



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

2023

# CONTENTS

SEPARATE FINANCIAL STATEMENTS.....	4
Balance sheets for the years ended 31 December .....	5
Statement of changes in equity for the years ended .....	8
31 December .....	8
Cash Flow Statement for the years ended 31 December .....	10
NOTES TO THE FINANCIAL STATEMENTS.....	12
1. Activity .....	13
2. Basis of presentation .....	19
3. Distribution of profits/loss .....	21
4. Recording and valuation standards.....	22
5. Financial risk policy and management .....	34
6. Joint ventures.....	35
7. Non-current assets held for sale .....	36
8. Intangible assets .....	37
9. Property, plant and equipment.....	45
10. Investment property .....	47
11. Classification of financial assets by category and investments in equity instruments of group companies and associates .....	50
12. Financial investments and trade receivables .....	53
13. Inventories .....	59
14. Asset accruals.....	60
15. Cash and cash equivalents .....	61
16. Equity shareholders' equity .....	62
17. Subsidies, gifts and bequests received.....	63
18. Provisions and contingent liabilities.....	66
19. Financial liabilities by categories.....	72
20. Financial debts and trade creditors.....	74
21. Accruals of liabilities .....	78
22. Taxes .....	79
23. Environmental information.....	84
24. Related party balances and transactions .....	86
25. Income and expenses.....	91
26. Information on employees.....	93
27. Audit fees .....	94

28. 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.....	95
29. Events after year-end.....	96
 ANNEXES TO THE NOTES TO THE FINANCIAL STATEMENTS .....	97
ANNEX I.- Details of joint ventures at 31 December 2023 and 2022.....	98
ANNEX II (1). - Information relating to group companies at 31 December 2023 and 2022.....	99
ANNEX II (2). - Information relating to associates at 31 December 2023 and 2022 .....	101
ANNEX III.- Details of changes in reserves and profit/loss corresponding to the financial years ended 31 December 2023 and 2022 .....	102
 <b>DIRECTORS’ REPORT FOR THE FINANCIAL YEAR 2023</b>	
 DIRECTORS’ REPORT FOR THE FINANCIAL YEAR 2023 .....	1
ANNUAL CORPORATE GOVERNANCE REPORT.....	222
 <b>PREPARATION</b>	

SEPARATE FINANCIAL  
STATEMENTS

2023



Balance sheets for the years ended 31 December (In thousands of euros)		Note	2023	2022
<b>ASSETS</b>				
<b>A) NON-CURRENT ASSETS</b>			<b>4,472,332</b>	<b>4,385,018</b>
<b>I. Intangible fixed assets</b>	<b>8</b>		<b>4,013,247</b>	<b>3,962,836</b>
1. Computer software			4	9
2. Concession agreement, regulated assets			3,796,232	3,807,334
3. Concession agreement, financial activation.			50,070	53,171
4. Concession agreement, regulated assets in progress			166,941	102,322
<b>II. Property, plant and equipment</b>	<b>9</b>		<b>7,189</b>	<b>7,299</b>
1. Land and buildings			7,112	7,149
2. Technical installations and other property plant and equipment			77	150
<b>III. Investment property</b>	<b>10</b>		<b>12,223</b>	<b>10,434</b>
1. Lands			4,265	2,881
2. Construction works			7,563	7,553
3. Construction in progress			395	-
<b>IV. Long-term investments in group and associated companies</b>	<b>11 AND 12</b>		<b>246,721</b>	<b>267,473</b>
1. Equity instruments			92,551	92,551
2. Credits to companies			154,170	174,922
<b>V. Non-current financial investments</b>	<b>11 AND 12</b>		<b>119,224</b>	<b>72,772</b>
1. Credits to third parties			90,553	68,391
2. Other financial assets			28,671	4,381
<b>VI. Deferred tax assets</b>	<b>22</b>		<b>198</b>	<b>124</b>
<b>VII. Long-term Accruals</b>	<b>14</b>		<b>73,530</b>	<b>64,080</b>
<b>B) CURRENT ASSETS</b>			<b>721,969</b>	<b>795,359</b>
<b>I. Non-Current assets held for sale</b>	<b>7</b>		<b>2</b>	<b>4,023</b>
1. Non-Current assets held for sale			2	4,023
<b>II. Inventories</b>	<b>13</b>		<b>9,418</b>	<b>9,738</b>
1. Raw materials and other short-cycle supplies			9,418	9,738
<b>III. Trade debtors and other accounts receivable</b>	<b>11, 12 &amp; 22</b>		<b>211,439</b>	<b>186,098</b>
1. Trade and Service Provision Customers			130,219	130,897
2. Customers, group and associated companies			1,508	893
3. Miscellaneous debtors			37,877	40,342
4. Personnel			2	2
5. Other receivables from Public Administrations	22		41,833	13,964
<b>IV. Short-term investments in group companies and associates</b>	<b>11 AND 12</b>		<b>43,352</b>	<b>4,315</b>
1. Credits to companies			41,768	2,694
2. Other financial assets			1,584	1,621
<b>V. Short-term financial investments</b>	<b>11 AND 12</b>		<b>9,832</b>	<b>359,783</b>
1. Credits to third parties			8,568	8,003
2. Other financial assets			1,264	351,780
<b>VI. Short-term accruals</b>	<b>14</b>		<b>6,125</b>	<b>5,533</b>
<b>VII. Cash and cash equivalents</b>	<b>15</b>		<b>441,801</b>	<b>225,869</b>
1. Cash			441,801	225,869
<b>TOTAL ASSETS (A+B)</b>			<b>5,194,301</b>	<b>5,180,377</b>

The attached Report forms an integral part of the Financial Statements corresponding to the financial year ending 31 December 2023

Balance sheets for the years ended 31 December (In thousands of euros)	Note	2023	2022
<b>EQUITY AND LIABILITIES</b>			
<b>A) EQUITY</b>		<b>3,730,801</b>	<b>3,664,760</b>
<b>A.1) SHAREHOLDERS' EQUITY</b>	<b>16</b>	<b>2,972,283</b>	<b>2,901,928</b>
<b>I. Share capital</b>		<b>1,074,032</b>	<b>1,074,032</b>
<b>II. Share premium</b>		<b>1,074,032</b>	<b>1,074,032</b>
<b>III. Reserves</b>		<b>739,901</b>	<b>690,228</b>
1. Legal Reserve		214,806	210,302
2. Other reserves		525,095	479,926
<b>IV. Profit(loss) for the year</b>		<b>154,747</b>	<b>125,391</b>
<b>V. (Interim dividend)</b>		<b>(70,429)</b>	<b>(61,755)</b>
<b>A.2) SUBSIDIES, GIFTS AND BEQUESTS RECEIVED</b>	<b>17</b>	<b>758,518</b>	<b>762,832</b>
<b>B) NON-CURRENT LIABILITIES</b>		<b>992,815</b>	<b>1,192,152</b>
<b>I. Long-term Provisions</b>	<b>18</b>	<b>232,984</b>	<b>417,350</b>
1. Provisions for infrastructure works		220,293	402,626
2. Other provisions		12,691	14,724
<b>II. Long-term debt</b>	<b>19 AND 20</b>	<b>579,076</b>	<b>578,379</b>
1. Debentures and other marketable securities		499,765	499,562
2. Other financial liabilities		79,311	78,817
<b>III. Long-term debts with Group and associated companies</b>	<b>19 AND 20</b>	<b>167,381</b>	<b>182,143</b>
<b>IV. Deferred tax liabilities</b>	<b>22</b>	<b>1,901</b>	<b>1,912</b>
<b>V. Long-term Accruals</b>	<b>21</b>	<b>11,473</b>	<b>12,368</b>
<b>C) CURRENT LIABILITIES</b>		<b>470,685</b>	<b>323,465</b>
<b>I. Short-term provisions</b>	<b>18</b>	<b>165,453</b>	<b>85,511</b>
1. Provisions for infrastructure works		159,023	77,774
2. Other provisions		6,430	7,737
<b>II. Short-term debt</b>	<b>19 AND 20</b>	<b>129,725</b>	<b>62,296</b>
1. Debentures and other marketable securities		7,111	7,111
2. Other financial liabilities		122,614	55,185
<b>III. Short-term debts with group companies and associates</b>	<b>19 AND 20</b>	<b>17,910</b>	<b>18,053</b>
<b>IV. Trade creditors and other accounts payable</b>	<b>19, 20 AND 22</b>	<b>150,239</b>	<b>150,962</b>
1. Suppliers		9,152	7,808
2. Suppliers, Group and associated companies		4,475	5,118
3. Sundry creditors		112,633	115,572
4. Personnel (remunerations payable)		16,934	14,984
5. Other debt with Public Administrations	22	7,045	7,480
<b>V. Short-term accruals</b>	<b>21</b>	<b>7,358</b>	<b>6,643</b>
<b>TOTAL EQUITY AND LIABILITIES (A+B+C)</b>		<b>5,194,301</b>	<b>5,180,377</b>

The accompanying Notes form an integral part of the Financial Statements for the year ended 31 December 2023.

Income Statement for the years ended				
31 December				
(In thousands of euros)				
	Note	2023	2022 (*)	
<b>A) CONTINUING OPERATIONS</b>				
<b>1. Net turnover</b>	<b>25 (a)</b>	<b>881,465</b>	<b>886,128</b>	
a. Service provisions		881,465	886,128	
<b>2. Work carried out by the company for its assets</b>		<b>31,450</b>	<b>18,409</b>	
<b>3. Supplies</b>	<b>25 (b)</b>	<b>(278,815)</b>	<b>(312,248)</b>	
a. Consumed raw materials and other consumables		(53,768)	(40,596)	
b. Consumption of supplies for activity		(71,849)	(129,489)	
c. Works carried out by other companies		(153,224)	(142,162)	
d. Impairment of raw materials and other consumables	13	26	(1)	
<b>4. Other operating income</b>		<b>28,521</b>	<b>44,826</b>	
a. Casual income and other current operating income.	25(f)	28,164	44,530	
b. Operating subsidies included in the profit/loss of the financial year		357	296	
<b>5. Personnel expenses</b>	<b>25(d)</b>	<b>(190,656)</b>	<b>(180,415)</b>	
a. Wages, Salaries and similar payments		(140,741)	(134,261)	
b. Social Security Contributions		(49,381)	(45,747)	
c. Provisions		(534)	(407)	
<b>6. Other operating expenses</b>		<b>(235,011)</b>	<b>(219,507)</b>	
a. External services		(118,603)	(94,764)	
b. Taxes		(24,046)	(23,663)	
c. Fees		(17,486)	(16,361)	
d. Losses, impairment and variation in provisions for trade transactions	12(d)	(1,309)	(2,499)	
e. Allocation to provisions for the replacement of infrastructure	18	(62,390)	(67,847)	
f. Other current operating expenses		(11,177)	(14,373)	
<b>7. Depreciation of fixed assets</b>	<b>8, 9 AND 10</b>	<b>(123,076)</b>	<b>(120,707)</b>	
<b>8. Allocation of non-financial fixed assets subsidies and others</b>	<b>17</b>	<b>20,022</b>	<b>21,352</b>	
<b>9. Excess of provisions</b>	<b>18</b>	<b>3,168</b>	<b>2,359</b>	
<b>10. Impairment and profit/loss due to disposal of fixed assets</b>	<b>25 (e)</b>	<b>12,956</b>	<b>2,068</b>	
a. Impairment and losses		3,064	1,962	
b. Profit(loss) due to disposals and others.		9,892	106	
<b>A.1) OPERATING PROFIT/LOSS (1+2+3+4+5+6+7+8+9+10)</b>		<b>150,024</b>	<b>142,265</b>	
<b>11. Finance incomes</b>		<b>33,811</b>	<b>11,057</b>	
a. From marketable securities and other group and associated company financial instruments	12(a)	11,142	4,078	
b. From marketable securities and other third-party financial instruments		15,658	2,053	
c. Other items	12 (b) and 14	7,011	4,926	
<b>12. Finance expenses</b>		<b>(28,237)</b>	<b>(26,531)</b>	
a. For debts with Group and Associated Companies	19 (a)	(3,717)	(4,009)	
b. For debt with third parties	19 (a)	(12,179)	(12,086)	
c. For adjustment of provisions	18	(9,972)	(8,262)	
d. Other items	12 and 19	(2,369)	(2,174)	
<b>13. Exchange differences</b>		<b>(13)</b>	<b>(14)</b>	
<b>14. Impairment and profit/loss due to disposal of financial instruments</b>	<b>11 (b) and 12(b)</b>	<b>2,687</b>	<b>747</b>	
a. Impairment and losses		2,687	(290)	
b. Profit(loss) due to disposals and others			1,037	
<b>A.2) FINANCIAL PROFIT/LOSS (11+12+13+14)</b>		<b>8,248</b>	<b>(14,741)</b>	
<b>A.3) PROFIT(LOSS) BEFORE TAXES (A.1 + A.2)</b>		<b>158,272</b>	<b>127,524</b>	
<b>15. Tax on profit</b>	<b>22</b>	<b>(3,525)</b>	<b>(2,133)</b>	
<b>A.4) PROFIT/LOSS OF THE FINANCIAL YEAR ARISING FROM CONTINUING OPERATIONS (A.3+15)</b>		<b>154,747</b>	<b>125,391</b>	
<b>A.5) PROFIT/LOSS FOR FINANCIAL YEAR (A.4)</b>		<b>154,747</b>	<b>125,391</b>	

The attached Report forms an integral part of the Financial Statements corresponding to the financial year ending 31 December 2023.

(\*) Restated information. (See note 2 d) Information comparison).

**Statement of changes in equity for the years ended  
31 December**

A) Statement of recognised income and expenses (In thousands of euros)	Notes	2023	2022
<b>A) PROFIT/LOSS OF THE INCOME STATEMENT</b>		<b>154,747</b>	<b>125,391</b>
Income and expenses directly attributed to equity	17		
I. Subsidies, gifts and bequests received.		15,723	26,355
II. Tax effect		(39)	(66)
<b>B) TOTAL, INCOME AND EXPENSES DIRECTLY ATTRIBUTED TO EQUITY</b>		<b>15,684</b>	<b>26,289</b>
Transfers to income statement	17		
I. Subsidies, gifts and bequests received		(20,048)	(21,385)
II. Tax effect		50	53
<b>C) TOTAL, TRANSFERS TO INCOME STATEMENT</b>		<b>(19,998)</b>	<b>(21,332)</b>
<b>TOTAL RECOGNISED INCOME AND EXPENSES</b>		<b>150,433</b>	<b>130,348</b>

The attached Report forms an integral part of the Financial Statements corresponding to the financial year ending 31 December 2023.

**B) Statement of changes in equity for the years ended 31 December**  
(In thousands of euros)

	Share capital	Share premium and Reserves	Profit/loss for previous financial years	Profit/loss for the year	Interim dividend	Subsidies, gifts and bequests received	TOTAL
<b>A) BALANCE AT 01 JANUARY 2022</b>	<b>1,074,032</b>	<b>1,699,309</b>	<b>-</b>	<b>173,231</b>	<b>(93,174)</b>	<b>757,875</b>	<b>3,611,273</b>
I. Total recognised income and expenses	-	-	-	125,391	-	4,957	130,348
II. Transactions with shareholders or owners.							
Distribution of profit (Note 3)							
Reserves	-	69,480	(69,480)	-	-	-	-
Dividends	-	-	(10,577)	-	-	-	(10,577)
Other movements	-	-	(93,174)	-	93,174	-	-
III. Other variations in equity (Note 3)	-	(3,334)	173,231	(173,231)	(61,755)	-	(65,089)
IV. Merger addition (note 1)	-	(1,195)	-	-	-	-	(1,195)
<b>B) BALANCE AS OF 31 DECEMBER 2022</b>	<b>1,074,032</b>	<b>1,764,260</b>	<b>-</b>	<b>125,391</b>	<b>(61,755)</b>	<b>762,832</b>	<b>3,664,760</b>
<b>C) BALANCE AT 01 JANUARY 2023</b>	<b>1,074,032</b>	<b>1,764,260</b>	<b>-</b>	<b>125,391</b>	<b>(61,755)</b>	<b>762,832</b>	<b>3,664,760</b>
I. Total recognised income and expenditure.	-	-	-	154,747	-	(4,314)	150,433
II. Transactions with shareholders or owners.							
Distribution of profit (Note 3)							
Reserves	-	52,356	(52,356)	-	-	-	-
Dividends	-	-	(11,280)	-	-	-	(11,280)
Other movements	-	-	(61,755)	-	61,755	-	-
III. Other variations in equity (Notes 3 and 16)	-	(2,683)	125,391	(125,391)	(70,429)	-	(73,112)
<b>BALANCE AS OF 31 DECEMBER 2023</b>	<b>1,074,032</b>	<b>1,813,933</b>	<b>-</b>	<b>154,747</b>	<b>(70,429)</b>	<b>758,518</b>	<b>3,730,801</b>

The attached Report forms an integral part of the Financial Statements corresponding to the financial year ending 31 December 2023.

Cash Flow Statement for the years ended 31 December		Notes	2023	2022 (*)
(In thousands of euros)				
<b>A) OPERATING CASH FLOWS</b>				
<b>1.</b>	<b>Profit/loss for financial year before taxes</b>		<b>158,272</b>	<b>127,524</b>
<b>2.</b>	<b>Profit/Loss adjustments.</b>		<b>168,903</b>	<b>199,676</b>
a.	Depreciation and amortisation of assets	8,9,10	123,076	120,707
b.	Impairment write-downs	8,10,12,13	(4,468)	828
c.	Variation of provisions	18	68,843	77,309
d.	Subsidies attributed to share capital	17	(20,022)	(21,351)
e.	Attribution other subsidies, gifts and bequests	17	(26)	(34)
f.	Profit/loss on derecognitions and disposals of assets	25 e)	(9,892)	(106)
g.	Profit/loss on derecognitions and disposals of financial instruments		-	(1,037)
h.	Activation of financial income	8	3,101	3,316
i.	Finance incomes		(33,811)	(11,057)
j.	Financial costs		25,136	23,215
k.	Other income and expenses		16,966	7,886
<b>3.</b>	<b>Changes in current capital.</b>		<b>(224,660)</b>	<b>(91,451)</b>
a.	Inventories		345	627
b.	Trade and other accounts receivable		(27,745)	(12,322)
c.	Other current assets		(196)	(189)
d.	Creditors and other accounts payable		(14,780)	17,169
e.	Provisions	18	(183,239)	(97,628)
f.	Other current liabilities		241	373
g.	Other non-current assets and liabilities		714	519
<b>4.</b>	<b>Other operating cash flows from operating activities</b>		<b>3,865</b>	<b>(14,986)</b>
a.	Interest paid		(12,633)	(12,728)
b.	Interest collection		17,747	971
c.	Collections (Payments) of corporate income tax		(1,250)	(3,229)
<b>5.</b>	<b>Operating cash flows (1+2+3+4)</b>		<b>106,379</b>	<b>220,762</b>

The attached Report forms an integral part of the Financial Statements corresponding to the financial year ending 31 December 2023.

(\*) Restated information. (See note 2 d) Information comparison).

Cash flow statement for the years ended 31 December (In thousands of euros)	Notes	2023	2022 (*)
<b>B) INVESTMENT ACTIVITIES CASH FLOW</b>			
<b>6. Investment payments</b>		<b>(198,769)</b>	<b>(473,563)</b>
a. Group and associated companies		(9,875)	(12,947)
b. Property, plant and equipment		(105,081)	(84,490)
c. Investment property		(413)	(2)
d. Other financial assets		(83,400)	(376,124)
<b>7. Proceeds from divestment</b>		<b>387,644</b>	<b>35,111</b>
a. Group and associated companies		37	1,337
b. Intangible fixed assets		17	10
c. Investment property		-	179
d. Non-Current assets held for sale	7	14,062	3,525
e. Other financial assets		373,528	19,909
f. Other assets		-	10,151
<b>8. Investment activities cash flows (6+7)</b>		<b>188,875</b>	<b>(438,452)</b>
<b>C) FINANCING ACTIVITIES CASH FLOW</b>			
<b>9. Proceeds and payments for equity instruments</b>		<b>15,723</b>	<b>26,051</b>
a. Subsidies, gifts and bequests received.	17	15,723	26,051
b. Repayment grants, donations and bequests		-	-
<b>10. Proceeds and payments for financial liability instruments</b>		<b>(15,182)</b>	<b>(14,695)</b>
a. Issue		10,216	10,247
1. Debt with group and associated companies		1	-
2. Other debts		10,215	10,247
b. Repayment and amortisation of		(25,398)	(24,942)
1. Debt with group and associated companies		(14,762)	(14,762)
2, Other debts		(10,636)	(10,180)
<b>11. Proceeds from dividends and other financial instruments</b>		<b>(79,863)</b>	<b>(76,230)</b>
a. Dividends		(79,863)	(76,230)
<b>12. Financing activities cash flows (9+10+11)</b>		<b>(79,322)</b>	<b>(64,874)</b>
<b>D) NET INCREASE/DECREASE OF CASH OR CASH EQUIVALENTS (5+8+12)</b>	15	<b>215,932</b>	<b>(282,564)</b>
Cash or cash equivalents at beginning of the financial year	15	225,869	508,433
Cash or cash equivalents at close of financial year	15	441,801	225,869

The attached Report forms an integral part of the Financial Statements corresponding to the financial year ending 31 December 2023.

(\*) Restated information. (See note 2 d) Information comparison).

NOTES TO THE FINANCIAL  
STATEMENTS

2023



# 1. Activity

Canal de Isabel II, Sociedad Anónima, M.P. (hereinafter, “Canal de Isabel II, S.A., M.P.” or “the Company”) was established in accordance with section 16.1 of Law 3/2008, of 29 December.

The 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 Company's registered office is located at calle Santa Engracia, 125, Madrid.

As provided for in article 16, clause two, point 4.b) of Law 3/2008, which was amended by article 5 of Law 6/2011 of 28 December 2011 (on Tax and Administration Measures), on 14 June 2012 the Governing Council of the Region of Madrid approved the inventory of assets and rights that made up the contributed activity and the values assigned to these assets and rights for the purposes of incorporating the Company. In accordance with Article 16. 2.3 of Law 3/2008 on Tax and Administration Measures, the Public Entity transferred the ownership of all assets that do not form part of the Region of Madrid General Network and its shares and equity holdings in trading companies to the Company.

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.

The Company adopted its current name at the Annual General Meeting held on 21 December 2022.

According to article 2 of its Articles of Association, the Company's corporate purpose consists of the following:

- 1) Comprehensive water cycle management primarily in the region of Madrid, which involves:
  - a) Managing the supply and recycling of drinking water.
  - b) Overseeing the sewerage service.
  - c) Control of discharges through the sewerage system and the Public Domain Water.
  - 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 energy 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 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.
- 8) All activities restricted by law to collective investment institutions or reserved by the Stock Market Law to member brokers and brokerage firms are excluded.

When commissioned to do so by the corresponding public authority, the Company may also be involved in the process of collecting government revenue, without this entailing the exercise of public authority, whether this is tax or non-tax revenue, during the voluntary or enforcement period.

These purposes shall not include those activities the performance of which may require special qualifications this Company does not meet by virtue of any Law.

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 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.

On 14 June 2012, the Government Council of the Regional Government of Madrid approved the Contract-Programme between the Public Entity and the Company, which was signed on 1 July 2012, establishing the mutual obligations and commitments assumed by both parties within the framework of the general financial policy and water policy of the Regional Government of Madrid, all within the scope of Law 17/1984 of 20 December, which regulates water supply and sanitation in the Region of Madrid. This management includes running (operation, maintenance

and upkeep) the Region of Madrid General Network and providing the corresponding water supply, sanitation and water recycling services for that network. The agreement has a 50-year term which cannot be extended.

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

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

The Company is the head of a group of subsidiaries and, in accordance with current legislation, is obliged to prepare separate consolidated accounts. The Company prepares consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRS, hereinafter "IFRS") and IFRIC interpretations in force, as well as with the commercial legislation applicable to entities preparing financial information in accordance with IFRS. Information on stakes in group companies and associated companies can be found in Annex II.

On 21 March 2024, the Directors prepared the consolidated financial statements of Canal de Isabel II, S.A., M.P. and its subsidiaries for the financial year ended 31 December 2023, which show some consolidated profits of 131,195 thousand euros and consolidated equity of 2,762,153 thousand euros (120,224 thousand euros and 2,719,484 thousand euros in 2022 respectively).

The separate and consolidated financial statements will be filed with the Business Register of Madrid after approval by the Annual General Meeting of Shareholders.

The Company forms part of the Canal de Isabel II Group and its direct parent is the Public Entity Canal de Isabel II (see Note 16). The Public Entity's registered office is located at Calle Santa Engracia, 125, Madrid (Spain).

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

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 Register. 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 Company's Extraordinary Shareholders' Meeting held on 27 January 2022, were as follows:

- 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 Register of Madrid on 01 April 2022.
- In accordance with 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 Company.

- The assets and liabilities incorporated into the 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.

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

As a result of the merger described above, negative merger reserves amounting to 2,150 thousand euros have been recognised. (see note 16)

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

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

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

LIQUIDATION PROFIT/LOSS		In thousands of euros	
ASSETS	01/01/2022	LIABILITIES	01/01/2022
<b>A) NON-CURRENT ASSETS</b>		<b>A) EQUITY</b>	<b>1,091</b>
<b>B) CURRENT ASSETS</b>	<b>1,138</b>	<b>A-1) OWN FUNDS</b>	<b>1,091</b>
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>B) NON-CURRENT LIABILITIES</b>	<b>43</b>
		Other provisions	43
		<b>C) CURRENT LIABILITIES</b>	<b>4</b>
		Trade creditors and other accounts payable	4
<b>TOTAL ASSETS (A+B)</b>	<b>1,138</b>	<b>TOTAL EQUITY AND LIABILITIES (A+B+C)</b>	<b>1,138</b>

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 of 1,091 thousand euros. The liquidation resulted in the recognition of income amounting to 1,088 thousand euros for the Company.

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

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

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

LIQUIDATION PROFIT/LOSS		in thousands of euros	
ASSETS	01/01/2022	LIABILITIES	01/01/2022
<b>A) NON-CURRENT ASSETS</b>		<b>A) EQUITY</b>	<b>246</b>
<b>B) CURRENT ASSETS</b>	<b>249</b>	<b>A-1) OWN FUNDS</b>	<b>246</b>
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>B) NON-CURRENT LIABILITIES</b>	<b>-</b>
		<b>C) CURRENT LIABILITIES</b>	<b>3</b>
		Trade creditors and other accounts payable	3
<b>TOTAL ASSETS (A+B)</b>	<b>249</b>	<b>TOTAL EQUITY AND LIABILITIES (A+B+C)</b>	<b>249</b>

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 loss of 51 thousand euros for the Company.

## 2. Basis of presentation

### a) Regulatory Framework

These Financial Statements have been prepared in accordance with the General Accounting Plan as approved by Royal Decree 1514/2007, of 16 November, as amended and, in particular, Order EHA/3362/2010, of 23 December, approving the Rules for the adaptation of the General Accounting Plan to Public Infrastructure Concession Companies, as well as the rest of the trade laws in force at the reporting date of these Financial Statements.

### b) True and fair view

The Financial Statements have been prepared on the basis of the Company's accounting records and have been prepared in accordance with the applicable financial reporting framework, so that they present fairly the Company's equity, financial position, results of operations, changes in equity and cash flows for the year. These Financial Statements, which were prepared by the Board of Directors on 21 March 2024, will be submitted for approval at the Annual General Meeting, and it is expected that they will be approved without any changes.

### c) Operating currency and presentation currency

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

### d) Information comparison

In accordance with the current regulations, for the purposes of comparison, with each entry into the balance sheet, income statements, statement of changes in equity, the statement of cash flows and the notes to the financial statements, in addition to the figures for 2023, comparative figures for 2022 are shown, which formed part of the 2022 Financial Statements as approved at the Annual General Meeting held on 01 June 2023.

- (I) **Reclassification of comparative amounts for the previous year**

Some amounts relating to the Income statement for the financial year 2022 have been reclassified in these financial statements for the purposes of making them comparable

to those of the current year and for comparability purposes.

The reclassifications have been 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 4 i) (iii)).
- For the homogeneous treatment of the financial restatement of the Provision for infrastructure actions related to replacement and major repairs (see note 18).

Headings P and G	In thousands of euros		
	Initial 2022	Reclassif.	Final 2022
<b>6. Other operating expenses</b>	<b>(222,581)</b>	<b>3,074</b>	<b>(219,507)</b>
a) External services	(89,576)	(5,188)	(94,764)
e) Allowance to provisions for the replacement of infrastructure	(76,109)	8,262	(67,847)
<b>A.1) OPERATING RESULT</b>	<b>139,191</b>	<b>3,074</b>	<b>142,265</b>
<b>12. Finance Expenses</b>	<b>(23,457)</b>	<b>(3,074)</b>	<b>(26,531)</b>
c) For restatement of provisions	-	(8,262)	(8,262)
d) Other items	(7,362)	5,188	(2,174)
<b>A.2) FINANCIAL PROFIT/LOSS</b>	<b>(11,667)</b>	<b>(3,074)</b>	<b>(14,741)</b>

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

- (I) **Relevant accounting estimates and assumptions**

In relation to concession assets, the Company capitalises extensions and improvements that increase productivity in intangible assets (Note 8). 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 Company 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 (Note 18). This provision is subject to a corresponding financial restatement each year.

The Company follows the criterion, regardless of the existence of any indication of impairment, of testing at least once a year the potential impairment that could affect investments in group companies (see note 11(b)), investment property (see note 10(c)) and intangible assets (see note 8(e)), in order to verify whether the book value of these assets exceeds their recoverable value. Management and the Company must use estimates to calculate the recoverable value, which is generally determined using cash flow discounting methods.

Valuation allowances for bad debts, the review of individual balances based on customers' credit ratings, current market trends and historical analysis of bad debts at an aggregated level require a high degree of judgement by Management.

The Company's Financial Statements for each reporting period include an estimate of the water supplied but not yet billed at 31 December of each year (approximately one month's supply). Due to the meter-reading procedure, this supply is billed the following year. The estimate is based on the water use billed on each contract in the two preceding similar periods according to the estimated consumption method that is included in the Regulations for the supply service of waters of Canal Isabel II (see notes 12 (d) and 25 (a)).

The Company is subject to regulatory and legal processes and inspections by government bodies in various jurisdictions. It recognises a provision for liabilities (see note 18) if it is probable that an obligation will exist at year end that will give rise to an outflow of resources and this outflow can be measured reliably. Legal processes usually involve complex issues and are subject to substantial uncertainties. As a result, Management uses significant judgement when determining whether it is probable that the process will result in an outflow of resources embodying economic benefits and estimating the amount.

The Company has receivables from certain town and city councils for work carried out and work on infrastructures used in the water distribution services and sewerage system. These receivables are recognised at amortised cost considering recovery periods. These periods are estimated by management based on past experience, representing the best estimate of the balance to be recovered in the future (see note 12).

The Company has recognised security deposits placed by customers to secure payment for the water supplied not yet billed. These security deposits are recognised at amortised cost considering the average reimbursement period. This period is estimated by the Company based on past experience, which is the best estimate of the amount to be reimbursed in the future (see note 20 (b)).

In addition, the 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 Company based on past experience, which is the best estimate of the amount to be reimbursed in the future (see note 20 (b)).

## (II) Estimation Changes

Although estimates are calculated based on the best information available at 31 December 2023, future events may require changes to these estimates in subsequent years. The effect of modifications on the Financial Statements arising from adjustments to be applied during the following financial years shall be accounted prospectively.



### 3. Distribution of profits/loss

The Company's Board of Directors, 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 statement prepared 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	
<b>Distributable profit forecast for 2023</b>	
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
<b>Cash forecast for the period from 01 November 2023 to 01 November 2024</b>	
Expected cash balance at 01 November 2023	537,092
Projected collections	1,097,578
Projected payments, including interim dividend	1,386,023
Cash balances projected at 01 November 2024	248,646

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

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

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

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

Euro	
<b>FINANCIAL YEAR PROFIT</b>	
<b>Distribution</b>	
Voluntary reserve	69,470,138.08
Interim dividends	70,428,463.06
Complementary dividends	14,847,922.54
<b>TOTAL</b>	<b>154,746,523.68</b>

Euro	
<b>FINANCIAL YEAR PROFIT</b>	
<b>125,390,522.06</b>	
<b>Distribution</b>	
Legal reserve	4,503,949.37
Voluntary reserve	47,852,433.19
Interim dividends	61,754,644.67
Complementary dividends	11,279,494.83
<b>TOTAL</b>	<b>125,390,522.06</b>

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

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

## 4. Recording and valuation standards

The principal accounting and valuation rules used in the preparation of the Company's Financial Statements, in accordance with the provisions of the General Accounting Plan, as well as other trade laws and regulations in force, were as follows:

### a) Jointly controlled operations and assets

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

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

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

### b) Capitalisation of finance expenses

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

### c) Intangible assets

Intangible assets are stated at acquisition cost, production cost or market value adjusted for amortisation and impairment losses.

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

#### (I) Research and Development

Expenditure related to research and development activities is recognised as an expense when incurred in the Income statement. Their activation is based on studies that support their viability and economic profitability.

#### (II) Intangible assets from concession agreements

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

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

The Company accounts for the right of access to the infrastructure for the purposes of providing the operating service assigned by the grantor as an intangible asset, in accordance with the valuation standard 5 "Intangible assets" of the General Accounting Plan.

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

infrastructure or the aforementioned infrastructure together with the newly constructed infrastructure.

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

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

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

From the time of commissioning, the financial expenses for the year are charged to income in proportion to the income foreseen in the Company's Economic and Financial Plan.

In relation to expected revenues, the proportion of revenues to total revenues is determined for each year. Said percentage is applied to the total of finance expenses foreseen for the concession period, in order to determine the amount thereof to be included under each financial year as finance expenses. In the event that the actual revenue for that year exceeds the expected revenue, the ratio shall be calculated between the actual revenue and the above-mentioned total expected revenue.

The difference between the total financial expenses for the year and the financial expenses charged to the income statement is capitalised to the item "Concession agreements, financial activation" under "Intangible assets" in the balance sheet.

The contractual obligations assumed by the Company to maintain the infrastructure during the operating period, or to carry out renovation work prior to returning the infrastructure to the transferor upon expiry of the concession arrangement, are recognised using the accounting policy described for provisions in section (p) of this note.

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

Work undertaken to improve or increase the capacity of assets should be considered as a new concession. Nonetheless, if in view of the terms of the arrangement

the Company considers that these initiatives will not be offset by the possibility of obtaining higher revenues from the date on which they are carried out, a provision for dismantling or removal is recognised. This provision is equal to the best estimate of the present value of the disbursement required to settle the obligation associated with the aforementioned initiatives that will not be offset. The balancing entry is an increase in the acquisition cost of intangible asset.

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

Work carried out by the Company on its own fixed assets is recorded at accumulated cost, which is the sum of external costs plus internal costs, determined on the basis of in-house consumption of materials, direct labour and overheads calculated on the basis of absorption rates.

### (III) Computer software

Computer software includes the costs incurred in the acquisition and development of computer applications. Maintenance expenses are recorded in the Income Statement as incurred.

### (IV) Subsequent costs

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

### (V) Useful life and amortisation rates

The Company assesses whether the useful life of each intangible asset acquired is finite or indefinite. An intangible asset is regarded as having an indefinite useful life when there is no foreseeable limit to the period over which the asset will generate cash inflows. The Company has no intangible assets with indefinite useful lives. Intangible assets are amortised by distributing the amortisable amount systematically throughout its useful life.

Development expenses and computer software are amortised on a straight-line basis over periods of five and four years, respectively, from the date on which the project is completed. For these purposes, depreciable amount is understood as the acquisition cost minus its residual value, if applicable.

The Company reviews the residual value, useful life and amortisation method for intangible assets at each financial year end. Changes to initially established criteria are accounted for as a change in accounting estimates.

#### (VI) Value impairment of fixed assets

The Company measures and determines impairment write-downs and reversals of impairment losses on intangible assets based on the criteria in section (g) "Impairment of non-financial assets subject to amortisation."

### d) Property, plant and equipment

#### (I) Initial recognition

Assets included in property, plant and equipment are stated at acquisition or production cost, adjusted for accumulated depreciation and accumulated impairment losses, if any.

#### (II) Depreciations

The Company depreciates its property, plant and equipment once they are in working condition by distributing the depreciable amount on a systematic basis over their useful lives. For these purposes, depreciable amount is understood as the acquisition cost minus its residual value.

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

Item	Depreciation rates	
	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 Company reviews the residual value, the useful life and the depreciation method of the property, plant and equipment for each financial year. Amendments in initially established criteria are recognised as estimation changes.

#### (III) Subsequent costs

Following initial recognition of assets, only those costs incurred that mean an increase in their capacity, productivity or extension of their useful life are capitalised,

and the carrying amount of the elements replaced shall be derecognised. In this regard, the costs arising from the daily maintenance of the property, plant and equipment are accounted 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 amount, the cost of the replacement is used as indication of the cost of the elements at the time of acquisition or construction.

### e) Investment property

Investment property is property earmarked totally or partially to earn rentals, for capital appreciation or both, rather than for use in the Company's business.

Investment property is measured at acquisition or production cost less the sum of depreciation and accumulated impairment losses. The Company measures and recognises these assets following the policy for property, plant and equipment.

#### (I) Depreciation

Investment property is depreciated by distributing its depreciable amount systematically throughout its useful life. For these purposes, depreciable amount is understood as the acquisition cost minus its residual value.

The depreciation of investment property is calculated on a straight-line basis applying the following depreciation rates:

Item	Depreciation rates	
	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 %

### f) Non-Current assets held for sale

#### (I) Non-Current assets held for sale

The Company recognises non-current assets or disposable groups of items, the carrying amount of which will essentially be recovered via a sales transaction instead of

ongoing 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.

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 is valued.

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

#### g) Value impairment of non-financial assets subject to amortisation

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

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

Impairment losses are recognised in the Income Statements.

To determine the recoverable amount of the assets tested for impairment, the present value of the net cash flows generated by the Cash-Generating Units (CGU) to which they relate has been estimated, excluding cash flows related to collections or payments of financing transactions and income tax payments, as well as those arising from future improvements or refurbishments of the assets of the Cash-Generating Units. A pre-tax discount rate that includes current market assessments of the time value of money and the risks specific to each cash-generating unit has been used to discount the cash flows.

Recoverable amount is determined for each individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or

groups of assets. If this is the case, recoverable amount is determined for the CGU to which the asset belongs.

Losses related to the value impairment of the CGU reduce, initially, as the case might be, the value of the goodwill allocated to it and then the one corresponding to the non-current CGU 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 Company assesses at each one of the closing dates if there is any sign indicating that the value impairment losses recognised in previous financial years have disappeared or decreased. Value impairment losses corresponding to the goodwill are not reversible. The impairment losses of the rest of assets only revert in case of a change in the estimates used to establish the recoverable amount of the asset.

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

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 loss shall be directly recognized in "Losses from fixed assets" in the Income Statement.

#### h) Leases

##### (i) (ii) Lessor accounting

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

Assets leased to third parties under operating lease agreements are classified according to their nature, applying the accounting policies set out for the corresponding type of asset.

Income from operating leases, net from incentives granted, is recognised on a straight-line basis throughout the lease term, unless another systematic distribution basis is more representative because it reflects more adequately the time pattern of the use of benefits derived from the use of the leased asset.

Initial direct costs are added to the carrying amount of the leased asset and are recognised as an expense over the lease term using the same criteria as those used for income recognition.

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

## i) Financial Instruments

### (I) Classification and separation of financial instruments

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

### (II) Compensation principles

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

### (III) Financial assets at amortised cost

A financial asset is included in this category, even when it is admitted to trading on an organised market, if the undertaking holds the investment for the purpose of receiving cash flows from the performance of the contract and the contractual terms of the financial asset give rise, at specified dates, to cash flows that are solely collections of principal and interest on the principal amount outstanding.

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 Company for which the amount receivable is determined or determinable.
- b) The 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.

If 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 security interests 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.

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



However, the market value of the instrument may be used as a proxy for the present value of future cash flows, provided that it is sufficiently reliable to be considered representative of the value that could be recovered by the company.

The recognition of interest on credit-impaired financial assets shall follow the general rules, without prejudice to the simultaneous assessment by the undertaking of whether the amount will be recoverable and, if so, the recognition of the corresponding impairment loss.

#### (IV) Financial assets at cost

This category includes:

- a) Equity investments in Group companies, jointly controlled companies and associates
- b) Investments in equity instruments whose fair value cannot be reliably measured, and derivatives that have these investments as their underlying.
- c) Hybrid financial assets whose fair value cannot be reliably estimated, unless they qualify for recognition at amortised cost.
- d) Contributions made as a result of a joint account contract and the like.
- e) Profit participating loans with contingent interests.
- f) Financial assets that should be classified at fair value but whose value cannot be reliably estimated.

#### Initial assessment

Investments included in this category are initially measured at cost, which is the fair value of the consideration given plus any directly attributable transaction costs, applying, where applicable, in relation to group companies, the criteria included in section 2 of Recording and Valuation Standard 19 of the Spanish National Chart of Accounts relating to transactions between group companies, and the criteria for determining the cost of the combination established in the standard on business combinations.

#### Subsequent assessment

Equity instruments included in this category shall be measured at cost less any accumulated impairment losses.

The same applies to participating loans where the interest is contingent, either because a fixed or variable interest rate is agreed on the achievement of a milestone in the borrowing company (e.g. the achievement of profits), or because it is calculated solely by reference to the performance of the borrowing company's business. If irrevocable fixed interest is agreed in addition to

contingent interest, the latter is accounted for as finance income on an accruals basis. Transaction costs shall be taken to the Income Statement on a straight-line basis over the life of the participating loan.

#### Value impairment

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

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

Unless there is better evidence of the recoverable amount of investments in equity instruments, the estimate of the impairment loss for this asset class shall be calculated on the basis of the investee's equity and the unrealised gains existing at the measurement date, net of the tax effect. In determining this value, and provided that the investee has itself invested in another investee, the equity included in the Consolidated Financial Statements prepared in accordance with the criteria of the Commercial Code and its implementing rules must be taken into account.

In general, the indirect method of estimation on the basis of equity may be used in cases where it can be used to demonstrate a minimum recoverable amount without the need for a more complex analysis where it is inferred that there is no impairment.

The recognition of impairment losses and, where applicable, their reversal, shall be recorded as an expense or income, respectively, in the Income Statement. Impairment reversals are limited to the carrying amount of the investment recognised on the date of reversal had no impairment been recorded.

#### (V) Interest and dividends

Interest and dividends on financial assets accrued after the time of acquisition shall be recognised as income in the Income Statement. Interest on financial assets measured at amortised cost must be recognised using the effective interest method and dividends when the member's right to receive them is declared.

For these purposes, the amount of explicit interest accrued but not yet due at that time and the amount of dividends agreed by the competent body at the time of acquisition shall be recorded separately in the initial valuation of the financial assets on a maturity basis. "Explicit interest" means interest that is obtained by applying the contractual interest rate of the financial instrument.

Also, if the dividends distributed clearly arise from profits generated prior to the acquisition date because amounts in excess of the profits generated by the investee since acquisition have been distributed, they shall not be recognised as income and reduce the carrying amount of the investment.

The judgement as to whether profits have been generated by the investee shall be made solely on the basis of the profits recognised in the individual Income Statement since the date of acquisition, unless it is clear that the distribution out of those profits is to be regarded as a recovery of the investment from the perspective of the entity receiving the dividend.

#### (VI) Derecognition of financial assets

An entity derecognises a financial asset, or part of a financial asset, when the contractual rights to the cash flows from the financial asset expire or have been transferred and the risks and rewards of ownership have been substantially transferred, in circumstances that are assessed by comparing the entity's exposure, before and after the transfer, to changes in the amounts and timing of the net cash flows of the transferred asset. Substantially all the risks and rewards of ownership of the financial asset are deemed to have been transferred when its exposure to such a change is no longer material in relation to the total change in the present value of the future net cash flows associated with the financial asset.

If the company has neither transferred nor retained substantially all the risks and rewards, the financial asset is derecognised when it has not retained control of the asset, which is determined by the transferee's unilateral ability to transfer the asset in full and unconditionally to an unrelated third party. If the transferor company retains control of the asset, it shall continue to recognise the asset for the amount to which the transferor is exposed to changes in the value of the transferred asset, i.e., its continuing involvement, and recognise an associated liability.

