024.

The rest of the Group companies that provide these services mitigate the price risk by indexing their tariffs to variations in the CPI or the price of water. However, despite being included in the tariff review formula in the concession contract, **Canal Gestión Lanzarote** has been forced to **claim the application of this formula** or the receipt of compensation for the same amount in court (further information in Note 10 of the notes to the financial statements).

Credit risk - Credit risk is not a significant factor on a global level, as most of the Group companies have a very fragmented customer population. However, given the economic situation in some of the regions in which the Group operates and the fact that the main activity of the companies is integrated water management, a basic service that must continue to be provided, in order to reduce the risk of non-payment by its customers, the Group has opted for efficiency in the provision of its services and for the dynamisation of collection management.

In addition, those Group companies that had a high concentration of customers and therefore a higher exposure to credit risk, such as AAA Dominicana, Emissão and Canal Extensia América (Panama branch), have significantly reduced or even ceased their activity, reducing the Group's exposure to this type of risk.

Exchange rate risk – The Group has no significant exposure to the exchange rate risk since there is a natural cover, as most of the Group companies' debts, intra-group financing notwithstanding, are in the same currency as revenues and the majority of their purchases.

Moreover, the aforementioned change in the indebtedness policy of Group companies, increasing the financing between companies belonging to the Group, led to an increase in exposure to foreign exchange risk. From the individual standpoint, the subsidiaries incur debt in a currency other than their operating currency, and from the Group standpoint its investment in foreign currency increased. However, the amount of the Group's assets denominated in foreign currency is not material.

Group Tax Information

The tax information, both on corporate income tax payments and withholdings, at parent company and Group level, is shown below:

Consolidated tax information

Corporate Income Tax (in thousands of euros)	2021	2022	2023
Total payments in instalments and withholdings Canal de Isabel II Group	7,370	5,987	6,962
Total payments associated with Canal de Isabel II S.A., M.P.	7,341	4,867	3,108
Final amount of tax declared Canal de Isabel II Group	1,399	3,099	N/A
Final quota Canal de Isabel II S.A., M.P.	306	2,366.	N/A

Group tax information by country

[GRI 207-4] [GRI 201-4]

CORPORATE INCOME TAX Payments associated with the Canal de Isabel II Group (thousands of euros per year)

Countries	2022	2023
Colombia	84	66
Brazil	0	0
Dominican Republic	22	75
Ecuador	490	507

TAX Information (thousands of euros per year)

		2022	2023
Spain	Profit obtained	104,365.05	105,559.66
	Public subsidies received	4,421.96	4,585.17
Colombia	Profit obtained	-10,885.02	-8,847.99
	Public subsidies received	0	0
Brazil	Profit obtained	-9,717.45	-806.99*
	Public subsidies received	0	0
Dominican Republic	Profit obtained	-5,474.41	-1,808.86
	Public subsidies received	0	0
Ecuador	Profit obtained	3,243.39	3,078.93
	Public subsidies received	0	0

* Restated information.

Other financial information

Own shares - During the year ended 31 December 2023 there were no acquisitions of own shares on the part of Group companies.

Financial instruments - during the year, the Group companies did not use financial instruments that are relevant to the measurement of its assets, liabilities, financial position or results.

Events after year-end - these events are shown in note 32 to the Financial Statements.

INVESTMENTS OF THE CANAL GROUP IN 2023

[GRI 3-3] [GRI 201-1] [GRI 203-1]

The cash flow generated in operating activities were mainly used to address the **volume of investment** carried out in 2023, which amounts to **354.8 million euros** in construction works and projects (compared with 187.0 million euros in 2022).

It is worth noting that this figure includes investments considered replacement investments, in accordance with international financial reporting standards (IFRS), and that pursuant to these standards they have not been capitalised by the parent company as a greater value of Assets. Canal executed investments of this kind amounting to 173.4 million euros (87.6 million euros in 2022). Conversely, said investment figure does not include accounting additions recognised in the Group's fixed assets associated with the application of IFRS 16, since they are linked to leases undertaken by the Group, and neither does it include the acquisition of CO₂ emission allowances.

Investments in Canal de Isabel II, Sociedad Anónima, M.P.

The **Parent Company made investments** amounting to **348.8 million euros**, i.e., 98.8 % of total investment at the Group (compared with 184.6 million in 2022). It is possible to observe an acceleration in the volume of investment, which is expected to be higher in the coming years in order to achieve the strategic objectives of Canal de Isabel II.

It should be noted that this figure includes investments considered to be replacement investments in accordance with the standard adapting the Spanish National Accounts Plan for Public Infrastructure Concessionaires and which, in application of this standard, have not been capitalised by the Company as an increase in the value of Assets. The parent company has made investments of this type amounting to **173.4 million euros** (87.6 million euros in 2022).

Furthermore, Canal de Isabel II is undertaking **refurbishment and improvement works** in the **municipality-owned supply and sewerage networks**. The sum associated with these works is generally recovered through a **supplementary charge** on users' bills and is therefore classified as a financial asset for accounting purposes. In 2023, projects of this kind amounted to **54.8 million euros** (27.9 million euros in 2022).

The **most significant investments** made by the Company are those focused on the aforementioned targets of guaranteeing a **satisfactory level of operation**, maintaining the levels of **productive efficiency and competitiveness**, the **expansion of automation and remote control** of facilities, 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 reusing infrastructures**. The following table illustrates the volume of investment for each of the different categories:

Investment by category (millions of euros)	2021	2022	2023
Security of supply	50.23	87.47	169.43
Quality assurance	10.80	6.49	9.24
Environmental commitment	53.75	54.51	83.98
Technological innovation	18.44	18.72	24.85
General services of Canal de Isabel II	5.23	7.30	10.34
Other investments	4.05	10.09	8.45
Price revision Royal Decree 3/2022 owned by Canal	-	-	42.51
TOTAL	142.50	184.57	348.81
Works in distribution and sewerage networks owned by third parties	17.86	27.89	45.47
Price revision Royal Decree 3/2022 owned by third parties	-	-	9.29
TOTAL INVESTMENTS AND PROJECTS OWNED BY THIRD PARTIES	160.36	212.46	403.57

Our company's **investment volume in 2023 has increased by 90 %** compared to 2022 and is expected to continue to grow significantly, with an estimated investment of close to 2,000 million euros over the next 5 years.

The **2018-2030 Strategic Plan** requires a **substantial investment** in the first few years, which is why large contracts with long award periods are being tendered. The implementation of Canal's ambitious investment plan was affected by the new legislation on public sector contracts applied from 2018 and entailed an increase in average contract award. Meanwhile the COVID-19 pandemic, impacted both the execution of works and the awarding of tenders, preventing us from reaching the expected volume of investment in 2020 and 2021. Since the end of 2021, Canal is reinforcing and revising its procurement processes, in order to adapt to the new requirements and to be as efficient as possible, reducing average procurement times.