When the financial asset is derecognised, the difference between the consideration received net of attributable transaction costs, taking into account any new asset obtained less any liability assumed, and the carrying amount of the financial asset shall determine the gain or loss arising on derecognition and shall be part of the profit or loss for the period in which the gain or loss arises.

The above criteria shall also apply to transfers of a group or part of a group of financial assets.

#### (VII) Financial liabilities at amortised cost

The company shall classify all financial liabilities in this category except when they are to be measured at fair value through profit or loss.

In general, this category includes other financial liabilities such as security deposits received to ensure compliance with the economic conditions of the supply contract, in accordance with specific regulations (consumption advances).

##### Initial assessment

Financial liabilities classified in this category are initially measured at fair value, which, unless there is evidence to the contrary, is the transaction price, which is the fair value of the consideration given, plus directly attributable transaction costs.

However, trade payables falling due in less than one year and not bearing a contractual interest rate, as well as disbursements required by third parties on participations, the amount of which is expected to be paid in the short term, may be measured at their nominal value, when the effect of not discounting cash flows is not significant.

##### Subsequent assessment

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

#### (VIII) Derecognitions and changes in financial liabilities

A company derecognises a financial liability, or part of a financial liability, when the obligation is extinguished, i.e., when it is discharged, cancelled or expired. It also derecognises financial liabilities of its own that it acquires, albeit with the intention of repositioning them in the future.

The difference between the carrying amount of the financial liability or part of the financial liability derecognised and the consideration paid, including any costs or fees incurred and including any asset transferred other than cash or liability assumed, is recognised in the Income Statement in the period in which it arises.



## j) Inventories

### (I) General

Inventories include spare parts and miscellaneous materials held in the Company's warehouses. They are initially measured at acquisition or production cost. Acquisition cost includes the amount invoiced by the seller after deducting any discounts, rebates or other similar items as well as interest incorporated in the nominal amount of the debits.

The Company makes the appropriate valuation adjustments, which are recognised as an expense in the Income Statement. The cost value of the inventories is subject to adjustments in those cases when its acquisition cost exceeds its net realisable value. This is understood to be their replacement cost.

### (II) Emission allowances

The greenhouse gas emission allowances received free of charge under the relevant allocation plans have been recognised under "Inventories" in the Balance Sheet, as established in the first additional provision of Royal Decree 602/2016 of 2 December. They are valued at the market price prevailing at the beginning of the period for which they are granted, and a subsidy is recorded as a balancing entry under "Subsidies, gifts and bequests received" in Equity. They are attributed to profit/loss on the basis of the actual consumption of allowances.

In accordance with the latest provision in force, greenhouse gas emission allowances acquired from third parties are recognised in inventories and initially valued at acquisition cost, and assessed at year-end if the market value is below the book value of the allowances in order to determine whether there is evidence of impairment. Where appropriate, it is determined whether these allowances are to be used in the production process or are to be sold, in which case the appropriate write-downs are recognised. Such write-downs shall be settled as soon as the reasons for the write-down of the allowances no longer exist.

The expense arising from the consumption of greenhouse gas emission allowances is recorded under "changes in inventories" in the income statement, based on the difference between the closing balance and the opening balance of inventories as the greenhouse gases are emitted.

At year-end, the estimated amount of allowances pending acquisition according to the best estimate of consumption during the year is recorded under "purchases of supplies" with a balancing entry in a provision for risks and expenses, which shall be maintained until such time as the Company is informed by the National Registry of Emission Allowances (RENADE) of actual consumption, so that it can deliver the necessary allowances once acquired and apply the provision.

Detailed information on emission allowances received and consumed in the current year is included in Note 13 of these notes to the financial statements.

## k) Cash and cash equivalents

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

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

## l) Equity

The share capital is represented by ordinary shares. The cost of incorporating the Company has been recognised directly in equity by reducing reserves (see note 16).

## m) Subsidies, gifts and bequests received

Non-refundable grants, donations and legacies received are recorded in recognised income and expense in equity where, if applicable, they have been officially awarded and the conditions attached to them have been met or there is reasonable assurance that they will be received. The Company considers that the conditions of capital subsidies from European Funds have been met when these subsidies are actually received.

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

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

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

## n) Defined Contribution Plan

On 3 November 1990 the Public Entity agreed to set up an External Fund for its current staff, availing itself of the Spanish Pension Plan Regulations Law (Law 8/1987 of 8 June). The main features of this agreement are as follows:

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

The Company recognises the contributions payable to this defined contribution plan when the employee has provided the corresponding services. The contributions payable are recognised as an employee benefits expense (see Note 25 (d)).

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.

#### o) Defined Contribution Plan and other long-term employee benefits

On 15 November 2002, the 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% at 1 January 2042, PERM/F 2000P mortality tables and a management fee of 0.23% of the premium. Pensions are updated annually based on the increases in state pensions. The premium required to adjust the externalised commitments being paid to retired personnel is calculated annually by independent actuaries using the Projected Unit Credit Method and recognised in the Income Statement.

In January 2011, the Company outsourced the policies for tenure and seniority bonuses corresponding to existing remunerations committed to in the Collective Bargaining Agreement. At present, the Company recognises in the Income Statements the amount corresponding to the

accrual of the cost for each financial year. The right with the insurance company for early payment is recognised in the heading "Asset accruals" (see Note 14) and the financial effect on updating the amortised cost under the heading "Financial profit/loss".

#### p) Provisions

##### (i) General criteria

Provisions are payables relating to present obligations arising from past events, the settlement of which is likely to result in an outflow of resources, but the amount and/or timing of which is uncertain.

The balance sheet includes all provisions for which it is estimated that it is more likely than not that the obligation will have to be settled. Contingent liabilities are not recorded; they are disclosed in the notes to the financial statements instead.

Provisions are recorded at the present value of the best possible estimate of the amount required to settle or transfer the obligation to a third party, with adjustments arising from the restatement of the provision recorded as a finance expense as it accrues.

Provisions are reversed against profit/loss when it is not likely that there will be an outflow of resources to settle such obligation.

#### q) Income and expenses

Income and expenses are recorded once the actual flow of goods or services relating to them actually occurs, irrespective of the date of cash or financial flow.

The Company recognises income from its ordinary activity when the transfer of control of the goods and services committed to the customer takes place. At that time, the Company will measure the income in the amount reflected by the consideration to which it expects to be entitled in exchange for said goods or services.

In order to implement this essential principle to income recognition, the company will follow a comprehensive process consisting of the following successive phases:

- Identify the contract(s) signed with the customer.
- Identify the obligation(s) to be fulfilled in the contract.
- Determine the transaction price
- Allocate the transaction price to the performance obligations of the contract.

- Recognise ordinary business income when the entity fulfils a performance obligation.

Income is therefore recognised at an amount that reflects the consideration that the company 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.

Income arising from commitments to be fulfilled over time for goods or services for which control is not transferred at a certain point in time is recognised by reference to the stage of completion at the closing date, provided that reliable information is available to measure the stage of completion. Otherwise revenue is only recognised in an amount equal to the costs incurred that are reasonably expected to be recovered in the future.

Income from commitments that are performed at a specific point in time is carried at that date, with the costs incurred up to that point in the production of the goods or services being recognised as inventories.

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.

## r) Service provision

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 billed is estimated in order to recognise the corresponding sale. Income arising from services rendered is measured at the fair value of the consideration received or to be received. When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of costs incurred that are recoverable.

## s) Tax on profit

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

Regional Government of Madrid. The general tax rate is 25%.

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

Current tax is the amount payable by the Company as a result of tax assessments on profit for a financial year.

Current tax assets or liabilities are measured at the amounts expected to be paid to or recovered from the tax authorities, using current tax rates and regulations. Deductions and other tax benefits, excluding withholdings and payments on account, as well as tax losses carried forward from previous years and effectively applied in the current year, result in a lower amount of current tax.

Deferred tax expense or income relates to the recognition and derecognition of deferred tax assets and liabilities. These include temporary differences which are identified as amounts expected to be payable or recoverable arising from differences between the carrying amounts of assets and liabilities and their tax bases, as well as tax loss carryforwards and tax credit carryforwards. These amounts are recorded by applying to the relevant temporary difference or credit the tax rate at which they are expected to be recovered or settled.

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 net equity or on a business combination.

### (I) Recognition of deferred tax liabilities

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

### (II) Recognition of deferred tax assets

The Company recognizes deferred tax assets when it is probable that sufficient future taxable profit will be available against which they can be utilized to offset deferred tax assets or when tax legislation provides for the possibility of future conversion of deferred tax assets into a receivable from the Public Administration.

The Company recognises the conversion of a deferred tax asset into receivables from Public Administrations, where this can be requested pursuant to current tax legislation. For these purposes, the deferred tax asset is derecognised with a charge to the expense for Corporate Income Tax and the receivable is credited to the current profit tax. Similarly, the Company recognises the exchange of a

deferred tax assets for government securities, when ownership thereof is acquired.

The Company recognises the payment obligation of the financial contribution as an operating expense charged to the debt with Public Administrations when it accrues in accordance with the Corporate Income Tax Law.

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

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

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

### (IV) Compensation and classification

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

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

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.

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.

A reciprocal credit and debit arise 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 Group records the total consolidated corporate income tax payable (recoverable) to be credited (debited) to receivables (payables) from/to Group companies and associates.

The debt amount (loan) corresponding to subsidies is registered as an amount to be debited (credited) to payables (receivables) with Group companies and associates.

### t) Environment

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

Expenses derived from environmental activities are recognised as "Other operating expenses" in the Income Statement in the period in which they are incurred.

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

Assets and liabilities are presented in the balance sheet classified as current and non-current. For these purposes, assets and liabilities are classified as current when they are linked to the Company's ordinary operating cycle and are expected to be sold, consumed, realised or settled within one year.

### v) Cash flow statement

In the Cash Flow Statement:

- Cash flows from operating activities are payments and receipts from ordinary activities and other activities that cannot be classified as investing or financing activities.
- Cash flows from investing activities are payments and receipts arising from acquisitions and disposals of non-current assets.
- Cash flows from financing activities are payments and receipts from the placement and repayment of financial liabilities, equity instruments or dividends.

In the Statement of Cash Flows, borrowings from credit facilities that form an integral part of the Company's cash management are included as a component of cash and cash equivalents.

#### w) Business Combinations

Mergers, spin-offs and non-monetary contributions of a business between group companies are accounted for in accordance with the requirements for related party transactions.

Mergers or spin-offs other than the above and business combinations arising from the acquisition of all the assets and liabilities of a company or part of a company constituting one or more businesses are accounted for using the acquisition method.

#### x) Transactions with related parties

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

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

## 5. Financial risk policy and management

The primary objective of the Company's financial risk management policy is to ensure that sufficient funds are available to meet its financial commitments and to protect the value of its cash flows, assets and liabilities. The Company's policy is to hedge against all significant and unacceptable exposure, provided that appropriate instruments exist, and the cost of the hedging operation is reasonable.

### (I) Credit risk

The Company has no significant concentrations of credit risk other than those mentioned in note 12 (d). Valuation allowances for bad debts and the review of individual balances based on customers' credit ratings and the historical analysis of bad debts at an aggregated level all require a high degree of judgement on the part of Management.

The total sum of the financial assets subject to credit risk is shown in note 11.

### (II) Interest rate risk

Interest rate risk constitutes the impact on profit of a rise in interest rates, which increases the cost of borrowings. At 31 December 2023, the Company has referenced 100% of the total indebtedness at a fixed rate, therefore there is no interest rate risk (100% at 31 December 2022).

### (III) Liquidity risk

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

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

Details of financial assets and financial liabilities by contractual maturity date are provided in notes 12 e) and 20 e).

### (IV) Exchange Rate Risk

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

## 6. Joint ventures

Information on temporary joint ventures is presented in Annex I.

Details of the most significant items in the Balance Sheet and Income Statement in 2023 and 2022 of the UTE Aguas de Alcalá, in which the Company holds a 50% stake, are as follows:

	In thousands of euros	
	2023	2022
Non-current assets	11,770	13,591
Current assets	4,570	3,662
Net equity	(765)	(1,607)
Non-current liabilities	(290)	(308)
Current liabilities	(15,285)	(15,337)
Net turnover	14,916	14,723
Supplies	(6,035)	(5,677)
Personnel expenses	(2,901)	(2,669)
Other operating expenses	(2,750)	(2,603)
Amortisations and depreciations	(1,534)	(1,512)
Finance expenses	(1,033)	(809)



## 7. Non-current assets held for sale

The breakdown and movement at 31 December were as follows:

In thousands of euros			
2023			
	Lands	Buildings	Total
<b>Opening balance</b>	<b>3,380</b>	<b>643</b>	<b>4,023</b>
Additions	0		0
Derecognitions	(2,026)	(155)	(2,181)
Transfers	(1,352)	(488)	(1,840)
<b>COST AS OF 31 DECEMBER 2023</b>	<b>2</b>	<b>-</b>	<b>2</b>

In thousands of euros			
2022			
	Lands	Buildings	Total
<b>Opening balance</b>	<b>3,388</b>	<b>893</b>	<b>4,281</b>
Additions	-	-	-
Derecognitions	(8)	(250)	(258)
Transfers	-	-	-
<b>COST AS OF 31 DECEMBER 2022</b>	<b>3,380</b>	<b>643</b>	<b>4,023</b>

The 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, twenty-six properties located in various municipalities of the Region of Madrid were sold by electronic public auction for 14,062 thousand euros, generating a profit of 11,881 thousand euros (note 25 (e)).



## 8. Intangible assets

The breakdown and movement were as follows:

In thousands of euros						
2023						
	Development	Computer software	Concession agreement regulated assets	Concession arrangements, financial activation	Concession agreement, regulated assets under construction	Total
<b>Cost</b>						
Cost as of 01 January 2023	14	198	6,979,128	53,171	102,322	7,134,833
Additions	-	-	64,411	-	110,542	174,953
Derecognitions	-	-	(5,209)	-	-	(5,209)
Transfers	-	-	45,906	-	(45,923)	(17)
Transfer to the Income Statement	-	-	-	(3,101)	-	(3,101)
Cost as of 31 December 2023	14	198	7,084,236	50,070	166,941	7,301,459
<b>Depreciation</b>						
Accumulated amortisation as of 01 January 2023	(14)	(189)	(3,168,729)	-	-	(3,168,932)
Additions	-	(5)	(122,528)	-	-	(122,533)
Derecognitions	-	-	3,246	-	-	3,246
Transfers	-	-	7	-	-	7
Accumulated amortisation as of 31 December 2023	(14)	(194)	(3,288,004)	-	-	(3,288,212)
<b>Impairment</b>						
ACCUMULATED IMPAIRMENT AS OF 1 JANUARY 2021	-	-	(3,064)	-	-	(3,064)
Impairment reversals	-	-	3,064	-	-	3,064
Accumulated impairment as of 31 December 2023	-	-	-	-	-	-
<b>NET CARRYING AMOUNT AT 31 DECEMBER 2023</b>	-	4	3,796,232	50,070	166,941	4,013,247

In thousands of euros						
						2022
	Development	Computer software	Concession agreement, regulated assets	Concession agreements, financial activation	Concession agreement, regulated assets under construction	Total
<b>Cost</b>						
<b>Cost as of 01 January 2022</b>	<b>14</b>	<b>198</b>	<b>6,865,361</b>	<b>56,487</b>	<b>76,107</b>	<b>6,998,167</b>
Merger additions	-	-	53,624	-	-	53,624
Additions	-	-	46,203	-	50,800	97,003
Derecognitions	-	-	(9,448)	-	-	(9,448)
Transfers	-	-	23,388	-	(24,585)	(1,197)
Transfer to the Income Statement	-	-	-	(3,316)	-	(3,316)
<b>COST AT 31 DECEMBER 2022</b>	<b>14</b>	<b>198</b>	<b>6,979,128</b>	<b>53,171</b>	<b>102,322</b>	<b>7,134,833</b>
<b>Depreciation</b>						
<b>Accumulated amortisation as of 01 January 2022</b>	<b>(14)</b>	<b>(184)</b>	<b>(3,009,220)</b>	<b>-</b>	<b>.</b>	<b>(3,009,418)</b>
Merger additions	-	-	(44,051)	-	-	(44,051)
Additions	-	(5)	(120,203)	-	-	(120,208)
Derecognitions	-	-	6,235	-	-	6,235
Transfers	-	-	(1,490)	-	-	(1,490)
<b>Accumulated amortisation as of 31 December 2022</b>	<b>(14)</b>	<b>(189)</b>	<b>(3,168,729)</b>	<b>-</b>	<b>.</b>	<b>(3,168,932)</b>
<b>Impairment</b>						
<b>Accumulated impairment as of 01 January 2022</b>	<b>-</b>	<b>-</b>	<b>(4,892)</b>	<b>-</b>	<b>.</b>	<b>(4,892)</b>
Impairment reversals	-	-	1,828	-	-	1,828
<b>Accumulated impairment as of 31 December 2022</b>	<b>-</b>	<b>-</b>	<b>(3,064)</b>	<b>-</b>	<b>.</b>	<b>(3,064)</b>
<b>NET CARRYING AMOUNT AT 31 DECEMBER 2022</b>	<b>-</b>	<b>9</b>	<b>3,807,334</b>	<b>53,171</b>	<b>102,322</b>	<b>3,962,836</b>

The main additions for the year 2023 under "Concession agreement, regulated assets" and "Concession agreements, regulated assets in progress" come from extensions and improvements to the infrastructure assets required to provide the services under the concession arrangements.

In 2023, the following were the most significant additions and transfers of the investments recorded in "Concession arrangement, regulated asset":

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 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 security 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 tank of the Atazar Canal; and at the Valmayor DWTP.

The construction of a regulating tank in Talamanca; a bypass at the Navahondilla lifting station; a rechlorination station at the Soto II tank; 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, 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 to the tertiary at the Arroyo de la Vega WWTP and the extension of the reused water supply network in Parla.

Implementation of the real-time monitoring system for operational technology assets; and continued integration in the remote control of the lifting stations, DWTP, chlorination, purification plants and mini-power plants.

Security actions 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.

## a) Concession arrangements, regulated asset

The most significant concession arrangements are the following:

In thousands of euros							
2023							
Concession arrangements regulated assets	Use	Maturity date	Depreciation period	Cost	Accumulated amortisation	Write-down	Net
General Network Infrastructures of the Region of Madrid	Operating activities	2062	50	5,619,250	(2,573,151)	-	3,046,099
Sanitation Infrastructures Madrid City Council	Operating activities	2036	31	976,070	(536,000)	-	440,070
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 Facilities Aguas de las Cuencas de España	Operating activities	2039	30	72,183	(34,144)	-	38,039
Additional investments Granting of rights to use Madrid City Council sanitation infrastructures	Operating activities	2036	31	66,721	(26,180)	-	40,541
City Council Concession Cáceres	Operating activities	2039	24	39,259	(12,906)	-	26,353
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
<b>TOTAL</b>				<b>7,128,583</b>	<b>(3,283,374)</b>	-	<b>3,845,209</b>

In thousands of euros							
2022							
Concession arrangements regulated assets	Use	Date Maturity	Amortization period	Cost	Accrued depreciation	Write-down	Net
General Network Infrastructures of the Region of Madrid	Operating activities	2062	50	5,516,812	(2,498,948)	-	3,017,864
Sanitation Infrastructures Madrid City Council	Operating activities	2036	31	979,280	(506,000)	-	473,280
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 Facilities Aguas de las Cuencas de España	Operating activities	2039	30	72,183	(31,670)	-	40,513
Additional investments Granting of rights to use Madrid City Council sanitation infrastructures	Operating activities	2036	31	64,244	(23,474)	-	40,770
City Council Concession Cáceres	Operating activities	2039	24	39,259	(11,380)	(3,064)	24,815
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
<b>TOTAL</b>				<b>7,026,685</b>	<b>(3,164,809)</b>	<b>(3,064)</b>	<b>3,858,812</b>

Details of the concession arrangements and the most significant terms and conditions thereof are as follows:

- The Region of Madrid General Network comprises all of the infrastructures used to provide the public services assigned to the Public Entity by the Regional Government of Madrid. Under the terms of Law 3/2008 and in accordance with the terms and conditions of the Contract-Programme, the management of these infrastructures has been entrusted to the Company. All of these infrastructures are public property as they are used for public services provided by the Company. As such, they may not be disposed of or seized and are not subject to any statute of limitations.

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

In 2023 the Company charged 45,794 thousand euros to the provision for infrastructure replacement relating to the General Network of the Region of Madrid (50,362 thousand euros in 2022) (see note 18 (iii)).

The consideration received by the 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.

- 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 Company charged 14,495 thousand euros to the provision for replacements (15,456 thousand euros in 2022) (see note 18 (iii)).

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. The consideration received by the Company arises from the right to bill the recycling services rendered, in accordance with the approved tariffs. Tariffs and any amendments thereto are authorised by the Region of Madrid in accordance with the legislation in force. During the period ended 31 December 2023 the Company charged 419 thousand euros to the provision for replacements (625 thousand euros in 2022) (see note 18 (iii)).

- 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. The councils entrust the management and operation of the sewerage services, as well as related infrastructures and facilities to the Region of Madrid. These management and operation will be carried out by the Company.

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.

These agreements do not stipulate any investment commitments, but rather require Canal to conduct diagnostic studies on the current condition of the sewerage networks so that master plans for the improvement of these installations can be drawn up where necessary.

The consideration received by the Company for providing the sewerage service is the right to collect the corresponding tariffs from customers, based on their use of the service rendered. 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 is outstanding at 31 December 2023 and has been recognised under payables to suppliers of fixed assets (458 thousand euros in 2022) (see note 20 (b)).

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

The concession has a nominal fee of 39,217 thousand euros, which has been fully paid. Additionally, the Company pays Cáceres City Council a variable fee of 4% of the total billed 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 Company charged 1,682 thousand euros to the provision for replacements (1,404 thousand euros in 2022). (See Note 18(iii)).

- 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.

## b) Concession arrangements, regulated assets in progress

The most significant items are as follows:

Description	Years	In thousands of euros	
		2023	2022
Region of Madrid Network	50	158,766	99,685
<b>TOTAL</b>		<b>158,766</b>	<b>99,685</b>

## c) Finance expenses

The Company has recognised borrowing costs of 50,070 thousand euros (53,171 thousand euros in 2022) in relation to the financing of sanitation and recycling agreements entered into with Madrid City Council under "Concession arrangement, financial activation", in accordance with the standards adapting the Spanish General Chart of Accounts for public infrastructure concession holders (see note 4 (c) and 19 (a) (i)).

## d) Derecognitions

Derecognitions of intangible assets in 2023 generated a loss of 1,948 thousand euros and a profit of 1 thousand euros which have been recognised in the attached Income statement (a loss of 3,213 thousand euros and a profit of 10 thousand euros in 2022) (see Note 25 (e)).

Derecognitions in 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.

Derecognitions in 2022 arose mainly from 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.

## e) 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 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 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 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 Company in 2023 and 2022.

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

#### f) Insurances

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

#### g) Intangible assets subject to reversal

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

#### h) Investment Budget

The 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 Company has made investments amounting to 7,400 thousand euros (6,740 thousand euros at 31 December 2022).

#### i) Individually significant items

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

	In thousands of euros	
	2023	Net Carrying Amount 2022
Canals and general pipelines	807,114	824,163
Distribution network	678,557	658,151
WWTP	397,466	371,206
Tanks	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
Reuse networks	75,614	77,158
Underground water catchment	15,845	16,123
<b>TOTAL</b>	<b>2,753,221</b>	<b>2,716,870</b>

## j) Fully depreciated and amortised assets

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

In thousands of euros		
	2023	2022
Development	193	190
Concessions	279,592	280,448
<b>TOTAL</b>	<b>279,785</b>	<b>280,638</b>



## 9. Property, plant and equipment

### a) General

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

In thousands of euros			
2023			
	Land and buildings	Technical installations and other Property, Plant and Equipment	Total
<b>Cost</b>			
<b>Opening balance at 01 January 2023</b>	7,495	2,313	9,808
Merger addition	-	-	-
Additions	-	-	-
Derecognitions	-	(25)	(25)
Transfers	-	-	-
<b>Cost as of 31 December 2023</b>	7,495	2,288	9,783
<b>Accumulated depreciation</b>			
Opening balance at 01 January 2023	(346)	(2,163)	(2,509)
Merger addition	-	-	-
Additions	(37)	(73)	(110)
Derecognitions	-	25	25
Transfers	-	-	-
<b>Accumulated depreciation at 31 December 2023</b>	(383)	(2,211)	(2,594)
<b>NET CARRYING AMOUNT AT 31 DECEMBER 2023</b>	7,112	77	7,189

In thousands of euros			
2022			
	Land and buildings	Technical Installations and other Property, Plant and Equipment	Total
<b>Cost</b>			
<b>Opening balance at 01 January 2022</b>	7,495	2,313	9,808
Merger addition	-	-	-
Additions	-	-	-
Derecognitions	-	-	-
Transfers	-	-	-
<b>Cost as of 31 December 2022</b>	7,495	2,313	9,808
<b>Accumulated amortisation/depreciation</b>			
Opening balance at 01 January 2022	(309)	(2,068)	(2,377)
Merger addition	-	-	-
Additions	(37)	(95)	(132)
Derecognitions	-	-	-
Transfers	-	-	-
<b>Accumulated depreciation at 31 December 2022</b>	(346)	(2,163)	(2,509)
<b>NET CARRYING AMOUNT AT 31 DECEMBER 2022</b>	7,149	150	7,299

#### b) Insurances

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

#### c) Derecognitions

In 2023, 41 assets amounting to 25 thousand euros relating to the equipment received in the merger of Hispanagua, S.L. were derecognised due to the impossibility of repair or obsolescence. There were no derecognitions of property, plant and equipment in 2022.

## 10. Investment property

### a) General

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

	In thousands of euros			
	2023			
	Lands	Buildings	Construction in progress	Total
<b>Cost</b>				
<b>Opening balance at 01 January 2023</b>	<b>2,881</b>	<b>14,317</b>	-	<b>17,198</b>
Additions	17	-	395	412
Derecognitions	-	(99)	-	(99)
Transfers	1,370	1,003	-	2,373
<b>Cost as of 31 December 2023</b>	<b>4,268</b>	<b>15,221</b>	<b>395</b>	<b>19,884</b>
<b>Accumulated depreciation</b>				
<b>Opening balance at 01 January 2023</b>	-	<b>(6,764)</b>	-	<b>(6,764)</b>
Additions	-	(432)	-	(432)
Derecognitions	-	57	-	57
Transfers	(3)	(519)	-	(522)
<b>ACCUMULATED DEPRECIATION AT 31 DECEMBER 2023</b>	<b>(3)</b>	<b>(7,658)</b>	-	<b>(7,661)</b>
<b>Impairment</b>				
<b>Opening balance at 01 January 2023</b>	-	-	-	-
Impairment reversal	-	-	-	-
<b>Accumulated impairment AT 31 DECEMBER 2023</b>	-	-	-	-
<b>NET CARRYING AMOUNT AT 31 DECEMBER 2023</b>	<b>4,265</b>	<b>7,563</b>	<b>395</b>	<b>12,223</b>

In thousands of euros			
			2022
	Lands	Buildings	Total
<b>Cost</b>			
<b>Opening balance at 01 January 2022</b>	<b>3,014</b>	<b>13,121</b>	<b>16,135</b>
Additions	3	-	3
Derecognitions	(137)	-	(137)
Transfers	1	1,196	1,197
<b>Cost as of 31 December 2022</b>	<b>2,881</b>	<b>14,317</b>	<b>17,198</b>
<b>Accumulated amortisation/depreciation</b>			
<b>Opening balance at 01 January 2022</b>	<b>-</b>	<b>(7,887)</b>	<b>(7,887)</b>
Additions	-	(367)	(367)
Transfers	-	1,490	1,490
Other movements	-	-	-
<b>Accrued depreciation as of 31 December 2022</b>	<b>-</b>	<b>(6,764)</b>	<b>(6,764)</b>
<b>Impairment</b>			
<b>Opening balance at 01 January 2022</b>	<b>-</b>	<b>(133)</b>	<b>(133)</b>
Impairment reversal	-	133	133
<b>Accumulated impairment at 31 DECEMBER 2022</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>NET CARRYING AMOUNT AT 31 DECEMBER 2022</b>	<b>2,881</b>	<b>7,553</b>	<b>10,434</b>

Investment property mainly comprises sports facilities located at the Riosequillo reservoir and several other properties.

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 Riosequillo reservoir 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 Company's sports facilities located in the Tercer Depósito park was finalised.

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

In thousands of euros			
2023			
	Cost	Accrued depreciation	Net
Lands	4,268	(4)	4,264
Patrimonial assets	3,236	(1,494)	1,742
<b>TOTAL</b>	<b>7,504</b>	<b>(1,498)</b>	<b>6,006</b>

In thousands of euros			
2022			
	Cost	Accrued depreciation	Net
Lands	2,881	-	2,881
Patrimonial assets	2,122	(1,033)	1,089
<b>TOTAL</b>	<b>5,003</b>	<b>(1,033)</b>	<b>3,970</b>

## b) Income and expenditure from investment property

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

Thousands of Euros		
	2023	2022
Income from leases	368	276
Operating expenses	(433)	(367)
Income generating investments	(373)	(322)
Non income generating investments	(60)	(45)
<b>NET</b>	<b>(65)</b>	<b>(91)</b>

## c) Value impairment

No impairments were recognised in 2023.

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

## d) Insurances

The Company has subscribed several insurance policies covering the risk of damage to its investment property. The coverage of such policies is deemed to be sufficient.

## e) Derecognitions

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 (Note 25 e).

# 11. Classification of financial assets by category and investments in equity instruments of group companies and associates

## a) Classification of financial assets by category

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

In thousands of euros		
	2023	
	Non-Current	Current
	At amortised cost or cost	At amortised cost or cost
<b>Loans and receivables</b>		
<b>Loans</b>		
To companies variable rate (note 12(a))	151,024	30,147
Interests	3,146	11,621
To third parties	90,553	8,568
<b>Total</b>	<b>244,723</b>	<b>50,336</b>
<b>Other financial assets</b>		
Financial investments and interests	-	707
Deposits and securities (Note 12(b))	28,671	557
Other financial assets	-	1,584
<b>Total</b>	<b>28,671</b>	<b>2,848</b>
<b>Trade debtors and other accounts receivable</b>		
Trade and Service Provision Customers	-	130,219
Other accounts receivable	-	39,387
<b>Total</b>	<b>-</b>	<b>169,606</b>
<b>TOTAL FINANCIAL ASSETS</b>	<b>273,394</b>	<b>222,790</b>

In thousands of euros		
2022		
	Non-current AT AMORTISED COST OR COST	Current AT AMORTISED COST OR COST
<b>Loans and receivables</b>		
<b>Loans</b>		
To companies variable rate (note 12(a))	171,296	-
Interests	3,626	2,694
To third parties	68,391	8,003
<b>Total</b>	<b>243,313</b>	<b>10,697</b>
<b>Other financial assets</b>		
Financial investments and interests	-	350,940
Deposits and securities (Note 12(b))	4,381	840
Other financial assets	-	1,621
<b>Total</b>	<b>4,381</b>	<b>353,401</b>
<b>Trade debtors and other accounts receivable</b>		
Trade and Service Provision Customers	-	130,897
Other accounts receivable	-	41,237
<b>Total</b>	<b>-</b>	<b>172,134</b>
<b>TOTAL FINANCIAL ASSETS</b>	<b>247,694</b>	<b>536,232</b>

At 31 December 2023, the Company has no investments in short-term bank deposits, having cancelled the deposits held at 31 December 2022 with Banco Santander amounting to 250 million euros and with Credit Suisse amounting to 100 million euros at 31 December 2022 with Banco de Santander for 250 million euros and with Credit Suisse for 100 million euros. In the year 2023, these deposits generated interest of 384 thousand euros.

The only gains and losses on financial assets are finance income arising from measuring receivables at amortised/depreciated cost (see Note 12 (b) (i)) and the valuation adjustments for impairment described in (note 12 (b) (ii)).

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

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

In thousands of euros		
	2023	2022
<b>Group companies</b>		
Canal Extensia, S.A.U.	92,491	92,491
Canal Gestión Lanzarote, S.A.U.	60	60
<b>Total</b>	<b>92,551</b>	<b>92,551</b>
<b>Associated companies</b>		
GSS Venture, S.L.	504	504
<b>Impairment write-downs</b>		
GSS Venture, S.L.	(504)	(504)
<b>TOTAL</b>	<b>92,551</b>	<b>92,551</b>

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

At 31 December 2023 and 2022 the Company carried out the corresponding depreciation test for the investment in patrimonial instruments in group companies indicating the value impairment. In 2023, it was not necessary to record

any impairments in addition to those recognised in the previous year.

This value was determined by discounting the cash flows generated by the companies as a result of the strategic plans, as well as that of the value of net assets, based on management estimates, assuming a WACC (weighted average cost of capital) ranging between 5.87% and 20.73% depending on the investment, country, sector and activity. (between 5.87% and 16.93% in 2022).

The uncertainty to which Note 18 refers in connection with the shareholding in Canal Extensia, S.A., the majority shareholder of Canal Extensia América, S.A., means that the assumptions considered to rule out possible impairment in the shareholding may not be valid in the event that the legal proceedings currently underway conclude with a ruling against the Company's interests.

(I) Impairment

In thousands of euros					
Participation	Balance at 01 January 2023	Allowances	Reversion	Transfers	Balance at 31 December 2023
GSS Venture, S.L.	504	-	-	-	504
<b>TOTAL NON-CURRENT</b>	<b>504</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>504</b>

In thousands of euros					
Participation	Balance at 01 January 2022	Allowances	Reversion	Transfers	Balance at 31 December 2021
GSS Venture, S.L.	504	-	-	-	504
<b>TOTAL NON-CURRENT</b>	<b>504</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>504</b>



## 12. Financial investments and trade receivables

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

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

In thousands of euros		
2023		
	Non-Current	Current
<b>Group</b>		
Loans (Note 11)	151,024	30,147
Interests	3,146	11,621
Other	-	1,584
<b>TOTAL (NOTE 24 (A))</b>	<b>154,170</b>	<b>43,352</b>

In thousands of euros		
2022		
	Non-Current	Current
<b>Group</b>		
Loans (Note 11)	171,296	-
Interests	3,626	2,694
Other	-	1,621
<b>TOTAL (NOTE 24 (A))</b>	<b>174,922</b>	<b>4,315</b>

"Non-current receivables" comprises:

- A receivable deriving from a participatory loan granted by the Company to Canal Gestión Lanzarote, S.A. in 2013 to finance its activities. This loan accrues an annual interest rate of Euribor+2.5%. Finance income earned in 2023 amounted to 8,551 thousand euros (2,694 thousand euros in 2022). This loan falls due on 31 December 2035 and, at 31 December 2023, 147,013 thousand euros were drawn down (142,319 thousand euros in 2022). At 31 December 2023, the amount receivable from said loan was

155,564 thousand euros (145,013 thousand euros in 2022) including outstanding interest.

- Three loans to Canal Extensia, S.A.U.; (i) the first one arranged on 29 January 2019, with its last addendum dated 25 November 2019 and maturing on 2023 and 2024 for an amount drawn down at 31 December 2023 of 13,134 thousand euros (13,134 thousand euros in 2022) for the purpose of granting an intercompany loan to the company Emissao, S.A. (ii) the second one arranged on 6 February 2019, with its last addendum dated 28 July 2023, which increases the total amount and modifies the maturity to 25 November 2025, for an amount drawn down at 31 December 2023 of 16,690 thousand euros (12,560 thousand euros in 2022) for the purpose of granting an intercompany loan to the company Canal Extensia America, S.A.; (iii) the third one arranged on 26 March 2019 with a last addendum dated 28 July 2023 which modifies the maturity to 26 March 2027 for an amount drawn down at 31 December 2023 of 4,334 thousand euros (3,823 thousand euros in 2022), for the purpose of granting an intercompany loan to the company Canal Extensia, S.A.U. All these loans bear interest at an annual variable market rate.

Certain companies Belonging to the Canal Extensia Subgroup show indications of impairment as they have a negative balances in financial position.

## b) Financial investments

Details of financial investments are as follows:

In thousands of euros		
2023		
	Non-current	Current
<b>Non-related</b>		
Loans	90,553	11,290
Impairment write-downs	-	(2,722)
Financial investments and interests	-	707
Deposits and guarantees	28,671	557
<b>TOTAL</b>	<b>119,224</b>	<b>9,832</b>

"Loans" includes balances receivable from certain City Councils for work conducted on water distribution and sewerage infrastructure in the respective municipalities. The main loans granted in 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 2023 (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 b).

"Non-current and current loans" include 1,568 and 370 thousand euros respectively (1,896 and 370 thousand euros in 2022), for 50% of the amounts owned by the City Council of Alcalá to the UTE Aguas de Alcalá, for the concession deficit for the 2005-2015 period (see Note 6).

In thousands of euros		
2022		
	Non-Current	Current
<b>Non-related</b>		
Loans	72,895	10,725
Impairment write-downs	(4,504)	(2,722)
Financial investments and interests	-	350,940
Deposits and guarantees	4,381	840
<b>TOTAL</b>	<b>72,772</b>	<b>359,783</b>

As is mentioned in Note 4 (j), the majority of these receivables from City Councils are recognised at amortised cost, considering the period over which each balance is expected to be recovered. "Value adjustments for non-current impairment" reflects unrecoverable receivables from these councils under the terms of the corresponding Agreements.

The current amount of "Impairment write-downs" relates to the disposal in 2007 of the ownership interest held by the Company in the share capital of Global Sales Solutions Line, S.L. for 4,234 thousand euros, and 2,722 thousand euros are reflected in the balance sheet under "Short-Term Financial Investments" relating to the remaining amount receivable, which has been provided for since it was not collected on the agreed date and there are reasonable doubts as to its recovery.

"Deposits and guarantees" includes, in accordance with the regulations in force on the Security Deposit System for Lease Deposits in the Region of Madrid and the Region of Castilla-La Mancha, the amounts deposited for the first time in 2023 in respect of consumption advances with the relevant bodies, totalling 39,943 thousand euros.

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

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

In thousands of euros	
2023	
<b>Loans and receivables</b>	
Finance income at amortised cost	3,019
Operating expenses at amortised cost	(14,785)
Finance income at amortised cost Ute Alcalá	37
Finance income at amortised cost Other Loans	5
<b>NET PROFIT/(LOSS) IN THE INCOME STATEMENT</b>	<b>(11,724)</b>

Thousands of euros	
2022	
<b>Loans and Items Receivable</b>	
Finance income at amortised cost	814
Operating expenses at amortised cost	(5,188)
Finance income at amortised cost Ute Alcalá	42
Finance income at amortised cost Other loans	6
<b>NET PROFIT/(LOSS) IN THE INCOME STATEMENT</b>	<b>(4,326)</b>

The amount of finance income is mainly derived from the revaluation in the year of receivables at amortised cost

from certain City Councils for works carried out on the water distribution and sewerage infrastructure, financed through tariff supplements.

(III) **Impairment write-downs**

The changes in impairment accounts are as follows:

Thousands of Euros		
	2023	2022
Balance as of 1 January	7,226	6,936
Loss	-	290
Transfer	(1,817)	
Reversion	(2,687)	-
<b>BALANCE AT 31 DECEMBER</b>	<b>2,722</b>	<b>7,226</b>

In 2023, the Company has reversed impairment of Receivables from unrelated parties amounting to 6,687 thousand euros. (290 thousand euros in 2022).

c) **Other information on financial investments**

(I) **Main characteristics of Receivables from unrelated parties**

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

In thousands of euros				
2023				
Carrying amount				
	Maturity year	Face value	Non-Current	Current
<b>Non-related</b>				
For works performed for City Councils	2055	140,732	88,880	8,193
Receivable TJV - Council of Alcalá	2029	2,037	1,563	370
For disposal of fixed assets	2009	2,722	-	2,722
For regeneration works	2040	164	111	5
Staff loans	2025	-	-	-
<b>TOTAL</b>		<b>145,655</b>	<b>90,554</b>	<b>11,290</b>

In thousands of euros				
2022				
Carrying amount				
	Maturity year	Face value	Non-Current	Current
<b>Non-related</b>				
For works performed for City Councils	2053	108,584	70,882	7,626
Receivable TJV - Council of Alcalá	2029	2,407	1,896	370
For disposal of fixed assets	2009	2,722	-	2,722
For regeneration works	2040	176	115	7
Staff loans	2025	2	2	-
<b>TOTAL</b>		<b>113,891</b>	<b>72,895</b>	<b>10,725</b>

#### d) Trade debtors and other accounts receivable

Details of trade and other receivables excluding "Other receivables from Public Administrations" (note 22) are as follows:

In thousands of euros		
	2023	2022
	Current	Current
<b>Group</b>		
Other debtors (note 24 (a))	1,508	893
<b>Total</b>	<b>1,508</b>	<b>893</b>
<b>Associates</b>		
Other debtors (note 24 (a))	659	586
<b>Total</b>	<b>659</b>	<b>586</b>
<b>Non-related</b>		
Customers	161,047	162,399
Other debtors	43,086	48,576
Personnel	2	2
Impairment write-downs	(36,696)	(40,322)
<b>Total</b>	<b>167,439</b>	<b>170,655</b>
<b>TOTAL</b>	<b>169,606</b>	<b>172,134</b>

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

Under “Customers” Unrelated parties includes the debts of customers for items billed and estimated supplies provided pending billing, which constitute the activities of the Company. At 31 December 2023, the amount in this respect amounts to 71,296 thousand euros (68,622 thousand euros at 31 December 2022)

The relationship between Madrid City Council and the Company 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 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 Company and the City Council would be settled by offsetting balances.

The changes in impairment accounts are as follows:

	Thousands of Euros	
	2023	2022
<b>Balance as of 1 January</b>	<b>40,322</b>	<b>44,006</b>
Merger discharges	-	-
Impairment losses	4,948	4,921
Applications	(4,934)	(6,183)
Impairment reversals	(3,640)	(2,422)
<b>BALANCE AS OF 31 DECEMBER</b>	<b>36,696</b>	<b>40,322</b>

In 2023 and 2022, the Company did not recognise losses on unrecoverable trade receivables.

### e) Classification by maturity

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

In thousands of euros							2023
	2024	2025	2026	2027	2028	Others	Total
<b>Financial investments</b>	<b>53,184</b>	<b>35,633</b>	<b>16,800</b>	<b>23,840</b>	<b>19,764</b>	<b>177,357</b>	<b>326,578</b>
In Group companies and associates	43,352	26,126	8,000	15,044	11,000	94,000	197,522
Credits to third parties	8,568	6,921	6,728	6,734	6,740	63,430	99,121
Short-term financial investments	707	-	-	-	-	-	707
Deposits and guarantees	557	2,586	2,072	2,062	2,024	19,927	29,228
<b>Trade debtors and other accounts receivable</b>	<b>169,606</b>	-	-	-	-	-	<b>169,606</b>
Trade and service provision receivables	130,219	-	-	-	-	-	130,219
Other debtors, group companies and associates	1,508	-	-	-	-	-	1,508
Miscellaneous debtors	37,877	-	-	-	-	-	37,877
Personnel	2	-	-	-	-	-	2
<b>TOTAL FINANCIAL ASSETS</b>	<b>222,790</b>	<b>35,633</b>	<b>16,800</b>	<b>23,840</b>	<b>19,764</b>	<b>177,357</b>	<b>496,184</b>

In thousands of euros							2022
	2023	2024	2025	2026	2027	Others	Total
<b>Financial investments</b>	<b>364,098</b>	<b>38,689</b>	<b>28,821</b>	<b>15,534</b>	<b>17,553</b>	<b>147,097</b>	<b>611,792</b>
In Group companies and associates	4,315	30,664	21,258	8,000	10,000	105,000	179,237
Credits to third parties	8,003	7,145	6,947	6,953	6,958	40,388	76,394
Short-term financial investments	350,940	-	-	-	-	-	350,940
Deposits and guarantees	840	880	616	581	595	1,709	5,221
<b>Trade debtors and other accounts receivable</b>	<b>172,134</b>	-	-	-	-	-	<b>172,134</b>
Trade and service provision receivables	130,897	-	-	-	-	-	130,897
Other debtors, group companies and associates	893	-	-	-	-	-	893
Miscellaneous debtors	40,342	-	-	-	-	-	40,342
Personnel	2	-	-	-	-	-	2
<b>TOTAL FINANCIAL ASSETS</b>	<b>536,232</b>	<b>38,689</b>	<b>28,821</b>	<b>15,534</b>	<b>17,553</b>	<b>147,097</b>	<b>783,926</b>

# 13. Inventories

## a) General

Details of "Inventories" are as follows:

	Thousands of Euros	
	2023	2022
Trade	1,696	753
Materials	1,723	1,975
Chemical reagents	1,318	994
Other supplies	2,460	2,588
Long-cycle and short-cycle emission allowances	2,430	3,663
Impairment write-downs	(209)	(235)
<b>TOTAL</b>	<b>9,418</b>	<b>9,738</b>

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

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

## b) Emission allowances

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

	In thousands of euros	
	2023	2022
Short-cycle emission allowances	2,430	3,663
Long-cycle emission allowances	-	-
<b>Total</b>	<b>2,430</b>	<b>3,663</b>
Impairment write-downs	-	-
<b>TOTAL</b>	<b>2,430</b>	<b>3,663</b>

Changes in emission allowances were as follows:

	In thousands of euros	
	2023	2022
<b>Cost at 1 January</b>	<b>3,663</b>	<b>3,452</b>
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)	-
<b>TOTAL</b>	<b>2,430</b>	<b>3,663</b>

In the financial year 2023, allowances amounting to 4,602 thousand euros (7,396 thousand euros in 2022) have been surrendered 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
<b>TOTAL</b>	<b>39,562</b>	<b>3,369</b>

	2022	
	Number of Allowances	In thousands of euros
Free	44,283	3,807
Remunerated	45,067	3,800
<b>TOTAL</b>	<b>89,350</b>	<b>7,607</b>

At 31 December 2023, the Company was assigned 64,458 free emission allowances for the programme of the period (2021-2030).

## 14. Asset accruals

Details of "Accruals" are as follows:

In thousands of euros		
2023		
	Non-Current	Current
Advances	-	190
Asset accruals for long-service bonuses	1,980	215
Asset accruals for seniority	60,401	4,927
Asset accruals for consumption advance	11,149	793
<b>TOTAL</b>	<b>73,530</b>	<b>6,125</b>

In thousands of euros		
2022		
	Non-Current	Current
Advances	-	180
Asset accruals for long-service bonuses	1,960	283
Asset accruals for seniority	62,120	5,070
<b>TOTAL</b>	<b>64,080</b>	<b>5,533</b>

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

"Asset accruals for long-service bonuses" reflect the deferred premium paid to an insurance company in respect of an insurance policy for the accrual of early settlements

of long-service bonuses, in accordance with the Collective Bargaining Agreement (See note 4 (o)) for a one-off amount of 5,833 thousand euros.

These prepayments are taken to income as the premium in question is accrued. An amount of 255 thousand euros was accrued in 2023 (354 thousand euros in 2022) (see note 25 (d)). Additionally, in 2023 an amount of 193 thousand euros was recognised in relation to the discounting of this item (237 thousand euros in 2022).

The "Asset accruals for seniority" item relates to the deferred premium paid to an insurance company for a total amount of 57,108 thousand euros for a risk insurance policy for the early settlement of the seniority commitment, recognized in 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 income is subject to an annual growth rate of 1.2%. In 2023, 4,891 thousand euros were paid in this respect to the employees of the Company (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 25 (d)). Additionally, in 2023 an amount of 3,758 thousand euros was recognised in relation to the financial restatement of this item (3,827 thousand euros in 2022).

Asset accruals for consumption advances reflect the difference between the amounts deposited in this respect in 2023 in relation to supply contracts and their present value based on the estimated repayment period (see note 4 (i) and note 12 b)). To calculate the current value of the "Advances for water use" for 2023, the average reimbursement period was established at 14 years.



# 15. Cash and cash equivalents

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

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

Thousands of Euros		
	2023	2022
Cash	441,801	225,869
<b>TOTAL</b>	<b>441,801</b>	<b>225,869</b>

## 16. Equity shareholders' equity

### (I) Share Capital

The Company was incorporated on 27 June 2012 through the issue of 1,074,032,000 ordinary shares with a face value of 1 euro each, which were subscribed and fully paid by the Public Entity by way of the non-monetary contribution of the activity described in note 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 town and city 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 town and city councils hold 17.65% (17.60% at 31 December 2022) of the 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 Public Entity Canal de Isabel II to two local councils.

The transfer 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 town or city councils in the Region of Madrid.

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

Entities	No. of shares	Ownership %
Public Entity Canal de Isabel II	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.

### (II) 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 net asset value of the Company does not fall below the amount of the share capital.

### (III) Reserves

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

- Legal reserve

4,504 thousand euros from the profit for the year 2022 were allocated to the legal reserve, which is fully funded at 31 December 2023, in accordance with article 274 of the Corporate Enterprises Law, which requires that companies transfer 10% of profits for the year to a legal reserve until this reserve reaches an amount equal to 20% of share capital. The full amount allocated at 31 December 2023 was 214,806 thousand euros.

This reserve, up to the limit specified above, may be used to offset losses only if no other reserves are available for this purpose.

- Other reserves

Details are as follows:

	Thousands of Euros	
	2023	2022
<b>Other Reserves</b>		
Voluntary reserve for profit/loss distribution	527,907	482,738
Reserve for Company incorporation expenses	(245)	(245)
Reserves for mergers	767	767
Reserves for prior years' expenses	(3,334)	(3,334)
<b>TOTAL</b>	<b>525,095</b>	<b>479,926</b>

Voluntary reserves are freely distributable provided that, as a result of their distribution, the value of the Company's net assets does not fall below the amount of the share capital.

## 17. Subsidies, gifts and bequests received

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

	In thousands of euros	
	2023	2022
<b>Balance as of 1 January</b>	<b>762,832</b>	<b>757,875</b>
Merger subsidies	-	304
Subsidies granted during the year	15,723	26,051
Transfers to Income Statement	(20,048)	(21,385)
Tax effect	11	(13)
<b>BALANCE AT 31 DECEMBER</b>	<b>758,518</b>	<b>762,832</b>

At 31 December 2023, this entry to the Balance Sheet mainly comprises:

The contribution of the Cohesion Fund to the set of projects entitled “River Basin Clean-ups and Extension of Madrid Treatment Plants,” for a total of 22,816 thousand euros, of which 6,250 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 attribution to profit and loss (7,988 thousand euros in 2022). This grant was approved by the Commission of the European Communities on 18 December 2001.

The Cohesion Fund contribution to the “Tagus Basin Clean-up 2001, Group II” project, totalling 51,102 thousand euros. This grant, of which 23,716 thousand euros is pending attribution 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 (IDAE) has financed five projects through the Regional Government of Madrid, contributing 2,739 thousand euros to the first project, 164 thousand euros to a second project, which were reimbursed in full, 831 thousand euros

to a third project, 103 thousand euros to a fourth project (fully repaid) and 770 thousand euros to a fifth project. The first, third and fifth projects are being repaid and the amount yet to be recognised in profit or loss at 31 December 2023 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 WOP project approved in 2022 between Canal de Isabel II, S.A., M.P. 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 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 the Public Entity Canal de Isabel II 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 attributed to facilities assigned to the Company by various local councils amounts to 90,018 thousand euros. 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 connection rights and distribution network adaptation and extension works amount to 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 River Basin Authority 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 (see note 13 b)).

## a) Subsidies

Details of subsidies received are as follows

In thousands of euros			
2023			
Entity entitled to the subsidy	Amount	Purpose	Award date
Ministry for Ecological Transition and the Demographic Challenge (European Climate Change Office)	1,776	Co2 emissions	30/03/2023 and 21/04/2023
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)	3,003	Supply works	19-09-2023
Region of Madrid (Prisma)	1,757	Supply works	Year 2023
<b>TOTAL</b>	<b>15,723</b>		

In thousands of euros			
2022			
Entity entitled to the subsidy	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)	05/07/2022
ERDF's React Eu Solar Plan Operational Programme	1,174	Supply and sanitation works	Miscellaneous
Financing third party works	20,797	Supply and sanitation works	Miscellaneous
European Union	109	Project Life (R&D&I)	Year 2019
European Union	47	Project Horizon Europe intoDBP (R&D&I)	Miscellaneous
<b>TOTAL</b>	<b>26,051</b>		

Details of the amounts recognised in the Income Statement are as follows:

In thousands of euros		
	2023	2022
Other government capital subsidies	2,012	3,922
Cohesion funds and ERDF	2,994	3,018
Transfers from City or Town Councils	150	146
Financing third party works	14,892	14,299
<b>TOTAL</b>	<b>20,048</b>	<b>21,385</b>

The total amount of 20,048 thousand euros (21,385 thousand euros in 2022) has been recognised under

"Allocation of subsidies for non-financial assets and other" and "Operating subsidies brought forward" in the income statement for amounts of 20,022 thousand euros and 26 thousand euros respectively (21,352 thousand euros and 33 thousand euros in 2022).

# 18. Provisions and contingent liabilities

The breakdown of the Provisions section is as follows:

In thousands of euros		
	2023	
	Non-Current	Current
Provisions for taxes	9,028	2,272
Provisions for other liabilities	3,663	4,158
Provisions for infrastructure works	220,293	159,023
<b>TOTAL</b>	<b>232,984</b>	<b>165,453</b>

In thousands of euros		
	2022	
	Non-Current	Current
Provisions for taxes	10,287	1,838
Provisions for other liabilities	4,437	5,899
Provisions for infrastructure works	402,626	77,774
<b>TOTAL</b>	<b>417,350</b>	<b>85,511</b>

Changes in the different provision accounts are as follows:

In thousands of euros				
	2023			
	Provisions for taxes	Provisions for other responsibilities	Provisions for infrastructure works	Total
Opening balance at 1 January 2023	12,125	10,336	480,400	502,861
Allowances	4,397	5,224	62,390	72,011
Provisions update	-	-	9,972	9,972
Applications	(3,519)	(6,274)	(173,446)	(183,239)
Excess of provisions	(1,703)	(1,465)	-	(3,168)
<b>AT 31 DECEMBER 2023</b>	<b>11,300</b>	<b>7,821</b>	<b>379,316</b>	<b>398,437</b>

In thousands of euros				
	2022			
	Provisions for taxes	Provisions for other responsibilities	Provisions for infrastructure works	Total
Opening balance at 1 January 2022	12,205	10,809	491,852	514,866
Discharge by Merger	-	53	-	53
Allowances	4,467	7,353	67,847	79,667
Provisions update	-	-	8,262	8,262
Applications	(3,039)	(7,028)	(87,561)	(97,628)
Excess of provisions	(1,508)	(851)	-	(2,359)
<b>AS OF 31 DECEMBER 2022</b>	<b>12,125</b>	<b>10,336</b>	<b>480,400</b>	<b>502,861</b>

### (I) Provisions for taxes

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

### (II) Provisions for other liabilities

This provision primarily covers probable or certain liabilities arising from ongoing litigation and outstanding compensation or obligations of an uncertain amount payable to third parties. Based on the legal advice received, the directors do not consider that any liabilities arising from these lawsuits will differ significantly from the amounts provided for as of 31 December 2023 and 2022.

The provision is estimated using the individual most likely outcome.

In addition, this provision includes 2,282 thousand euros for greenhouse gas emission expenses (4,213 thousand euros in 2022) (note 13 (b)). The criterion for estimating these expenses consists of analysing the tonnes of emissions in accordance with the technical specifications of the facilities that generate greenhouse gases.

### (III) Provisions for infrastructure works

This provision covers replacement measures for usage periods in excess of one year that can be requested for items that are essential components of the transferred infrastructure so that the corresponding services can be provided satisfactorily.

Thousands of Euros					
2023					
	Provision Region of Madrid Network	Provisions Sanitation Agreement Madrid	Provisions Sanitation Agreement Madrid	Cáceres Concession Provisions	Total
Opening balance at 1 January 2023	447,105	20,010	7,893	5,392	480,400
Allocations (Note 8(a))	45,794	14,495	419	1,682	62,390
Provisions update	9,102	482	215	173	9,972
Applications	(155,798)	(16,650)	(338)	(660)	(173,446)
<b>AT 31 DECEMBER 2023</b>	<b>346,203</b>	<b>18,337</b>	<b>8,189</b>	<b>6,587</b>	<b>379,316</b>

In thousands of euros					
2022					
	Provision Region of Madrid Network	Provisions Sanitation Agreement Madrid	Provisions Sanitation Agreement Madrid	Cáceres Concession Provisions	Total
Opening balance at 1 January 2022	461,815	18,189	7,287	4,561	491,852
Allocations (Note 8(a))	50,362	15,456	625	1,404	67,847
Provisions update	7,690	344	136	92	8,262
Applications	(72,762)	(13,979)	(155)	(665)	(87,561)
<b>AT 31 DECEMBER 2022</b>	<b>447,105</b>	<b>20,010</b>	<b>7,893</b>	<b>5,392</b>	<b>480,400</b>

In the financial year 2023, among the most significant renewal or replacement investments 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 made on WWTPs and sanitation and reuse networks for 7 million euros (8 million euros in 2022), and those made on the computer and remote control systems for 4

million euros (5 million euros in 2022), as well as those made in the DWTPs for 2 million euros.

Based on 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).

#### (IV) Contingent liabilities, guarantees and securities and other commitments

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

In thousands of euros		
	2023	2022
Guarantees received as security	(257,260)	(214,176)
Guarantees presented before Public Bodies	41,723	31,066

The 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 which 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 Company is jointly and severally liable, alongside Canal Gestión Lanzarote, S.A.U., for fulfilling the Agreement and for the financial and other obligations arising therefrom. The Company has also extended guarantees to Cáceres City Council totalling 1,000 thousand euros in respect of the Concession agreement in that city. The Company's Directors do not expect any significant liabilities to arise from these guarantees.

#### (V) Lawsuits

The Company and its Group companies are parties to various lawsuits or proceedings that are currently in progress progress before courts and arbitration tribunals in the various countries in which the Group operates.

Considering the reports of external legal advisors and the analysis and assessment made by the Company's Management, it is reasonable to assume that such litigation or proceedings will not affect the economic and financial position of the Company.

- [Abbreviated Proceedings 9/2020 and 10/2020 \(from Pre-Trial Proceedings 91/2016\) National High Court.](#)

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. (formerly INASSA) (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, 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 Company and/or subsidiaries could be held liable, criminally or civilly, for the events under investigation is excluded.

- [Office of the Prosecutor General of Colombia. Termination of ownership proceedings.](#)

Canal Extensia América, S.A., was notified that, on 3 October 2018, the Office of the Prosecutor General of Colombia issued a Decision ordering the suspension of the right of disposal, sequestration and embargo of the shares of Canal Extensia América, S.A., company controlled indirectly by Canal de Isabel II, S.A., M.P. in Triple A de Barranquilla, S.A. (Triple A), which constitute 82% of the share capital of Triple A and the transfer thereof in custody to Sociedad de Activos Especiales (SAE), as a precautionary measure until 4 April 2019.

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

Canal Extensia Group learned that Sociedad de Activos Especiales (SAE), transferred its shares in Canal Extensia América, S.A. to the mixed-economy company Alumbrado Público de Barranquilla, S.A.S. (APBAQ), in which the District holds 65% of the shares and that the value of the shares was fixed by investment banks contracted for that purpose.

Finally, in the opinion of the lawyers handling the case in Colombia, there are no reasons of urgency, necessity or public utility, or any other reason that would justify the decision to dispose of Canal Extensia América, S.A.'s shareholding in Triple A at an early stage and that would prevent the SAE from continuing to manage the shares until a decision is made regarding the process of termination of ownership, representing an unprecedented operation in Colombian law, for which reason the



relevant legal actions are being taken in defence of Canal Extensia América, S.A.'s rights and interests.

On 20 April 2022, the Termination of Ownership Court notified two rulings against which Canal Extensia América, S.A. filed an appeal for reconsideration and, in the alternative, an appeal.

On the date of preparation of these financial statements, the proceedings are in the evidential stage, awaiting the resolution in the second instance of the appeals lodged against the orders notified on 20 April 2022 and for the court to set a date to begin the testimonies and cross examination.

- **International arbitration**

Canal Extensia, S.A.U. holds 81,84 % of the shares of Canal Extensia América, which in turn held 82,16 % of the subscribed capital of Triple A de Barranquilla. Canal Extensia also has a direct 1.16 % stake, and an indirect 0.0004 % stake through its subsidiary Gestus Gestión & Servicios S.A.S., in the share capital of Triple A.

As a result of the early disposal procedure of Canal Extensia America's shares in Triple A, Canal Extensia has studied and explored actions to recover its investment.

To this end, in 2022 Canal Extensia initiated the necessary procedures to submit to arbitration before the International Centre for Settlement of Investment Disputes (ICSID) the dispute arising from the precautionary measure adopted by the Colombian Public Prosecutor's Office to suspend and seize 82.16% of the shareholding that INASSA holds in Triple A de Barranquilla.

On 26 September 2022 Canal Extensia 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 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 carried out all the procedures foreseen 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 is 19 February 2024.

- **Cáceres Concession**

The Company is carrying out various actions to request the economic and financial rebalancing of the contract signed on 18 March 2015 between Canal and the City Council of Cáceres.

Canal 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, according to which: "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 number of m3 billed, 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 Canal 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 billed since the beginning of the concession and the losses associated with this invoicing.

- **Canal Gestión Lanzarote, S.A.U. (Ordinary Proceeding 20/2015)**

On 26 October 2016, Administrative Court No. 3 of Las Palmas de Gran Canaria, issued a ruling dismissing the administrative appeal filed by Club Lanzarote, S.A. in respect of the Agreement of the Extraordinary General Assembly of the Water Consortium of Lanzarote, on 26 December 2014, 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.

As Club Lanzarote, S.A. did not agree with this ruling, it lodged an appeal before the Administrative Division 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 Consortium which agreed to award the contract, but not with regard to the resolution issued, by which the award of the contract was agreed.

In light of the said ruling, the Company 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.

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.

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 (TRLCSP).

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. We understand that Canal de Isabel II, S.A., M.P. 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:

- the amount corresponding to the initial fee updated in line with the interest rate on the loan granted to Canal Lanzarote.
- the amount corresponding to the investments implemented, net of updated repayments in line with the interest rate on the loan granted to Canal Gestión Lanzarote,
- the guarantees deposited.
- the receivable from Canal Gestión Lanzarote amounting to 147,013 thousand euros, associated with the loan granted to finance its operation, as well as a shareholding of 60,000 euros.

#### Recovery of the investment in Canal Gestión Lanzarote:

If, as a result of the above situation, the award of the contract was to be declared null and void, Canal de Isabel II, S.A., M.P. would be entitled, based on the report drawn up by external advisors dated 3 February 2020, to compensation for the following items:

- The amount corresponding to the initial fee updated in line with the interest rate on the loan granted to Canal Gestión Lanzarote, or the legal interest rate.
- The amount corresponding to the investments implemented, net of amortisation, updated in line with the interest rate on the loan granted to Canal Gestión Lanzarote, or the legal interest rate.
- Losses incurred in the years during which the Contract has been implemented.
- As well as compensation for any other emerging damages as a result of the contract being rendered null and void.

The aforementioned compensation would be determined in the process of settling the contract. To determine its amount and for its subsequent collection it might be necessary to execute legal proceedings.

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

On the date of authorising these Financial Statements for issue, neither of the Parties involved in the Club Lanzarote S.A. process has commenced proceedings to request that the concession be declared null and void. The period for the resolution of these proceedings is of 6 months, and it may be appealed, so the Company's Management and its

external advisers consider that it will not affect the approval of the 2023 Annual Financial Statements.

They further consider that, in the event of the contract being declared null and void, the Company would recover its

investment, rendering it unnecessary to allocate provisions in relation to the value of the shareholding as stated in the financial statements of the Company.

# 19. Financial liabilities by categories

## a) Classification of financial liabilities by category

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

In thousands of euros		
2023		
	Non-Current	Current
	At amortised cost or cost	At amortised cost or cost
	Carrying amount	Carrying amount
<b>Debits and Items Payable</b>		
<b>DEBTS WITH GROUP COMPANIES AND ASSOCIATES (NOTES 20 (A) AND 24)</b>	<b>167,381</b>	<b>17,910</b>
<b>Debentures and other marketable securities</b>	<b>499,765</b>	<b>7,111</b>
Obligations and bonds	499,765	-
Interests	-	7,111
<b>Other financial liabilities</b>	<b>79,311</b>	<b>122,614</b>
<b>Total debt (Note 20 (b))</b>	<b>579,076</b>	<b>129,725</b>
Trade creditors and other accounts payable (Note 20 (d))		
Suppliers	-	9,152
Suppliers, Group companies and associates (Note 24)	-	4,475
Sundry creditors	-	112,633
Personnel (remunerations payable)	-	16,934
<b>Total trade creditors and other accounts payable</b>	<b>-</b>	<b>143,194</b>
<b>TOTAL FINANCIAL LIABILITIES</b>	<b>746,457</b>	<b>290,829</b>

In thousands of euros		
2022		
	Non-Current	Current
	At amortised cost or cost	At amortised cost or cost
	Carrying amount	Carrying amount
<b>Debits and Items Payable</b>		
<b>DEBTS WITH GROUP COMPANIES AND ASSOCIATES (NOTES 20 (A)) AND 24))</b>	<b>182,143</b>	<b>18,053</b>
<b>Debentures and other marketable securities</b>	<b>499,562</b>	<b>7,111</b>
Obligations and bonds	499,562	-
Interests	-	7,111
<b>Other financial liabilities</b>	<b>78,817</b>	<b>55,185</b>
<b>Total debt (Note 20 (b))</b>	<b>578,379</b>	<b>62,296</b>
<b>TRADE CREDITORS AND OTHER ACCOUNTS PAYABLE (NOTE 20 (D))</b>		
Suppliers	-	7,808
Suppliers, Group companies and associates (Note 24)	-	5,118
Sundry creditors	-	115,572
Personnel (remunerations payable)	-	14,984
<b>Total trade creditors and other accounts payable</b>	<b>-</b>	<b>143,482</b>
<b>TOTAL FINANCIAL LIABILITIES</b>	<b>760,522</b>	<b>223,831</b>

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

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

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

The execution costs for these bonds totalled 2,025 thousand euros, of which 203 thousand euros (203 thousand euros in 2022) was charged to the Income Statement in 2023. The execution costs, at 31 December

2023, total 235 thousand euros (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..

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

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

In thousands of euros	
2023	
<b>Debits and Items Payable</b>	
Financial expenditure applying the amortised cost method	(2,368)
Income from the provision of services by change in fair value	2,368
Interests corresponding to obligations and bonds	(8,603)
Interest from borrowings from group companies	(3,717)
Interest from borrowings from third parties	(476)
<b>NET PROFIT/(LOSS) IN THE INCOME STATEMENT</b>	<b>(12,796)</b>

Thousands of euros	
2022	
<b>Debits and Items Payable</b>	
Financial expenditure applying the amortised cost method	(2,173)
Income from the provision of services by change in fair value	2,173
Interests corresponding to obligations and bonds	(8,603)
Interest from borrowings from group companies	(4,009)
Interest from borrowings from third parties	(167)
<b>NET PROFIT/(LOSS) IN THE INCOME STATEMENT</b>	<b>( 180)</b>

In 2023 the interest on loans from Group companies and third parties in the Income Statement rose by 3,100 thousand euros (in 2022, it rose by 3,316 thousand euros) as a result of the finance expenses capitalised under the concession arrangements (see note 8 (c)).

Finance expenses at amortised cost are those derived from the updating of advances received for the use of water during the year. Similarly, revenues from the rendering of services reflect the proportional distribution of the

difference between the nominal amount and amortised cost based on the average estimated years over which the services will be provided (see notes 20 (b) and 21).

## 20. Financial debts and trade creditors

### a) Debt with group and associated companies

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

2023		
	Non-Current	Current
<b>Debts with group companies</b>		
Public Entity Canal de Isabel II	167,381	17,910
<b>TOTAL</b>	<b>167,381</b>	<b>17,910</b>

2022		
	Non-Current	Current
<b>Debts with group companies</b>		
Public Entity Canal de Isabel II	182,143	18,053
<b>TOTAL</b>	<b>182,143</b>	<b>18,053</b>

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 (see note 24 (a)).

### b) Debts

Details of "Debts" are as follows:

In thousands of euros		
2023		
	Non-Current	Current
Obligations and bonds	499,765	7,111
Obligations and bonds	499,765	-
Interests	-	7,111
Suppliers of assets	-	101,519
Asset dividend payable (Notes 3 and 24)	-	10,766
Other debts	-	7,470
Guarantees and deposits received	79,311	2,794
Other	-	65
<b>TOTAL</b>	<b>579,076</b>	<b>129,725</b>

In thousands of euros		
2022		
	Non-Current	Current
Obligations and bonds	499,562	7,111
Obligations and bonds	499,562	-
Interests	-	7,111
Suppliers of assets	-	34,797
Asset dividend payable (notes 3 and 24)	-	8,921
Other debts	1,403	7,923
Guarantees and deposits received	77,414	3,466
Other	-	78
<b>TOTAL</b>	<b>578,379</b>	<b>62,296</b>

The changes in the amounts of the heading current "Suppliers of assets" are mainly due to the estimate of price revisions derived from the application of Royal Legislative-Decree 3/2022 of 1 March.

The heading "Other payables" includes 2,966 thousand euros payable to Sociedad Estatal Aguas de las Cuenca de España, S.A. for the works carried out in the Guadarrama Well Field and the Second Ring (5,492 thousand euros in 2022), which have been recognised as current (4,089 thousand euros in 2022).

Under the heading "Other debts", 382 thousand euros (425 thousand euros in 2022) relating to trade customer credit balances that have lapsed, in accordance with Law 42/2015 of 15 October, which amends the statute of limitations for personal actions established in the Civil Code, were written off. (See Note 25 (f)).

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 the Public Entity Canal de Isabel II and transferred to the Company in 2023 for an amount of 2,901 thousand euros. At 31 December 2023, the work carried out in this respect and included under "Loans" in non-current assets in the Balance Sheet (see note 12 b) 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.

"Guarantees and deposits received" include advance payments for water use received from customers to guarantee compliance with the financial terms of the supply contract (advances for water use). These amounts fall due when the corresponding contracts are cancelled. The difference between the amount initially received and

the amount reimbursed on maturity is recognised under accruals (see note 21).

### c) Other information on debts

In thousands of euros				
2023				
Carrying amount				
	Year of maturity	Nominal amount	Non-current	Current
<b>Group companies and associates</b>		<b>185,291</b>	<b>167,381</b>	<b>17,910</b>
Debts with Group companies	2036	185,291	167,381	17,910
<b>Non-related</b>		<b>727,598</b>	<b>579,076</b>	<b>129,725</b>
Obligations and interest	2025	507,111	499,765	7,111
Suppliers of fixed assets	2024	101,519	-	101,519
Assets payable dividends	2024	10,766	-	10,766
Debts	2024	7,470	-	7,470
Guarantees and deposits received	2037	100,667	79,311	2,794
Other	2024	65	-	65
<b>TOTAL</b>		<b>912,889</b>	<b>746,457</b>	<b>147,635</b>

In thousands of euros				
2022				
Carrying amount				
	Year of maturity	Nominal amount	Non-current	Current
<b>Group companies and associates</b>		<b>200,196</b>	<b>182,143</b>	<b>18,053</b>
Debts with Group companies	2036	200,196	182,143	18,053
<b>Non-related</b>		<b>659,787</b>	<b>578,379</b>	<b>62,296</b>
Obligations and bonds	2025	507,111	499,562	7,111
Suppliers of fixed assets	2023	34,797	-	34,797
Asset dividends payable	2023	8,921	-	8,921
Debts	2024	9,326	1,403	7,923
Guarantees and deposits received	2037	99,554	77,414	3,466
Other	2023	78	-	78
<b>TOTAL</b>		<b>859,983</b>	<b>760,522</b>	<b>80,349</b>

At 31 December 2023 and 2022, there were no debts with financial institutions.

The average rate of the total debt (including mirror debt) for 2023, is 1.76% (1.76 % in 2022).

At 31 December 2023, the Company has credit facilities signed for the sum of 102,000 thousand euros (104,000 thousand euros in 2022), with a balance at 31 December 2023 of the following:

In thousands of euros				
Entity	2023		2022	
	Borrowing limit	Amount drawn down	Borrowing limit	Amount drawn down
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	6,000	-	-	-
<b>TOTAL</b>	<b>102,000</b>		<b>104,000</b>	

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.

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

Details of trade and other payables excluding "Other receivables from Public Administrations" (note 22) are as follows:

In thousands of euros		
	2023	
	Non-Current	Current
<b>Group (Note 24(a))</b>		
Creditors	-	4,475
<b>Total</b>	-	<b>4,475</b>
Associates (Note 24 (a))		
Creditors	-	-
<b>Total</b>	-	-
Non-related		
Suppliers	-	9,152
Creditors	-	112,633
Personnel	-	16,934
<b>Total</b>	-	<b>138,718</b>
<b>TOTAL</b>		<b>143,194</b>

In thousands of euros		
	2022	
	Non-Current	Current
<b>Group (Note 24(a))</b>		
Creditors	-	5,088
<b>Total</b>	-	<b>5,088</b>
ASSOCIATES (NOTE 24 (A))		
Creditors	-	30
<b>Total</b>	-	<b>30</b>
Non-related		
Suppliers	-	7,808
Creditors	-	115,572
Personnel	-	14,984
<b>Total</b>	-	<b>138,364</b>
<b>TOTAL</b>		<b>143,482</b>



### e) Classification by maturity

In thousands of euros							2023
	2024	2025	2026	2027	2028	OTHERS	Total
<b>Debts</b>	<b>129,725</b>	<b>507,096</b>	<b>7,103</b>	<b>7,103</b>	<b>7,103</b>	<b>50,671</b>	<b>708,801</b>
Obligations and bonds, plus interest	7,111	499,765	-	-	-	-	506,876
Other financial liabilities	122,614	7,331	7,103	7,103	7,103	50,671	201,925
<b>Debts with Group companies and associates</b>	<b>17,910</b>	<b>14,762</b>	<b>14,762</b>	<b>14,762</b>	<b>14,762</b>	<b>108,333</b>	<b>185,291</b>
<b>Trade creditors and other accounts payable</b>	<b>143,194</b>	-	-	-	-	-	<b>143,194</b>
Suppliers	9,152	-	-	-	-	-	9,152
Suppliers, group and associated companies	4,475	-	-	-	-	-	4,475
Sundry creditors, plus advances	112,633	-	-	-	-	-	112,633
Personnel	16,934	-	-	-	-	-	16,934
<b>TOTAL FINANCIAL LIABILITIES</b>	<b>290,829</b>	<b>521,858</b>	<b>21,865</b>	<b>21,865</b>	<b>21,865</b>	<b>159,004</b>	<b>1,037,286</b>

In thousands of euros							2022
	2023	2024	2025	2026	2027	OTHERS	Total
<b>Debts</b>	<b>62,296</b>	<b>8,061</b>	<b>505,884</b>	<b>6,321</b>	<b>6,321</b>	<b>51,792</b>	<b>640,675</b>
Obligations and bonds, plus interest	7,111	-	499,562	-	-	-	506,673
Other financial liabilities	55,185	8,061	6,322	6,321	6,321	51,792	134,002
<b>Debts with group companies and associates</b>	<b>18,053</b>	<b>14,762</b>	<b>14,762</b>	<b>14,762</b>	<b>14,762</b>	<b>123,095</b>	<b>200,196</b>
<b>Trade creditors and other accounts payable</b>	<b>143,482</b>	-	-	-	-	-	<b>143,482</b>
Suppliers	7,808	-	-	-	-	-	7,808
Suppliers, group and associated companies	5,118	-	-	-	-	-	5,118
Sundry creditors, plus advances	115,572	-	-	-	-	-	115,572
Personnel	14,984	-	-	-	-	-	14,984
<b>TOTAL FINANCIAL LIABILITIES</b>	<b>223,831</b>	<b>22,823</b>	<b>520,646</b>	<b>21,083</b>	<b>21,083</b>	<b>174,887</b>	<b>984,353</b>

## 21. Accruals of liabilities

Details of “Accruals” are as follows:

In thousands of euros		
2023		
	Non-Current	Current
Advance income for advances for water use (Note 20 (b))	11,459	7,103
Other	14	255
<b>TOTAL</b>	<b>11,473</b>	<b>7,358</b>

In thousands of euros		
2022		
	Non-Current	Current
Advance income for advances for water use (Note 20 (b))	12,353	6,321
Other	15	322
<b>TOTAL</b>	<b>12,368</b>	<b>6,642</b>

Advances for water use reflect the difference between the advance payments received in relation to supply contracts and their present value based on the estimated date of repayment (see note 4 (i) (vi)). 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).

## 22. Taxes

The detail of balances with Public Administrations are as follows:

In thousands of euros		
2023		
	Non-Current	Current
<b>Assets</b>		
Deferred tax assets	198	-
Current tax assets	-	-
Value added tax and similar taxes	-	41,542
Other receivables from Public Administrations	-	291
<b>Total</b>	<b>198</b>	<b>41,833</b>
<b>Liabilities</b>		
Deferred tax liabilities	(1,901)	-
Social Security	-	(4,028)
Other payables to Public Administrations	-	-
Withholdings	-	(3,017)
<b>TOTAL</b>	<b>(1,901)</b>	<b>(7,045)</b>

In thousands of euros		
2022		
	Non-Current	Current
<b>Assets</b>		
Deferred tax assets	124	-
Current tax assets	-	-
Value added tax and similar taxes	-	13,788
Other receivables from Public Administrations	-	176
<b>Total</b>	<b>124</b>	<b>13,964</b>
<b>Liabilities</b>		
Deferred tax liabilities	(1,912)	-
Social Security	-	(4,043)
Other payables to Public Administrations	-	(10)
Withholdings	-	(3,428)
<b>TOTAL</b>	<b>(1,912)</b>	<b>(7,480)</b>

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.

At 31 December 2023 the Company retains, open to inspection by the tax authorities, the last four years for the main applicable taxes:

Years open to 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

On 19 April 2017, the Company received a communication regarding the start of the inspection, verification and

investigation activities by the Tax Inspectorate of the Tax Agency.

On 23 May 2018, the 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.
- Withholding/Payment on account. Income from Work/professional: periods 03/2013 to 12/2016

The Directors of the Company consider that no significant liabilities will arise as a result of this inspection

and that there are no other contingencies arising from the years open for inspection.

#### a) Tax on profit

As mentioned in note 4 (s), since 2014, the Company is subject to the consolidated tax return system.

At 31 December 2023, the Companies forming part of the Fiscal group are the following:

Parent Company:

- Public Entity Canal de Isabel II

Subsidiaries:

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

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

In thousands of euros							
2023							
	Income statements			Recognised income and expenses			
	Increases	Decreases	Net	Increases	Decreases	Net	Total
Income and expenses balance for the year	154,747	-	154,747	15,684	-	15,684	170,431
Corporate Income Tax	3,525	-	3,525	39	-	39	3,564
Permanent differences	12,873	(2,683)	10,190	-	-	-	10,190
Temporary differences	2,324	(13,186)	(10,862)	-	(15,723)	(15,723)	(26,585)
Arising in the year	2,324	-	2,324	-	(15,723)	(15,723)	(13,399)
Originating in prior financial years	-	(13,186)	(13,186)	-	-	-	(13,186)
<b>TAX BASE (TAX RESULT)</b>	<b>173,469</b>	<b>(15,869)</b>	<b>157,600</b>	<b>15,723</b>	<b>(15,723)</b>	<b>-</b>	<b>157,600</b>

In thousands of euros							
2022							
	Income statements			Recognised income and expenses			Total
	Increases	Decreases	Net	Increases	Decreases	Net	
Income and expenses balance for the year	125,391	-	125,391	26,289	-	22,289	151,680
Corporate Income Tax	2,133	-	2,133	66	-	66	2,199
Permanent differences	7,382	(1,034)	6,348	-	-	-	6,348
Temporary differences	1,566	(11,239)	(9,673)	-	(26,355)	(26,355)	(36,028)
Arising in the year	1,566	-	1,566	-	(26,355)	(26,355)	(24,789)
Originating in prior financial years	-	(11,239)	(11,239)	-	-	-	(11,239)
<b>TAX BASE (TAX RESULT)</b>	<b>136,472</b>	<b>(12,273)</b>	<b>124,199</b>	<b>26,355</b>	<b>(26,355)</b>	<b>-</b>	<b>124,199</b>

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).

Article 7 of Law 16/2012, of 27 December 2012, for tax periods commencing in 2013 and 2014, companies shall deduct from taxable income up to 70% of the amortisation/depreciation that would have been tax deductible had the percentage pursuant to sections 1 and 2 of Article 12 of Corporate Tax Law 27/2014 not been applied. Non-tax-deductible accounting amortisation and depreciation that was 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.

However, in 2023 the relevant deferred tax assets due to the non-application of the deduction for donations to non-profit entities (Law 49/2002 art. 20) amounting to 1,266 thousand euros (1,262 thousand euros in 2022) has not been recognised for accounting purposes as its recoverability in future years is not considered likely due to the application of the minimum taxation of 15% of the taxable income as set out in article 30 bis of the Corporate Income Tax Law mentioned in the preceding paragraphs.

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

In thousands of euros			
2023			
	Income statements	Recognised income and expenses	Total
<b>Income and expenses balance for the year</b>	<b>158,272</b>	<b>15,723</b>	<b>173,995</b>
<b>Increases</b>	<b>15,197</b>	-	<b>15,197</b>
Allocation for non-deductible provisions	243	-	243
Other non-deductible expenditure	14,954	-	14,954
<b>Decreases</b>	<b>(15,869)</b>	<b>(15,723)</b>	<b>(31,592)</b>
Reversal of non-deductible amortisation/depreciation	(6,145)	-	(6,145)
Subsidies	-	(15,723)	(15,723)
Other non-deductible expenditure	(9,388)	-	(9,388)
Application of non-deductible provisions	(337)	-	(337)
<b>TOTAL</b>	<b>157,600</b>	-	<b>157,600</b>
Tax rate at 25%	39,400	-	39,400
Deductions and bonuses for the financial year	(34,856)	-	(34,856)
<b>Expenses /(income) on tax on profit</b>	<b>4,544</b>	-	<b>4,544</b>

In thousands of euros			
2022			
	Income statements	Recognised income and expenses	Total
<b>Income and expenses balance for the year</b>	<b>127,524</b>	<b>26,355</b>	<b>153,879</b>
<b>Increases</b>	<b>8,948</b>	-	<b>8,948</b>
Allocation for non-deductible provisions	454	-	454
Other non-deductible expenditure	8,494	-	8,494
<b>Decreases</b>	<b>(12,273)</b>	<b>(26,355)</b>	<b>(38,627)</b>
Reversal of non-deductible amortisation/depreciation	(6,145)	-	(6,145)
Subsidies	-	(26,355)	(26,355)
Other non-deductible expenditure	(5,417)	-	(5,417)
Application of non-deductible provisions	(710)	-	(710)
<b>TOTAL</b>	<b>124,199</b>	-	<b>124,199</b>
Tax rate at 25%	31,050	-	31,050
Deductions and bonuses for the financial year	(28,259)	-	(28,259)
<b>Expenses /(income) on tax on profit</b>	<b>2,791</b>	-	<b>2,791</b>

The breakdown of expenditure on taxes on profits is as follows:

Thousands of euros		
	2023	2022
Current tax for the financial year	4,544	2,791
Deferred tax	(74)	94
Tax adjustments corresponding to previous financial years	(945)	(752)
<b>TOTAL</b>	<b>3,525</b>	<b>2,133</b>

The amount payable to the Public Entity for consolidated income tax amounts to 2,128 thousand euros (2,188 thousand euros in 2022). This amount is included under "Debts with Group companies and associates" (Note 20 (a)).

The breakdown of deferred tax assets and liabilities at 31 December 2023 and 2022 is as follows:

Thousands of euros			
			2023
	Assets	Liabilities	Net
From subsidies	-	(1,901)	(1,901)
For depreciation	198	-	198
<b>NET ASSETS AND LIABILITIES</b>	<b>198</b>	<b>(1,901)</b>	<b>(1,703)</b>

In thousands of euros			
			2022
	Assets	Liabilities	Net
From subsidies	-	(1,912)	(1,912)
For depreciation	124	-	124
<b>NET ASSETS AND LIABILITIES</b>	<b>124</b>	<b>(1,912)</b>	<b>(1,788)</b>

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

The breakdown of deferred tax assets and liabilities, at 31 December, whose term for realisation or reversal exceeds 12 months is the following:

In thousands of euros		
	2023	2022
Deferred tax assets	136	62
Deferred tax liabilities	1,890	1,899

## 23. Environmental information

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

In thousands of euros			
2023			
	Cost	Accrued depreciation	Net
WWTP installations	688,879	(265,637)	423,242
Sewer network	30,765	(12,344)	18,421
Reuse network	96,815	(21,201)	75,614
<b>TOTAL</b>	<b>816,459</b>	<b>(299,182)</b>	<b>517,277</b>

In thousands of euros			
2022			
	Cost	Accrued depreciation	Net
WWTP installations	652,624	(255,859)	396,765
Sewer network	30,486	(11,439)	19,047
Reuse network	96,434	(19,276)	77,158
<b>TOTAL</b>	<b>779,544</b>	<b>(286,574)</b>	<b>492,970</b>

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

In thousands of euros		
	2023	2022
Water purification	36,255	19,763
Sewer network	279	1,795
Reuse network	381	177
<b>TOTAL</b>	<b>36,915</b>	<b>21,735</b>

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

In thousands of euros		
	2023	2022
Water purification	170,015	198,719
Sewerage	74,027	70,614
Usage	7,975	10,576
Others (green areas, environmental expenditure, etc.)	8,578	8,670
<b>TOTAL</b>	<b>260,595</b>	<b>288,579</b>

The Company's Management integrates all its activities through an Environmental Management System, which has been duly certified in accordance with the UNE-EN-ISO-14001:2015 environmental management standard. The renewal audit for this certificate was carried out in 2023, with favourable result for the continuous development and improvement of this Management System.

In 2023, the company has 40 proceedings open for non-compliance with environmental legislation (34 in 2022), although most of them are for minor penalties, continuing the trend of recent years in accordance with the strategic plan implemented by the 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 the Company, and are therefore not attributable to it, 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 Company considers that no significant contingencies exist concerning possible litigation, compensation or other items and, accordingly, no provision has been made in this regard.



The Company has insurance policies that reasonably assure the coverage of any possible contingency that could arise from its environmental activities.

In addition to its public liability coverage, since June 2010 the Company, as the affected operator, holds an insurance policy to cover the potential risks deriving from the entry

into force of Law 26/2007 on environmental responsibility and Royal Decree 2090/2008, which implements that Law. This policy is underwritten for the maximum financial guarantee of 25 million, in excess of the maximum guarantee established by law of 5 million.

## 24. Related party balances and transactions

### a) Balances with related parties

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

In thousands of euros		
2023		
	Debtor balances	Creditor balance
<b>Parent Company</b>		
Public Entity Canal de Isabel II	1,751	(189,766)
<b>Group companies</b>		
Canal Gestión Lanzarote, S.A.U.	156,015	-
Emissao, S.A.	203	-
Canal Extensia, S.A.U.	40,516	-
Gestus Gestión & Servicios S.A.S.	29	-
Amerika Tecnologías de la Información, S.A.S.	43	-
Avanzadas Soluciones	26	-
AAA Dominicana	79	-
AAA Ecuador	21	-
Fontes da Serra Saneamento de Guapimirim Ltda.	41	-
Soluciones Andinas de Aguas, S.R.L.	55	-
Amagua, CEM	31	-
Canal Extensia America, S.A.	220	-
<b>Associated companies</b>		
GSS Venture, S.L.	-	-
<b>Joint Ventures</b>		
Aguas de Alcalá UTE	659	-
<b>TOTAL (NOTES 12 (A, D) AND 20 (A, D))</b>	<b>199,689</b>	<b>(189,766)</b>

In thousands of euros		
2022		
	Debtor balances	Creditor balance
<b>Parent Company</b>		
Public Entity Canal de Isabel II	1,766	(205,284)
<b>Group companies</b>		
Canal Gestión Lanzarote, S.A.U.	145,205	-
Emissao, S.A.	121	-
Canal Extensia, S.A.U.	32,719	-
Gestus Gestión & Servicios S.A.S.	13	-
Amerika Tecnologías de la Información, S.A.S.	17	-
Avanzadas Soluciones	6	-
AAA Dominicana	50	-
AAA Ecuador	3	-
Fontes da Serra Saneamento de Guapimirim Ltda.	14	-
Soluciones Andinas de Aguas, S.R.L.	25	-
Amagua, CEM	31	-
Canal Extensia América, S.A.	160	-
<b>Associated companies</b>		
GSS Venture, S.L.	-	(30)
<b>Joint Ventures</b>		
Aguas de Alcalá UTE	586	-
<b>TOTAL (NOTES 12 (A, D) AND 20 (A, D))</b>	<b>180,716</b>	<b>(205,314)</b>

The receivables mainly relate to services rendered by the Company, as well as amounts outstanding on loans granted by the Company.