Among the **2018-2030 Strategic Plan actions** of Canal, we would like to highlight: **SANEA Plan**, for the modernisation and upgrade of the sewerage networks; the **RED Plan**, aiming to standardise the materials of the distribution networks and obtain greater water quality and the **Smart-Region Plan**, with the aim of reaching 100 % for the installation of smart meters by 2030, and the **Solar Plan**, which focuses primarily on creating new photovoltaic plants at the company's infrastructure to foster the generation and auto-consumption of clean energy.

Among the investments made in 2023 aimed at **guaranteeing supply**, the most important are the investments aimed at **renewing the distribution networks and the deployment of remote reading**. In the case of those aimed at **environmental**

commitment, the most significant investments are related to the "**Plan for the adaptation of the purification system and the extension of the reusable water supply**".

In addition, *Royal Decree 3/2022*³² allows for an **extraordinary revision of the prices of public sector works contracts** that meet certain conditions. This has led to a higher cost of the investments made since 2021 associated with several contracts and therefore to a higher amount of the investment for the year.

Completed investments

Some of the most significant additions to the investment recorded as of December 2023 are:

- The **RED Plan** works for the renewal of networks in the pipelines of different municipalities in the Region of Madrid, replacing obsolete materials with more technologically advanced ones, to guarantee the quality and increase the efficiency of the distribution network; as well as the installation of meters and connections of the Plan to implement and integrate the water meters of the Region of Madrid in the remote reading system.
- In addition, the rehabilitation of the **San Fernando Artery** at the junction with the M-40; and of the left branch of the **Main East Artery** in the gallery as it passes under the A-2; as well as improvements to the facilities of the **Santillana DWTP**.
- In **drinking water supply**, the adaptation of the roof of the **Second Getafe Tank** for its waterproofing and the subsequent installation of photovoltaic panels on the surface; the construction of **regulating tanks** in the municipalities of **Redueña and Torrelaguna** with the necessary piping to increase the security of supply.
- In the **sewerage networks**, the construction of a **WWPS in Redueña** and pumping to the Venturada WWTP; as well as those arising from the **SANEA Plan** to improve the efficiency of the sewerage network in the Region of Madrid with the renovation of municipal sewerage networks.
- In **wastewater treatment**, the adaptation of the **Arroyo de la Vega WWTP** to the National Water Quality Plan; biological treatment at the **La Poveda WWTP**; improvement works at the **Morata de Tajuña, Tres Cantos, Alcalá Este and Casaquemada WWTPs**; and the construction of a new Workplace at the **El Endrinal WWTP** in Collado Villalba.

³² *Royal Decree-Law 3/2022, of 1 March, on measures to improve the sustainability of road freight transport and the functioning of the logistics chain, and transposing Directive (EU) 2020/1057, of 15 July 2020, laying down specific rules with regard to Directive 96/71/EC and Directive 2014/67/EU on the posting of drivers in road transport, and on exceptional measures concerning price revisions in connection with public works contracts.*

- In relation to **reclaimed water for reuse**, the supply of reusable irrigation water in Algete from the tertiary treatment plant of the **Algete Oeste WWTP**; and in the reuse network of **Torrejón de Ardoz**.
- Within the **automation plan**, the installation of new TETRA base stations to strengthen the **telecommunications network**, improve coverage and the final quality of the service provided is noteworthy, as well as continuous measuring equipment based on smart sensors to control water quality in the distribution network.
- Within the framework of the **Solar Plan** for the commissioning of new photovoltaic installations in the company's infrastructures, floating photovoltaic panels have been installed in the lower tank of the **Torrelaguna** hydroelectric plant for the production of electricity with connection to the plant's existing installations.

Ongoing investments

The most relevant actions that were underway at the end of 2023 are:

- Work to bring the El Plantío WWTP into line with the National Water Quality Plan (PNCA).
- Improvements in the South WWTP.
- The adaptation of spillways at the Arroyo Culebro Cuenca Baja WWTP.
- Works to improve the Santillana System in Manzanares el Real.
- Actions on sewerage networks linked to the SANEA Plan.
- The supply network renovation actions associated with the **RED Plan**.
- Improvement works at the Torrelaguna DWTP.
- The refinement treatment at the Griñón DWTP.
- New photovoltaic energy installations associated with the development of the Solar Plan.

Investments in other Group companies

Investment volume in the rest of companies, given their size and business model, **is not material**.

However, it is important to highlight that during 2023 Amagua has carried out investments of 1.1 million euros (1.4 million euros in 2022), such as the Drinking Water Pumping Station for the Southern Sector, drinking water and rainwater pipelines or pumps and treatment equipment.

Canal Gestión Lanzarote also made investments for the sum of **4 million euros** (0.7 million euros in 2021), 1.1 % of the total group investments.

R&D&I investments in the Canal de Isabel II Group

Canal Group also contributes actively, **through the Parent Company**, to **research and innovation studies** to increase scientific and technical knowledge in the sector. Canal wants to responsibly promote innovation in the sector and, for this reason, it has decided to progressively increase its Innovation budget to reach the equivalent of 2% of turnover.

In 2023, the parent company made investments for the sum of **48.96 million euros**, i.e., **5.2% of its turnover**. Investment in R&D&I has increased significantly, mainly due to the implementation of remote reading and the automation of company infrastructure.

The information on the R&D&I activities carried out by the Company during the year is expanded in section 2.9 of the Report (*At the forefront of our sector: Leading Innovation and Development*).

3.7. Taxonomy of the European Union

[GRI 201-1] [GRI 203-2]

REGULATORY BACKGROUND

Canal de Isabel II, Sociedad Anónima, M.P. is subject to the **EU Taxonomy Regulation (EU) 2020/852³³**, which implies a series of **disclosure obligations** related to "**environmentally sustainable**" activities. Since 2021, Canal has been reporting information in accordance with this regulation, which has been expanding its scope with the **publication of several Delegated Regulations³⁴**, including the **Climate** Delegated Regulation, the **Disclosure** Delegated Regulation and the **Environmental** Delegated Regulation

This latest Regulation, adopted by the European Commission in 2023, introduces new activities with their relevant technical criteria for **contributing to environmental goals³⁵**, thus broadening the scope beyond climate change mitigation and adaptation. In addition, this Delegated Regulation is complemented by seven annexes that set out technical screening criteria for specific sectors and activities.

The Taxonomy is a regulation that continues to be developed, which means that companies must make interpretation decisions and carry out an ongoing analysis to ensure that the information provided adequately responds to the requirements established in accordance with the information that becomes available.

In 2021, in accordance with the requirements set out in the regulatory framework in force, Canal disclosed the percentage of eligible activities **on income, capital expenses (CapEx³⁶) and operating expenses (OpEx³⁷)** linked to activities covered by the taxonomy due to their potential material contribution to mitigating and adapting to climate change. In 2022, the second year of application of the European Taxonomy, non-financial institutions were required to report the proportion of aligned activities on the basis of the same three key financial indicators, in

³³ Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment, and amending Regulation (EU) 2019/2088.

³⁴ The EU Taxonomy is structured through Regulation (EU) 2020/852 and is complemented by three delegated acts: *delegated Regulation (EU) 2021/2139* (Climate DR), *Delegated Regulation (EU) 2023/2486* (Environmental DR), which set out the technical screening criteria for determining compliance with the Taxonomy; and *Delegated Regulation (EU) 2021/2178* (Disclosure DR), which specifies the content, presentation and methodology for the disclosure of information that companies must make regarding sustainable economic activities.

³⁵ Sustainable use and protection of water and marine resources, transition to a circular economy, pollution prevention and control, and preservation and protection of biodiversity and ecosystems.

³⁶ CapEx (Capital Expenditures) are the investments a company makes to purchase, hold or improve its fixed assets such as production plants, machinery or vehicles.

³⁷ OpEx (Operational Expenditures) is the sum of all expenses that a company incurs in order to carry out its activity, for example, to pay payroll, to purchase raw materials or to pay for energy.

addition to relevant information related to our accounting policy, compliance with the Taxonomy Regulation and contextual information in relation to those indicators.

SCOPE AND ASSESSMENT OF CANAL ACTIVITIES

The scope of application of the European Taxonomy Regulation includes the activity of Canal de Isabel II, Sociedad Anónima, M.P. and all the subsidiaries that make up the Canal Group (fully consolidated companies).

ELIGIBILITY OF CANAL ACTIVITIES UNDER THE TAXONOMY

Within this perimeter, Canal has carried out an analysis of its accounting information to determine which of its activities are associated with the activities described in the Taxonomy, identifying those eligible under the climate change mitigation objective as well as the objective of sustainable use and protection of water and marine resources. Despite having carried out a physical climate risk analysis, Canal has no climate change adaptation measures that can be deemed eligible.

This analysis is based on the current understanding of the descriptions and technical criteria in the Taxonomy, which, as will be explained below, in some cases has meant updates to the assessment criteria used in the year 2022. However, the calculation methodology has remained the same as last year. Below are the economic activities that have been considered **eligible** pursuant to the taxonomy for Canal activities during 2023.

Type of activity	Name of the taxonomy activity	Description of Canal's activity	Taxonomy objective
Management of water collection, treatment and supply systems	5.1. Construction, extension and operation of water catchment, treatment and distribution systems.	This activity comprises the supply part of the integrated water cycle, which includes the catchment, treatment and distribution of drinking water.	✓ Climate Change Mitigation
	5.2. Renovation of water catchment, purification and supply systems.	This activity at Canal includes all the tasks for the renovation and improvement of the sanitation system.	✓ Climate Change Mitigation
	2.1 Water supply	It covers the construction, extension, operation and renovation of systems for the collection, treatment and supply of water for human consumption based on the extraction of natural water resources from surface or groundwater sources.	✓ Sustainable use and water and marine resources protection

Type of activity	Name of the taxonomy activity	Description of Canal's activity	Taxonomy objective
Urban wastewater infrastructure management	5.3. Construction, extension and operation of wastewater collection and treatment systems	This activity comprises the sanitation part of the integrated water cycle, which includes wastewater treatment and sewerage.	✓ Climate Change Mitigation
	5.4. Wastewater collection and treatment renovation	It refers to the activities that the company undertakes for the renovation and upgrading of wastewater treatment plants	✓ Climate Change Mitigation
	2.2 Urban wastewater treatment	Construction, extension, updating, operation and renovation of urban wastewater infrastructures: treatment plants, sewerage networks, rainwater management structures, connections to the wastewater infrastructure, decentralised wastewater treatment facilities, such as individual systems and other appropriate systems, as well as treated effluent discharge structures. The activity includes innovative and advanced treatments, including the removal of micropollutants.	✓ Sustainable use and water and marine resources protection
Generation of renewable energy	4.1. Electricity generation using solar photovoltaic technology	It includes the production of renewable energy from solar sources.	✓ Climate Change Mitigation
	4.5. Electricity generation from hydroelectric power	It refers to the activity of power generation through mini-hydroelectric power plants.	✓ Climate Change Mitigation
	04.30. High-efficiency cogeneration of heat/cold and electricity from fossil fuels	Canal has 2 natural gas cogeneration plants with an installed capacity of 44.70 MW. These are the South WWTP and Loches STU	✓ Climate Change Mitigation

This has been the proportion of **eligible economic activities** according to the taxonomy during 2023:

- **Turnover: 98.39%** eligible
- **OpEx: 92.50%** eligible
- **CapEx: 97.86%** eligible

Compared to the figures for 2022, turnover has increased significantly from 96.17% last year. OpEx has decreased slightly from 92.22% in 2022. Finally, CapEx has seen a small increase compared to the 97% eligible in 2022.

In line with the above, while renewable energy generation contributes directly to the environmental objective of mitigating climate change, in the case of sludge drying, as it consumes gas in its activity, it cannot be considered an eligible activity for the climate change mitigation objective. It is true that this activity, in addition to generating electricity, contributes to promoting the circular economy by reusing the waste from its main production activity (the sludge generated in the purification activity) to generate fertiliser.

In addition to the above-mentioned economic activities, which are directly linked to environmental objectives, the parent company has made significant investments to reduce the carbon footprint of its transport fleet, taking long-term leases of electric vehicles and reducing the weight of combustion vehicles, which, although not considered in the European Union taxonomy, contribute to reducing the carbon footprint impact of Canal activity.

ALIGNMENT OF CANAL ACTIVITIES WITH THE TAXONOMY

With regard to alignment, Canal has assessed all its activities from both a mitigation and adaptation perspective. In this respect, work is still ongoing to determine with the necessary accuracy the proportion of taxonomy activities that have a significant impact on the climate change adaptation objective.

The criteria mentioned for eligibility have been observed in the same way for alignment. In addition, the assessment of compliance with the criteria set out in Article 3 of Regulation (EU) 2020/852 and the technical screening criteria included in the delegated acts on climate change mitigation and adaptation objectives is diverse in nature and varies for each of the activities identified.

In general terms, the assessments carried out have consisted of one of the following activities: observing whether the activity analysed conforms to the description given in the technical criteria, assessing that the operational parameters of the activity are within the established

limits, confirming the existence of internal procedures or tools to ensure compliance with requirements, confirming the compliance of the activity assessed with the law.

Therefore, in order to obtain the percentage of alignment of the Canal figures, compliance with the **technical criteria** detailed below has been assessed for each of the eligible activities.