The detail of the outstanding amounts of loans granted is as follows:

In thousands of euros			
			2023
	Current	Non-Current	Total
Canal Gestión Lanzarote	17,013	130,000	147,013
Canal Extensia (Emissao)	13,134	-	13,134
Canal Extensia (Canal Extensia América)	-	16,690	16,690
Canal Extensia	-	4,334	4,334
Canal Gestión Lanzarote Interest	8,551	-	8,551
Canal Extensia (Emissao) Interest	3,070	-	3,070
Canal Extensia (Canal Extensia America) Interest	-	2,436	2,436
Canal Extensia Interest	-	710	710
<b>TOTAL</b>	<b>41,768</b>	<b>154,170</b>	<b>195,938</b>

In thousands of euros			
			2022
	Current	Non-Current	Total
Canal Gestión Lanzarote	-	142,319	142,319
Canal Extensia (Emissao)	-	13,134	13,134
Canal Extensia (Canal Extensia América)	-	12,560	12,560
Canal Extensia	-	3,283	3,283
Canal Gestión Lanzarote Interest	2,694	-	2,694
Canal Extensia (Emissao) Interest	-	1,927	1,927
Canal Extensia (Canal Extensia America) Interest	-	1,304	1,304
Canal Extensia Interest	-	394	394
<b>TOTAL</b>	<b>2,694</b>	<b>174,921</b>	<b>177,615</b>

In accordance with the Contract-Programme, the debt with the Public Entity for the sum of 183,147 thousand euros (197,993 thousand euros in 2022) for the item "Mirror Debt" corresponds to the Company's obligation, as per financing to pay the Public Entity the amounts provided for the purpose of compliance with all obligations arising from the contracts.

The origin of this payable was the non-monetary contribution made in 2012, as described in Note 1, whereby the debt of the contributed activity was transferred from the Public Entity to the Company. Both parties recognised the initial debt and the terms of future repayment, as well as the procedure

to be followed to settle interest and repay the debt. The ownership of the above debts with financial institutions correspond to the Public Entity. The Company assumed all of the obligations originally agreed in these contracts with lenders for the corresponding amounts.

The maturities and interest rates applicable to the balances payable by the Company to the Public Entity are those specified in the contracts between the latter and the lenders (see Note 20(c)). In 2023 the weighted average interest rate of the mirror debt was 1.96%. (1.96% in 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:

							In thousands of euros	
							2023	
Financial institution	Original Amount	Transaction	Maturity 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	
<b>TOTAL</b>					<b>14,762</b>	<b>167,381</b>	<b>182,143</b>	

(1) Fixed-rate loan from the European Investment Bank.

(2) Fixed-rate loan from the European Investment Bank.

At 31 December 2022, the balances were as follows:

							In thousands of euros	
							2022	
Financial institution	Original Amount	Transaction	Maturity 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	
<b>TOTAL</b>					<b>14,762</b>	<b>182,143</b>	<b>196,905</b>	

(1) Fixed-rate loan from the European Investment Bank.

(2) Fixed-rate loan from the European Investment Bank.

Interests accrued and not paid at 31 December 2023 arising from mirror debt is 1,004 thousand euros (1,088 thousand euros in 2022).

Likewise, at 31 December 2023, the line item on loans to third parties, clients for services rendered and creditors (see notes 12 (b), 12 (d) and 20 (d)) include the sums of 85,779 thousand euros, 78,558 thousand euros and 42,489 thousand euros, respectively, for balances with shareholder Town or City Councils (69,841 thousand euros, 66,975 thousand euros and 27,293 thousand euros

respectively in 2022). In addition, dividends payable (see note 20 (b)) include 10,766 thousand euros (8,921 thousand euros in 2022) payable to these same shareholders.

#### b) Transactions with related parties

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

In thousands of euros				
2023				
	Public Entity Canal de Isabel II	Canal Gestión Lanzarote, S.A.U.	Canal Extensia S.A.U.	Joint Ventures
<b>INCOME</b>				
Materials sales	4	-	-	-
Financial income	-	8,551	2,591	518
Dividends	-	-	-	649
Other operating income	200	822	7	-
<b>EXPENSES</b>				
Purchase of water	-	-	-	(1)
Technical assistance	(3,968)	-	-	-
Other current operating expenses	(464)	-	-	-
Finance expenses	(3,717)	-	-	-
<b>INVESTMENTS</b>				
	-	-	-	-

During the financial year 2023 the transactions carried out by the Company with shareholders as a result of the incorporation of certain town or city councils in the Company's share capital were mainly in

relation to service provisions and tax assessments amounting to 42,969 thousand euros and 18,525 thousand euros respectively (46,257 thousand euros and 24,699 thousand euros respectively in 2022).

In thousands of euros					
2022					
	Public Entity Canal de Isabel II	Canal Gestión Lanzarote, S.A.U.	GSS Venture, S.L.	Canal Extensia S.A.U.	Joint Ventures
<b>INCOME</b>					
Materials sales	2	-	-	-	-
Financial income	-	2,694	-	1,384	404
Other operating income	239	755	-	21	573
<b>EXPENSES</b>					
Purchase of water	-	-	-	-	(1)
Telephone helpline	-	-	(2,379)	-	-
Technical assistance	(2,825)	-	-	-	-
Other current operating expenses	(464)	-	-	-	-
Finance Expenses	(4,009)	-	-	-	-
<b>INVESTMENTS</b>					
	-	-	-	-	-

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

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

Pursuant to the Company's Articles of Association, during 2023 the members of the Board of Directors received only expenses for attendance at meetings of the Board of Directors of the Company and its Committees for an amount of 127.2 thousand euros, not having received any compensation for other items (97.8 thousand euros in

2022), nor do they have any advances or loans or any outstanding balances at 31 December 2023 and 2022.

The Company has not assumed any obligations on behalf of the Directors as a security. The Company has a civil liability insurance policy in place for damages caused by acts or omissions while carrying out their functions, with a premium of 1,576 thousand euros. In 2023 and 2022, the Company has no pension plans or life insurance obligations with former or current members of its Board of Directors.

Senior management personnel are the members of the Company's Management Committee. In 2023, the Company's senior management received a total remuneration of 1,189 thousand euros (1,018 thousand euros in 2022). The senior management personnel have not received any advances or loans, and the Company has not extended any securities 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). The Company has pension plans and life insurance obligations with respect to the senior management personnel (see

Note 4 (n)). Furthermore, in 2023 they received 12 thousand euros (11 thousand euros in 2022) for the seniority policy (see note 4 (o)).

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

In 2023 and 2022, the Directors of the Company and their related parties have had no conflicts of interest requiring disclosure in accordance with Article 229 of the Revised Text of the Corporate Enterprises Law.

#### e) Transactions unrelated to the ordinary course of business or under different market conditions carried out by the Board of Directors

During 2023 and 2022, Company's Directors did not carry out any transactions unrelated to normal business or under different market conditions with the Company or with Group companies.

## 25. Income and expenses

### a) Net turnover

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

In thousands of euros		
	2023	2022
Income from the provision of infrastructure operation services	869,121	874,447
Income from the provision of services	12,344	11,681
<b>TOTAL</b>	<b>881,465</b>	<b>886,128</b>

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

### b) Supplies

The breakdown of supplies is the following:

In thousands of euros		
	2023	2022
<b>Supplies</b>		
Consumed raw materials and other consumables	53,768	40,596
Consumed electricity and natural gas	71,849	129,489
Works carried out by other companies	153,224	142,162
Impairment of raw materials and other consumables	(26)	1
<b>TOTAL</b>	<b>278,815</b>	<b>312,248</b>

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.

Details of raw materials and other consumables are as follows:

In thousands of euros		
	2023	2022
<b>Consumed raw materials and other consumables</b>		
Domestic acquisitions	57,240	43,505
Intra-Community acquisitions	463	712
Non-EU purchases	3	-
Changes in inventories	(3,938)	(3,621)
<b>TOTAL</b>	<b>53,768</b>	<b>40,596</b>

### c) Operating leases

#### (I) Lessee

The Company has leased the use of certain assets to third parties under operating leases.

As lessee, the Company's most relevant agreements are as follows:

- 3rd and 4th floor and several garage parking spaces in an office building in Madrid, Plaza del Descubridor Diego de Ordás, 3. The agreement shall be valid for a term of three years, extendible for a further 2 years, beginning on 01 March 2022, (4th floor and parking spaces) and 01 May 2022 (3rd floor). The annual rent for 2023 totalled 925 thousand euros (898 thousand euros in 2022).
- Building for office use located in Madrid, at calle Ríos Rosas 24, arising from lease agreement signed on 28 February 2018. The agreement shall be valid for a term of five years, renewable for additional, 5-, 3- and 2-year periods. The annual rent for 2023 totalled 1,146 thousand euros (1,124 thousand euros in 2022).
- Two fleet lease agreements signed in 2021 and expiring in 2027 and one agreement signed in 2018 expiring in 2024; five other agreements expired in 2022. The annual rent for 2023 totalled 2,998 thousand euros (2,813 thousand euros in 2022).

The expense for leases in 2023 was 6,217 thousand euros (5,996 thousand euros in 2022).

None of the lease agreements subscribed include contingent fees.

Future minimum payments corresponding to non-cancellable operating leases are as follows:

In thousands of euros		
	2023	2022
Up to a year	5,922	6,255
From two to five years	8,300	12,395
More than five years	-	216
<b>TOTAL</b>	<b>14,222</b>	<b>18,866</b>

#### d) Personnel expenses

The breakdown of personnel expenses is the following:

Thousands of euros		
	2023	2022
Wages, salaries and similar payments	140,741	134,261
Social Security Contributions	49,381	45,747
Social security at the expense of the Company	42,995	39,406
Long-service bonus (note 14)	255	354
Seniority (note 14)	4,891	4,402
Other social contributions	1,240	1,585
Provisions	534	407
<b>TOTAL</b>	<b>190,656</b>	<b>180,415</b>

#### e) Profit/loss on disposal of assets

The breakdown of profit/loss on disposal of assets is as follows:

Thousands of euros		
	2023	2022
<b>Profit</b>		
Real Estate Investments (note 10)	-	42
Intangible fixed assets (Note 8)	1	10
Non-current assets held for sale (note 7)	11,881	3,267
<b>Loss</b>		
Intangible fixed assets (Note 8)	(1,948)	(3,213)
Tangible fixed assets (Note 9)	-	-
Real Estate Investments (note 10)	(42)	-
<b>TOTAL</b>	<b>9,892</b>	<b>106</b>

#### f) Other operating income

Casual income is primarily from energy sales and other income derived from the lease of certain properties and from levies for the assignment of hydropower generation rights (see Note 21).

In the year 2023, 382 thousand euros (425 thousand euros in 2022) have been recognised in respect of trade receivables past due (see note 20 b)).



## 26. Information on employees

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

Category	Number	
	2023	2022
Senior Management	8	8
G.6 (Structure and Structural Support)	487	466
G.5 (University Graduates)	457	463
G.4 (Middle management)	181	190
G.3 (Technical personnel)	279	299
G.2 (Administrative personnel and Officials)	1,591	1,554
G.1 (Auxiliary personnel)	28	40
<b>GENERAL TOTAL</b>	<b>3,031</b>	<b>3,020</b>
Partially retired	99	80

At the end of 2022, the distribution by gender of the Company's personnel, members of the Board of Directors and Senior Management personnel, is as follows:

Category	Number	
	Women	Men
Members of the board of directors	4	10
Senior Management	2	4
G.6 (Structure and Structural Support)	181	309
G.5 (University Graduates)	232	238
G.4 (Middle management)	28	143
G.3 (Technical personnel)	91	191
G.2 (Administrative personnel and Officials)	445	1,181
G.1 (Auxiliary personnel)	17	14
<b>GENERAL TOTAL</b>	<b>1,000</b>	<b>2,090</b>
Partially retired	17	96

Category	Number	
	Women	Men
Members of the board of directors	5	10
Senior Management	3	4
G.6 (Structure and Structural Support)	162	307
G.5 (University Graduates)	224	219
G.4 (Middle management)	30	157
G.3 (Technical personnel)	88	197
G.2 (Administrative personnel and Officials)	408	1,125
G.1 (Auxiliary personnel)	16	15
<b>GENERAL TOTAL</b>	<b>936</b>	<b>2,034</b>
Partially retired	17	79

The number of employees in the Company with a disability equal to or higher than 33% (or equivalent local grading) during 2023 and 2022, itemised by categories is as follows:

Category	Number	
	2023	2022
Technical personnel	10	12
Administrative	61	46
Workers and auxiliary personnel	15	16
<b>GENERAL TOTAL</b>	<b>86</b>	<b>74</b>

## 27. Audit fees

The auditors ERNST & YOUNG, S.L., accrued the following breakdown of fees for professional services for the year ended 31 December 2023:

	In thousands of euros	
	2023	2022
For auditing services	345	298
For other services	73	82
<b>TOTAL</b>	<b>418</b>	<b>380</b>

The item "other services" for the financial year 2023 includes the review of the Financial Reporting Statement (FRS) for 35 thousand euros, the review of the information

of the Internal Control System over Financial Reporting (ICSFR) for 15 thousand euros, the limited review report 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.

The professional fees for the financial year 2022 were accrued by Auren Auditores SP, S.L.P.

Professional fees include the total fees for services rendered in 2023 and 2022, irrespective of the date of the invoice.

## 28. 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 as follows:

Average term of payment to suppliers		
	2023	2022
Average term of payment to suppliers (days)	24.40	23.79
Ratio of paid transactions (days)	24.41	22.61
Ratio of transactions payable (days)	24.11	38.82
Total payments made (thousands of euros)	454,038	436,713
Total outstanding payments (thousands of euros)	20,217	34,185
Invoices paid before the established term (number)	31,891	32,685
Number of invoices paid before the established term (%)	84%	89%
Cash amount relating to invoices paid before the established term (thousands of euros)	346,017	338,715
Cash amount relating to invoices paid before the established term (%)	76%	78%

## 29. Events after year-end

The Board of Directors of Canal de Isabel II, S.A., M.P. approved, at its meeting held on 25 January 2024, the disposal of the offices, commercial premises, storage rooms and parking spaces owned by the Company, 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 Canal de Isabel II, S.A., M.P. 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 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.

ANNEXES TO THE NOTES TO  
THE FINANCIAL STATEMENTS  
**2023**

## ANNEX I.- Details of joint ventures at 31 December 2023 and 2022

Details of joint ventures at 31 December 2023							Annex I
				2023		In thousands of euros	
				% of ownership interest			
Name	Corporate	Activity	Type	Direct	Indirect	Total	Turnover
Aguas de Alcalá UTE	C/ Federico Salmón, 13 – Madrid (Spain)	Management of supply and sanitation of the water cycle to the city of Alcalá de Henares in the province of Madrid		50%	-	50%	14,916

Details of joint ventures at 31 December 2022							Appendix I
				2022		In thousands of euros	
				% of ownership interest			
Name	Corporate	Activity	Type	Direct	Indirect	Total	Turnover
Aguas de Alcalá UTE	C/ Federico Salmón, 13 – Madrid (Spain)	Management of supply and sanitation of the water cycle to the city of Alcalá de Henares in the province of Madrid		50%	-	50%	14,722

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

**ANNEX II (1). - Information relating to group companies at 31 December 2023 and 2022**

Information relating to Group Companies at 31 December 2023											Annex II (1)	
Company	Registered Address	Activity	Auditor	% of ownership interest			Share capital	Reserves	Other equity items	Profit (Loss)	In thousands of euros	
				Direct	Indirect	Total					Total, shareholders' equity	Total, equity
Canal Extensia, S.A.U.	Santa Engracia, 125 – Madrid (Spain)	Shareholding	E&Y	100.00%	-	100.00%	80,600	64,321	(8,561)	(35,086)	101,274	101,274
Canal Gestión Lanzarote, S.A.U.	Ctra. Arrecife-Las Caletas Km. 3,5 – Lanzarote (Spain)	Integrated water cycle management	E&Y	100.00%	-	100.00%	60	(126)	(50,360)	(13,557)	(63,983)	(63,983)
Canal Extensia América, S.A.	Barranquilla (Colombia)	Comprehensive water cycle operator	E&Y	-	81.84%	81.84%	27,409	3,534	(46,471)	(10,363)	(25,891)	(25,891)
Gestus Gestión & Servicios S.A.S.	Barranquilla (Colombia)	Tax management	E&Y	-	77.03%	77.03%	655	(52)	-	(2,390)	(1,787)	(1,787)
Acueducto, Alcantarillado y Aseo Dominicana, S.A.	Santo Domingo (Dominican Republic)	Integral water cycle operator	E&Y	-	53.20%	53.20%	761	76	(2,040)	(5,165)	(6,368)	(6,368)
Acueducto, Alcantarillado y Aseo Ecuador Agacase	Samborondon (Ecuador)	Public resources management	E&Y	-	82.02%	82.02%	342	-	(1,761)	1,463	44	44
Amagua, CEM	Samborondon (Ecuador)	Comprehensive water cycle operator	E&Y	-	57.41%	57.41%	4,506	1,599	3,805 <sup>(1)</sup>	3,175	12,925	13,085 <sup>(1)</sup>
Amerika Tecnología y Servicios, S.A.S.	Barranquilla (Colombia)	Design, maintenance, development, support and management of information technology projects	E&Y	-	81.84%	81.84%	142	446	-	(152)	436	436
Soluciones Andinas de Aguas, S.R.L.	Montevideo (Uruguay)	Investment and asset holding	E&Y	-	90.92%	90.92%	3	-	(41,402)	(26,208)	(67,607)	(67,607)
Interamericanas de Aguas de México, S.A.	Veracruz (México)	Integral water cycle operator	E&Y	-	81.05%	81.05%	88	-	(149)	-	(61)	(61)
Mexaqua, S.A.	Veracruz (México)	Integral water cycle operator	E&Y	-	56.73%	56.73%	118	-	662	-	780	780
Emissao, S.A.	Brazil	Maintenance, operation, distribution and sanitation of water	E&Y	-	68.19%	68.19%	6,496	-	(74,910)	(8,528)	(76,942)	(76,942)
Fontes da Serra Saneamiento de Guapimirim Ltda.	Brazil	Comprehensive water cycle operator	E&Y	-	66.83%	66.83%	9	-	(529)	(93)	(613)	(613)

<sup>(1)</sup> Includes Subsidies, gifts and bequests received.  
EY: ERNST & YOUNG, S.L.

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

**Information relating to Group Companies at 31 December 2022**
**Annex II (1)**

Company	Registered Address	Activity	Auditor	% of ownership interest			thousands of euros					
				Direct	Indirect	Total	Share capital	Reserves	Other equity items	Profit (Loss)	Total shareholders' equity	Total net equity
Canal Extensia, S.A.U.	Santa Engracia 125- Madrid	Shareholding	AUREN	100.00%	-	100.00%	80,600	64,321	(49)	4,530	149,402	149,402
Canal Gestión Lanzarote, S.A.U.	Ctra. Arrecife-Las Caletas Km. 3,5 – Lanzarote (Spain)	Integrated water cycle management	AUREN	100.00%	-	100.00%	60	(144)	(37,991)	(12,369)	(50,444)	(50,444)
Canal Extensia América, S.A.	Barranquilla (Colombia)	Comprehensive water cycle operator	AUREN	-	81.84%	81.84%	22,563	2,909	(30,358)	(6,404)	(11,290)	(11,290)
Gestus Gestión & Servicios, S.A.S.	Barranquilla (Colombia)	Tax management	AUREN	-	77.03%	77.03%	539	90	-	(132)	497	497
Acueducto, Alcantarillado y Aseo Dominicana, S.A.	Santo Domingo (Dominican Republic)	Integral water cycle operator	AUREN	-	53.20%	53.20%	814	81	72	(1,595)	(628)	(628)
Acueducto, Alcantarillado y Aseo Ecuador Agacase	Samborondon (Ecuador)	Public resources management	AUREN	-	82.02%	82.02%	354	-	(876)	564	42	42
Amagua, CEM	Samborondon (Ecuador)	Comprehensive water cycle operator	AUREN	-	57.41%	57.41%	4,668	1,355	4,164 <sup>(1)</sup>	3,051	11,931	13,238 <sup>(1)</sup>
Amerika Tecnología y Servicios, S.A.	Barranquilla (Colombia)	Design, maintenance, development, support and management of information technology projects	AUREN	-	81.84%	81.84%	117	350	-	17	484	484
Soluciones Andinas de Aguas, S.R.L.	Montevideo (Uruguay)	Investment and asset holding	AUREN	-	90.92%	90.92%	4	-	(44,881)	3,111	(41,766)	(41,766)
Interamericanas de Aguas de México, S.A.	Veracruz (México)	Integrated water cycle operator	-	-	81.05%	81.05%	79	-	(134)	-	(55)	(55)
Mexaqua, S.A.	Veracruz (México)	Integral water cycle operator	-	-	56.73%	56.73%	106	-	594	-	700	700
Emissao, S.A. <sup>(1)</sup>	Brazil	Maintenance, operation, distribution and sanitation of water	AUREN	-	68.19%	68.19%	6,242	-	(71,426)	(555)	(65,739)	(65,739)
Fontes da Serra Saneamiento a Guapimirim Ltda.	Brazil	Integrated water cycle operator	AUREN	-	66.83%	66.83%	9	-	(275)	(234)	(500)	(500)

<sup>(1)</sup> Includes Subsidies, gifts and bequests received.

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



**ANNEX II (2). - Information relating to associates at 31 December 2023 and 2022**

Information relating to Associates at 31 December 2023											Annex II (2)		
2023													
% of ownership interest											In thousands of euros		
Company	Registered Address	Activity	Auditor	Direct	Indirect	Total	Share capital	Reserves	Other equity items	Profit (Loss)	Total, shareholders' equity	Total, equity	
GSS Venture, S.L.	C/ Guzmán el Bueno, 133 – Madrid (Spain)	Communication and telemarketing service	E&Y	25.00%	-	25.00%	60	2,106	(355)	(544)	1,267	1,267	
Metroagua, S.A. E.S.P. <sup>(1)</sup>	Santa Marta (Colombia)	Integrated water cycle operator	-	-	29.35%	29.35%	-	-	-	-	-	-	
Avanzadas soluciones de Acueducto y Alcantarillado, S.A. ESP	Riohacha (Colombia)	Catchment, treatment and distribution of water	E&Y	-	32.74%	32.74%	474	600	(1,223)	(236)	(385)	(385)	

Information relating to Associates at 31 December 2022											Annex II (2)		
2022													
% of ownership interest											In thousands of euros		
Company	Registered Address	Activity	Auditor	Direct	Indirect	Total	Share capital	Reserves	Other equity items	Profit (Loss)	Total, shareholders' equity	Total, equity	
GSS Venture, S.L.	C/ Guzmán el Bueno, 133 – Madrid (Spain)	Communication and telemarketing service	E&Y	25.00%	-	25.00%	60	2,126	(281)	(144)	1,761	1,761	
Metroagua, S.A. E.S.P. <sup>(1)</sup>	Santa Marta (Colombia)	Integrated water cycle operator	-	-	29.35%	29.35%	-	-	-	-	-	-	
Avanzadas soluciones de Acueducto y Alcantarillado, S.A. ESP	Riohacha (Colombia)	Catchment, treatment and distribution of water	AUREN	-	32.74%	32.74%	390	494	(1,104)	97	(123)	(123)	

<sup>(1)</sup> Information not available. Company in liquidation.

EY: ERNST & YOUNG, S.L.

Figures converted using the exchange rate at the closing date.

ANNEX III.- Details of changes in reserves and profit/loss corresponding to the financial years ended 31 December 2023 and 2022

Breakdown of Changes in Reserves and Profit/(loss) corresponding to the financial year ended 31 December 2023			Annex III
			In thousands of euros
			2023
	Legal Reserve	Voluntary reserves	Total
Balance at 01 January 2023	210,302	479,926	690,228
<b>DISTRIBUTION OF PROFIT/LOSS FOR FINANCIAL YEAR 2022 (NOTE 3)</b>			
Allocation Legal Reserve	4,504	-	4,504
Other movements	-	47,852	47,852
Other variations in net equity (Note 4)	-	(2,683)	(2,683)
<b>AT 31 DECEMBER 2023</b>	<b>214,806</b>	<b>525,095</b>	<b>739,901</b>

Breakdown of Changes in Reserves and Profit/(loss) corresponding to the financial year ended 31 December 2022			Appendix III
			In thousands of euros
			2022
	Legal Reserve	Voluntary reserves	Total
Balance at 01 January 2022	192,979	432,298	625,277
<b>Distribution of profit/loss for financial year 2021 (note 3)</b>			
Allocation Legal Reserve	17,323	-	17,323
Other movements	-	52,157	52,157
Other variations in net equity (note 4)	-	(3,334)	(3,334)
Reserves by merger (note 1)	-	(1,195)	(1,195)
<b>BALANCE AT 31 DECEMBER 2022</b>	<b>210,302</b>	<b>479,926</b>	<b>690,228</b>

This Annex is an integral part of note 16 of the Notes to the Financial Statements, along with which it should be read

DIRECTORS' REPORT FOR THE  
FINANCIAL YEAR

2023

# DIRECTORS' REPORT FOR THE FINANCIAL YEAR 2023

## About this report

This document aims to reflect the actions and commitments of Canal de Isabel II, S.A.,M.P. throughout the financial year 2023.

Canal de Isabel II S.A., M.P. is the parent company of the Canal de Isabel II Group. The non-financial information of the Company is included in the consolidated Financial Statements of the Canal de Isabel II Group for the year 2023, which are deposited in the Business Register of Madrid and have been verified by an independent verification service provider. Therefore, the Company is exempt from the obligation to include non-financial information in its individual directors' report in accordance with the provisions of Law 11/2018, amending the Commercial Code, the Corporate Enterprises Law and the Accounts Auditing Law in relation to non-financial information and diversity.

However, the individual directors' report of Canal de Isabel II, S.A., M.P. voluntarily presents non-financial information of the Company, in order to show in greater detail the activity and the evolution of the business, in line with the Company's value of transparency. Therefore, for any differences in information between this Report and the Consolidated Directors' Report 2023, the latter shall prevail.

For the preparation of the directors' report, the G4 Guide on the Global Reporting Initiative (GRI) has been taken into consideration. Similarly, the recommendations of the guide for the preparation of the directors' report of listed companies 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.

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 Directors' Report of Canal de Isabel II, S.A., M.P. in accordance with the Annual Corporate Governance Report template used in previous years.

## OUR MISSION

WE CARE ABOUT OUR ENVIRONMENT  
MANAGING THE WATER OF ALL 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 Region of Madrid.
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** in 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 municipalities 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.

## Contents

### About this Report

Canal de Isabel II in 2023 (timeline)	3
1. Our Company	9
1.1. Key figures in the Region of Madrid 2023	11
1.2. Technical information at year-end 2023	12
1.3. Our activity	14
1.4. Organisation of our company	27
1.5. Our strategy	36
1.6. Our stakeholders	42
2. Our performance in 2023	45
2.1. Water for everyone, every day (SECURITY OF SUPPLY)	54
2.2. The best water in Spain (WATER QUALITY)	68
2.3. A reliable service (CONTINUITY OF SERVICE)	75
2.4. We care for your environment (ENVIRONMENT)	81
2.5. Building our region (RELATIONS WITH THE MUNICIPALITIES)	119
2.6. By your side for whatever your needs may be (CUSTOMERS AND USERS)	126
2.7. The company of all the people of Madrid (CORPORATE GOVERNANCE AND SOCIETY)	139
2.8. Empowering our people (EMPLOYEES)	172
2.9. At the forefront of our sector (INNOVATION AND TECHNOLOGY)	194
2.10. A solvent and profitable company (ECONOMIC SUSTAINABILITY)	201
Annual Corporate Governance Report (ACGR)	222

## 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** hm<sup>3</sup> derived for consumption

(3.82 less than in 2022).

**492.19** hm<sup>3</sup> purified at WWTPs

(10.75 hm<sup>3</sup> more than in 2022).

**15.63** hm<sup>3</sup> of reclaimed water for reuse

(1.42 hm<sup>3</sup> less than in 2022).

**91.53** hm<sup>3</sup> 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

<b>Supply</b>	
Number of Canal-owned reservoirs	<b>13</b>
Capacity of the Canal reservoirs (hm <sup>3</sup> )	<b>943.51</b>
Water extracted for consumption in reservoirs and abstractions (hm <sup>3</sup> )	<b>489.79</b>
Number of catchment wells in operational status	<b>78</b>
Kilometres of network (adduction and distribution)	<b>17,946</b>
Number of drinking water treatment plants	<b>14</b>
Treatment capacity (hm <sup>3</sup> daily)	<b>4.55</b>
Number of large regulating tanks	<b>34</b>
Storage capacity of large tanks (hm <sup>3</sup> )	<b>3.3</b>
Number of smaller tanks	<b>290</b>
Number of large lifting plants	<b>22</b>

<b>Sanitation</b>	
Kilometres of municipal sewerage networks managed	<b>15,171</b>
Kilometres of network of large sewers and outfalls	<b>875</b>
Number of rolling mills and storm tanks managed	<b>73</b>
Capacity of managed storm tanks (hm <sup>3</sup> )	<b>1.42</b>
Number of wastewater pumping stations (WWPSs) managed	<b>194</b>
Number of wastewater treatment plants (WWTPs) managed	<b>155</b>
Nominal treatment capacity (million population equivalent)	<b>16.25</b>
Water treated at WWTPs (hm <sup>3</sup> )	<b>492.19</b>

## Reuse

Number of existing reuse plants	<b>33</b>
Kilometres of reclaimed water network	<b>744</b>
Reclaimed water tanks in service	<b>64</b>
Volume of reclaimed water produced for reuse (hm <sup>3</sup> annually)	<b>15.63</b>
Municipalities with reuse services with Canal	<b>26</b>
Golf courses with agreements or reuse contracts with Canal	<b>11</b>
Companies and organisations with a reuse service	<b>15</b>
Volume of reclaimed water discharged to watercourse (hm <sup>3</sup> annually)	<b>91.53</b>

## Clients and population supplied in the Region of Madrid

Number of contracts (millions)	<b>1.59</b>
Population supplied (millions of inhabitants)	<b>6.63</b>
Supply coverage (percentage of inhabitants)	<b>96.70 %</b>
Municipalities supplied by Canal de Isabel II	<b>174</b>
Population supplied in sewerage management (millions of inhabitants)	<b>5.87</b>
Sewerage management coverage (percentage of inhabitants)	<b>85.50%</b>
Municipalities managed in sewerage	<b>137</b>
Population supplied in wastewater treatment (millions of inhabitants)	<b>6.85</b>
Wastewater treatment coverage (percentage of inhabitants)	<b>99.87 %</b>
Municipalities managed in purification	<b>178</b>

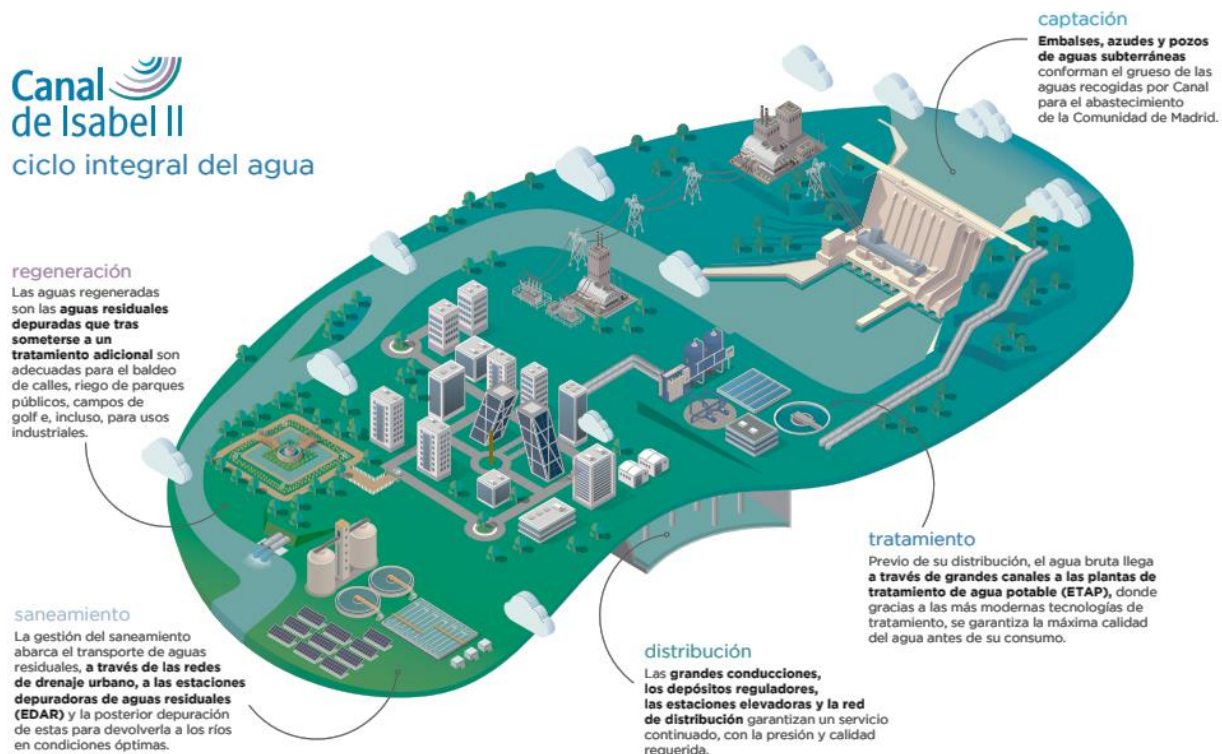


### 1.3. Our activity

[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)

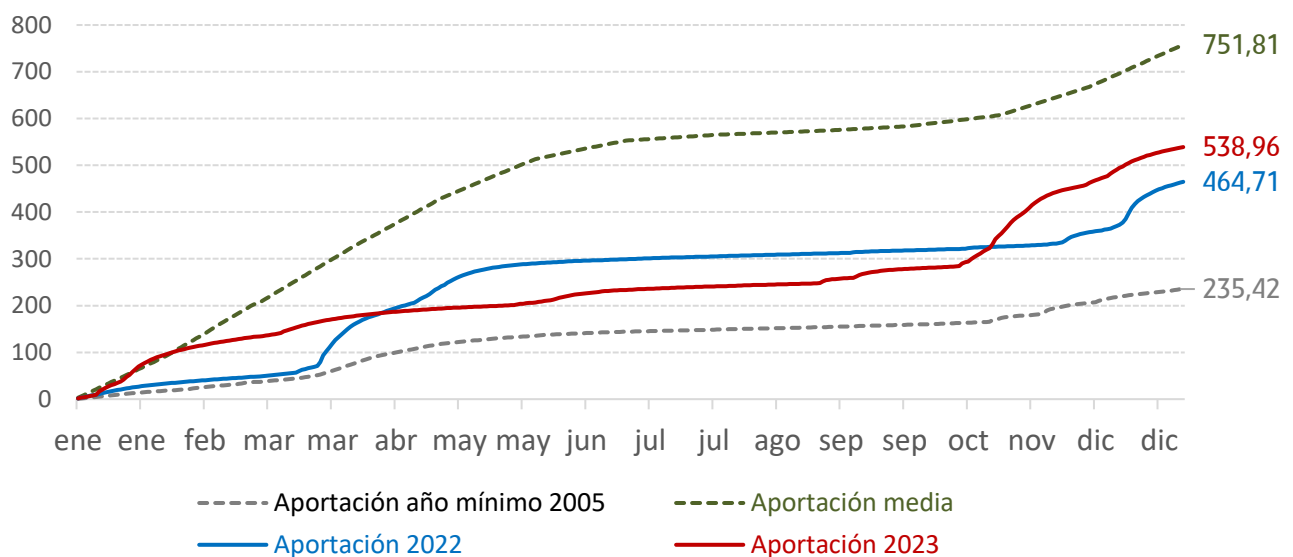
[GRI 303-3]

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.**

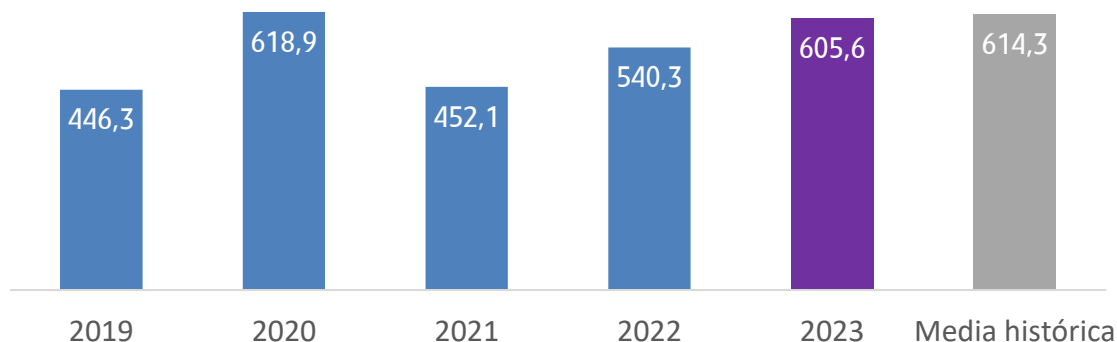
### Cumulative natural river inflows to reservoirs

(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 m<sup>2</sup> 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**.

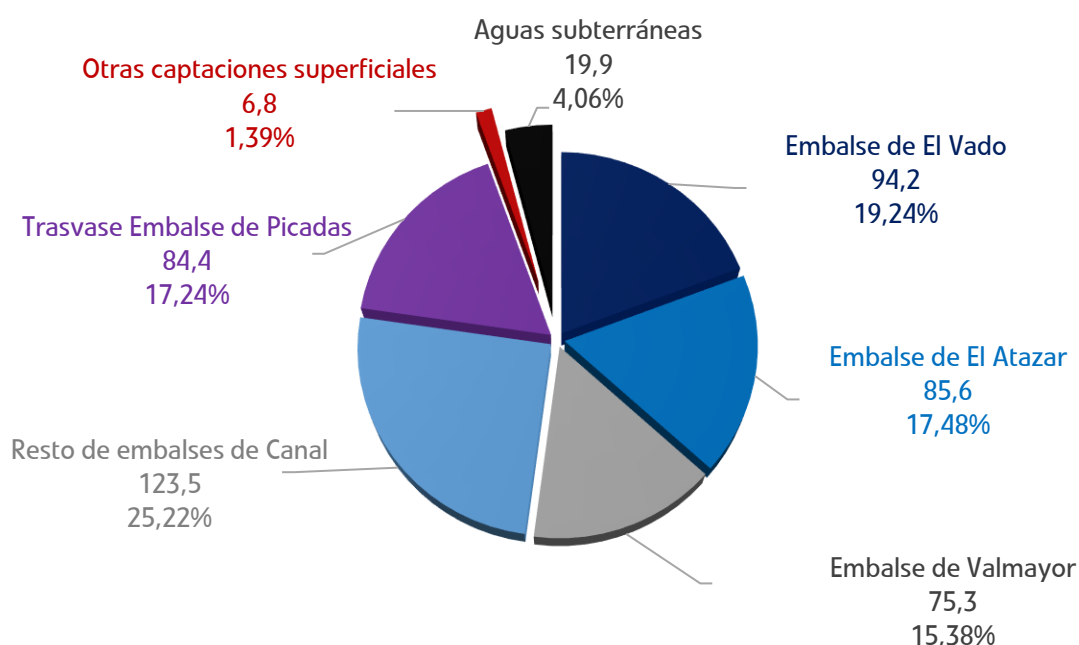
### 13 reservoirs of Canal de Isabel II

Reservoirs	River basin	River	Reservoir capacity (hm <sup>3</sup> )	Reservoir volume at year-end 2023 (hm <sup>3</sup> )	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%
<b>TOTAL</b>			<b>943.51</b>	<b>641.55</b>	<b>68.00%</b>

**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.

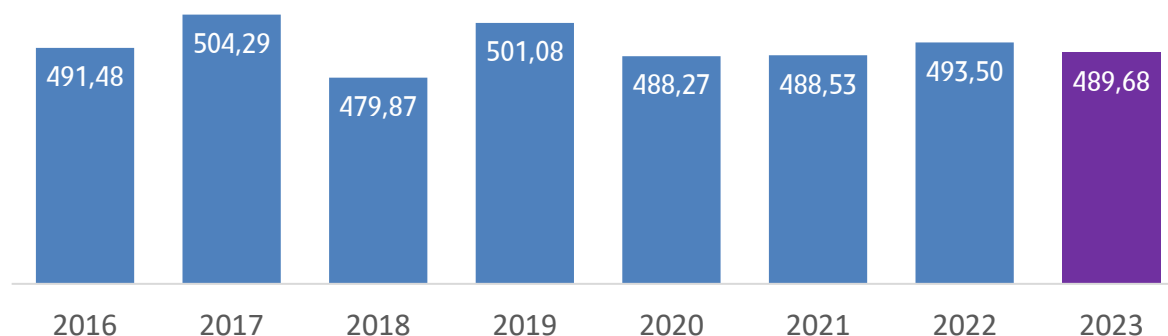
### Origin of the water derived for consumption in 2023 (hm<sup>3</sup> and % of total)



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 m<sup>3</sup> 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 reservoirs, drinking water lifting stations and the distribution network** secure 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.

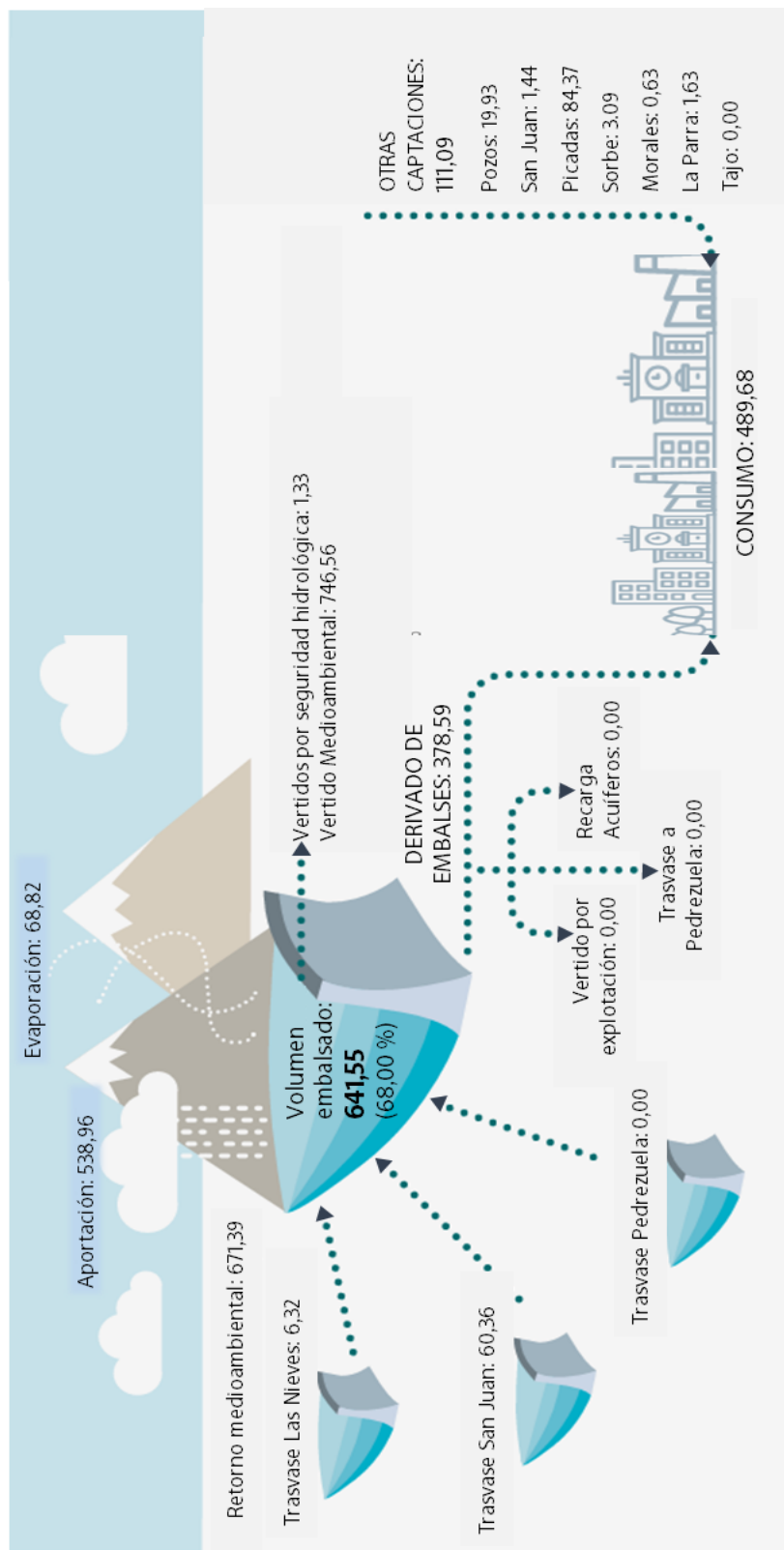
In order to take the water from the corresponding tanks and lift it to a higher elevation, thus securing the water supply in the higher areas, Canal has **22 large lifting stations** and **109 smaller lifting stations**.