The eligible and aligned activities are therefore those listed in the table below:

Taxonomy-ALIGNED activities	Technical criteria	Canal's compliance with the technical criteria for substantial contribution
5.1. Construction, extension and operation of water catchment, treatment and distribution systems.	<p>The supply system meets one of the following requirements:</p> <p>(a) the average net energy consumption for extraction and purification is 0,5 kWh or less cubic metre of water supplied;</p> <p>(b) the level of leakage is calculated using either the infrastructure leakage index (ILI) classification method (205), and the threshold value is 1,5 or less, or another appropriate method</p>	<p>In this case Canal complies with the first requirement, as the specific net energy consumption in Canal for the supply activity in 2023 was 0.4 kWh/m³. This value is obtained by dividing the net energy consumption linked to the supply activity, 235,645,418 kWh, by the volume of water derived for consumption, 489,678,727 m³</p>
5.3. Construction, extension and operation of wastewater collection and treatment systems	<p>The net energy consumption of the wastewater treatment plant is equal to or less than:</p> <p>a) 35 kWh per population equivalent (p.e.) per year in case the capacity of the treatment plant is less than 10,000 p.e.;</p> <p>b) 25 kWh per population equivalent (p.e.) per year in case the capacity of the treatment plant is between 10,000 and 100,000 p.e.;</p> <p>c) 20 kWh per population equivalent (p.e.) per year in case the capacity of the treatment plant is more than 100,000 p.e.</p>	<p>This technical requirement in 2023 is met by 74 of Canal's 156 WWTPs. However, as the capacity and size vary greatly between the different facilities, compliance with the technical criterion has been weighted based on the volume of water treated, resulting in an alignment percentage of 81%. To obtain this value, each of the 156 installations has been considered by size/design in population equivalent according to the net energy consumption data established by the standard. It is worth noting from the results of this analysis that the WWTPs with the highest volume of treated water are precisely those that comply with technical criterion c) the most.</p>
4.1. Electricity generation using solar photovoltaic technology	<p>This activity generates electricity using solar photovoltaic technology.</p>	<p>Canal has 10 solar energy facilities in operation. A total of 3.09 MW of installed capacity generating 2.25 GWh in 2023. Of these facilities, 2 of them are part of the aforementioned Solar Plan that is currently underway. See chapter 2.4 <i>We care for your environment</i>.</p>

COMPLIANCE WITH THE “DO NO SIGNIFICANT HARM (DNSH)” TECHNICAL CRITERIA

Do No Significant Harm to climate change adaptation

Canal de Isabel II has been using its own resource management model in its ordinary course of business with several objectives, among which the adaptation to climate change stands out in order to face the extreme weather phenomena to which the company is exposed due to its activity: droughts, floods, variations in the available resources or deviations in demand, among others.

This management model allows Canal to put all possible means in place to guarantee water supply to the population following the principle of efficient management of the resource in situations of shortage or flood-related problems. The company also has a model to perform probability analyses with the results obtained to help anticipate what the development of the reservoir reserves may be over a given time horizon. These models provide companies with valuable tools for adapting to climate change and minimising the negative socio-economic, environmental, etc. impacts that are usually associated with it.

Do No Significant Harm to the sustainable use and protection of water and marine resources

At Canal, we comply with the actions required under the National Water Quality Plan (PNCA), whereby the treatment plants must have the necessary processes to eliminate phosphorous and nitrogen. This obligation involves making a series of investments with the aim of equipping wastewater treatment plants with advanced treatments for the elimination of nutrients. This is part of the National Water Quality Plan, whereby, in order to comply with the Framework Directive 2000/60/EC, establishing a framework for Community action in the field of water policy and requiring wastewater treatment plants to 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.

Do No Significant Harm towards a circular economy

Canal activity The control of waste management at the production centres and grouping points of Canal starts with the correct separation of waste at source and is complemented with the monitoring of the collection routes, scheduled fortnightly and carried out by authorised waste managers, ensuring compliance with the legislation in force.

In recent years, we have been actively working on the proper management of non-hazardous waste with the aim of increasing the amount going to reuse or recovery.

Minimum Social Safeguards

To be considered environmentally sustainable, an economic activity must be conducted in accordance with the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights.

Canal de Isabel II respects and promotes human rights throughout its value chain. It therefore has a due diligence system in place comprising policies, periodic adverse impact assessment procedures, management measures to prevent and mitigate potential impacts identified, monitoring and reporting procedures, and complaint and remediation mechanisms. It also has policies and procedures on competition, anti-corruption, responsible business, conflicts of interest and tax-related liability, among others, to reinforce the Group's commitment to social rights and sustainable growth. More information in the section "Corporate Governance at Canal de Isabel II" included in this report.

Taking this information into account, the **percentage of alignment** with the taxonomy on the total revenues (turnover), CapEx and OpEx of the Canal activities during 2023 was as follows:

- **Turnover: 75.34 %** alignment over the total number.
- **OpEx: 81.64 %** alignment over the total number.
- **CapEx: 48.16 %** alignment over the total number.

Regarding the activities that are **ELIGIBLE, but not ALIGNED** with the Taxonomy in 2023 because they do not meet the established technical criteria are:

- 5.2 Renovation of water catchment, purification and distribution systems
- 5.4 Wastewater collection and treatment renovation
- 4.5 Electricity generation from hydroelectric power
- 04.30 High-efficiency cogeneration of heat/cold and electricity from fossil fuel gas

These activities are considered **non-aligned as they do not meet the technical criteria** for each of them, namely for activity 5.2 there is no reduction of at least 20 % in the difference between the current level of leakage averaged over three years, including catchment and treatment, measured in kWh per cubic metre of water supplied; for 5.4. nor for the renewal of the wastewater collection and treatment system is there an improvement in energy efficiency that achieves a reduction in average energy consumption of 20 % compared to the own reference efficiency averaged over three years. Regarding 4.5, on electricity generation from hydropower, it has also been considered non-aligned as Canal does not meet any of the criteria provided: the electricity generation facility is a flowing water hydropower plant and does not have an artificial

reservoir; b) the power density of the electricity generation facility is higher than 5 W/m², c) the life cycle GHG emissions of the electricity generation from hydropower are less than 100 g CO₂e/kWh. Finally, as regards activity 4.30, Canal's cogeneration plants are not aligned as they do not meet any of the technical criteria.

Compliance with minimum social safeguards

All of the Group companies are committed to respecting human rights and strictly comply with labour regulations in all the countries in which they operate. Group companies have also established, as a mandatory requirement, to enter into contracts only and exclusively with companies that support and protect human rights, as described in the relevant chapter 2.7. *The company of all the people of Madrid.*

INFORMATION SOURCES

In order to determine the proportions presented, based on the company's financial statements report, the identification by type of activity has been carried out by selecting for each ratio the figures relating to activities identifiable with categories present in the annexes of the EU Delegated Regulation 2021/2139 and the new regulation 2023/2486, which define the technical criteria to determine whether an economic activity is considered to contribute substantially to climate change mitigation or adaptation, as well as to determine whether that activity does not cause significant harm to any of the other environmental objectives. For the analysis of sustainable economic activities in Canal, the turnover, CapEx and OpEx figures have been analysed at cost centre level, considering in all cases the natures set out in the Taxonomy Regulation. Once the selectable figures were consolidated, they were divided by the total figures.

In order to obtain the sums associated with the eligible activities according to the taxonomy of the indicators included in the table above, the information loaded into the Group's corporate consolidation application was used to determine the contribution to the consolidated total turnover, OpEx and CapEx of each company.

Turnover

Canal's main activity is the **management of the integrated water cycle**, which includes the catchment, purification and distribution of water and the collection and treatment of wastewater, these being activities its main sources of income. Both activities are included in the Taxonomy.

The Group has been committed to the **sustainable use of water resources for many years**. To mitigate this risk, Canal works continuously on: improving its infrastructure to reduce losses, optimising management of reservoirs, exploitation of underground waters, the extension of recycled water and the development of campaigns to raise awareness and motivate people to save water. On the other hand, the Canal Group produces electricity through mini-hydroelectric power plants, micro-hydro turbines, motors and turbines powered by biogas from the WWTPs, solar photovoltaic plants and high-efficiency cogeneration plants for the thermal drying of sludge generated in the urban wastewater treatment process.

It is important to note that in addition to selling electricity to the market (42 % of the electricity produced), the Group has **generated electricity** for self-consumption for the activities of the company's various facilities (58 % of the electricity generated).

The Group's main companies have implemented cost control tools in their ERP (enterprise resource planning) **software**, which allow them to divide revenues and expenses by cost centre and thus allocate them to their various activities. Once the amount attributable to each indicator under individual accounting has been determined, consolidation adjustments are taken into account so that the total amount matches the consolidated contribution of each subsidiary.

Therefore, the calculation of the KPI indicator associated with Turnover results in 97.6% of activities conforming to the description set out in the taxonomy. This percentage has been obtained taking into account the following key indicators:

For Denominator³⁸: Net Turnover is taken into account. Net Turnover means the amount resulting from the sale of products and provision of services, net of sales rebates as well as value added tax and other taxes directly linked to turnover (Article 2(5) Directive 2013/34/EU).

Therefore, in order to determine the denominator of the Turnover, the rule has been applied in this way, as can be seen in note 26a of the Consolidated Financial Statements, including the data of the income items that affect the Turnover.

For the Numerator: For eligibility the share of net turnover arising from products or services, including intangibles, associated with economic activities that meet the taxonomy criteria has been taken into account. For this purpose, the income accounts of each of the individual consolidated Income Statements have been identified and classified according to whether their activity corresponds to the following activities: Aduccion, Distribution, Treatment, Sewerage, Reuse, Water, Solar and Other Activities in order to identify eligibility and separate them according to sub-items 5.1, 5.2, 5.3, 5.4, 4.1 and 4.5 as established by the standard in section "1.1.1 Key performance indicators relating to turnover".

³⁸ For the denominator of taxonomy income, note 26a (ordinary income), 26b (casual and other current operating income and exceptional income) have been taken into account. In addition, subsidies under other income have been excluded. The consolidated companies that are active (Canal, Lanzarote, Amagua), which represent 99.4% of the total consolidated turnover, have been taken into account.

With regard to alignment, the amount of turnover considered represents 75.34% of the total turnover and corresponds to activities 5.1 and 5.3. To determine the alignment of activity 5.1, 100% of the income linked to this activity has been considered: Construction, extension and operation of water collection, treatment and distribution systems and for the alignment degree in activity 5.3.: Construction, extension and operation of wastewater collection and treatment systems, a coefficient of 81% has been applied to the turnover given that the technical criterion is met in that percentage of the treatment plants in accordance with the technical requirement of specific consumption per population equivalent design capacity (see alignment table).

Compared to the figures published for 2022, the percentage of eligibility has slightly increased. In terms of eligible and aligned activities, the concentration is the same as last year, although in 2023 the supply activity has a lower weight compared to the previous year, this has not led to a strong growth in the alignment figure over the eligible figure.

CapEx (capital expenditure / investments)

The parent company, which has made **98 %** of the Group's investments, catalogues all its investment projects in its ERP system under different categories, one of which is the destination of the investment.

This categorisation has been used to determine the volume of investments directly related to an eligible activity. In the other Group companies, as they have a much smaller investment volume, the investment projects carried out in 2023 have been analysed individually in order to allocate them to the different activities. Investments that indirectly impact on an eligible activity, such as improvements in IT systems or general buildings, have not been considered. By using the above procedure, any duplication in the sums included as eligible activities in the above-mentioned indicators has been avoided.

In the case of CapEx, it is important to highlight that the parent company has implemented the Solar Plan in order to increase its renewable energy generation, which involves the installation of new photovoltaic solar plants in the company's infrastructures, in order to reduce its costs and promote the generation and self-consumption of clean energy, information that is shown in more detail in the section of this report that deals with energy generation. Alongside with the investment plans related to the activities related to the integral water cycle, they amount to 174.4 million that are eligible and aligned according to the Taxonomy definition (53% of the total CapEx volume).

Canal's total eligible CapEx in 2023 amounts to 324 million euros, 97.8% of the company's total CapEx.

The KPI associated with CapEx results in **97.8%** of activities meeting the criteria of the standard to comply with the taxonomy. This percentage has been obtained as follows:

For Denominator³⁹: Additions to property, plant and equipment and intangible assets during the year before depreciation, amortisation and potential remeasurements have been included taking into account International Financial Reporting Standards (IFRS) as referred to in COMMISSION DELEGATED REGULATION (EU) 2021/2178 of 6 July 2021, specifically in section "1.1.2.1. Denominator".

Therefore, in order to determine the CAPEX denominator, the rule has been applied in this way, as can be seen in notes 7, 8 and 10 of the Consolidated Financial Statements, including the data of the balance sheet items that affect CAPEX both for additions to Property, Plant and Equipment, Investment Property and Other Intangible Assets and for the renewal taking into account the consolidated balance sheet item of the provision for replacement and major repairs.

For the Numerator: With regard to eligibility, investments that are associated with these economic activities have been included in order to determine the percentage of CapEx of environmentally sustainable activities that comply with the Taxonomy. For this purpose, the investments made in each of the individual consolidated Balance Sheets have been identified and classified according to whether their activity corresponds to the following activities: Aduccion, Distribution, Treatment, Sewerage, Reuse, Water, Solar and Other Activities in order to identify eligibility and separate them according to sub-items 5.1, 5.2, 5.3, 5.4, 4.1 and 4.5 as established by the standard in section "1.1.2.2. Numerator."

With regard to alignment, the CapEx amounts of the following activities have been included at 100%: 5.1. Construction, extension and operation of water catchment, treatment and distribution systems, 5.3. Construction, extension and operation of wastewater collection and treatment systems and 4.1 Electricity generation using solar photovoltaic technology, except for activity 5.3 which as mentioned above has been considered at 81%. In total 159.56 million, representing 48.16% of the total CapEx for the year 2023.

Thus, nearly 149.78 million have been considered eligible but not aligned and correspond to activities 5.2, 5.4 and 4.5, representing 45.2% of the total CapEx.

Comparing these figures with those of 2022, the increase in the eligible figure is significantly notable, with supply-related activities (construction and renovation) accounting for the largest share of the total eligible figure. Also significant is the higher weight of solar and hydropower generation activities in the 2023 eligibility percentage.