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 BOD<sub>5</sub>, 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

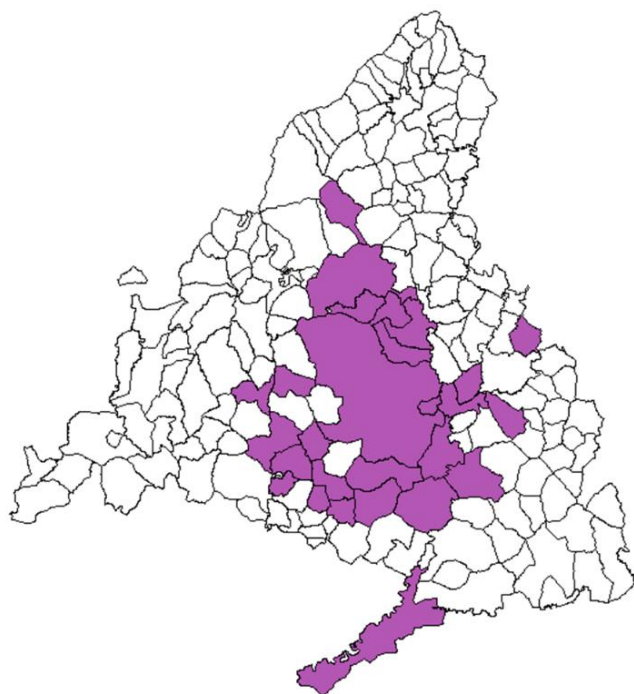
GRI 303-2]

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



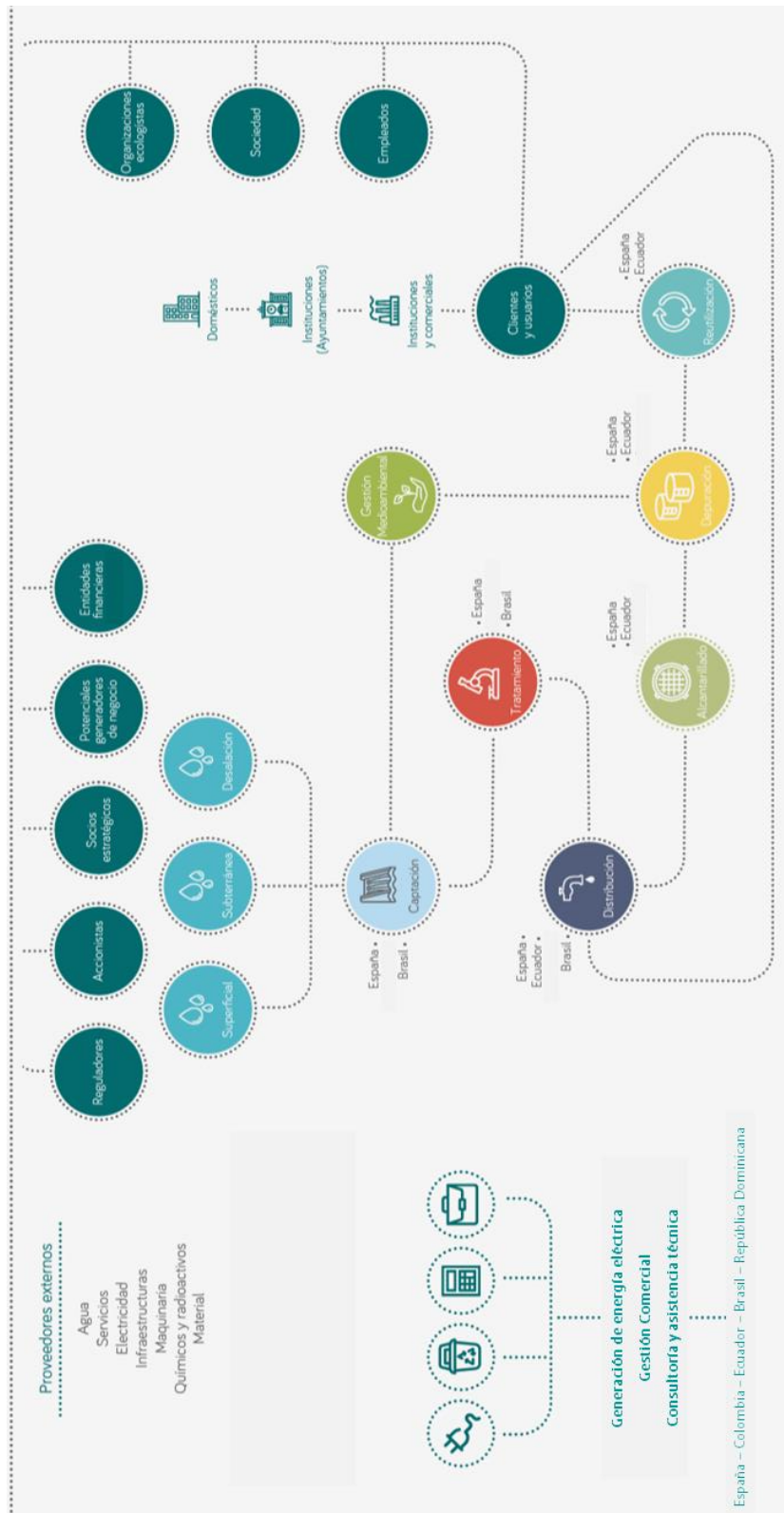
Alcobendas  
Alcorcón  
Aranjuez  
Arganda del Rey  
Arroyomolinos  
Colmenar Viejo  
Coslada  
Fuenlabrada  
Getafe  
Humanes de Madrid  
Madrid  
Majadahonda  
Meco  
Miraflores de la Sierra  
Móstoles  
Parla  
Pinto  
Rivas Vaciamadrid  
San Fernando de Henares  
San Martín de la Vega  
San Sebastián de los Reyes  
Torrejón de Ardoz  
Torres de la Alameda  
Tres Cantos  
Villanueva de la Cañada  
Villaviciosa de Odón

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](https://www.canaldeisabelsegunda.es/documents/20143/635007/Agua+regenerada_OK.pdf/be0baa6c-92ba-f7cf-0766-c11b46949288?t=1567753138898)

## THE VALUE CHAIN OF CANAL DE ISABEL II AND ITS CORPORATE GROUP

[GRI 2-6] [GRI 3-3]



## 1.4. Organisation of our company

[GRI 2-1]

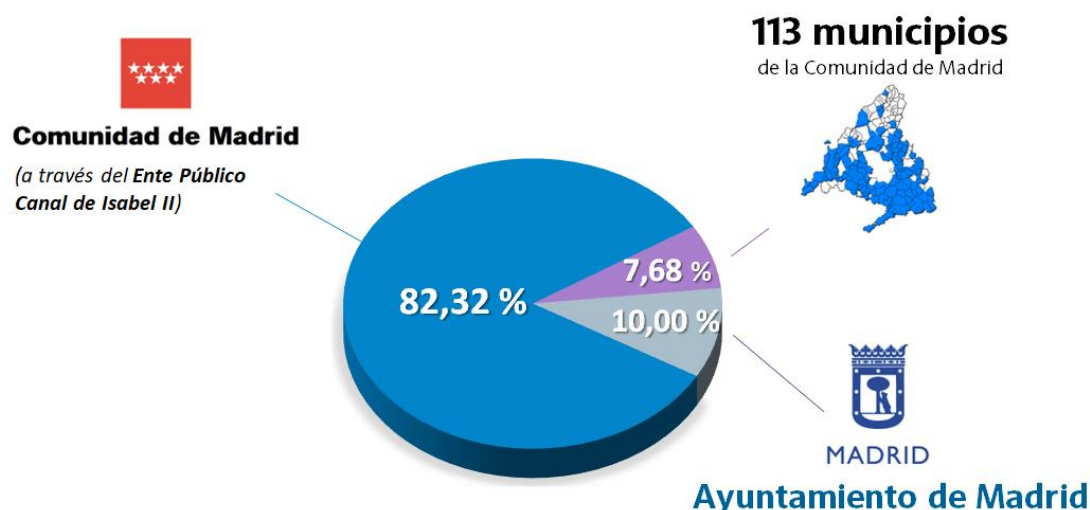
The corporate structure and governing bodies of our company are in line with the requirements of its legal status as a public limited company since its establishment in June 2012.

### 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 municipalities** was formalised in December 2012, in compliance with the agreement with these municipalities.

With the approval in 2018 of *Law 8/2018*<sup>1</sup>, the possibility of incorporating new municipalities into the shareholding structure was opened up, as recently occurred with the municipality of Brunete,<sup>2</sup> bringing the number of shareholding municipalities 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.

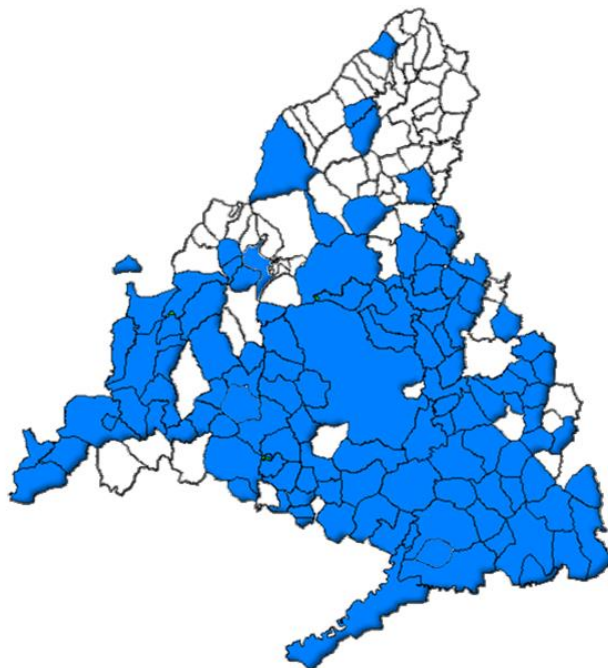
### Current shareholding structure of Canal de Isabel II, Sociedad Anónima, M.P.



<sup>1</sup> 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

<sup>2</sup> 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 **approving 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 municipalities. 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

**IGR** 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.

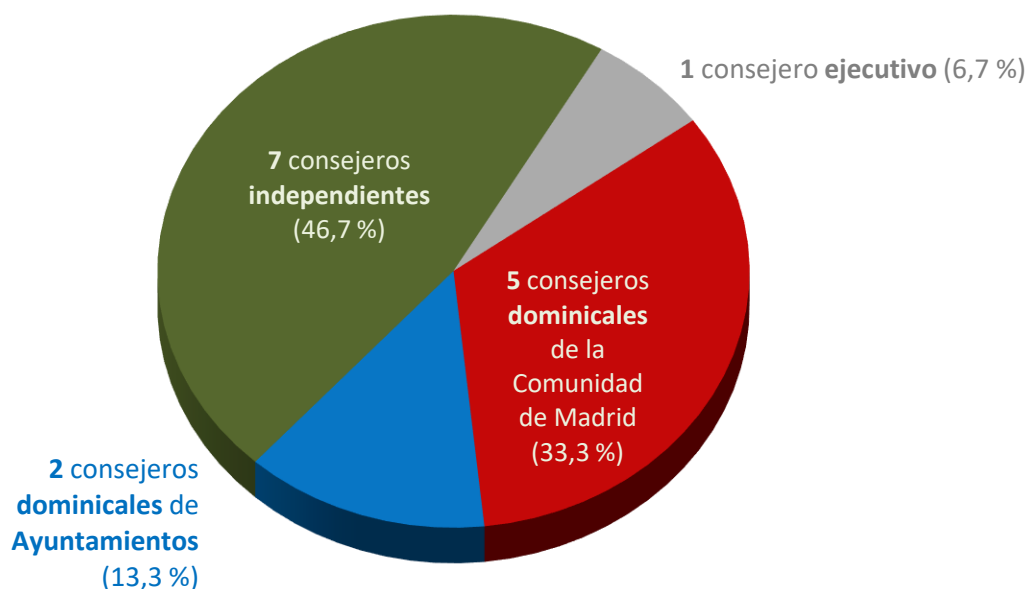
Persons declared unqualified to the extent and under the conditions established by *Law 14/1995, of 21 April, of the Regional Government of Madrid, Article 213 of Royal Legislative Decree 1/2010, of 2 July, approving the revised text of the Corporate Enterprises Law* and other applicable legislation, 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 2023<sup>3</sup>

[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 <sup>a</sup> . Paloma Martín Martín	Dominical Comunidad de Madrid	Presidenta del Consejo (hasta el 6 de julio de 2023)			
D. Carlos Novillo Piris	<b>Dominical Comunidad de Madrid</b>	<b>Presidente del Consejo</b> (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	<b>Vicepresid. del Consejo y Consejero Delegado</b> (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))	<b>Dominical Comunidad de Madrid</b>	<b>Vocal</b>			
D <sup>a</sup> . Isabel Aguilera Navarro	<b>Independiente</b>	<b>Vocal</b>			<b>Vocal Comisión</b>
D <sup>a</sup> . Cristina Aparicio Maeztu	<b>Dominical Comunidad de Madrid</b>	<b>Vocal</b>	<b>Vocal Comisión</b>		<b>Vocal Comisión</b>
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	<b>Independiente</b>	<b>Vocal</b>	<b>Vocal Comisión</b>		<b>Vocal Comisión</b>
D. Pablo Cristobal Mayoral	<b>Dominical Comunidad de Madrid</b>	<b>Vocal</b> (desde el 7 de septiembre de 2023)		<b>Vocal Comisión</b>	
D. Jaime García-Legaz Ponce	<b>Independiente</b>	<b>Vocal</b>	<b>Presidente Comisión</b>		
D. Guillermo Hita Téllez	Dominical ayuntamientos	Vocal (hasta el 30 de noviembre de 2023)			
D. Salvador Marín Hernández	<b>Independiente</b>	<b>Vocal</b>	<b>Vocal Comisión</b>		<b>Vocal Comisión</b>
D. Francisco Muñoz García	<b>Dominical ayuntamientos</b>	<b>Vocal</b>			
D <sup>a</sup> . Alicia Muñoz Lombardía	<b>Independiente</b>	<b>Vocal</b>		<b>Presidenta Comisión</b>	
D. Jaime Sánchez Gallego	<b>Externo-otros</b> (hasta el 7 de septiembre de 2023) <b>Independiente</b> (desde el 7 de septiembre de 2023)	<b>Vocal</b>		<b>Vocal Comisión</b>	
D. José Ignacio Tejerina Alfaro	<b>Dominical Comunidad de Madrid</b>	<b>Vocal</b>	<b>Vocal Comisión</b>	<b>Vocal Comisión</b>	
D <sup>a</sup> . Lourdes Vega Fernández	<b>Independiente</b>	<b>Vocal</b>		<b>Vocal Comisión</b>	<b>Presidenta Comisión</b>
D <sup>a</sup> . María del Carmen Tejera Gimeno		<i>Secretaria, no consejera</i>	Secretaria Comisión	Secretaria Comisión	Secretaria Comisión

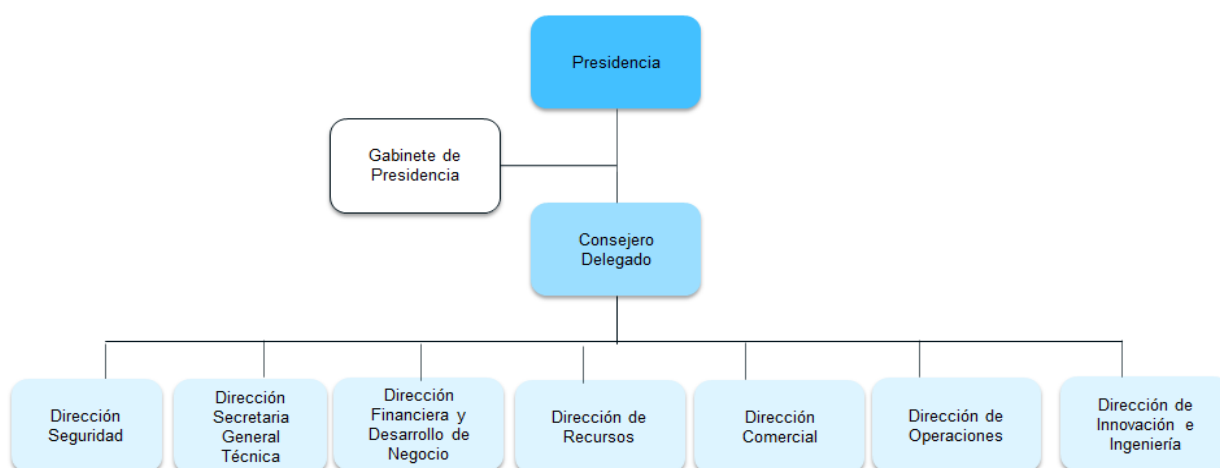
<sup>3</sup> The Extraordinary General Meeting of Shareholders held on 29 February 2024 appointed Ms Judith Piquet Flores, Mayoress - President of the City Council of Alcalá de Henares and Chair of the Madrid Federation of Municipalities (FMM), as a proprietary director.

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 secure 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 ourselves 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 2018-2020 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 previsibles 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.



5. Desarrollar la cooperación con los municipios de Madrid



Promover la gestión integral de Canal en la totalidad de los municipios, consolidando el modelo más eficiente de gestión supramunicipal.

6. Reforzar el compromiso y la cercanía con el usuario



Maximizar la «experiencia cliente» en todos los contactos con nuestros usuarios, mejorando la eficiencia en los procesos comerciales y operacionales.

7. Potenciar la transparencia, el buen gobierno y el compromiso con la sociedad



Garantizar la transparencia, el buen gobierno y el compromiso con la sociedad como empresa pública que presta un servicio básico esencial.

8. Fomentar el talento, el compromiso y la salud de nuestros profesionales



Apoyar a nuestros profesionales atrayendo, reteniendo y fomentando el talento y el conocimiento, para ser la mejor empresa donde desarrollar una carrera profesional en nuestro sector.

9. Liderar la innovación y el desarrollo



Innovar en nuestras actuaciones para ser referencia de nuestro sector y desarrollar las tecnologías y servicios que demanden nuestros clientes en el futuro.

10. Asegurar la sostenibilidad y la eficiencia en la gestión



Realizar una gestión pública rigurosa, eficiente y transparente, asegurando el adecuado equilibrio económico y social.

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
P.Est.1	<b>Plan-25: reducir en un 25 % el volumen de agua derivada para consumo por habitante</b>
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
P.Est.2/ PE 2.4	<b>Plan Red / Plan para mejorar el mantenimiento preventivo en la red de abastecimiento</b>
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 / P.Est.3	<b>Plan 365 días de continuidad del servicio / Plan de resiliencia de suministro a municipios</b>
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
P.Est. 4	<b>PLAN 0,0 kWh: Alcanzar una generación eléctrica del 100 % de nuestro consumo</b>
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
P.Est.5	<b>PLAN SANEAMIENTO: 100 % de las redes de saneamiento adecuadas a los planes directores</b>
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
<b>P.Est. 6</b>	<b>Plan de soluciones digitales: la factura electrónica</b>
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
<b>P.Est. 7</b>	<b>Plan para potenciar la inversión en RSC</b>
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 /	Plan de gestión de plantilla / Plan para asegurar una plantilla adaptada a las necesidades y con los profesionales
PE 8.2	más adecuados
<b>P.Est. 8</b>	<b>Plan de Igualdad</b>
PE 8.1	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
<b>P.Est. 9 /</b>	<b>Plan Innova 100 / Plan de soporte innovador a la estrategia</b>
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
<b>P.Est. 10</b>	<b>Plan para agilizar los procesos de contratación</b>
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



During 2023, on behalf of the Sustainability Committee of the Board of Directors, the process for the preparation of **Canal's 2025-2028 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 those 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
 <p>Personal o presencial</p>	<p>Eventos conmemorativos para empleados y familiares (Bienvenidas, homenajes y días internacionales). Evento deportivo para empleados y familiares (Canal Deporte). Clases deportivas para empleados.</p> <p>Visitas guiadas a instalaciones. Reuniones de conocimiento, estructura y colectivos específicos. Focus group.</p>	<p>Oficinas centrales de la empresa. Centro de atención al cliente. Servicio de atención al cliente. Visitas organizadas a las instalaciones. Campañas educativas (Canal Educa).</p> <p>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.</p>
 <p>Teléfono, fax, correo</p>	<p>Teléfono, correo ordinario, buzón de sugerencias y buzones inteligentes.</p>	<p>Teléfono de atención al cliente. Teléfono de atención a proveedores.</p> <p>Teléfono de contacto de las iniciativas educativas. Mensajes en la factura.</p>
 <p>Internet</p>	<p>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 (Canal&amp;tú). Evolucionando al Digital Workplace.</p> <p>Canal de vídeos corporativos. Newsletter de Prevención (Prevenblog).</p>	<p>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.</p> <p>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.</p>
 <p>Publicaciones /Informes técnicos</p>	<p>Campañas de comunicación. Informes y comunicados internos. Publicación de la newsletter semanal Seguimos Conectados. Difusión de la evolución del Plan Estratégico 2030.</p>	<p>Envío de información personalizada a los clientes. Informe de Sostenibilidad de Canal de Isabel II. Revista Canal&amp;tú.</p> <p>Publicaciones de la empresa. Publicaciones de la Fundación Canal. Cuadernos de I+D+i.</p>
 <p>Medios. TV, prensa, radio y medios digitales</p>	<p>Red de pantallas informativas en los centros de trabajo (Noticias, entrevistas, vídeos...).</p>	<p>Notas de prensa. Convocatorias a los medios. Sala de prensa en la web.</p> <p>Campañas de concienciación dirigidas a la población. Blog de Canal de Isabel II.</p>

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 securing 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<sup>4</sup>.

### 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**.

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<sup>4</sup> According to Annex II of *Delegated Regulation 2023/2772 of the European Union* on sustainability reporting standards, a **sustainability issue is material** (or of relative materiality) **in terms of impact** when it relates to actual or potential impacts, positive or negative, of the company **on people or the environment** in the short, medium and long term. A material issue from an impact perspective includes impacts related to the company's own activities and upstream and downstream in the **value chain**, also through its products and services, as well as its business relationships.








A sustainability issue is **material from a financial perspective** if it creates risks or opportunities that affect or may affect the **company's financial position**, financial performance, cash flows, access to finance or cost of capital in the short, medium or long term.

A sustainability issue meets the **dual materiality criterion** if it is material from an impact perspective, from a financial perspective or from both.



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:

- ✓ **Cientes: 275** particulares y **125** PYMES/ autónomos 
- ✓ **Grandes Cientes: 20** 
- ✓ **Ayuntamientos: 113** accionistas 
  - ✓ **4** focus groups 
  - ✓ **9** entrevistas 
  - ✓ **12** encuestas 
- ✓ **Empleados: >40** colaboradores de Canal 

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<sup>5</sup>, 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)

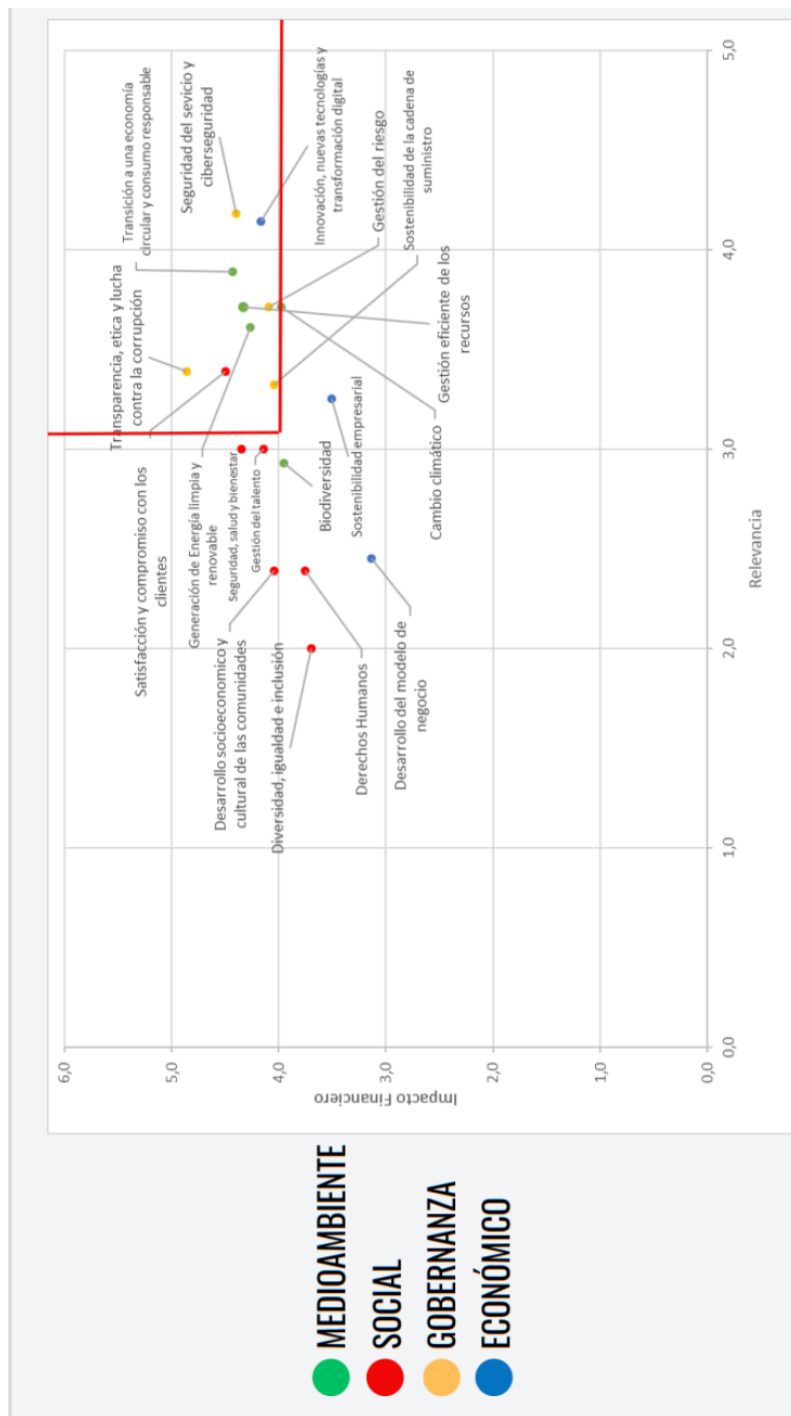
<sup>5</sup> Directive (EU) 2022/2464 of the European Parliament and of the Council of 14 December 2022 concerning sustainability reporting by companies (CSRD)

**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]



## 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	Aytsos.	Clientes / Usuarios	Gobierno y Sociedad	Equipo humano	Innovación	Sostenibilidad Económica	
<b>Cuestiones materiales CRÍTICAS</b>											
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							*				
<b>Cuestiones materiales RELEVANTES</b>											
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)										*	
<b>Otras cuestiones materiales</b>											
Desarrollo socioeconómico y cultural										*	
Diversidad, igualdad e inclusión								*			
Derechos Humanos							*				
Desarrollo del modelo de negocio					*						
<b>ODS RELEVANTES</b>											
											



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.

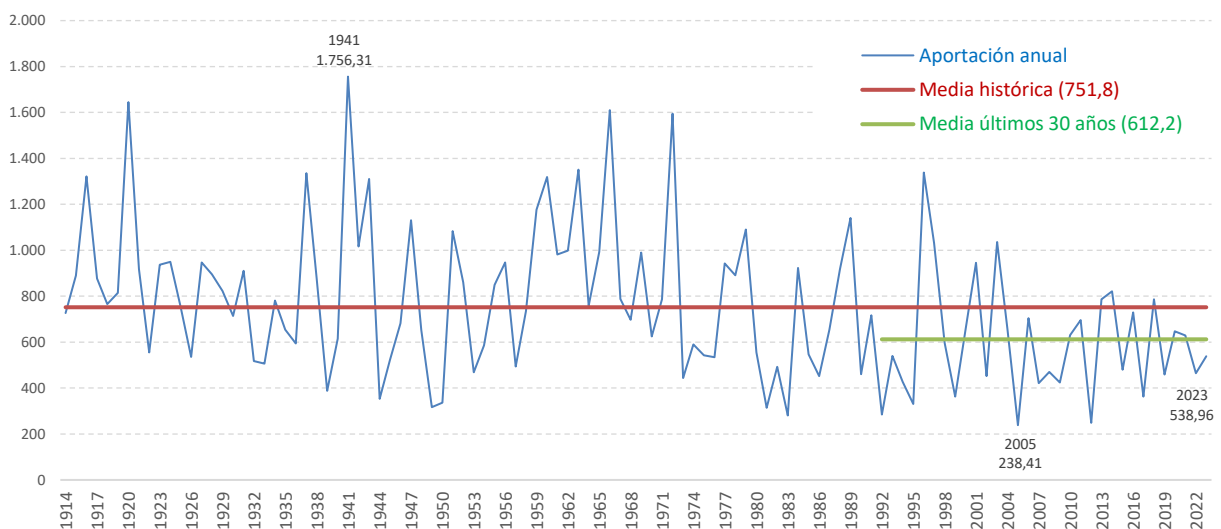
ENSURING ACCESS FOR ALL TO A QUALITY RESOURCE

[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.

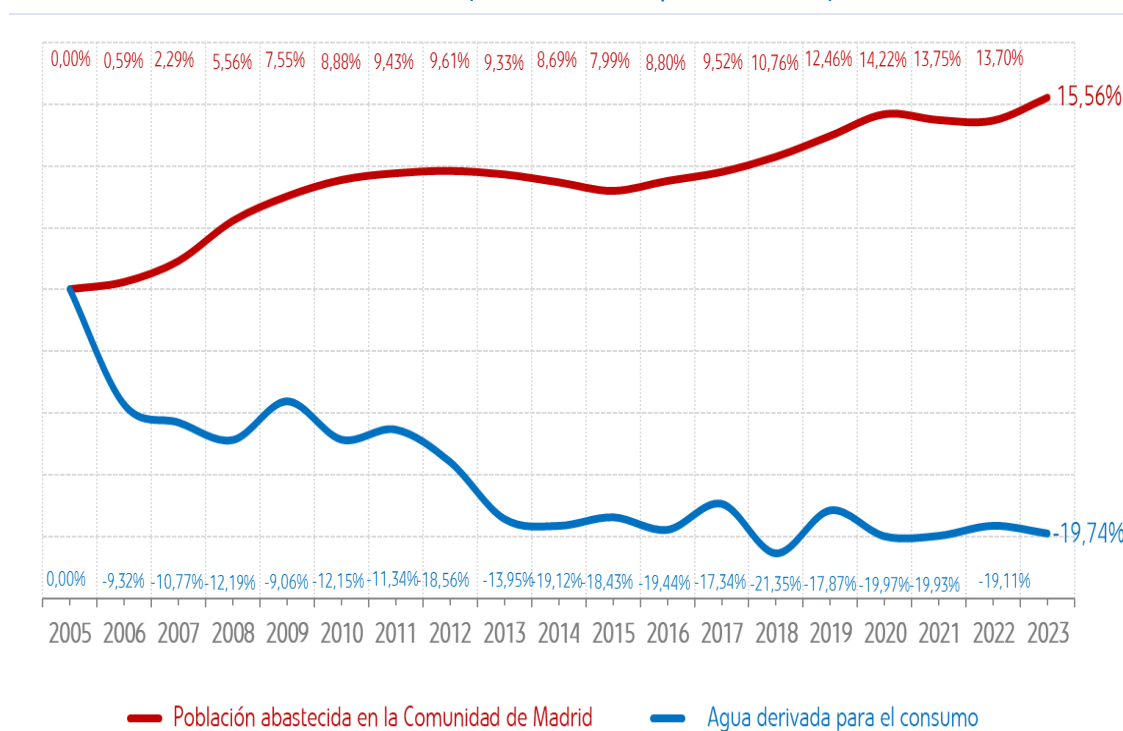
In the case of the Region of Madrid, we are already experiencing some of these risks. This is shown, for example, by the reduction of almost 20% in the average water inflow to our reservoirs over the last thirty years compared to the historical average since 1914.

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).

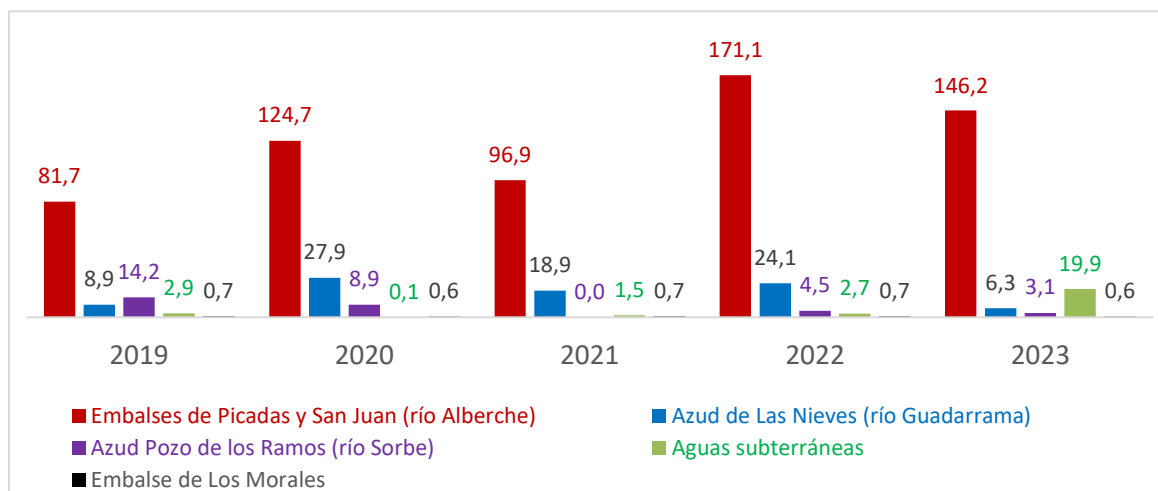
We also have the possibility of exploiting **groundwater** through the exploitation of **78 wells**, an essential strategic reserve for drought situations. Our wells exploit the **Cretaceous carbonate aquifer of Torrelaguna** (Madrid) and, fundamentally, the **Tertiary Detritic aquifer of the Madrid 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 secure 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 hm<sup>3</sup>).

**Use of alternative resources to Canal reservoirs in the period 2019-2023** (million cubic metres per year)



## Reclaimed water: a real alternative

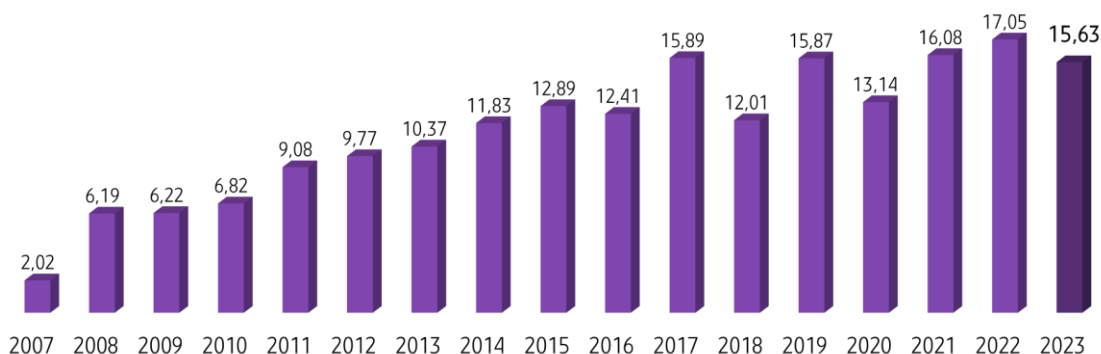
[GRI 301-2] [GRI 303-3]

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)



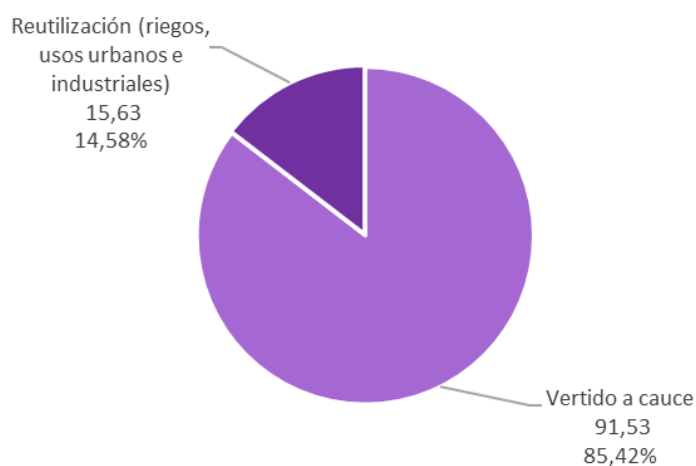
In the last 17 years (from 2007 to 2023), 193.27 million cubic metres of reclaimed water have been reused in the Region of Madrid, equivalent to slightly more than the capacity of the Valmayor, El Vado, Navacerrada and Navalmedio reservoirs combined.

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

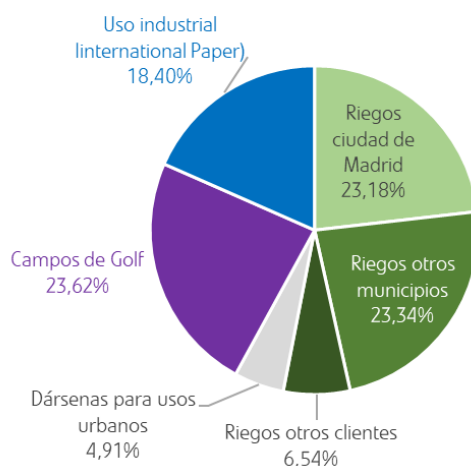
(hm³ and % of total consumption)



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)



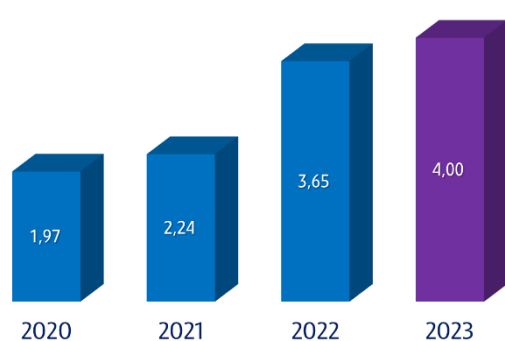
### Fight against water fraud

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.

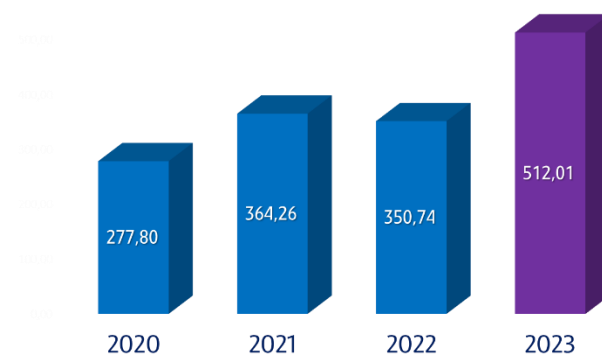
#### Fraudes de agua detectados

(valor acumulado anual del fraude detectado en hm<sup>3</sup>)



#### Resultados económicos de la lucha contra el fraude

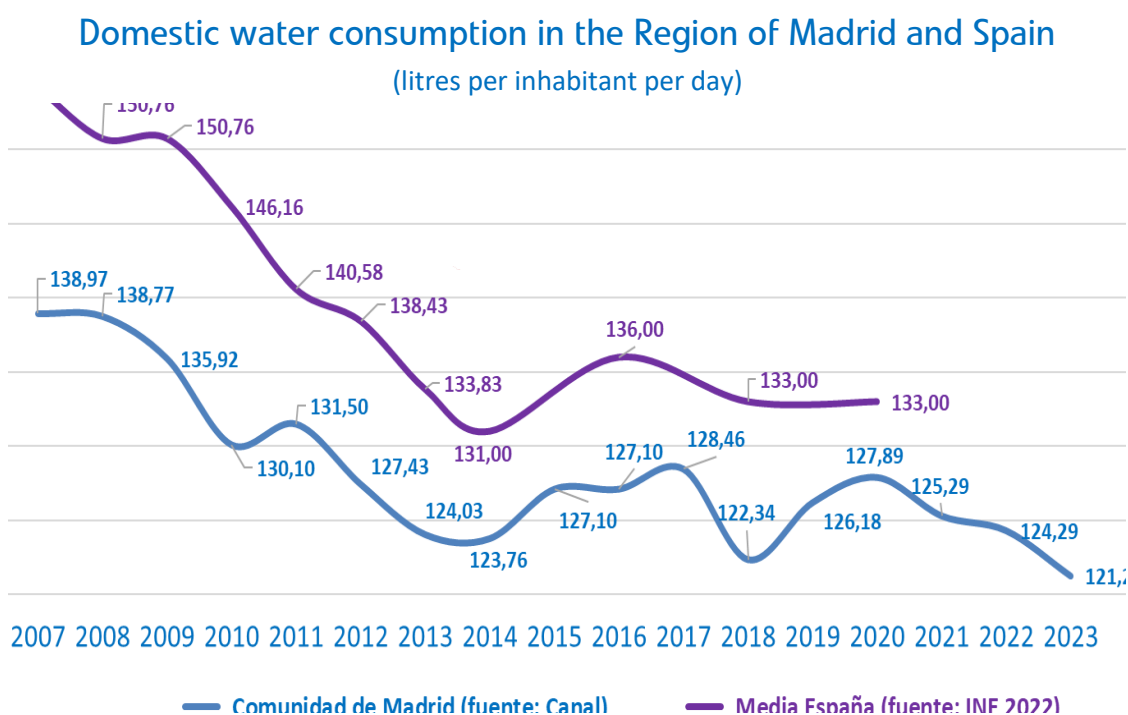
(valor en miles de euros de los ingresos por fraude detectado a lo largo del año)



## 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 average<sup>6</sup> (133 litres per inhabitant per year).



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,

<sup>6</sup> Latest available data published in the *Statistics on water supply and sanitation* published by INE in 2022 with data at year-end 2020

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.

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](http://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.