OpEx (operating expenses)

According to the Taxonomy's definition of this indicator, Canal's eligible OpEx percentage for the year 2023 has been considered to be 91 %. Unlike in the case of turnover, in this case, the most influential activity is the *Construction, extension and operation of water catchment*,

³⁹ For the year 2023, the exceptional price revision of 23 million has not been taken into account as it is considered to be a provision, not an addition. Also, the additions to Canal Extensia America (CEXA) have not been taken into account as it is an impact in 2023 because it was the year in which the financial statements of the consortium were integrated to CEXA, not the amount of additions in 2023

treatment and distribution systems , which includes actions carried out for the renovation of sewerage and treatment networks. The OpEx result eligible but not aligned according to the definition is approximately 0.06% and corresponds to the hydropower production activity.

The KPI associated with OPEX results in 81.64 % of activities meeting the criteria of the standard to comply with the taxonomy. This percentage has been obtained as follows:

For Denominator⁴⁰: Denominator includes non-capitalised direct costs that relate to research and development, building renovation measures, short-term leases, maintenance and repairs, as well as other direct expenses related to the day-to-day maintenance of property, plant and equipment by the company or a third party to which activities are subcontracted and that are necessary to ensure the continued effective operation of such assets.

Non-financial undertakings that apply national GAAP and do not capitalise right-of-use assets shall include leasing costs in OPEX in addition to the costs listed in the first paragraph of section "1.1.3.1 Denominator" of the COMMISSION DELEGATED REGULATION (EU) 2021/2178 of 6 July 2021.

Therefore, in order to determine the denominator of OPEX, the rule has been applied in this way, as can be seen in note 26 and 26f of the Consolidated Financial Statements, including the data of the expense items that affect OPEX.

For the Numerator: With regard to eligibility, operating costs associated with economic activities that fit the taxonomy have been included. For this purpose, the operating expenses included in each of the individual consolidated Income Statements have been identified and classified according to whether their activity corresponds to the following activities: Aduccion, Distribution, Treatment, Sewerage, Reuse, Water, Solar and Other Activities in order to identify eligibility and separate them according to sub-items 5.1, 5.2, 5.3, 5.4, 4.1 and 4.5 as established by the standard in section "1.1.3.2 Numerator". In terms of alignment, they have been detected on the basis of compliance with the technical criteria of activities 5.1 and 5.3. The latter by applying a percentage of 81% according to the weighted calculation of the treatment plants that meet the criteria set out according to the volume of water treated.

If we compare these figures with the year 2022, the situation is similar to that discussed above for turnover, although the increase in the eligible figure has been more significant and the most influential eligible activity this year is construction, extension and renovation linked to sanitation.

The following pages show the results of eligibility and alignment of Canal activities with the taxonomy. Their formats correspond to those of the templates for key performance indicators of non-financial undertakings in Annex II of the Commission Delegated Regulation (EU)

⁴⁰ In order to obtain the reported figure, the following headings of Canal, Lanzarote and Amagua have been taken into account and according to the following distribution: Note 26c (Subcontracted work, consumption of meters, spare parts and others), note 26d (own staff costs), note 26f (R&D, leases C/P, repair and maintenance). This is subtracted from the work done on its assets.

2021/2178 of 6 July 2021. The absolute OpEx and CapEx figures presented below are based on specific definitions observed under Annex I of Delegated Regulation (EU) 2021/2178 and may therefore differ from those presented under the same heading in the company's financial statements.

Fila	Actividades relacionadas con la energía nuclear	
1	La empresa lleva a cabo, financia o tiene exposiciones a la investigación, el desarrollo, la demostración y la implantación de instalaciones innovadoras de generación de electricidad que producen energía a partir de procesos nucleares con un mínimo de residuos del ciclo de combustible.	No
2	La empresa lleva a cabo, financia o tiene exposiciones a la construcción y la explotación segura de nuevas instalaciones nucleares para producir electricidad o calor de proceso, incluido para fines de calefacción urbana o procesos industriales como la producción de hidrógeno, así como sus mejoras de seguridad, utilizando las mejores tecnologías disponibles.	No
3	La empresa lleva a cabo, financia o tiene exposiciones a la explotación segura de instalaciones nucleares existentes que producen electricidad o calor de proceso, incluido para fines de calefacción urbana o procesos industriales como la producción de hidrógeno a partir de energía nuclear, así como sus mejoras de seguridad.	No
Actividades relacionadas con el gas fósil		
4	La empresa lleva a cabo, financia o tiene exposiciones a la construcción o explotación de instalaciones de generación de electricidad que producen electricidad a partir de combustibles fósiles gaseosos.	No
5	La empresa lleva a cabo, financia o tiene exposiciones a la construcción, la renovación y la explotación de instalaciones de generación combinada de calor/frío y electricidad que utilicen combustibles fósiles gaseosos.	Sí
6	La empresa lleva a cabo, financia o tiene exposiciones a la construcción, la renovación y la explotación de instalaciones de generación de calor que producen calor/frío a partir de combustibles fósiles gaseosos.	No

About this report

[GRI 2-3]

This document aims to reflect the actions and commitments of Canal de Isabel II, Sociedad Anónima, M.P. throughout the financial year 2023. For this purpose, the information mainly from the parent company and part of the information provided by the companies of the **Canal de Isabel II Business Group** has been merged.

This integration has been carried out in line with current international trends in the business world in terms of the need for the information provided by companies to the different stakeholders with which they relate to include the most relevant issues, so that readers can have a real and integrated view of the current performance and future potential of the organisations.

The document has been prepared in accordance with the Global Reporting Initiative (GRI) Sustainability Reporting Standards. We include detailed information on most of the content required under GRI and, where this is not possible, we provide the reason for such omission or which requirements are not applicable to our organisation. In the document, we include those contents set out in the GRI Standards that illustrate the material issues that our company has identified for 2023 in its updated matrix.

[GRI 2-5]

Similarly, the contents of this report have been independently verified by the current auditor of Canal de Isabel II, Sociedad Anónima, M.P. for the 2023 financial year (the auditing firm ERNST & YOUNG- EY), attaching the verification report that includes its scope and the results obtained. The criterion for the selection of the auditing firm, both in the current and previous years, has been its role as auditor of the financial statements of our parent company, which was selected in an open tender process and appointed by our General Meeting of Shareholders.

[GRI 2-2]

The document has focused mainly on the activities of the public company Canal de Isabel II, Sociedad Anónima, M.P. in the Region of Madrid (Spain), which account for 93.23 % of the consolidated income of the Canal Group, but it also includes the most relevant information on the rest of the companies of the Canal Group.

The scope of the information in the report mainly includes Canal and those companies of the Canal Group in which the parent company of the Group holds a **majority shareholding, had staff and were active in 2023**. Also included in the scope of the report are the

programmes and main activities carried out by our foundation in Spain (Canal Foundation).

In this regard, on 31 May 2023, the concession agreement of the subsidiary **Avanzadas Soluciones de Acueducto y Alcantarillado S.A. E.S.P.**, known as **ASAA**, expired and the said company ceased its activities. It joined the Group in 2013 and has provided water supply and sewerage services in the District of Riohacha, capital of the Department of La Guajira (Colombia). As the company had no activity for seven of the twelve months of the year and was inactive at year-end, **it has been excluded from the scope of this report.**

Also **outside the scope of this report** is the company **GESTUS Gestión & Servicios S.A.S.**, which until 2022 provided services to the different companies of the Canal Group in Ibero-America.