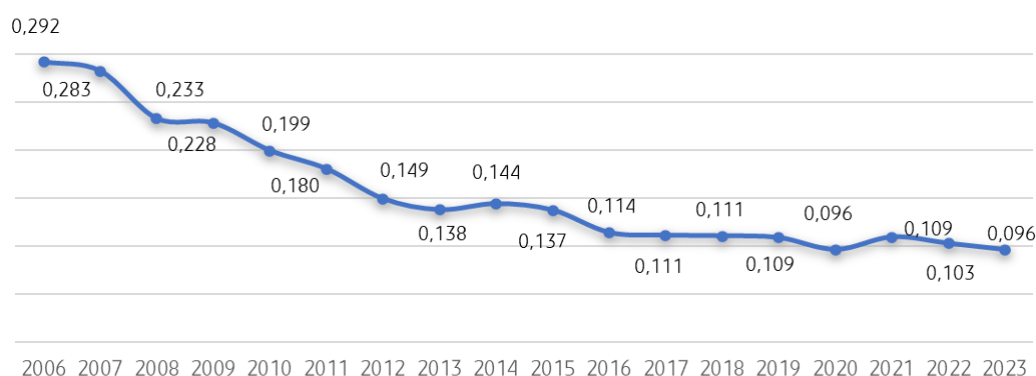
## Improving the efficiency of our network

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.

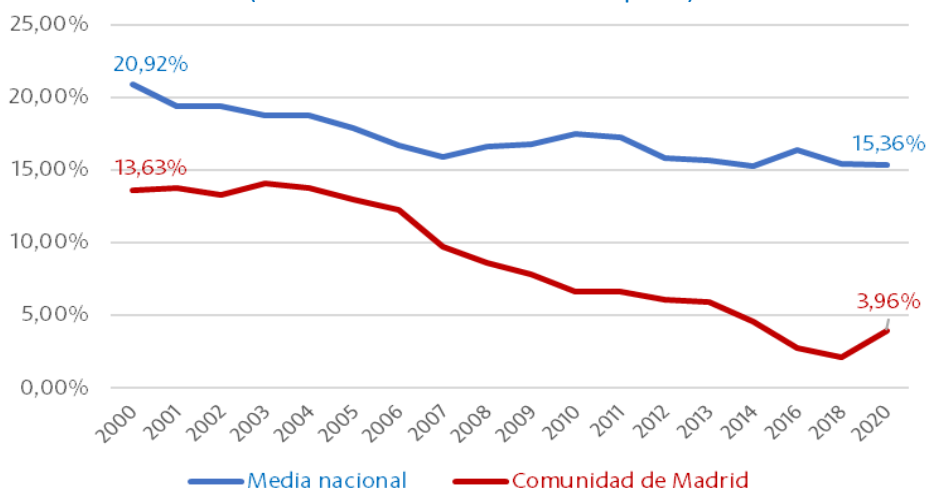
Canal's historical efforts have resulted in a significant improvement in our break rates over the past 18 years, with a **56% reduction in pipe breaks**. This is despite the growth of the network and the incorporation in 2012 of networks in new municipalities with a poor level of maintenance. In 2023, 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.

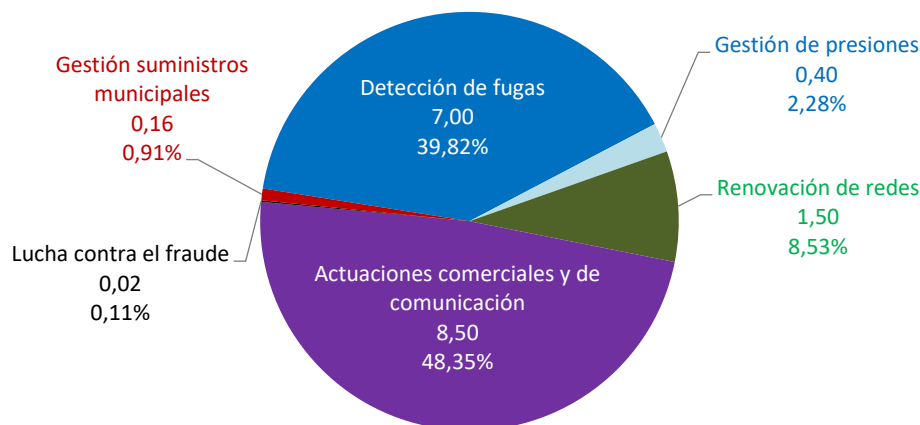
The **first phase of the RED Plan** initiated in 2021 is **one of the largest investments made by Canal** throughout its history to secure the quality and supply of water in the region and increase the efficiency of the distribution network. This phase includes the renovation of **1,200 kilometres** 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*



\*Los objetivos se corresponden con los de año seco



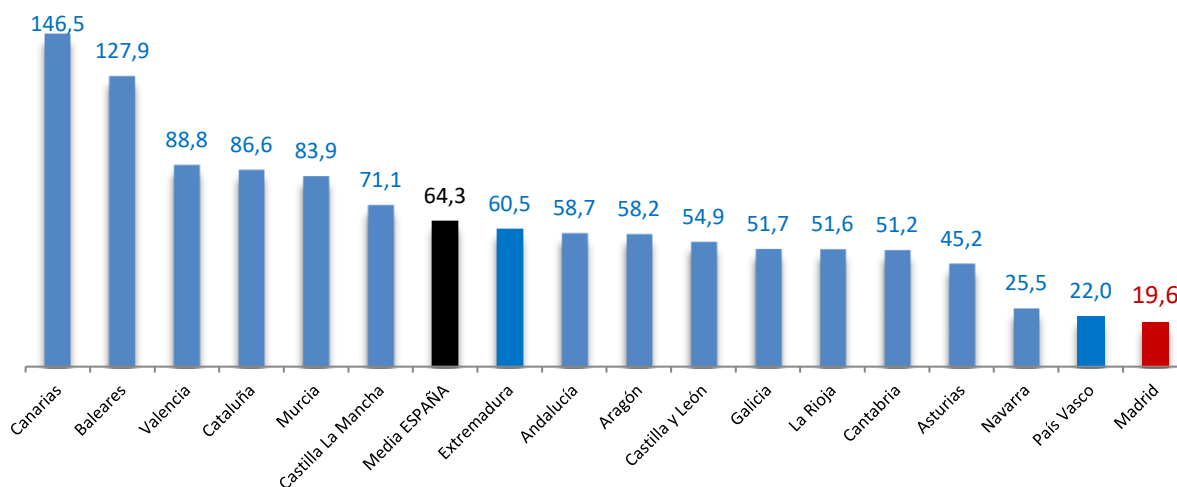
ENSURING DRINKING WATER QUALITY  
2.2. The best water in Spain

[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 stations (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.

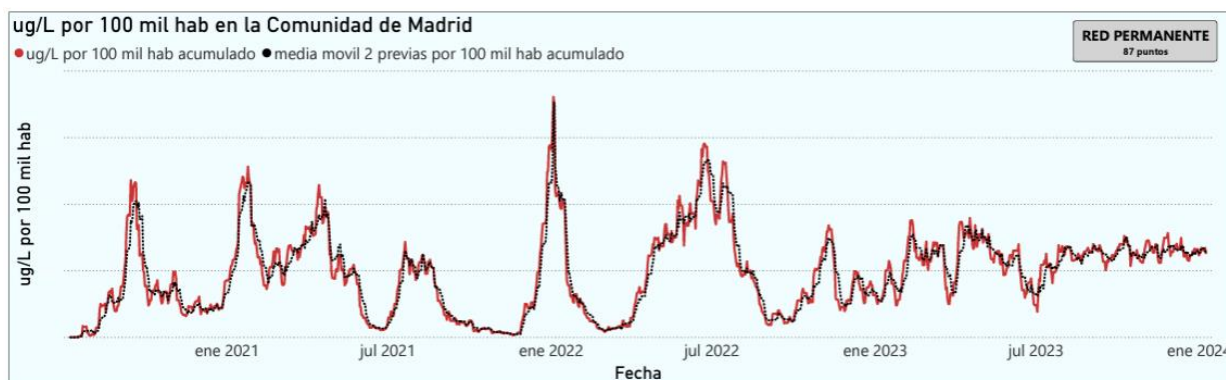
Since its inception, Canal de Isabel II has made available to citizens a freely accessible interactive map where they can consult the trend in each area, the date of the last validated analysis, the indicator of the presence of the virus and a comparative value of the latest data with respect to the 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 secure 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](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 municipalities 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 (collector) 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

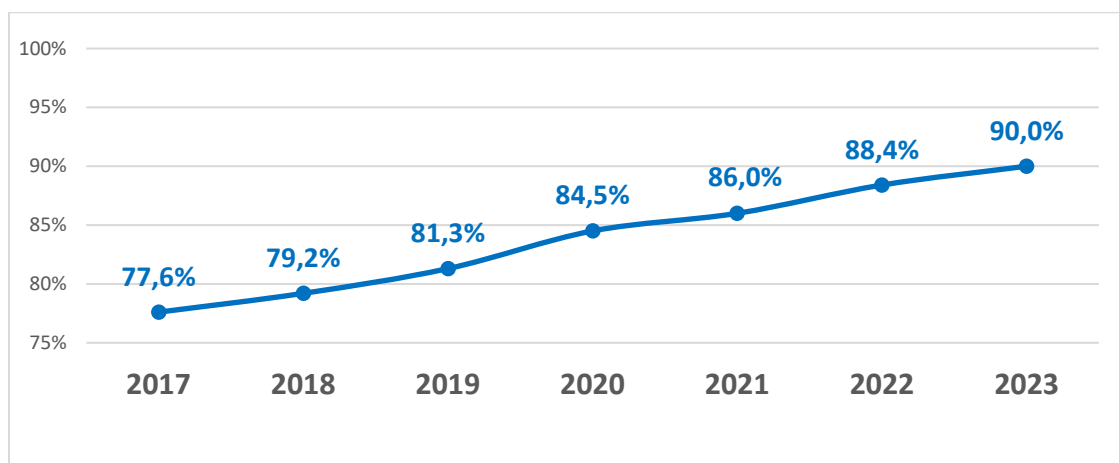
## Monitoring of indicators Strategic Plan. Strategic Line 3

### *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

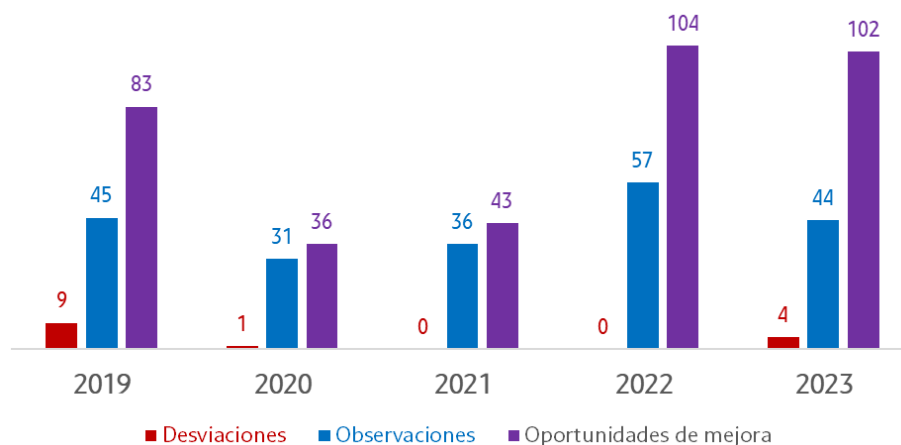
[GRI 2-24] [GRI 403-1]

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** accredited 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
<b>Projects and works</b>	Assessment of environmental aspects in planning and projects
	Completion of environmental impact studies
	Environmental protection clauses in tender specifications
	Adoption of preventive, protective and corrective measures
	Monitoring and surveillance of environmental aspects during and after the construction work
<b>Reservoirs</b>	Reservoir protection plans
	Monitoring of the ecological quality of the reservoir environment
	Dam emergency plans
	Maintenance of environmental flows. Hydroelectric power generation.
<b>Wells</b>	Sustainable exploitation of groundwater resources
<b>DWTP</b>	Efficiency in processing and reduction of rejects and wastage
<b>Tanks and networks</b>	Continuous quality monitoring
	Plan for sectorisation and control of network pressures
<b>Drinking water distribution networks</b>	Renewal of networks - <b>RED Plan</b>
	Non-billed water reduction plan
	Plan for new network technologies
	Electricity production with hydroelectric microturbines.
<b>Sewerage networks</b>	Improvement and renovation of networks - <b>SANEA Plan</b>
	Research on sustainable drainage networks
<b>WWTP and WWTP</b>	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
<b>Business management and support processes</b>	Water saving communication campaigns
	Virtual office, electronic billing, 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.

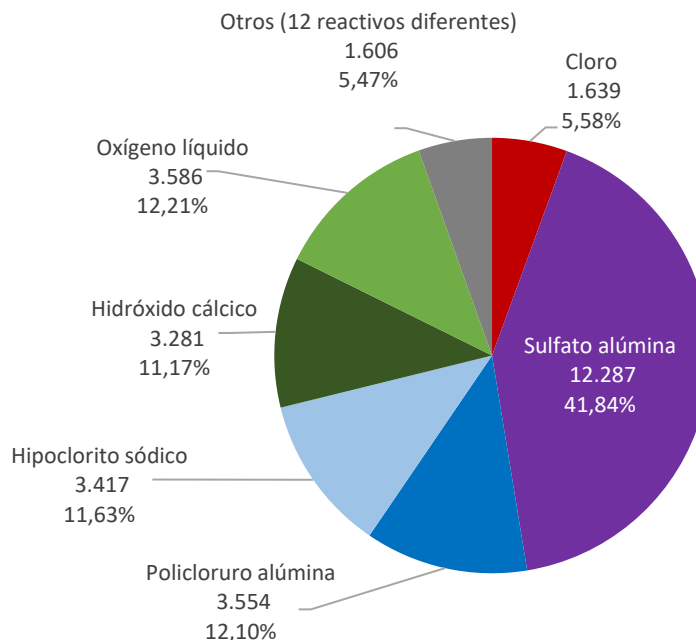
### Consumption of reagents

[GRI 301-1]

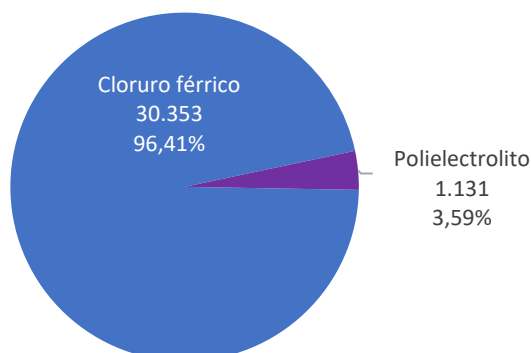
The main materials we consume by weight are the reagents we use in drinking water treatment plants (DWTPs) and wastewater treatment plants (WWTPs).

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 billing, 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 consumer 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 billing (*e-billing*) 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-billing** (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](http://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]

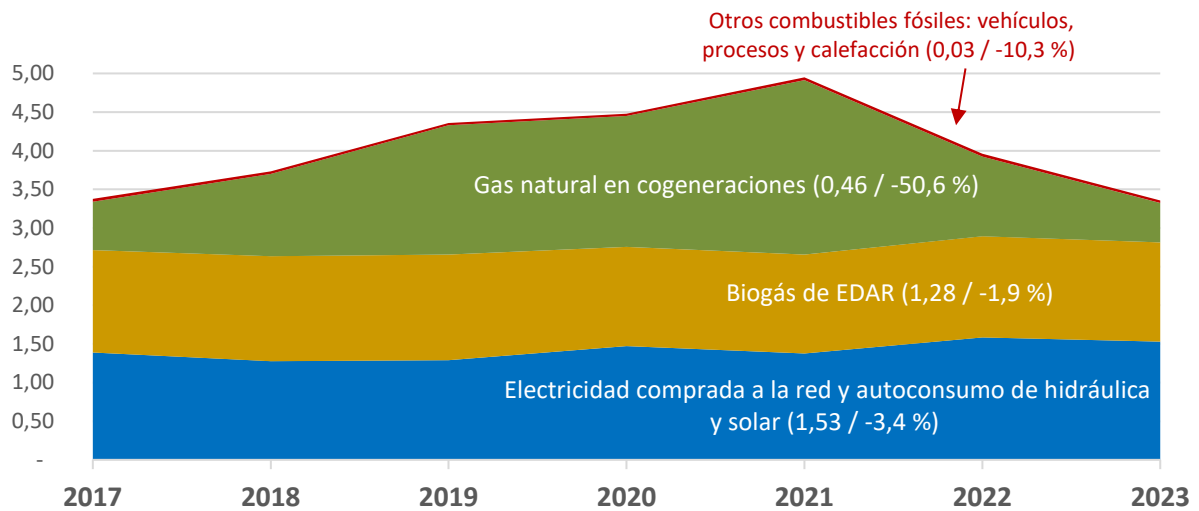
Canal de Isabel II needs to consume a large amount of energy to carry out all its processes. In 2023, the **direct energy consumption** for the operation of our facilities **has been reduced by 16.51%** compared to that recorded in 2022 and by 33.20% compared to that of 2021 (which was an all-time high) and amounted to **3,306,331 gigajoules**. This decrease is mainly due to the decrease in natural gas consumption in the cogenerations of the thermal drying plants of WWTP sludge with cogeneration at 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).

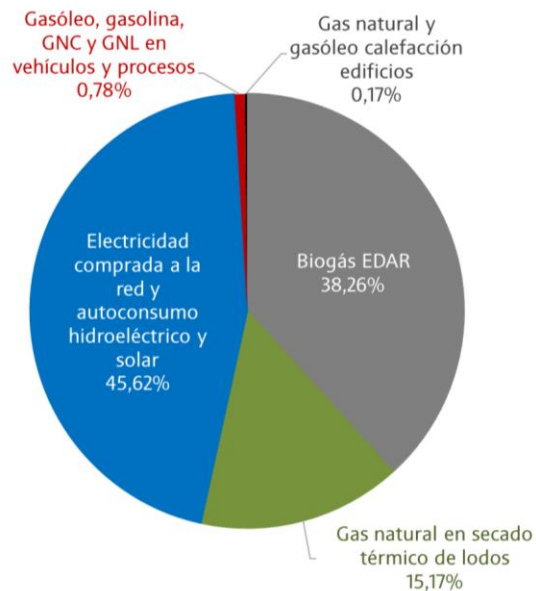
### Evolution of energy consumption 2017 - 2023

(million

gigajoules and % change compared to 2022)



### Percentage distribution of energy consumption in 2023

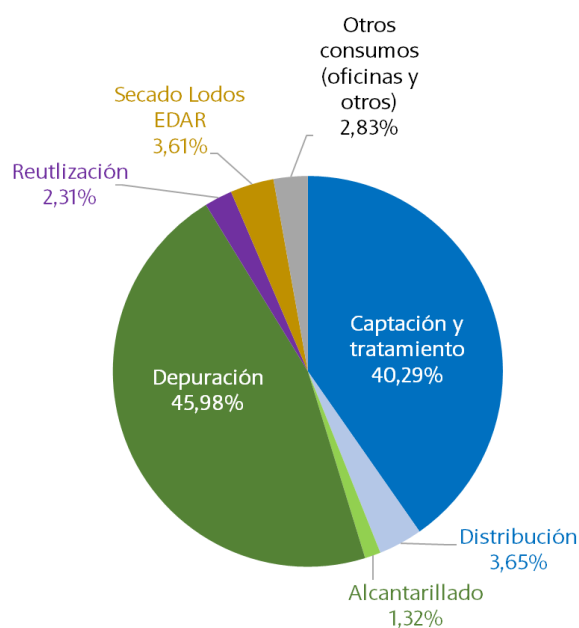


GRI 302-4]

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.

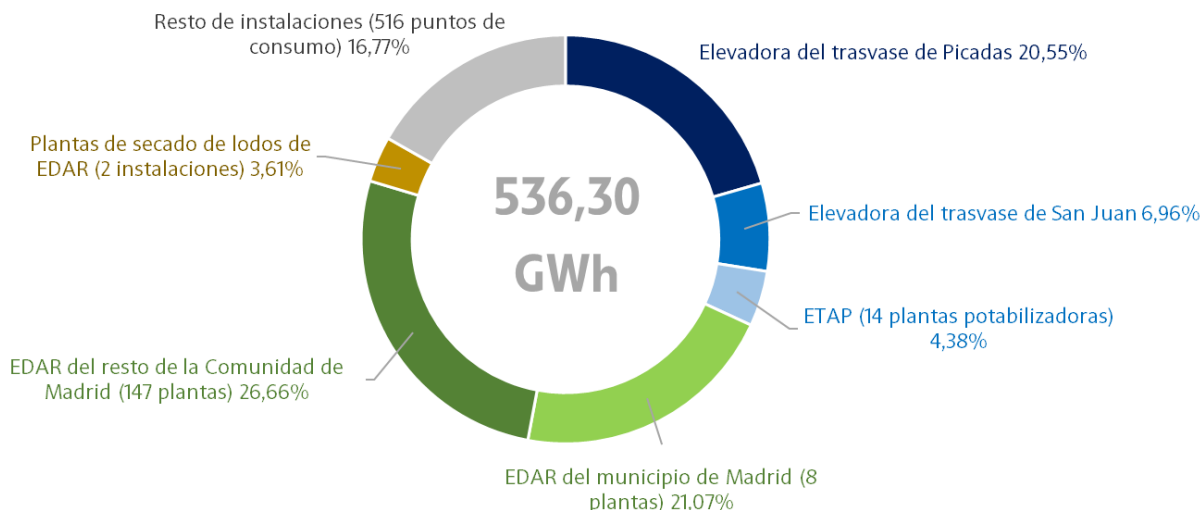
Canal's total electricity consumption (including self-consumption from cogeneration, hydroelectric plants, hydraulic microturbines, photovoltaic plants and biogas from WWTP) amounted to **536.30<sup>7</sup> million kilowatt hours** of electricity in 2023. This consumption is very similar to that of 2022 (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 hm<sup>3</sup> less than in 2022).

### Percentages of electricity consumption by phases of the integral water cycle in 2023



<sup>7</sup> 2.52% of total electricity consumption in 2023 has been estimated.

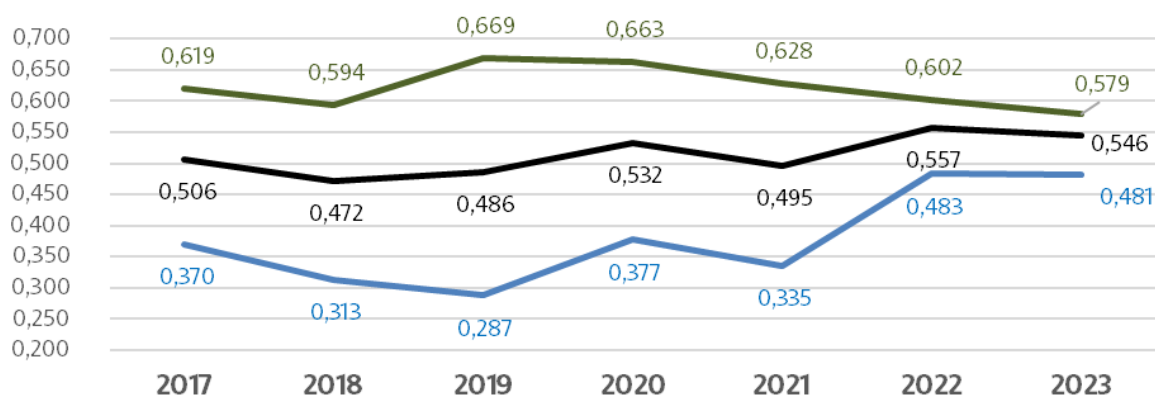
## Distribution in % of electricity consumption by facility in 2023



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]



- Consumo específico abastecimiento (KWh por m3 derivado)
- Consumo específico saneamiento y regenerada (KWh por m3 depurado y regenerado)
- Consumo específico total (KWh por m3 gestionado)

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]

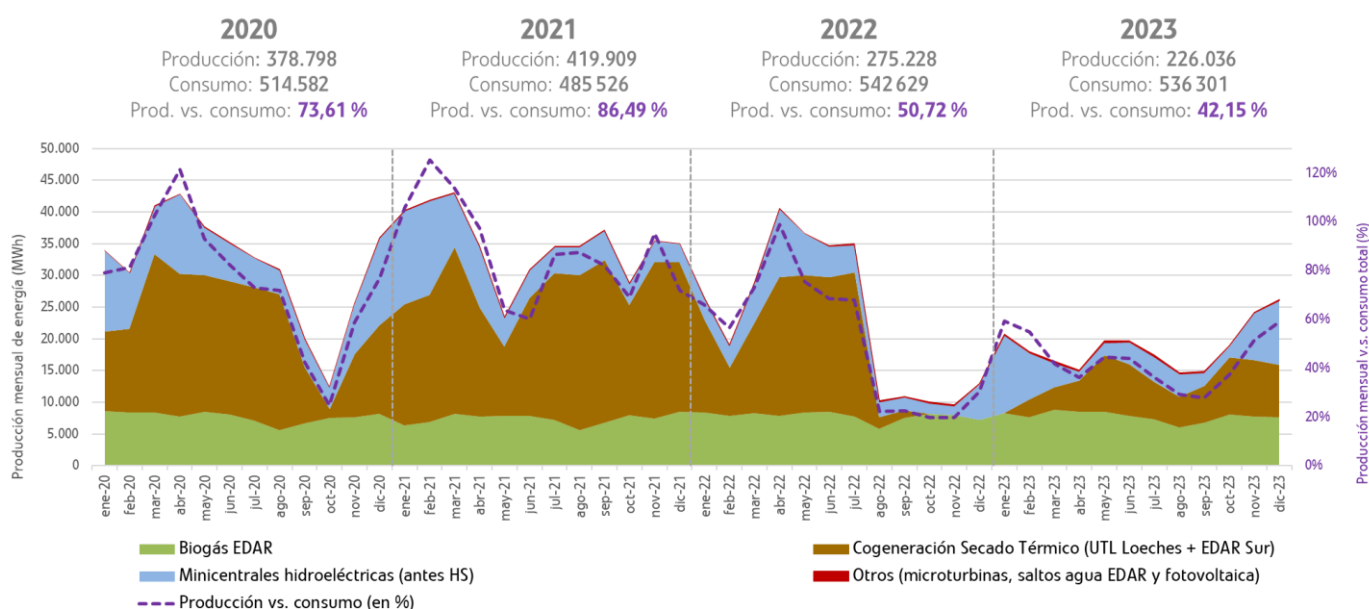
Aware of the importance of our electricity consumption, for decades Canal has been equipping itself with facilities for the **generation of electricity** through processes that are synergic with water management. At the end of 2023, we were the company with the **largest installed capacity** in electricity 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, **405.51<sup>8</sup> 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 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 CO<sub>2</sub>**. In addition, by purchasing electricity with a 100% renewable energy guarantee, we have avoided the emission of **40.55 thousand tonnes of CO<sub>2</sub>** 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 CO<sub>2</sub> 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.

<sup>8</sup> 3.3% of electricity consumption purchased from the grid in 2023 has been estimated

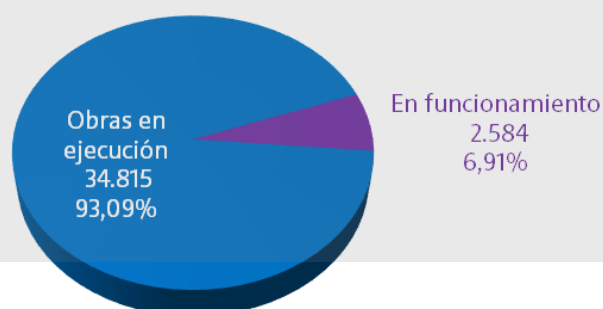
Furthermore, in some of these infrastructures, photovoltaic installations will be hybridised with pre-existing generation technologies (hydro and mini-hydro, biogas, biogas engines and turbines and cogeneration), thus increasing the possibilities for energy management and optimising the use of existing 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 equivalent<sup>9</sup>** and can treat a combined flow of up to **2.16 million cubic metres per day**.

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<sup>10</sup>** 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.

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<sup>9</sup> 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.

<sup>10</sup> *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.*

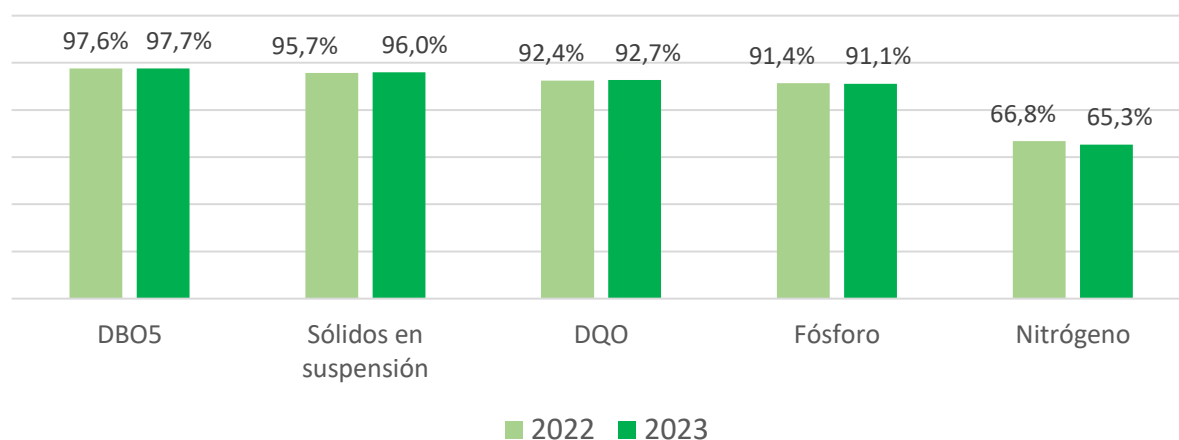
In **2023, work continued** on the **El Endrinal, Arroyo El Plantío** and **Arroyo del Soto** WWTPs. In all of them, partial handovers will take place in 2024 in order to put the decisive improvements incorporated in these works into operation as soon as possible.

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 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.

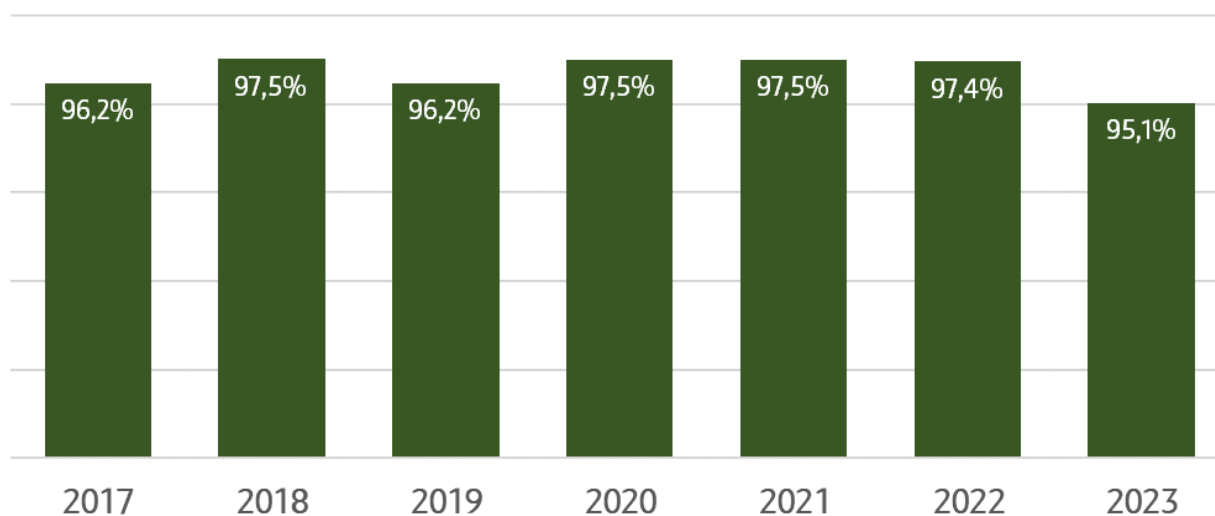
In 2023, our WWTPs have treated and **returned** a total of **476.56 million cubic metres** of treated wastewater and rainwater to the rivers, equivalent to **95%** of the water derived for consumption. The quality of the effluent treated in the plants managed by Canal maintains the high level that characterises 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]

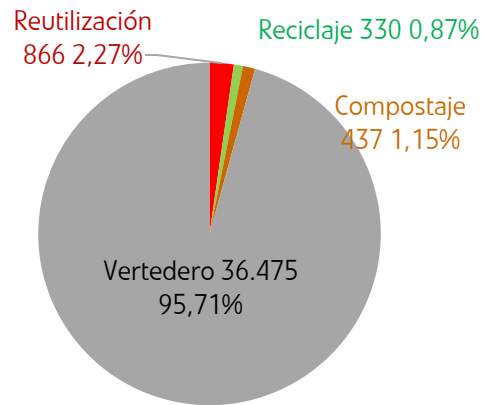
In 2023, excluding WWTP sludge and DWTP sludge, we generated and managed a total of **38,109 tonnes of non-hazardous waste** (6,414 tonnes more than in 2022), including **36,435 tonnes of pre-treatment waste from WWTPs and DWPSs** (95.61% of the total). Construction and demolition waste (354 tonnes) 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 were 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**.

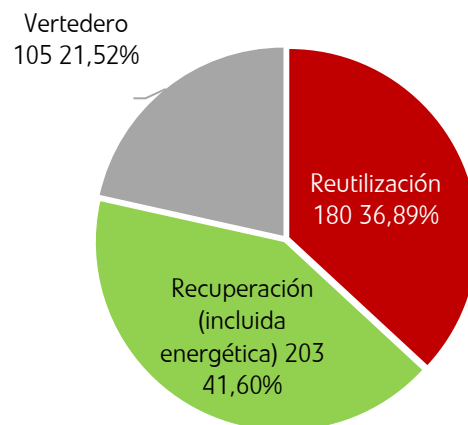
### Final destination of managed waste in 2023 (in tonnes and % of total)



Non-hazardous waste<sup>11</sup>



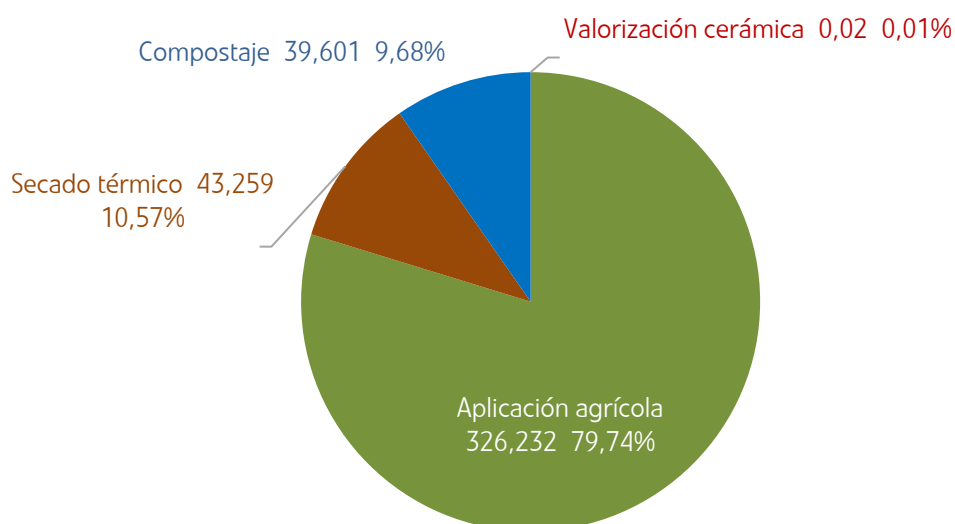
Hazardous waste



<sup>11</sup> 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% CO<sub>2</sub>. **If we remove this CO<sub>2</sub> 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 CO<sub>2</sub> 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]

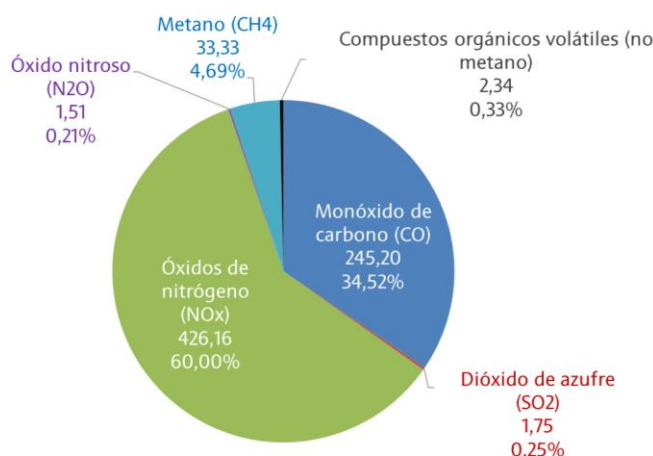
Atmospheric emissions of greenhouse gases, **other than CO<sub>2</sub>**, and other acidifying and tropospheric ozone precursor substances that can be attributed to Canal operations come from:

- Direct emissions from **existing combustion facilities at Canal's premises**, 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 CO<sub>2</sub>)<sup>12</sup> 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 CO<sub>2</sub>) 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.

<sup>12</sup> CO<sub>2</sub> emissions are broken down in the section "THE CLIMATE CHANGE CHALLENGE" included in this report.

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 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*<sup>13</sup>.

### 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*

<sup>13</sup> Council Directive 92/43/EEC, of 21 May 1992, on the conservation of natural habitats and wild fauna and flora.

(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.
- **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 river 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**<sup>14</sup> of the Spanish river basins and of the Spanish part of the Spanish-Portuguese river 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 river basin and wastewater discharges).

<sup>14</sup> 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 CO<sub>2</sub> 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 **Loeches WWTP Sludge Treatment Unit with cogeneration (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 CO<sub>2</sub>** 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 South WWTP sludge drying plant (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 secure 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**.

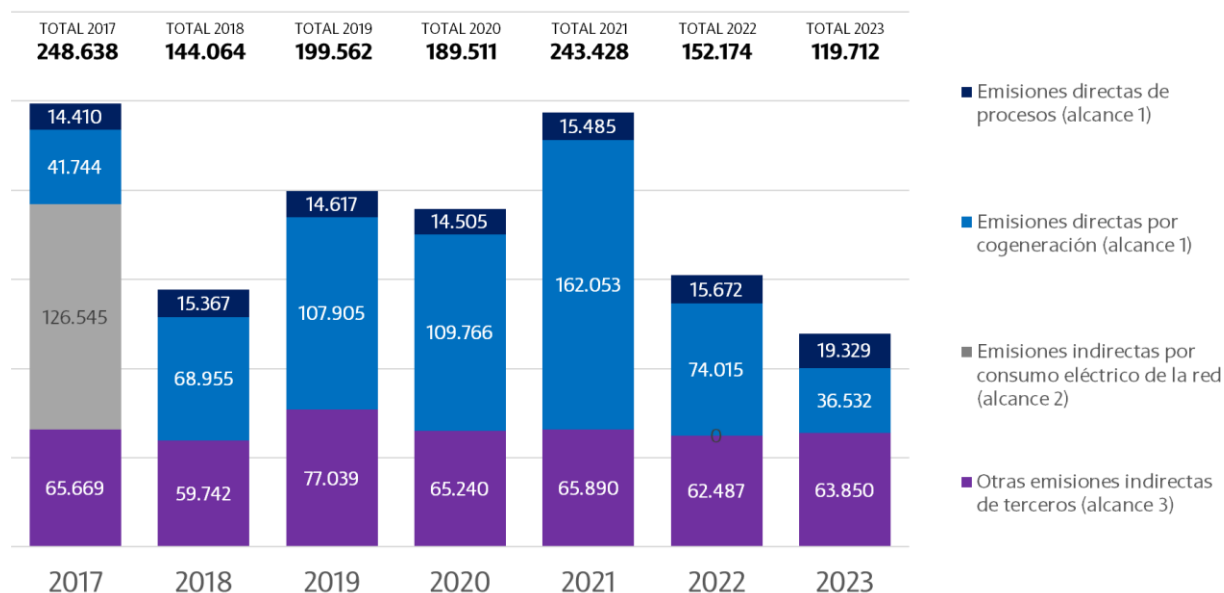
[GRI 305-4] [GRI 305-5]

In terms of **emissions specific** to our activity in 2023, **0.122 kilograms of CO<sub>2</sub> equivalent** were recorded for **each cubic metre of water managed**,<sup>15</sup> 21.86% less than in 2022 and 50.90% less than in 2021.

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<sup>15</sup> 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 CO<sub>2</sub> 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**<sup>16</sup> we were avoiding emissions of 0.122 kilograms of CO<sub>2</sub> 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 CO<sub>2</sub> equivalent will no longer be emitted.

<sup>16</sup> 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 CO<sub>2</sub> equivalent per cubic metre.

## Reforestation actions

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 CO<sub>2</sub> equivalent.

## Sustainable mobility

Canal promotes low CO<sub>2</sub> emission rates in its vehicle procurement tenders. In the tender specifications, one of the most important evaluation elements for the award of the contract is the CO<sub>2</sub> 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 CO<sub>2</sub>** 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 emissions<sup>17</sup> and emissions avoided in the 2017-2023 period (in t CO<sub>2</sub> eq.)

Biogenic emissions (t CO <sub>2</sub> 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 <sub>2</sub> 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
<b>TOTAL GHG EMISSIONS AVOIDED</b>	<b>116,508</b>	<b>94,743</b>	<b>92,348</b>	<b>100,063</b>	<b>63,593</b>

<sup>17</sup> **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.

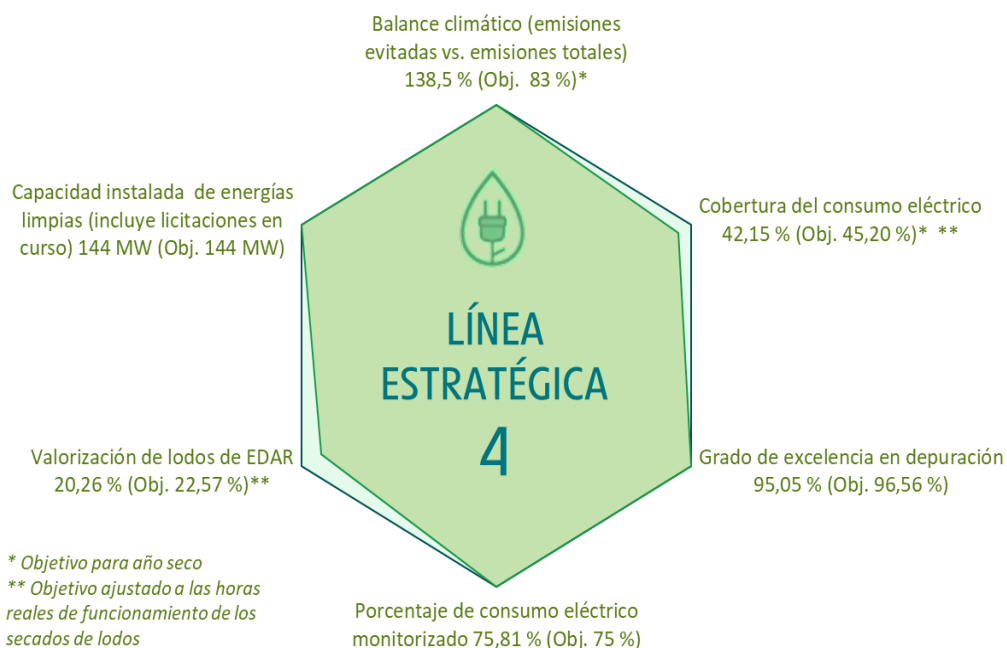
The planned investment for this first pilot plant exceeds 7 million euros, which will be co-financed with ERDF funds from the European Union, as part of the ERDF 21-27 Programme of the Region of Madrid as a project of strategic importance.