[GRI 2-4]

This report generally presents information for the year 2023 and in some cases for one or two previous comparison years (2021 and/or 2022). With regard to the quantitative information for 2021 and 2022, with the exception of the information on the EU Taxonomy and some economic data for 2022 (amortisation depreciation, financial result and operating result) which have been restated, there have been no changes in the interpretation of the data, which means that there are no major changes compared to the data published in previous years by our company. In the case of the Taxonomy, the results of the changes made with respect to the results published in the 2022 Sustainability Report of Canal de Isabel II are included in the tables of the EU Taxonomy section of this report.

In general, all the Group's indicators have been calculated by aggregating the companies' data without taking into account the Group's shareholding percentage (aggregated data), with the sole exception of the consolidated financial data. This has been done in order to maintain consistency between the data published in the Group's consolidated financial statements. Euro values have been calculated using the average exchange rates applied in the income statement of the Group's consolidated financial statements.

[GRI 2-3] [GRI 2-4]

The data set out in the report relate to activity between 1 January and 31 December for each of the reporting years. The data have been collected from the information systems

of the Canal Group companies during the month of January 2024. All this information may be modified in the future due to subsequent events, changes or improvements in the accounting systems of the parameters with which the GRI content is constructed.

In drafting the Directors' Report the provisions of *Law 11/2018, amending the Code of Commerce, the Corporate Enterprises Law and the Accounts Auditing Law, in relation to non-financial information and diversity* have been taken into account, with the inclusion of environmental, social and good governance indicators in accordance with the standards of the Global Reporting Initiative (GRI). Therefore, the Report on the Consolidated Directors' Report for Canal de Isabel II, Sociedad Anónima, M.P. includes this Statement of Non-Financial Information (SNFI) Similarly, the recommendations of the Guide for the Preparation of the Directors' Report listed entities, of the Spanish National Securities Market Commission and the guidelines on the presentation of non-financial reports issued by the European Commission have been taken into account for the drafting of the document.

This Directors' Report includes, as an integral part thereof, the Annual Corporate Governance Report for 2023, as required by Article 538 of the Corporate Enterprises Law.

If you have any questions or doubts, please contact the following e-mail address: subd.estudiosyprogramas@canal.madrid

Materiality process and results: *material issues and coverage*

[GRI 3-3]

The process followed by Canal to determine the context of sustainability, the content of this document and the coverage of every aspect, began in 2016 and 2017 in parallel with the process of drafting the Canal de Isabel II 2018-2030 Strategic Plan, a process which culminated, in the third quarter of 2018, with its initial implementation.

For that process, in mid-2016, representatives of the different areas of the company were selected and an internal working committee was established, the **Advancement Committee**, which, together with the **Management Committee**, worked through 2017 on the definition of large areas of strategic action, the values, the mission and the actions of the company.

The strategic plans of companies in other countries, in particular the United Kingdom and France, were also analysed, together with the results of comparative studies (benchmarking) in which Canal participates, such as the European Benchmarking Cooperation (EBC), and Aquarating and the standard developed by the International Water Association (IWA).

Subsequently, in 2020, due to the situation caused by the coronavirus, Canal de Isabel II decided to update its materiality matrix based on the latest events related to the COVID-19 pandemic and in 2021 we carried out a new exercise with the coordinators of the Strategic Plan to review the materiality matrix in order to analyse the possible significant changes after the pandemic.

In 2023, two years after the last analysis as part of the review and update process of our 2018-2030 Strategic Plan, we have once again analysed and assessed with our stakeholders what are the priority objectives for the company from a "double materiality" perspective, as recommended by the CSRD Directive⁴¹

[GRI 2-29]

In order to have an overview of the material aspects, both impact and financial, related to our performance, we have relied on the **participation of more than 500 people**. This has allowed us to measure the impact that the environment has on Canal's operations in the Region of Madrid, and also to measure how the company's activity affects society, the environment and economic development.

⁴¹ Directive (EU) 2022/2464 of the European Parliament and of the Council of 14 December 2022 concerning sustainability reporting by companies (CSRD)

The main figures for stakeholder participation in the analysis we have carried out are as follows:



[GRI 3-1] [GRI 3-2]

As a result of this analysis, we have obtained a new materiality matrix (which replaces the one drawn up in previous years) that has been constructed based on the greater or lesser relevance that each of the sustainability issues defined as material (or of relative materiality) have for our stakeholders and for our company, from a dual perspective in line with the new CSRD Directive, as the financial impact is considered a determining variable in the prioritisation of each issue.

From the analysis performed, we have identified the critical and relevant sustainability issues, considering the importance that stakeholders attribute to the material issues for Canal and their financial impact, obtaining the following:

CRITICAL material issues:

- Transparency, ethics and fight against corruption
- Customer satisfaction and commitment
- Transition to a circular economy and responsible consumption
- Service security and cybersecurity
- Generation of clean and renewable energy
- Innovation, new technologies and digital transformation
- Risk management

RELEVANT material issues:

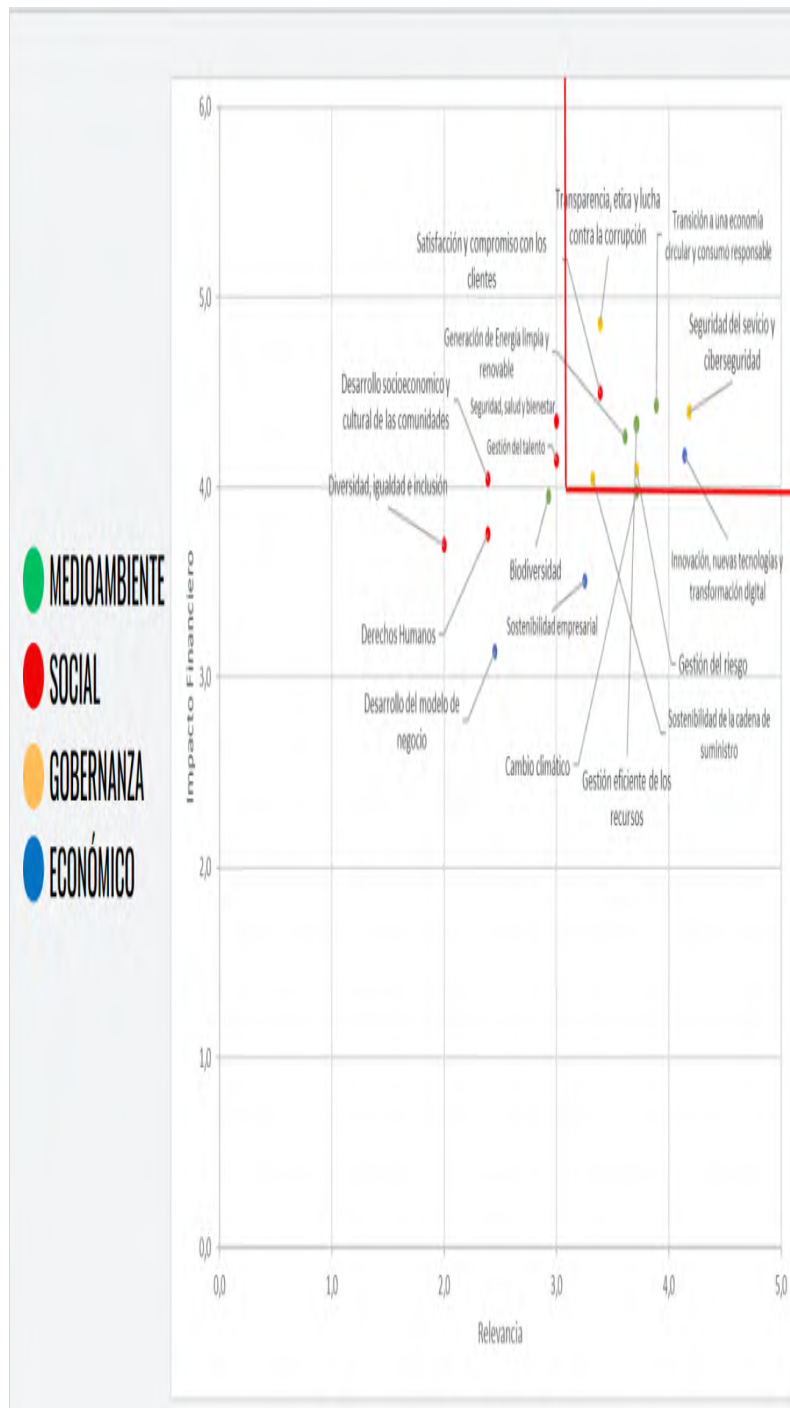
- Climate change
- Supply chain sustainability
- Efficient resource management
- Safety, health and well-being
- Talent management
- Biodiversity
- Economic sustainability (including tariff scheme)