## 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]

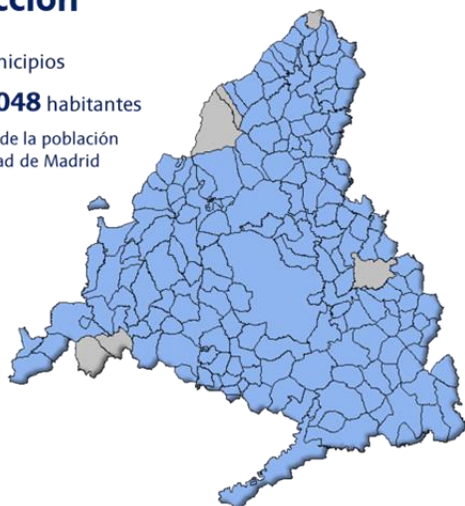
Through these agreements we currently provide water supply services (upstream, downstream or both) to a total population of **6,633,483 inhabitants** in 174 of the 179 municipalities of the Region of Madrid. This was equivalent to **96.70%** of the inhabitants of the region on 01 January 2023 according 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

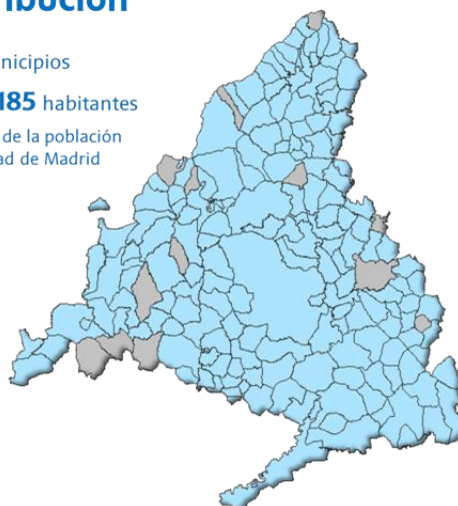
### Aducción

**173** municipios  
**6.627.048** habitantes  
**96,61 %** de la población  
Comunidad de Madrid



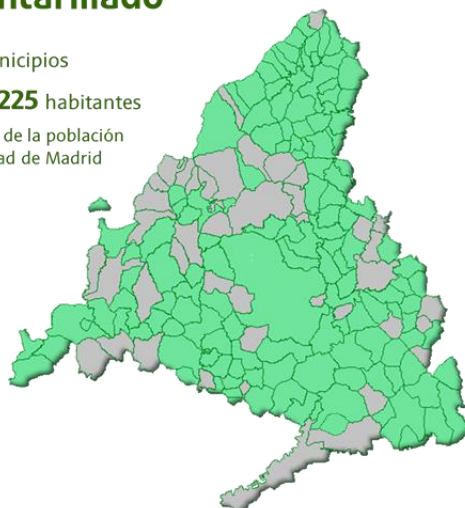
### Distribución

**166** municipios  
**6.578.185** habitantes  
**95,89 %** de la población  
Comunidad de Madrid



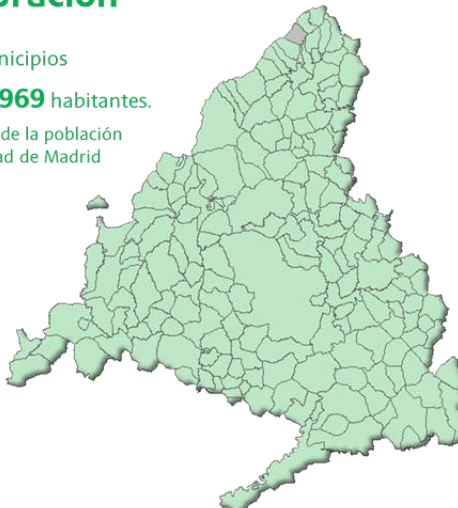
### Alcantarillado

**137** municipios  
**5.865.225** habitantes  
**85,50 %** de la población  
Comunidad de Madrid



### Depuración

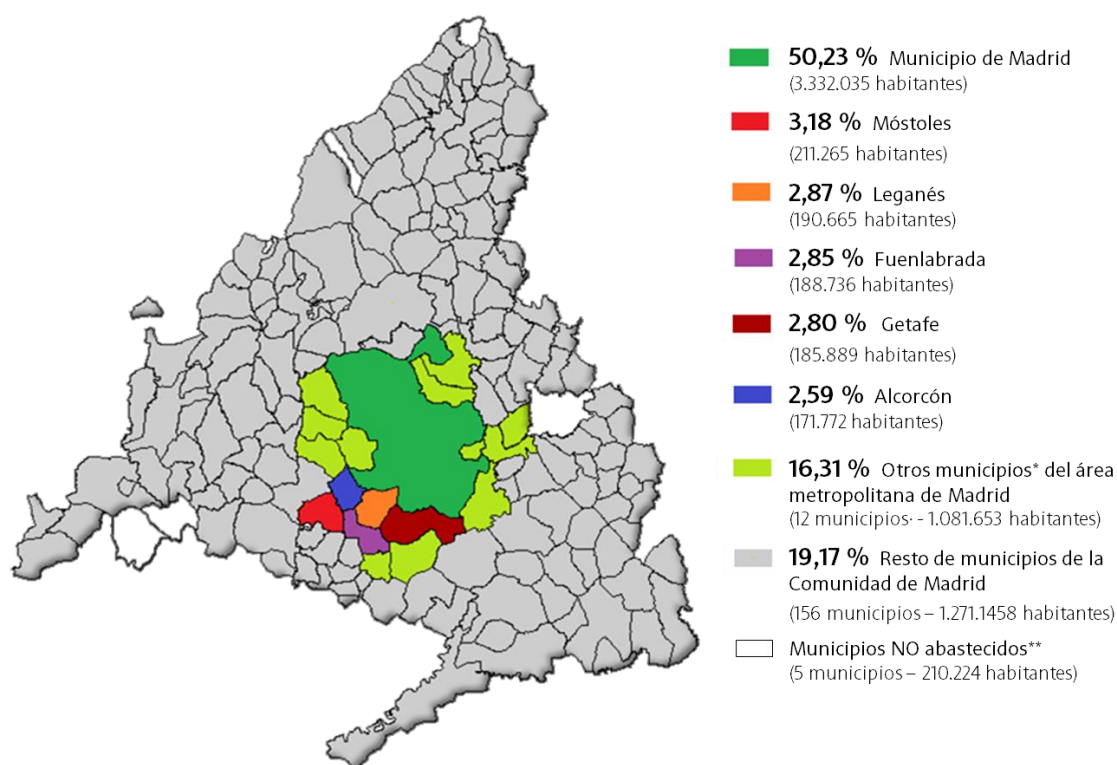
**178** municipios  
**6.850.969** habitantes.  
**99,87 %** de la población  
Comunidad de Madrid



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.

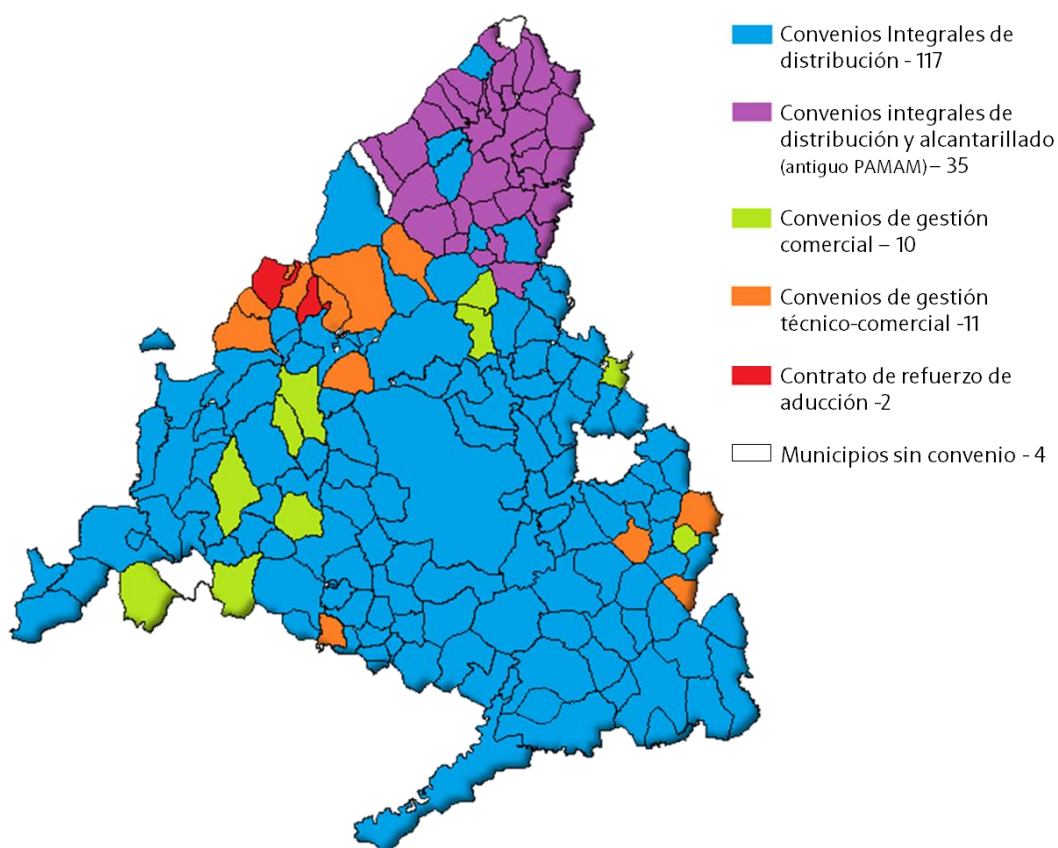
In the case of the municipalities of the Region of Madrid, the most common type of agreement we sign is for **integrated supply management**. Through this type of agreement, Canal carries

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, billing 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 municipalities 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.

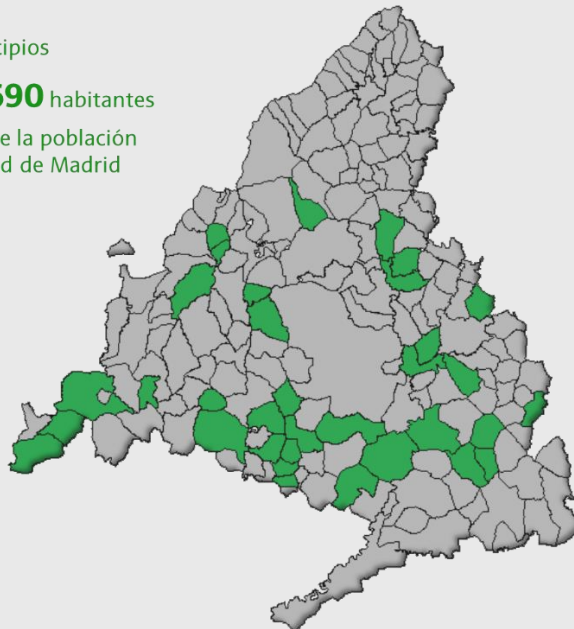
Once the master plans have been drawn up, a legal and economic analysis is carried out for each municipality, the feasibility of which leads to the signing of **specific municipal agreements for the SANEA Plan**. These agreements set out the deadlines and proposals for the execution and financing of 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  
Cadalso 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 municipalities** 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 an 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.

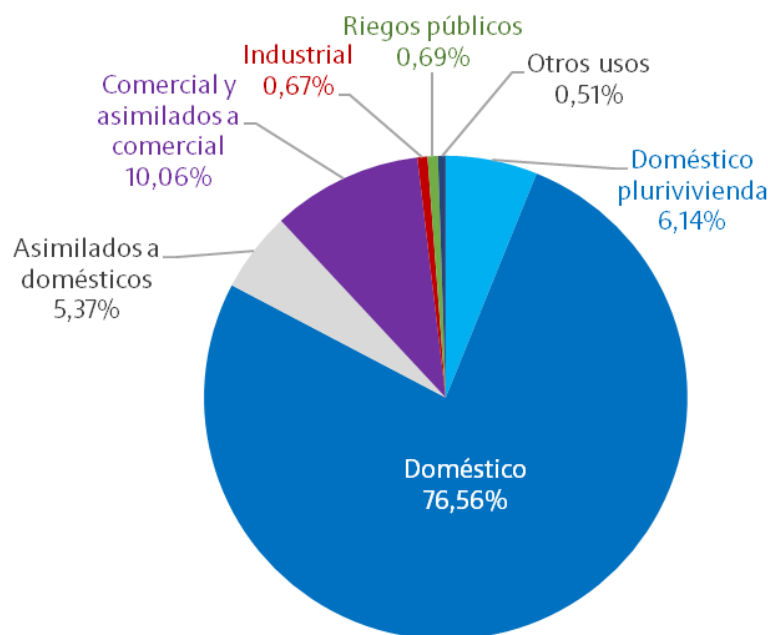
[GRI 2-6] [GRI 3-3]

## 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 clients 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.

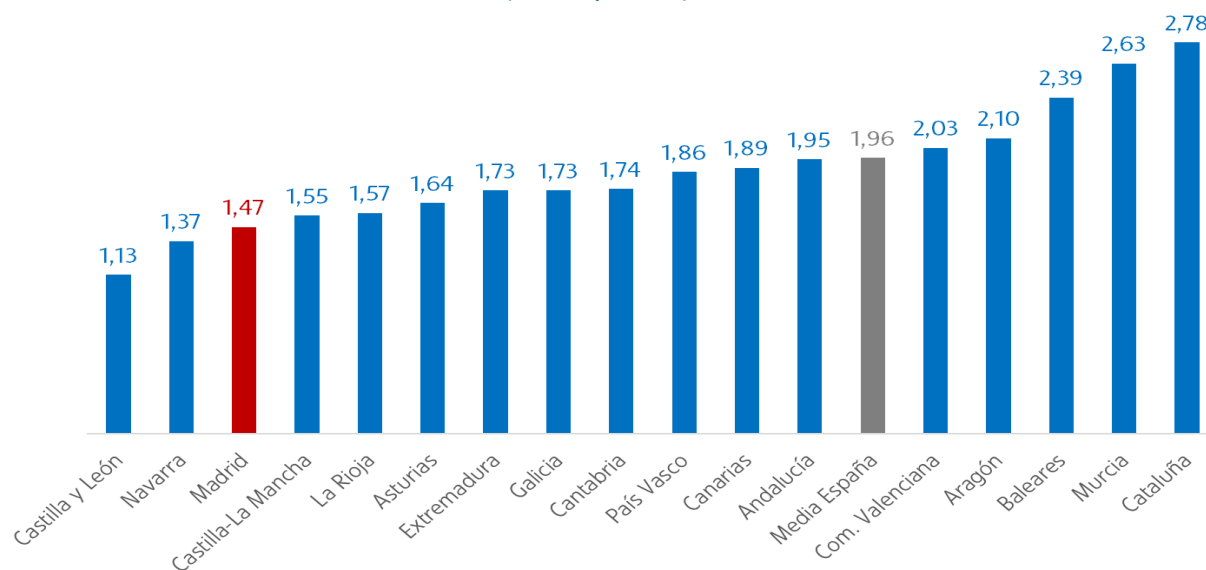
**Committed to the environment:** providing for a specific tariff for reusable water, which is an essential component of integrated water resources management in line with environmental sustainability.

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](http://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 m<sup>3</sup>).



Source: *Study on water supply and sanitation tariffs in Spain* (AEAS - AGA 2023)

### Actions to ensure correct billing to the customer

Canal always seeks to guarantee the highest accuracy in the bills 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 emission of the consumption to be invoiced, we have a quality control system for reading and billing. 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 billing, 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**

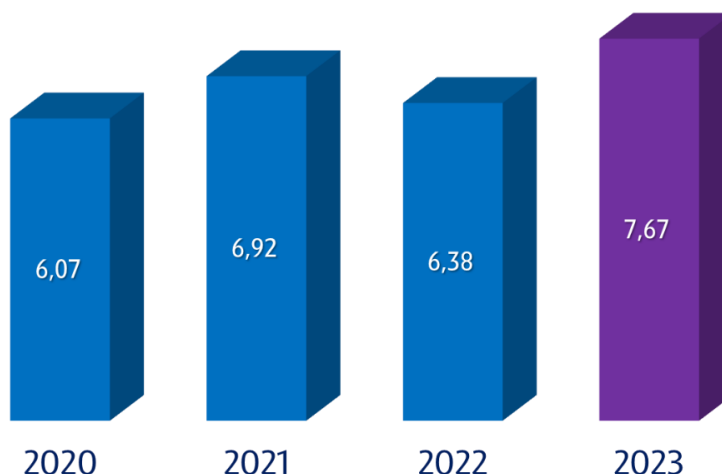
We also offer our clients a special channel of customer service in writing by letter or fax, with which any procedure can be carried out without waiting or travelling in person. Through this channel we received 3,358 communications in 2023.

## Suggestions and complaints management

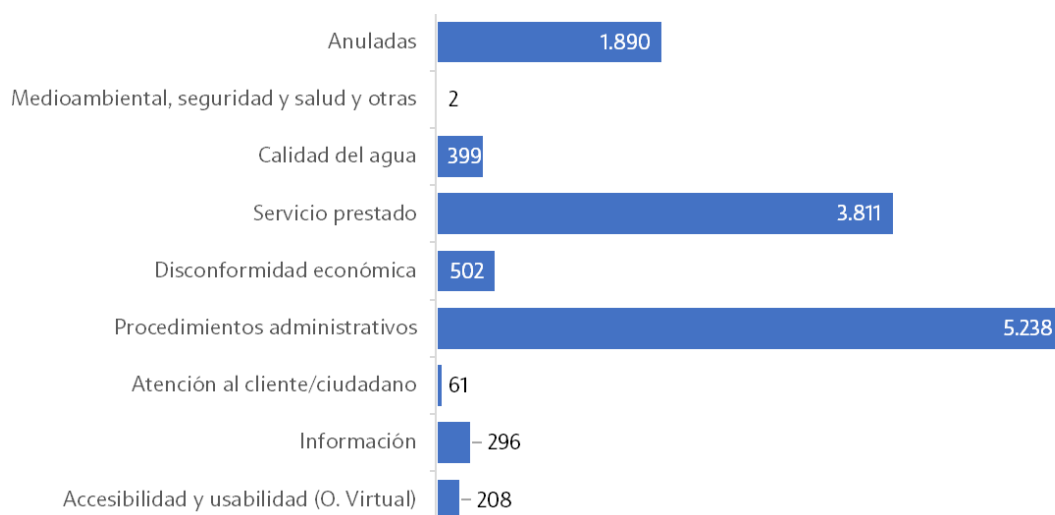
[GRI 2-25]

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 every 1,000 customers

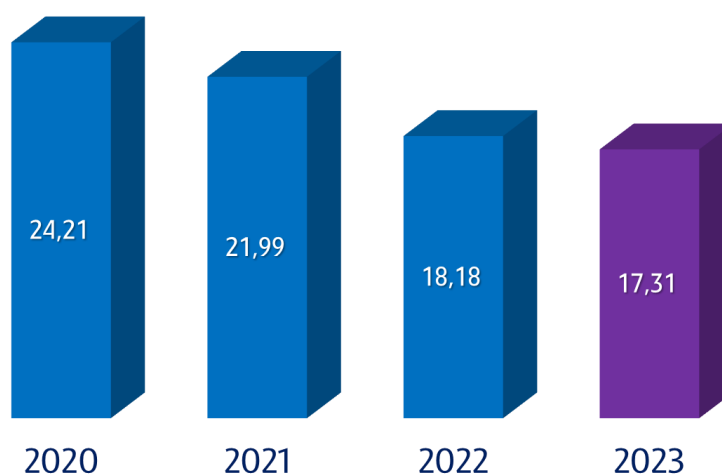


### Causes of complaints in 2023



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.

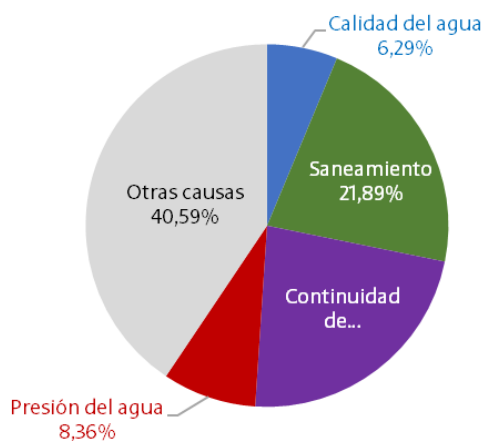
### Complaints received per 1,000 customers per year



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.

#### LA VALORACIÓN DE QUIENES COMUNICAN UNA INCIDENCIA

<b>Satisfacción global</b>	<b>6,95</b>
Encuestas enviadas automáticamente	<b>59.948</b>
Encuestas respondidas por los usuarios	<b>11.449</b>
Tasa de respuesta	<b>19,1 %</b>
Alertas del sistema	<b>3.256</b>
Alertas gestionadas	<b>304</b>

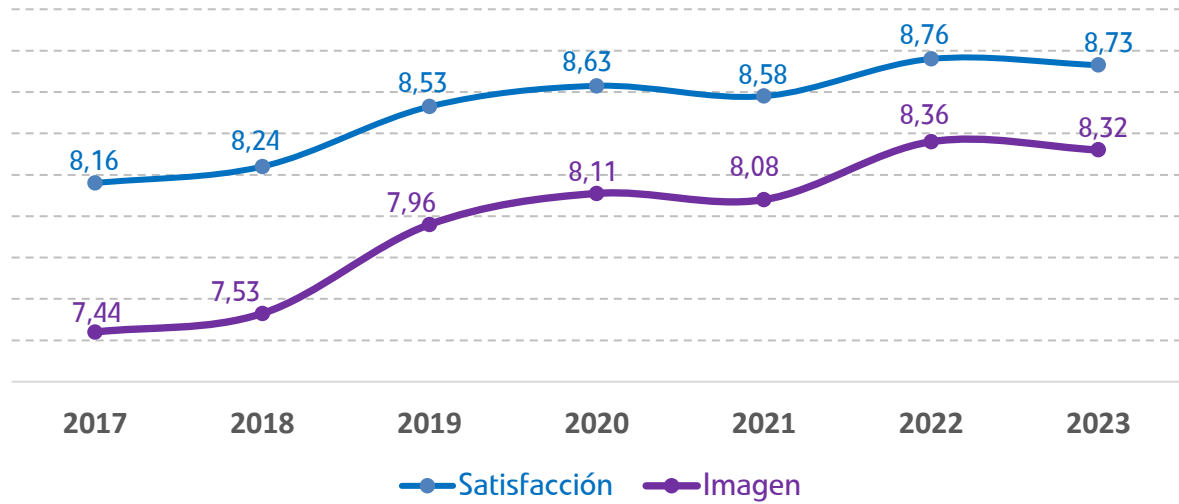
Besides these data, which represent a starting point for the new year, Canal de Isabel II believes that the most important priority is that the alerts of dissatisfied customers do not remain in limbo. Thanks to the coordination between the teams of Customer Experience, Control Centre and Conservation 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 reading 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 recomiende los servicios de la empresa a sus familiares o amistades.



## 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 main 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.

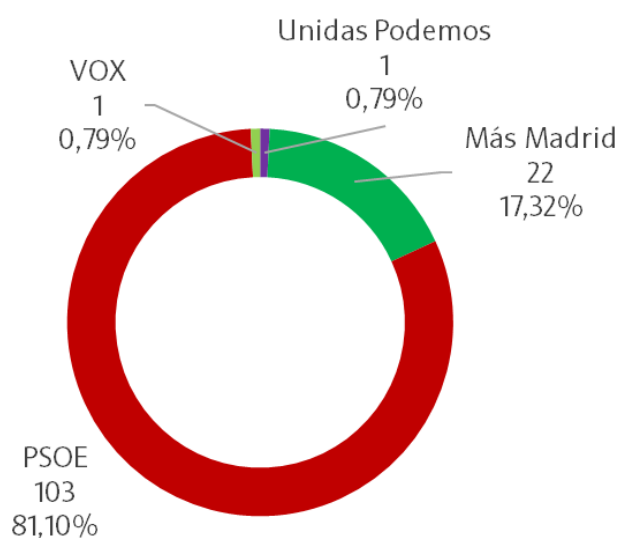
### Requests made to Canal from the Assembly of Madrid (2019-2023)

		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

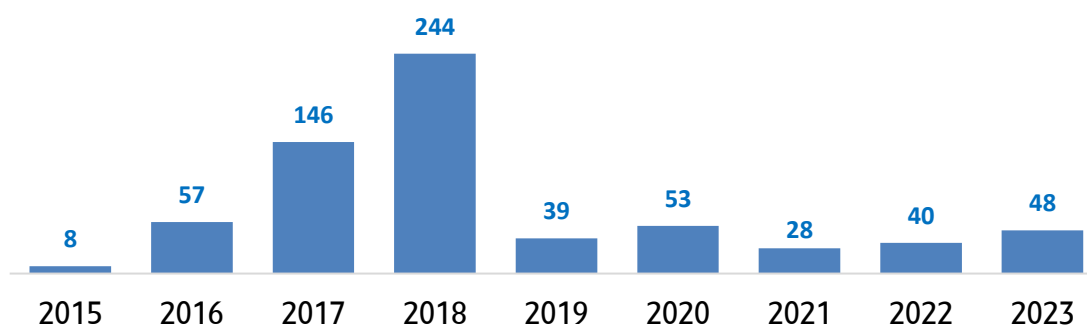
(number of requests and % of total)



[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 sector**<sup>18</sup> 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.

<sup>18</sup> 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.



The result obtained in this initial diagnosis applying MESTA is 54.3%<sup>19</sup> 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.

## 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 separate portals 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**.

<sup>19</sup> 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.

- 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 an **Internal Control System over Financial Reporting (ICSFR)** and an **Internal Control System over Sustainability Reporting (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

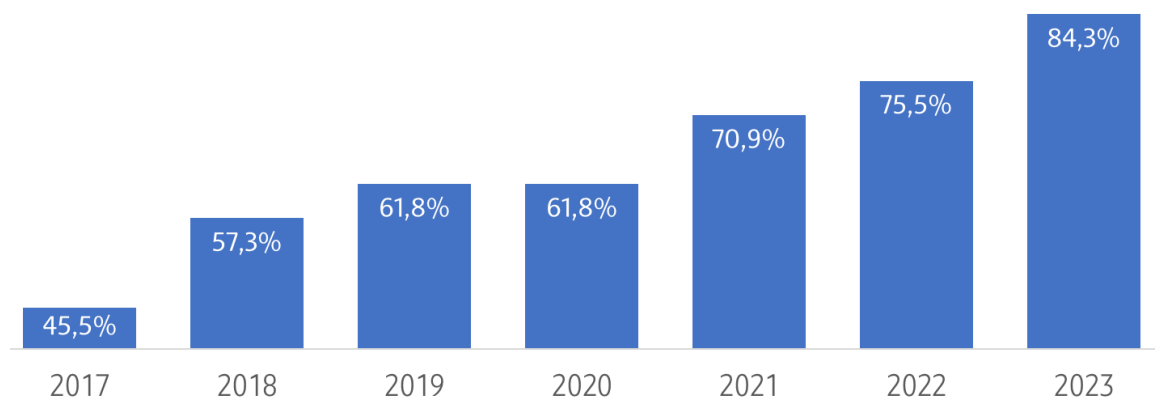
[GRI 3-3]

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/](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 over Financial Reporting (ICSFR), over Sustainability Reporting (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 over Financial Reporting (ICSFR) and over Sustainability Reporting (ICSSR)**. These management systems, which identify and manage financial and sustainability reporting risks, are in place in the Group.

The objectives of the SCIIF and the SCIIS 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 reporting.

On 30 November 2023, Canal de Isabel II, Sociedad Anónima, M.P. approved the **Internal Control System over Financial Reporting and over Sustainability Reporting 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 over Financial Reporting and over Sustainability Reporting 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 over financial reporting and sustainability reporting. Canal is the only Spanish public urban water utility that has approved both policies. We are also the only company that has an integrated SCIIS and ICFR policy in the Region of Madrid.

The new SCIIS and SCIIF 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 criteria<sup>20</sup>). 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.

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<sup>20</sup> ESG principles (Environmental, Social and Governance) are those applied by companies in their management of environmental protection, relations with society and good corporate governance.

## 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.

### 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.

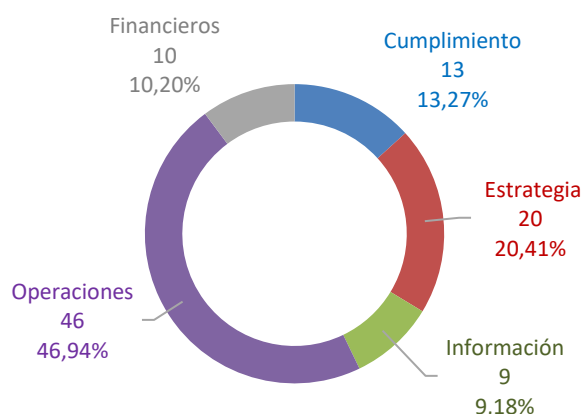
The **Risk Management Policy** at Canal de Isabel II was reviewed and approved by the Board of Directors in January 2020 and its correct application requires the involvement of all the company's staff. Canal conducts Risk Management based on the internationally recognised **COSO (Committee of Sponsoring 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 System over Financial Reporting (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 over Financial Reporting (ICSFR), the Internal Control System over Sustainability Reporting (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**<sup>21</sup>. 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.

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<sup>21</sup> 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.*

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.

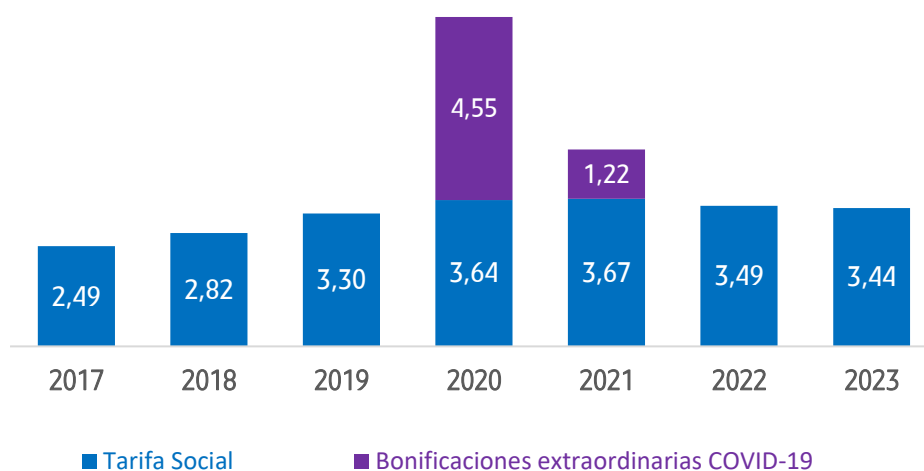
The **social exemption discount** can be applied for by all those who receive the **Minimum Living Income**, the **Minimum Insertion Income** of the Region of Madrid, the **Active Insertion Income**, any type of **non-contributory pension** or when the **social services of the local council** certify 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.

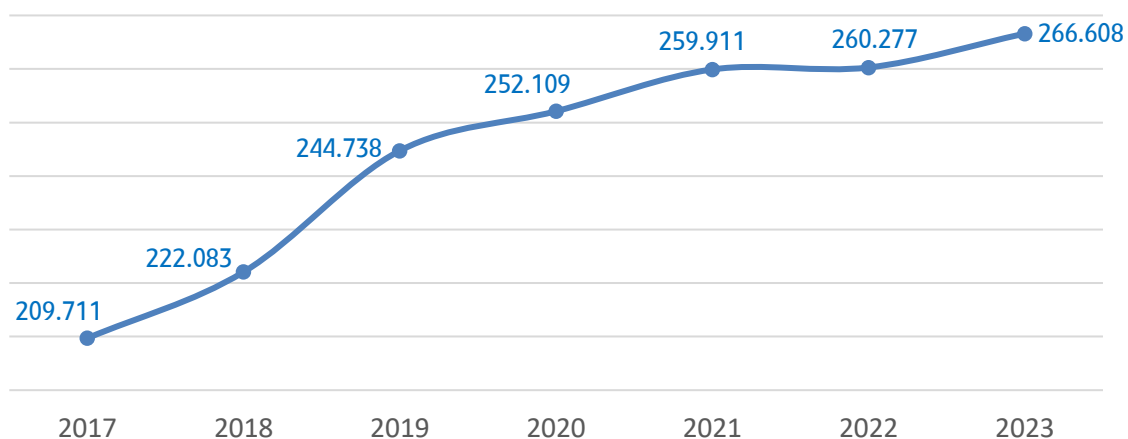


Evolution of the economic resources allocated to discounts (in millions of euros per year)



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** [The Berlin Wall. A Divided World]", 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 tram 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 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 Third Water Tank, 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 Water and Energy Solutions Network**, specifically the Department 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**.

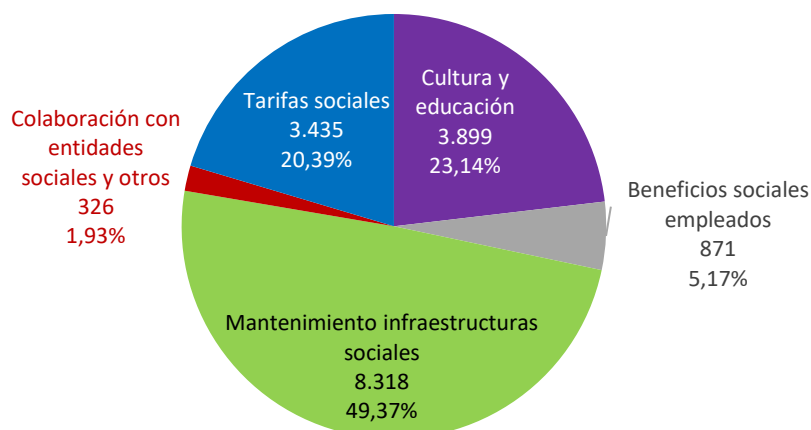
## Financial resources earmarked for society

[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 (657 t).
- Para mejorar la calidad de nuestros ríos, casi el 20 % de los vertidos a cauce son con tratamiento terciario (91,53 hm<sup>3</sup> 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 **campanas de comunicación** (*Matilda – Isabel, la del 2º*).

### 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**.



### ACCIONISTAS

- Dividendos a ayuntamientos y Comunidad de Madrid de más de **1.534 millones** desde 2012 hasta de 2023.
- Hemos repartido a los **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.

### PROVEEDORES

- En 2023 hemos adjudicado a nuestros proveedores **368 contratos, que suman 1.304 millones de euros** (143% 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**.

## 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**.

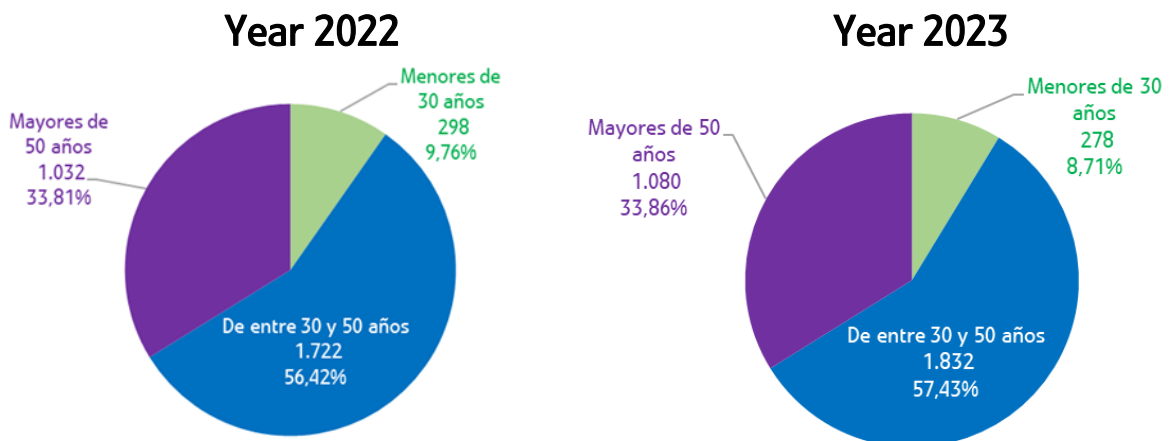
It is worth mentioning that, in these calls for permanent employment, the company has promoted the socio-occupational integration of people with functional diversity, for whom a

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.

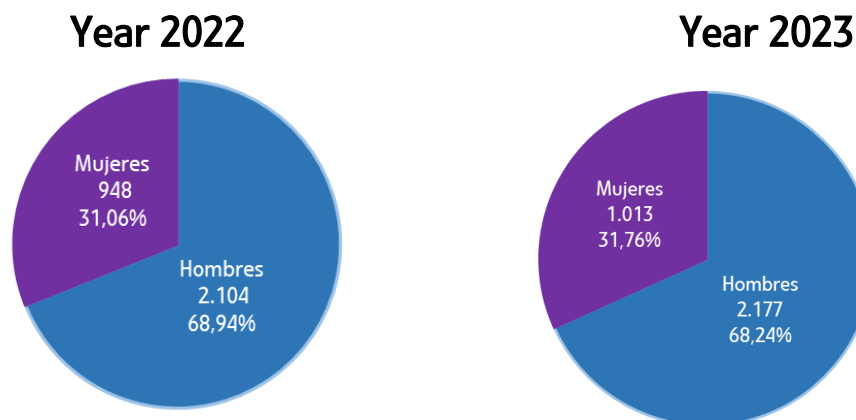
In 2023, **the average age** of Canal's workforce was **45.61 years**. The **average seniority** of the workforce in 2023 was **13.66 years** and more than half of the workforce is in the 30-50 age bracket.

[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%**.

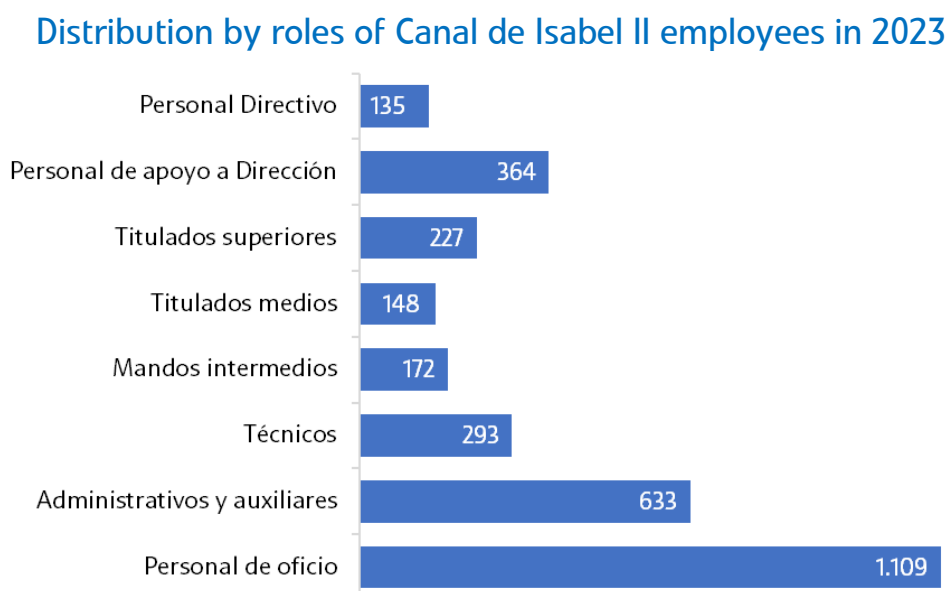


	TOTAL	Hombres	Mujeres	< 30 años	30-50 años	> 50 años	Nacionales	Extranjeros
Incorporaciones totales	835	465	370	267	503	65	816	19
Bajas totales	704	402	302	223	384	97	689	15
Bajas voluntarias	50	30	20	9	35	6	50	

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:



At the end of 2023, 28.37% of Canal's employees had a university degree.

## Statistics on temporary employment in 2023<sup>22</sup>

### 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

<sup>22</sup> 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	12	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 **21,376<sup>23</sup> 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.

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<sup>23</sup> This includes 19,395 hours of specific prevention courses and 1,981 hours of prevention courses on other subjects.

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 the workforce to **31.8%**, a percentage that is **significantly higher than the average for our sector**<sup>24</sup>, which in 2020 (latest available data) was 24%.

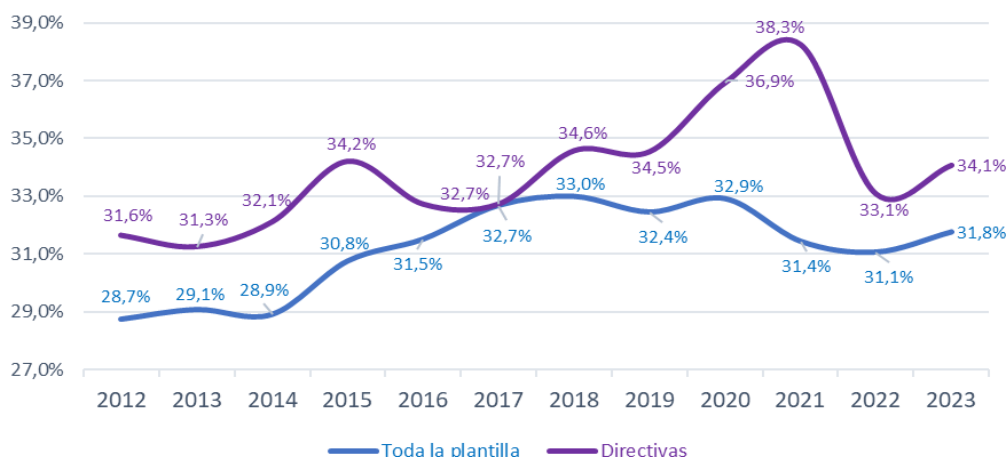
The percentage of **women holding managerial positions** within the organisation (heads of area, submanagers and managers) is higher than the average for the workforce and has increased by 9.56%, standing at **34.07% of the total workforce** in 2023.

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 until 2023

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<sup>24</sup> 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.



**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 remuneration<sup>25</sup> 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%

### 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

<sup>25</sup> 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.

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

### Minimum wages

	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.



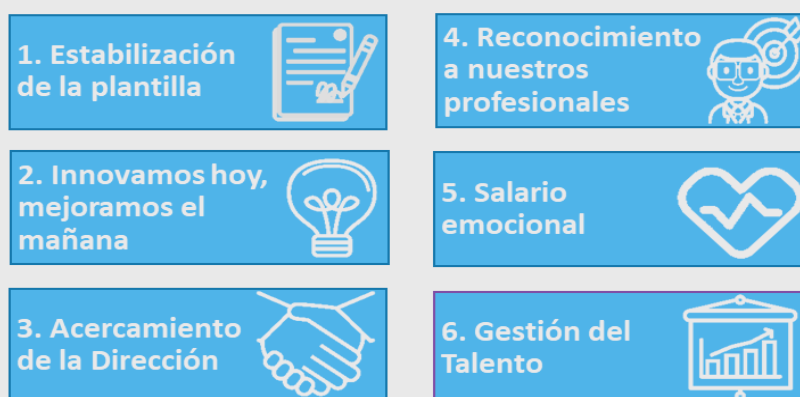
## EMPLOYEE ENGAGEMENT AND SATISFACTION SURVEY Follow-up in 2023

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

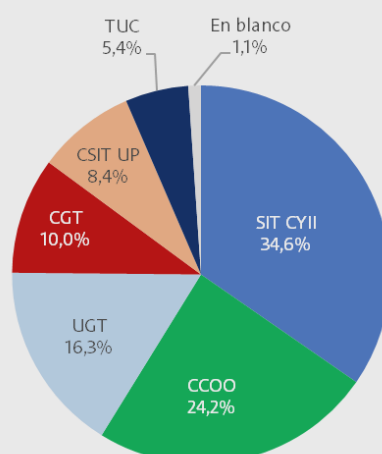
On **31 May 2023**, as every four years, the **trade union elections** were held in our company to elect the **23 members of the Works Committee** who will represent the employees of Canal de Isabel II for the next four years. A total of 1,773 employees exercised their right to vote in the elections, 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	
<b>Valid votes</b>	<b>1,758</b>	
Null and void votes	15	
<b>Total participation</b>	<b>1,773</b>	

### 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 Work Place 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 proximity 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**.

Formación por temática en 2023	Número de horas	% vs. total
Idiomas	17.561	18%
Administración y Gestión de Sistemas Informáticos	7.976	8%
Calidad	2.669	3%
Comercial y Relaciones con el Cliente	1.722	2%
Desarrollo de Habilidades/Competencias	4.288	4%
Formación Técnica	13.554	14%
Jurídico-económica	2.423	3%
Ofimática y Aplicaciones informáticas	4.394	5%
Prevención de Riesgos Laborales	19.395	20%
Lucha contra la corrupción y derechos humanos	5.914	6%
Otras + Prácticas en el puesto de trabajo	15.767	16%
<b>Total horas impartidas</b>	<b>95.663</b>	<b>100%</b>

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:

	2021	2022	2023		
Average hours of training	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 stations 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.

## What's new in the 2023 project portfolio

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 BIM<sup>26</sup> 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.

<sup>26</sup> 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.

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.

### 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 **TETRA<sup>27</sup> 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*



<sup>27</sup> 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.