Other material issues:

- Socio-economic and cultural development
- Diversity, equality and inclusion
- Human rights
- Business model development

Canal de Isabel II Dual Materiality Matrix

[GRI 3-2]



The description of how Canal de Isabel II has approached the management of each of the material aspects in 2023 has been included in this Sustainability Report and is described in its different sections, which have been ordered and structured using each of the lines in the Canal de Isabel II 2018-2030 Strategic Plan.

Correspondence of material issues for Canal with the lines of the 2018-2030 Strategic Plan and the SDGs (2023)

Asterisks (*) mark the priority strategic line to address each material issue

	1	2	3	4	5	6	7	8	9	10
	Agua Cantidad	Agua Calidad	Agua Continuidad	Entorno	Ayts.	Cientes / Usuarios	Gobierno y Sociedad	Equipo humano	Innovación	Sostenibilidad Económica
Cuestiones materiales CRÍTICAS										
Transparencia, ética y lucha contra la corrupción							*			
Satisfacción y compromiso con los clientes					*	*				
Transición a economía circular y consumo responsable				*						
Seguridad del servicio y ciberseguridad			*						*	
Generación de energía limpia y renovable				*					*	*
Innovación, nuevas tecnologías y transformación digital								*	*	
Gestión del riesgo							*			*
Cuestiones materiales RELEVANTES										
Cambio climático	*			*						*
Sostenibilidad de la cadena de suministro							*			*
Gestión eficiente de los recursos	*			*		*			*	
Seguridad, salud y bienestar		*	*					*		
Gestión del talento								*	*	
Biodiversidad	*			*						
Sostenibilidad económica (incluyendo esquema tarifario)										*
Otras cuestiones materiales										
Desarrollo socioeconómico y cultural					*	*	*			*
Diversidad, igualdad e inclusión							*	*		
Derechos Humanos						*	*	*		
Desarrollo del modelo de negocio					*				*	*
ODS RELEVANTES										

Legal information of Canal de Isabel II, Sociedad Anónima, M.P. and consolidated information of Canal and its subsidiaries

[GRI 2-2]

The entities included in the organisation's consolidated financial statements can be consulted in the documents referenced below (all available on Canal's website).

- *Independent auditor's report on the accounts of Canal de Isabel II, Sociedad Anónima, M.P.*
- *Consolidated Financial Statements, Notes to the Financial Statements and Directors' Report for the financial year 2023 of Canal de Isabel II, Sociedad Anónima, M.P.*
- *Independent auditor's report on the accounts of Canal de Isabel II, Sociedad Anónima, M.P. And subsidiaries*
- *Consolidated Financial Statements, Notes to the Financial Statements and Directors' Report for the financial year 2023 of Canal de Isabel II, Sociedad Anónima, M.P. and subsidiaries.*

Information available at this link:

<https://www.canaldeisabelsegunda.es/web/site/accionistas>

Annual Corporate Governance
Report for
2023

ANNUAL CORPORATE GOVERNANCE REPORT

FINANCIAL YEAR ENDED 31 DECEMBER 2023

In accordance with the sixth additional provision of Law 6/2023, of 17 March, on Securities Markets and Investment Services, Canal de Isabel II, Sociedad Anónima, M.P. is not obliged to prepare an Annual Corporate Governance Report, as it is not a listed company. However, in order to maintain the same transparency and disclose the same information on corporate governance as in previous years, this information is disclosed in a specific section of the Management Report of Canal de Isabel II, S.A., M.P. in accordance with the Annual Corporate Governance Report template used in previous years.

Preparation of the
Consolidated Financial
Statements for
2023

CANAL DE ISABEL II, S.A., M.P. AND SUBSIDIARIES

Preparation of the Consolidated Financial Statements and Consolidated Directors' Report, prepared in accordance with International Financial Reporting Standards adopted by the European Union (IFRS -EU) corresponding to financial year 31 December 2023.

The Board of Directors of Canal de Isabel II, S.A., M.P. on 21 March 2024 and in compliance with the requirements established in article 253.2 of the Consolidated Text of the Spanish Companies Act and in article 37 of the Commercial Code, have prepared the Consolidated Financial Statements and the Directors' report, in accordance with International Financial Reporting Standards adopted by the European Union (IFRS-EU) for the period comprising 01 January 2023 and 31 December 2023.

Signatories:

Mr Carlos Novillo Piris Chairperson of the Board of Directors	
Mr Mariano González Sáez Deputy Chairperson of the Board of Directors and Chief Executive Officer	Mr Antonio Javier Cordero Ferrero Director
Mr Francisco Muñoz García Director	Mr Jaime Sánchez Gallego Director
Mr Jaime García- Legaz Ponce Director	Ms Alicia Muñoz Lombardía Director
Ms Lourdes Vega Fernández Director	Ms Isabel Aguilera Navarro Director
Mr Salvador Marín Hernández Director	Mr José Ignacio Tejerina Alfaro Director
Ms Cristina Aparicio Maeztu Director	Canal de Isabel II Public Entity (represented by Mr Rafael García González) Director
Mr Pablo Cristóbal Mayoral Director	Ms Judith Piquet Flores Director



**Canal
de Isabel II**
Cuidamos el agua

www.canaldeisabelsegunda.es