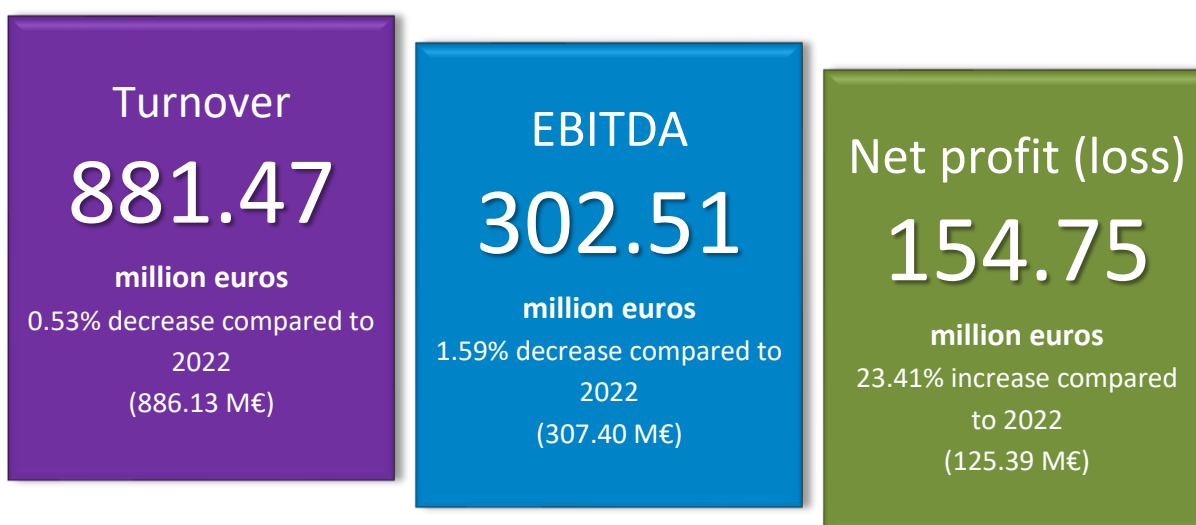
## OUR ECONOMIC PERFORMANCE

[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
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 expenses<sup>28</sup> 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 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

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<sup>28</sup> 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

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 the 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 cashflows. 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	6,793
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]

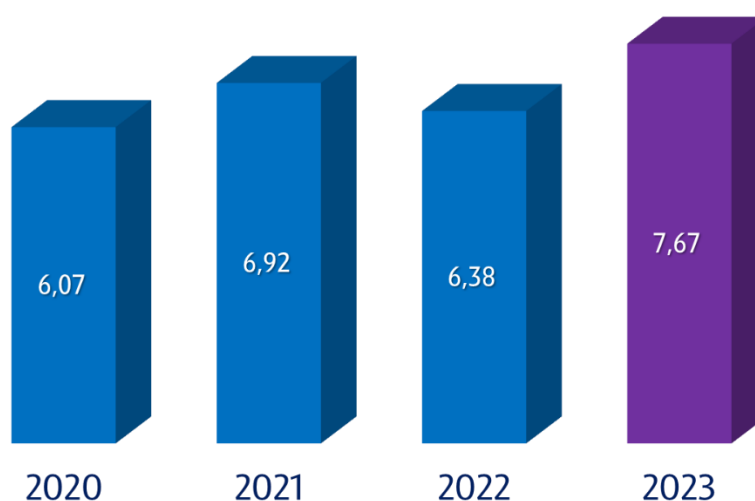
**Maintaining an adequate pace of investment is vital to ensure the quality of service provision.**

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 executed** 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 euros<sup>29</sup>



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.

<sup>29</sup> The figures do not include investments in the renovation and improvement of municipally owned distribution and sewerage networks, which are financed by supplementary fees.

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 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
<b>TOTAL</b>	<b>142.5</b>	<b>184.57</b>	<b>348.81</b>
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
<b>TOTAL INVESTMENTS AND PROJECTS OWNED BY THIRD PARTIES</b>	<b>160.36</b>	<b>212.46</b>	<b>403.57</b>

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 securing 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. 3/2022<sup>30</sup>** 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 secure 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;

<sup>30</sup> 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.

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 **WWPP 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.
- 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 MRRF 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 listed 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 installations	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 - Promotion of access to water and sustainable water management	RED Plan: Modernisation of the Distribution Network	366,084,000	303,669,295	121,467,718
<b>TOTAL</b>		<b>492,470,000</b>	<b>345,669,295</b>	<b>138,267,718</b>

## 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 offers **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 of 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.
- **Second call for proposals on a competitive basis, a grant facility of another 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, 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.

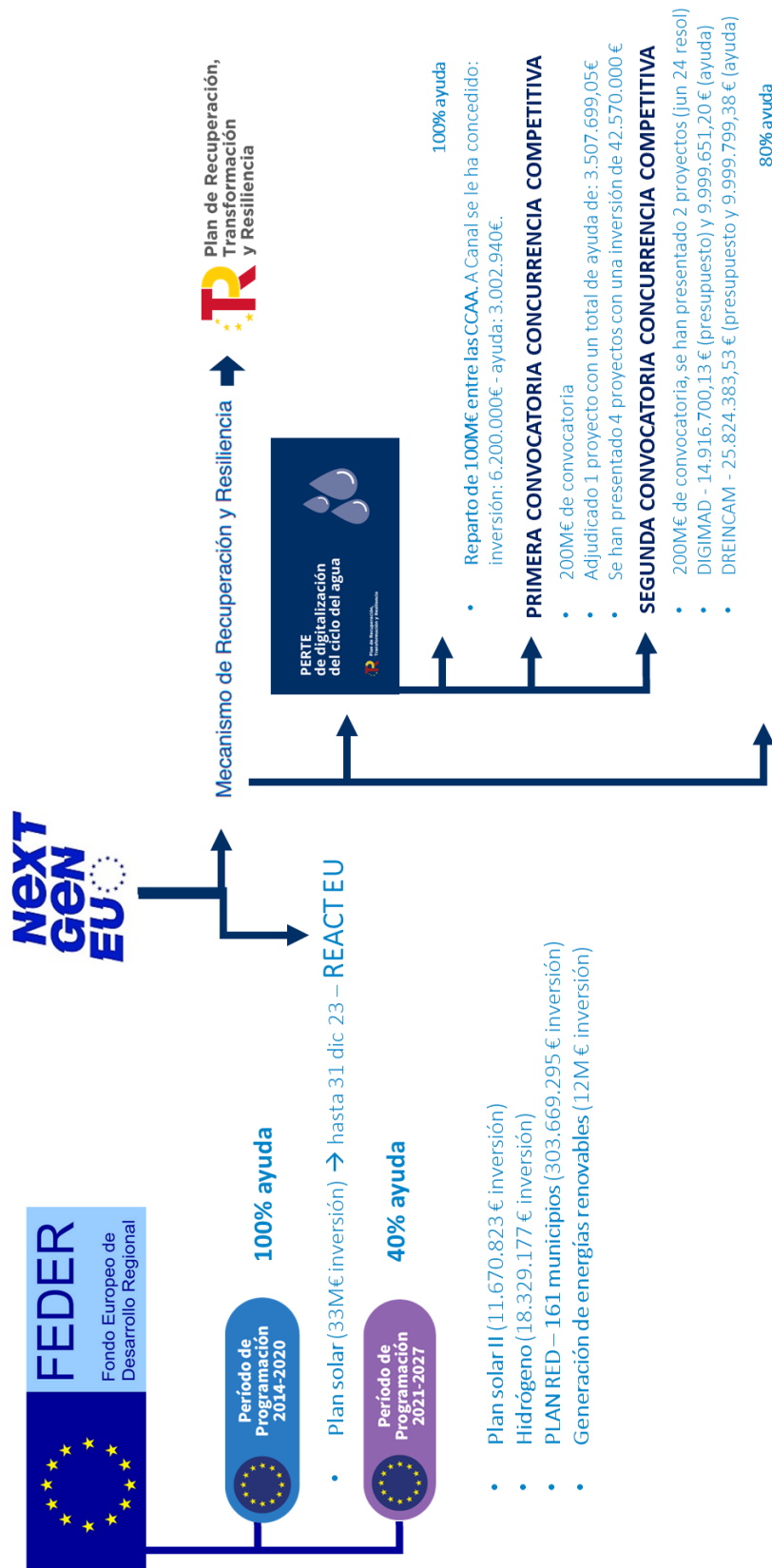
## **REACT-EU**

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 transfirió 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.

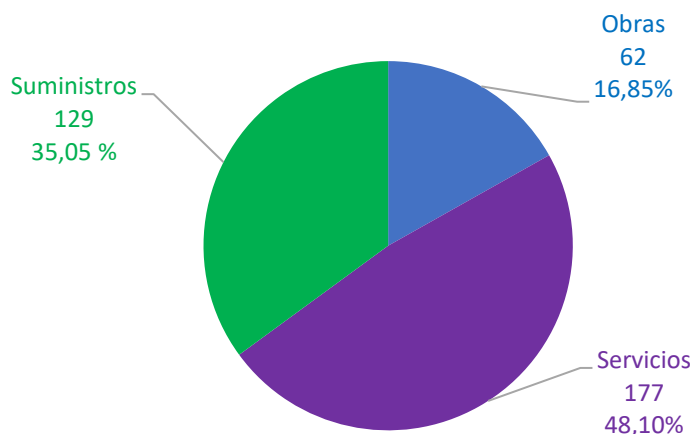
In general, **subcontracting is permitted** under the terms established in the legislation in force and in the specifications of each contract. The procurement system ensures that subcontractors comply both with the legally established obligations and with the requirements for contracting with the public 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.

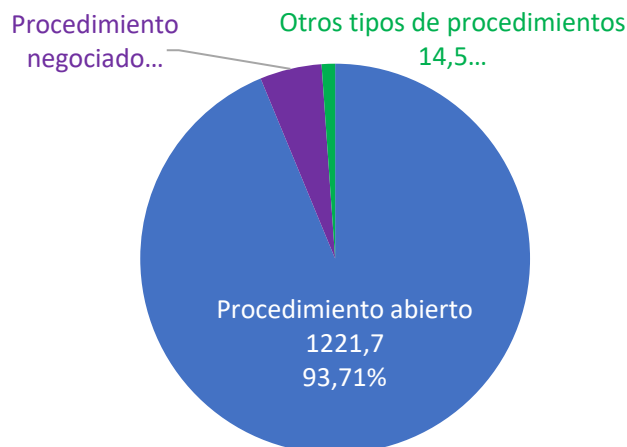
#### Breakdown by type of contracts awarded in 2023

(number of



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](mailto:atproveedores@canal.madrid) or through a specific portal for this purpose on our website ([www.canaldeisabelsegunda.es/portal-de-proveedores](http://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 procurement procedure has the following phases:

PHASE I	<b>Necessity and suitability report</b>	The proposing area approves a contract <b>Necessity and Suitability Report (NSR)</b> which describes the need to be covered and the type of procedure to be followed.
PHASE II	<b>Approval of the specifications or letters of invitation</b>	The CEO approves, on the proposal of the Procurement Sub-directorate, the <b>specifications or the letter of invitation</b> in simplified and negotiated procedures.
PHASE III	<b>Publication of tenders</b>	<p>Canal's open procedure tenders are published on the <b>Region of Madrid's Procurement Portal</b> (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]. <b>They are also published on the corporate website</b> of Canal de Isabel II, Sociedad Anónima, M.P. (<a href="http://licitaciones.canaldeisabelsegunda.es">licitaciones.canaldeisabelsegunda.es</a>)</p> <p>The <b>award and formalisation Of</b> 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	<b>Receipt and analysis of tenders</b>	<p>The Procurement Sub-Directorate reviews the <b>administrative documentation</b> 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 <b>opening of the envelopes</b> (at the opening of the technical envelope, if the award is made on the basis of multiple criteria; at the opening of the <b>financial envelope</b>, 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 <b>opening of the financial proposals</b>, the <b>technical envelopes are opened</b> for the purpose of assessing the <b>criteria that cannot be quantified</b> 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	<b>Assessment of bids and award of the contract</b>	The proposing department draws up the report on bids initially presumed to be of <b>abnormal or disproportionate value</b> and the <b>final evaluation report on the bids</b> . The <b>contracting committee</b> analyses both reports and issues an <b>award proposal</b> that is submitted to the contracting authority awarding the contract.
PHASE VI	<b>Formalisation of the contract</b>	The <b>contract is formalised</b> within 15 days of notification of the award of the contract and once the successful bidder has provided the corresponding <b>guarantee</b> .

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*





**ANNUAL CORPORATE GOVERNANCE  
REPORT  
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.

## **A NATURE AND LEGAL REGIME**

### **A.1 Nature and legal regime of the entity, applicable regulatory framework and ownership and/or control structure.**

Canal de Isabel II, Sociedad Anónima, M.P. (hereinafter, also, the Company) is a public company in the form of a commercial company, in which a majority stake is held through the Canal de Isabel II Public Entity, of the Regional Government of Madrid. Therefore, it belongs to the institutional public sector of the Regional Government of Madrid.

Canal de Isabel II, S.A. is governed by commercial, civil and employment law, with the particular effects arising from the application of Law 1/1984, of 19 January, regulating the institutional administration of the Regional Government of Madrid.

Law 1/1984, of 19 January, regulating the Institutional Administration of the Regional Government of Madrid; Article 16 of Law 3/2008, of 29 December, on Tax and Administrative Measures of the Regional Government of Madrid, in its version in force; Law 9/1990, of 8 November, regulating the Public Finance of the Regional Government of Madrid; and Royal Legislative Decree 1/2010, of 2 July, approving the revised text of the Corporate Enterprises Law and the remaining commercial regulations that, if applicable, apply to commercial companies.

The ownership structure of the Company at 31 December 2023 was as follows:

Name or company name of shareholder	% of the share capital
Canal de Isabel II Public Entity	82.35%
Municipality of Madrid	10.00%
Another 112 municipalities in the Region of Madrid	7.65%

Subsequent to year-end, a new municipality in the Region of Madrid joined the Company's shareholding structure through the transfer by the public entity Canal de Isabel II of shares representing 0.02998% of the share capital. As a result of the foregoing, the ownership structure of the Company is currently as follows:

Name or company name of shareholder	% of the share capital
Canal de Isabel II Public Entity	82.32%
Municipality of Madrid	10.00%
Another 113 municipalities in the Region of Madrid	7.68%

### **A.2 Purposes and functions of the entity.**

In accordance with its Articles of Associations, Canal de Isabel II, S.A. has the following purpose:

1. The comprehensive management of the water cycle primarily in the Region of Madrid, encompassing all processes geared towards the correct administration of the water resources necessary for the development and maintenance of the quality of life of the citizens that use the services provided by the Company: residential drinking water supply, sewers, monitoring and control of discharge to sewerage networks and the public domain water and wastewater treatment. To such ends, the Company must develop its activity in accordance with the applicable regulations which include:
  - a. Managing the supply and recycling of drinking water. This activity includes the execution of the following works by way of example: the abstraction and extraction of sub-soil water and the recharge of aquifers, as well as the abstraction of surface water, subject to the appropriate licences or concessions; the drinking water treatment and purification of water, whatever its origin, the control of water quality and its distribution to third parties, both for human consumption and for irrigation or other uses; maintenance, replacement, improvement and extension of networks, reservoirs and other

existing infrastructures, as well as the civil works associated with such actions; management of water consumption, reuse and distribution; supply, installation and maintenance of meters; determination of consumption and billing and collection of fees for service provision and, in general, such activities as may be necessary for the management and provision of the service.

- b. The management of the sewerage service which will encompass works announced subsequently; the collection of waste water and storm water generated within the municipal area and transport to purification points and/or discharge to the natural environment; the maintenance, replacement, improvement and extension of the existing networks, scuppers, register wells, pumps and other infrastructure, along with the civil works related to such activities, the billing and collection of rates for the provision of the service, in general, and any activities required for the management and provision of the service.
  - c. Control of materials discharged through the sewerage system and the Public Domain Water. Such activities encompass the controls necessary to ascertain the quality of waste water circulating through the municipal sewer system, the identification, where necessary, of the origins of contaminating discharges and the adoption of corrective measures to combat the discharge of contaminating waste water, civil works related to such activities, the billing and collection of rates for the provision of the service, in general, and any activities required for the management and provision of the service.
  - d. Management of the wastewater treatment and reclamation service. The activity encompasses: the maintenance, replacement, improvement and extension of general collector networks and waste water treatment plants and other treatment service infrastructure along with the civil works related to such activities; the billing and collection of rates for the provision of the service, in general, and any activities required for the management and provision of the 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 sections of this article and in particular the completion of Technical Studies and Projects for works and the completion of cost and rate studies.
  - g. The execution and/or management of works, including related civil works, required for the maintenance, replacement, upgrading, installation or extension of a) distribution networks, depositions, catchment, treatment plants and other infrastructure of the drinking water supply network; b) collection and evacuation of waste water and storm water, scuppers, wells, pumps and other infrastructure of the sewerage network and; c) the general collector networks, impulsions, waste water and drinking water treatment plants and other infrastructure of the waste water treatment and recycling service.
2. The development of research, consulting and assistance activities for all sectors related to corporate purpose and, in particular, including but not limited to the provision of technical assistance services to companies on matters relating to the comprehensive water cycle management and processes geared toward the correct administration of water resources.
  3. The exercise and development of the sale of energy, and the development of any related, instrumental, auxiliary or complementary activities, including but not limited to the:
    - a. Design, execution, management, development and maintenance of power generation facilities;
    - b. research and development in the area of the use of renewable energies, the rational use of energy and energy services;
    - c. construction of equipment and supply of services related to the distribution and use of energy;

- d. trade of products and services related to the sale of energy, operating directly through several points of sale and/or third parties.
  - e. Buying, selling and obtaining greenhouse gas emission allowances.
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 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.

When commissioned to do so by the corresponding public administration, the Company may also be involved in the process of collecting government revenue, without this entailing the exercise of public authority, whether this is tax or non-tax revenue, during the voluntary or enforcement period.

These purposes shall not include those activities the performance of which may require special qualifications this Company does not meet by virtue of any Law.

In addition, the Company may carry out its corporate purpose, 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 Company may provide internal or intra-group services to its investees or the Public Entity Canal de Isabel II in relation to the matters listed above, and also in relation to the following matters:

- 1) IT services.
- 2) Network connectivity and telephone services.
- 3) Technical assistance and advice in remote control projects.
- 4) Advice concerning quality management systems.
- 5) Internal audit, risk management and internal control services.
- 6) Legal advice, compliance and assistance.
- 7) Data protection officer services.
- 8) Advice and assistance in human resources management and occupational health and safety.
- 9) Document record and filing services.
- 10) Technical advice and assistance in relation to consolidation, tax matters and accounting.
- 11) Cleaning, gardening and maintenance of offices and facilities, removing waste where necessary.
- 12) Security services.
- 13) Courier services between group companies and entities.
- 14) Medical consultation, nursing and physiotherapy services, where applicable.
- 15) Coordination and control of contractors in the execution phase and compliance with the contracts adjudicated jointly by the Company and its investees and/or the public entity Canal de Isabel II.

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

### **B.1 Governing bodies of the entity, composition, procedures and organisational rules and function, along with the regime for the adoption of agreements.**

#### **ANNUAL GENERAL MEETING**

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

Nevertheless, in order that the Shareholders' Meeting may validly resolve on the items referred to in article 194 of the Corporate Enterprises Law, shareholders holding at least fifty (50) percent of the voting share capital must be present in person or by proxy on first call. On second call, only 25% of share capital is required to be present.

With regard to the regime for the adoption of agreements of the Company, the statutory regime of the Company replicates the statutory regime in force.

As per the provisions of the Company's Articles of Association, unless other majorities are established by law, Shareholders' Meeting resolutions shall be adopted by a simple majority of the votes of the shareholders present in person or by proxy, considering an agreement to have been adopted following the affirmative vote of half plus one of the share capital presents in person or by proxy. The affirmative vote of more than fifty (50) percent of the share capital present in person or by proxy shall be sufficient to adopt the resolutions referred to in article 194 of the Corporate Enterprises Law. However, the affirmative vote of two thirds of the share capital present in person or by proxy at the Shareholders' Meeting shall be necessary where, on second call, the shareholders present represent twenty-five (25) percent of the subscribed voting share capital without reaching fifty (50) percent.

#### **BOARD OF DIRECTORS**

In accordance with the Articles of Association, the Company shall be administered, governed and represented with the broadest powers provided for by Law, except those that are the competency of the Annual General Meeting in accordance with legislation and the Articles of Association, by the Board of Directors, which shall be responsible for monitoring and controlling the ordinary management of the Company, and comprised of a minimum of five (5) and a maximum of fifteen (15) members. The Annual General Meeting must determine the number of members of the Board of Directors. At present, the number of members of the Board of Directors is set at fifteen.

The Directors appointed shall carry out their duty for a term of four (4) years, a term which applies equally to all of them, without prejudice to their re-election, and the powers of the General Meeting to proceed at any time with the removal of same in accordance with that established by Law and these Articles of Association. Notwithstanding the foregoing, until the amendment of the Articles of Association approved at the Extraordinary General Meeting of the Company held on 21 December 2022, the term of office of a director was six years. The four-year term established in the new wording of the Articles of Association for the term of office of directors shall not apply to the term of office of directors appointed before the entry into force of the new wording; however, if they are re-elected to the position, they may only be re-elected for periods of four years.

In accordance with the Articles of Association, the Board of Directors shall itself appoint the Chair and may appoint, if it so agrees, a Vice-Chair who shall replace the Chair in the event of departure, absence or illness. The person who performs the role of Secretary shall also be designated and a Vice-Secretary may also be appointed who shall replace the Secretary in the event of departure, absence or illness. To be appointed Chair or Vice-Chair, the designated person must be a member of the Board of Directors. This requirement is not necessary for the persons designated to fulfil the role of Secretary and Vice-Secretary, in which case they shall have speaking rights but no voting rights.

Meetings of the Board of Directors shall be called by the Chair or the person replacing them. The Directors, constituting at least one third of the members of the Board, may also call Meetings, indicating the order of the day, to be held at the registered address of the company if, subject the request of the Chair, where there are no justified grounds for the failure to call the meeting within the term of one month.

The notice of a meeting shall be sent by letter, e-mail or any other means of remote communication, which shall be addressed personally to each of the members of the Board of Directors, to the postal address, e-mail address or other contact details that, for notification purposes, they have communicated to the Company. Notice shall be given at least five (5) days in advance, except when there are reasons of urgency in the opinion of the Chair, in which case 24 hours' notice shall be sufficient. The meeting of the Board of Directors shall be valid without prior call, where all its members are present and they decide unanimously to hold the session.

The Board shall remain validly constituted where an absolute majority of its members are present or represented at the meeting. In the event of an uneven number of directors, the absolute majority shall be determined by default (for example, 3 Directors must be present for a Board of Directors comprised of 5 members; 4 in one of 7; etc.).

The agreements of meetings of the Board of Directors held by videoconference or by conference call shall be valid provided that the directors have the necessary means to do so, and they mutually recognise each other, which shall be expressed in the minutes of the meetings and the certification of the agreements it issues. In this case, it shall be considered a single session of the Board held at the registered address.

Board members can only be represented at meetings of the Board of Directors by other members. Representation shall be conferred via a letter to the Chair.

The Chair shall open the session and chair the discussion of the items of the agenda, granting the floor and providing news and reports on the progress of company matters to the Board.

Except where the legislation requires a superior majority, agreements shall be adopted by absolute majority of the Members in session. In the event of an uneven number of directors present, the absolute majority shall be determined by default (for example, 3 directors must vote in favour of a resolution where 4 are present; 4 in the case of 7, etc.). In the event of a draw, the vote of the Chair shall be decisive.

Voting for agreements in writing and without session shall be valid where no Member opposes this procedure. Both the request to cast the vote by which the resolutions proposed to be adopted are conveyed, and the notice sent by the directors expressing their vote and, where appropriate, considerations, may be sent by any means that guarantees their authenticity and, in particular, by postal or electronic mail. The vote must be submitted within three (3) days from the date of receipt of the request to cast the vote, except when, in the opinion of the Chair, there are reasons of urgency, in which case the vote must be submitted within 24 hours.

The discussions and agreements of the Board of Directors shall be recorded in the minutes book.

The Board of Directors may itself designate an Executive Committee of one or more Managing Directors, without prejudice to the powers that may be conferred to any person.

The permanent delegation of some competency of the Board of Directors to the Executive Committee or one or several Managing Directors and the designation of Directors who must occupy such positions shall require, for validity, the favourable vote of two third parties of the members of the Board and shall have no effect on the registration with the Commercial Registry.

Under no circumstances shall the accountability for corporate management and the presentation of the balances to the Annual General Meeting be subject to delegation, nor the faculties that are granted to the Board, except where expressly authorised in accordance with the provisions of the legislation.

On 27 May 2021, the Board of Directors approved the Regulations of the Board of Directors of Canal de Isabel II, S.A., implementing the basic rules for the organisation and operation of the Board and its specialised committees contained in the Articles of Association. Subsequently, on 28 September 2023, the Board of Directors approved the amendment of the Regulations of the Board of Directors.

The Board Regulations provide that the following powers of the Board of Directors may not be delegated:

- i. The organisation and functioning of the Board of Directors and the supervision of its effective functioning and that of its specialised committees, of the actions of the delegated bodies and of the members of the Management Team that it has appointed.
- ii. To coordinate the development of the Company's business in accordance with the interests of the Company and its Group companies.
- iii. To establish the Company's general policies and strategies and, in particular:
  - a) To approve the strategic or business plan, annual management and budget aims, investment and financing policies, sustainability policies and dividend policies
  - b) To establish risk control and management policies, including tax risks, and to supervise internal information and control systems.
  - c) To determine the corporate governance policies of the company and of the group of which it is the parent company; its organisation and operation and, in particular, to approve and amending its own regulations.
  - (d) Policies on own shares.
- iv. To approve investments or transactions of any kind which, due to their large amount or special characteristics, are of a strategic nature or involve a special fiscal risk, unless they must be approved at a General Meeting.
- v. To establish the structure of Grupo Canal de Isabel II employees.
- vi. To make decisions regarding directors and Board of Directors compensation, within the legal and statutory framework and the compensation policies approved at a General Meeting, subject to a prior report from the Appointments and Remuneration Committee.
- vii. To delegate and revoke executive powers in favour of the CEO or directors of the Company, as well to establish the conditions of their contracts, subject to a prior report from the Appointments and Remuneration Committee.
- viii. To appoint and remove the Management Team, as well as to establish the conditions of their contracts, including their remuneration, subject to a prior report from the Appointments and Remuneration Committee, where appropriate.
- ix. To approve the creation or acquisition of shares with special purposes or entities established in countries or territories considered non-cooperative jurisdictions; as well as any other transactions or operations of a similar nature that, due to their complexity, could affect the transparency of the Company and the Canal de Isabel II Group, without prejudice to the obligations and/or restrictions to which the company is subject as it is part of the Institutional Administration of the Regional Government of Madrid, and has a fully publicly owned company.
- x. To prepare the financial statements and presenting them at a General Meeting.
- xi. To prepare any kind of report required by law from the management body, provided that the transaction to which the report refers cannot be delegated.
- xii. To call the General Meeting of Shareholders, to define the agenda and to propose resolutions.
- xiii. In the event of vacancies on the Board of Directors, to appoint proprietary directors by co-optation, in accordance with the Law and Articles of Association, and subject to a prior report from the Appointments and Remuneration Committee.
- xiv. The appointment and removal of the Chair, Vice-Chair, Secretary and Vice-Secretary of the Board of Directors.
- xv. To appoint and remove the directors who are to form part of the various committees of the Board of Directors provided for in these Regulations and which may be set up in the future.



xvi. To approve, acknowledge or authorise, subject to a report from the Audit Committee, related-party transactions under the terms set out, where appropriate, in the Instruction regulating the business activities of Canal de Isabel II Group as approved by the Board of Directors.

This shall not apply to transactions which (i) are carried out under contracts whose terms and conditions are standardised and applied en masse to a large number of customers or (ii) are carried out at general prices or rates set by the party acting as supplier of the good or service in question.

xvii. To authorise or waive the obligations inherent to the duty of loyalty of the Company's directors in accordance with the provisions of the Corporate Enterprises Law, other applicable legislation and the Regulations.

xviii. To approve the issue and admission to trading of debentures, as well as to approve the granting of guarantees for the issue of debentures, provided that they are not convertible debentures or debentures giving their holders right to a share in the company's profits.

However, in the cases permitted by law, in duly justified emergency circumstances, the above decisions may be adopted by the bodies or persons reporting to the Board of Directors, subject to subsequent ratification by the Board of Directors at the first meeting held after the decision is adopted.

Furthermore, persons disqualified under the measures and conditions established by Madrid Regional Law 14/1995, of 21 April and Article 213 of Royal Legislative Decree 1/2020, of 2 July, approving the revised text of the Corporate Enterprises Law and other applicable legislation, are prohibited from holding positions in the Company.

The Secretary of the Board of Directors does not have the status of Director.

#### **AUDIT COMMITTEE**

In accordance with the Articles of Association, the Company shall have an Audit Committee, which shall be of an internal, consultative and informative nature and shall be composed of at least three directors, appointed by the Board of Directors. The Committee shall comprise exclusively non-executive directors, the majority of which, at least, must be independent directors and one, at least, must be appointed considering his or her knowledge and experience of accountancy and/or auditing.

Its composition at 31 December 2023 was as follows:

Name	Position	Category
Mr Jaime García-Legaz Ponce	Chair	Independent
Mr Antonio Javier Cordero Ferrero	Board Member	Independent
Mr Salvador Marín Hernández	Board Member	Independent
Mr José Ignacio Tejerina Alfaro	Board Member	Proprietary
Ms Cristina Aparicio Maeztu	Board Member	Proprietary

% of proprietary directors	40%
% of independent directors	60%
% of other external members	-
Number of meetings	14

The directors appointed on the basis of their knowledge and experience in accounting and/or auditing are Mr Jaime García-Legaz Ponce, who is Chairperson of the Committee, Mr Antonio Javier Cordero Ferrero and Mr Salvador Marín Hernández.

Members who left the Audit Committee in 2022:

Name	Position	Category
Mr Jaime Sánchez Gallego (until 26/01/2023)	Board Member	Other external directors

The Articles of association vest in the Audit Committee the functions listed below, which are implemented in the Regulations of the Audit Committee and which, in any case, are additional to the other powers vested in it by law, including the provisions of the regulations on account auditing, and the Regulations of the Board of Directors, as well as the tasks entrusted to it by the Board of Directors:

- i. To respond to any questions raised by shareholders at their General Meeting on matters which fall within its remit and, in particular, regarding the result of the audit, explaining how this has contributed to the integrity of the financial reporting and the Committee's function in such process.
- ii. To supervise the effectiveness of internal control at the Company, internal auditing and the risk management systems, as well as discussing any significant weaknesses in the internal control system detected during the course of the audit with the auditors or audit firms, without threatening their independence. Accordingly, and, if applicable, recommendations and proposals may be submitted to the management body and within the relevant deadline for monitoring thereof.
- iii. To supervise the process for preparation and presentation of the financial reporting required and to present recommendations or proposals to the management body aiming to safeguard its integrity.
- iv. To propose to the Board of Directors the selection, appointment, re-election and substitution of auditors or audit firms, being in charge of the selection process, in accordance with the provisions of the current laws on legal auditing of public interest entities and the terms of the appointment and obtain information on a regular basis regarding the audit plan and the execution thereof and maintain independence while exercising its functions.
- v. To establish the appropriate relationships with auditors or audit firms in order to receive information regarding any such issues as may compromise their independence, for examination by the Committee, and those of anyone else involved in the process of auditing accounts, and, where applicable, the authorisation of services other than those prohibited, as provided for in the current laws on account auditing in relation to the independence regime, as well as such other communications as may be contemplated in the legislation governing auditing and audit standards. In any case, the Board will annually receive from the external auditors a statement on their independence with regard to the entity or entities directly or indirectly linked to them, together with the information on any type of additional services provided and the corresponding fees received from such entities by the external auditor or by the persons or entities related to this in accordance with that established in the legislation on account auditing.
- vi. To issue an annual report expressing an opinion on the independence of the auditors or audit firms, prior to releasing the audit report.. This report will include an assessment on the provision of additional services referred to in the previous point, considered individually and as a whole, other than the legal audit and regarding the rule for independence or the account auditing regulatory policy.
- vii. To report on related-party transactions to be approved at the General Meeting or by the Board of Directors; and to supervise the internal procedure established by the company for those transactions, the approval of which has been delegated.
- viii. To previously inform the Board of Directors on all the issues envisaged by the Law, the Articles of Association and the Regulations of the Board, and in particular regarding:
  - (a) the financial information and the management report, including, where appropriate, the non-financial information required to be disclosed by the Company from time to time and
  - (b) The creation or acquisition of shares in entities with a special purpose or domiciled in countries or territories considered to be tax havens.
- ix. To supervise the proper development and operation of the Company's Compliance Function.

The Audit Committee shall meet with the frequency determined and whenever the Chair or two of its members or the Board of Directors call(s) a meeting. Any member of the management team or Company personnel shall attend meetings of the Audit Committee and provide cooperation and access to the information available to them whenever required. The Committee shall have the necessary means to discharge its duties and operate independently.

Except where the legislation requires a superior majority, agreements shall be adopted by absolute majority of the Members in session. In the event of an uneven number of directors present, the absolute majority

shall be determined by default (for example, 2 directors must vote in favour of a resolution where 3 are present; etc.). In the event of a draw, the vote of the Chair shall be decisive.

In 2023 the Audit Committee rigorously discharged the duties entrusted to it by Law, the Articles of Association, the Regulations of the Board of Directors and the Regulations of the Audit Committee. In this respect, the analysis prior to the preparation by the Board of Directors of the annual accounts of the Company and its group, including the Statement of Non-Financial Information, is noteworthy. The Committee has carried out the analysis prior to the approval by the Board of Directors of the Company's budget for the year 2024. It has also referred to the Board of Directors, for submission to the General Meeting, the proposal for the appointment of the new external auditor of the Company.

The Committee also participated in the process of revising the Regulations of the Board of Directors of the Company during 2023, as well as in the process of drafting the Regulations of the Audit Committee approved in 2023. It has also participated in the drafting and has reported favourably on the Information Security Policy, the Tax Policy, the Procedure for reporting investments or transactions of special tax significance and the Instruction regulating business activities of Canal de Isabel II Group, prior to its approval by the Board of Directors. It has also participated in the revision process of the Internal Control System Policy on financial reporting and sustainability reporting.

In the area of Compliance, the Committee has participated in the drafting and has reported favourably on the new Code of Ethics and Conduct of the Company, the new Compliance Policy and the new Regulations of the Ethics and Compliance Committee.

The Committee also approved the annual Internal Audit Plan for 2023, within the framework of the Internal Audit Plan for 2022-2024. The Annual Report on the Functioning of the Audit Committee for the year ended 31 December 2022 was also approved.

#### **APPOINTMENTS AND REMUNERATION COMMITTEE**

In accordance with the Articles of Association, the Company shall have an Appointments and Remuneration Committee, which shall be of an internal, consultative and informative nature and shall be composed of at least three directors, appointed by the Board of Directors. The Committee shall be comprised exclusively by non-executive directors, at least a majority of whom must be independent directors. The Chair of the Committee shall be appointed from among the independent directors who are members of the Committee.

Its composition at 31 December 2023 was as follows:

Name	Position	Category
Ms Alicia Muñoz Lombardía	Chairperson	Independent
Ms Lourdes Vega Fernández	Board Member	Independent
Mr Jaime Sánchez Gallego	Board Member	Independent
Mr José Ignacio Tejerina Alfaro	Board Member	Proprietary
Mr Pablo Cristóbal Mayoral	Board Member	Proprietary

% of proprietary directors	40%
% of independent directors	60%
% of other external members	-
Number of meetings	11

Members who left the Appointments and Remuneration Committee in 2023:

Name	Position	Category
Ms Isabel Aguilera Navarro (until 26/01/2023)	Chairperson	Independent
Mr Antonio Javier Cordero Ferrero (until 26/01/2023)	Board Member	Independent
Mr Mariano González Sáez (From 26/01/2023 to 23/02/2023)	Board Member	Proprietary
Mr Salvador Marín Hernández (From 26/01/2023 to 28/09/2023)	Board Member	Independent

The Articles of association vest in the Appointments and Remuneration Committee the functions listed below, which are implemented in the Regulations of the Appointments and Remuneration Committee and which, in any case, are additional to the other powers vested in it by law, and the Regulations of the Board of Directors, as well as the tasks entrusted to it by the Board of Directors:

- i. To assess the competencies, knowledge and experience necessary in the Board of Directors. Defining, to this end, the roles and capabilities required of the candidates to fill each vacancy, and deciding the time and dedication necessary for them to properly perform their duties
- ii. Establishing a target representation rate for the less-represented gender on the Board of Directors, proposing ideas on how to achieve this target rate.
- iii. Referring proposals to the Board of Directors of independent directors to be appointed by co-option or, if applicable, for submission to decision by the General Meeting, and proposals for re-election and removal of those directors by the General Meeting.
- iv. To report on the appointment proposals of the remaining members for designation by co-opting or for submission to the decision of the Annual General Meeting of Shareholders, and proposals for the re-election or separation at the Annual General Meeting.
- v. To report on proposals for senior officer appointments and removals and the standard terms of their contracts.
- vi. To examine and organise the succession of the Chair of the Board of Directors and of the Company's CEO and, where applicable, making recommendations to the Board of Directors to ensure a well-planned and orderly succession.
- vii. To make recommendations to the Board of Directors on remuneration policy for directors and general managers or other members of senior executives' reporting directly to the Board of Directors, for executive committees or managing directors, and for individual remuneration and other contractual conditions of executive directors and ensuring compliance with this policy.
- viii. To report on proposals for the assessment of compliance with objectives and the setting of objectives for senior management and the other members of the Management Team.
- ix. To report, where appropriate, in the annual report on directors' compensation.

The Appointments and Remuneration Committee shall meet with the frequency determined and whenever the Chair or two of its members or the Board of Directors call(s) a meeting.

Any member of the management team or Company personnel shall attend meetings of the Appointments and Remuneration Committee and provide cooperation and access to the information available to them whenever so required. The Committee shall have the necessary means to discharge its duties and operate independently.

Except where the legislation requires a superior majority, agreements shall be adopted by absolute majority of the Members in session. In the event of an uneven number of directors present, the absolute majority shall be determined by default (for example, 2 directors must vote in favour of a resolution where 3 are present; etc.). In the event of a draw, the vote of the Chair shall have a casting vote.

In 2023 the Appointments and Remuneration Committee has performed the main duties entrusted to it by Law, the Articles of Association, the Regulations of the Board of Directors and the Regulations of the Appointments and Remuneration Committee. In this regard, the Committee was actively involved in the process of reviewing the Regulations of the Board of Directors during 2023. It has also participated in the process of drafting the Regulations of the Appointments and Remuneration Committee approved in 2023.

In 2023, the Committee participated in the evaluation of the Board of Directors, approved a training and refresher plan for the Company's directors for the year 2023 and promoted an action plan to improve the performance of the Board of Directors and the Company's Committees.

The Committee has also reported on proposed appointments of the Chair of the Board of Directors and the CEO. It has also reported in relation to proposed appointments of proprietary directors, prior to their submission for decision to the General Meeting and, where appropriate, prior to their appointment by co-option by the Board of Directors. The Committee has reported on the proposed removals and appointments of senior executives of the Company.

The Committee has participated in the drafting and has reported favourably on the Company's Service Continuity Policy.

The Annual Report on the Functioning of the Appointments and Remuneration Committee for the year ended 31 December 2022 was also approved.

#### **SUSTAINABILITY COMMITTEE**

In accordance with the Articles of Association, the Company shall have a Sustainability Committee, which shall be of an internal, consultative and informative nature and shall be composed of at least three directors, appointed by the Board of Directors. The Committee shall be comprised exclusively by non-executive directors, at least a majority of whom must be independent directors. The Chair of the Committee shall be appointed from among the independent directors who are members of the Committee.

Its composition at 31 December 2023 was as follows:

Name	Position	Category
Ms Lourdes Vega Fernández	Chairperson	Independent
Ms Isabel Aguilera Navarro	Board Member	Independent
Mr Antonio Javier Cordero Ferrero	Board Member	Independent
Mr Salvador Marín Hernández	Board Member	Independent
Ms Cristina Aparicio Maeztu	Board Member	Proprietary

% of proprietary directors	20%
% of independent directors	80%
% of other external members	-
Number of meetings	9

Members who left the Sustainability Committee in 2023:

Name	Position	Category
Mr Fernando Arlandis Pérez (06/07/2023)	Board Member	Proprietary

The Sustainability Committee shall have, as a minimum, the following functions:

- i. To report on the Company's strategies, objectives and action plans in environmental and social matters and any other matters relating to sustainability.
- ii. To monitor the Company's actions in relation to sustainable development and, in particular, that its environmental and social practices are in line with the strategy and policies approved by the Board of Directors.
- iii. Report to the Board of Directors on the content of the statement of non-financial information, without prejudice to the powers that, in relation to the process of its preparation and presentation, may be attributed to the Audit Committee.
- iv. Supervise and enforce the Company's corporate governance system, taking into account the degree of compliance with the rules and recommendations of good governance that are or may be applicable, adapted to the characteristics of the Company.

The Sustainability Committee shall meet with the frequency determined and whenever the Chair or two of its members or the Board of Directors call(s) a meeting. Any member of the management team or Company personnel shall attend meetings of the Sustainability Committee and provide cooperation and access to the information available to them whenever required. The Committee shall have the necessary means to discharge its duties and operate independently. Except where the legislation requires a superior majority, agreements shall be adopted by absolute majority of the Members in session. In the event of an uneven number of directors present, the absolute majority shall be determined by default (for example, 2 directors must vote in favour of a resolution where 3 are present; etc.). In the event of a draw, the vote of the Chair shall have a casting vote.

In 2023 the Sustainability Committee performed the main duties entrusted to it by Law, the Articles of Association, the Regulations of the Board of Directors and the Regulations of the Sustainability Committee. In this regard, the Committee was actively involved in the process of reviewing the Regulations of the Board of Directors during 2023. It has also participated in the process of drafting the Regulations of the Sustainability Committee approved in 2023.

It has also participated in the drafting and has reported favourably on the Company's Sustainability Policy, as well as in the revision process of the Internal Control System Policy on financial reporting and sustainability reporting. This Committee also participates in the process of drafting of the Company's Sustainability Plan, which must be approved by the Board of Directors.

## B.2 Members of the board of directors or management body

### DIRECTORS/MEMBERS OF THE MANAGEMENT BODY

Name or company name of director/member of the management body	Last date of appointment
Mr Carlos Novillo Piris	07/09/2023
Mr Mariano González Sáez	18/12/2019
Mr Jaime García-Legaz Ponce	25/11/2020
Ms Alicia Muñoz Lombardía	25/11/2020
Ms Lourdes Vega Fernández	25/11/2020
Canal de Isabel II Public Entity (represented by Mr Rafael García González)	30/03/2023
Mr José Ignacio Tejerina Alfaro	21/12/2022
Ms Cristina Aparicio Maeztu	21/12/2022

Mr Pablo Cristóbal Mayoral	07/09/2023
Mr Francisco Muñoz García	18/12/2019
Mr Antonio Javier Cordero Ferrero	13/11/2017
Mr Jaime Sánchez Gallego	29/06/2020
Ms Isabel Aguilera Navarro	27/05/2021
Mr Salvador Marín Hernández	27/01/2022

After the reporting date, on 29 February 2024, the Extraordinary General Meeting of the Company filled the vacancy on the Board of Directors by appointing Ms Judith Piquet Flores as proprietary director. Likewise, on the same date, the General Meeting resolved to re-elect the independent director Mr Antonio Javier Cordero Ferrero for a term of four years, in accordance with the Articles of Association.

The number of members of the Board of Directors set by the General Meeting of the Company is fifteen, so there is currently one vacancy.

In 2023, other directors were:

- Ms Paloma Martín Martín, who resigned from her position as Chair and member of the Board of Directors with the category of proprietary director, effective 6 July 2023. Said resignation was motivated by the fact that she had ceased to hold the position of head of the Regional Ministry of the Region of Madrid to which the Canal de Isabel II Company reports, as well as by the fact that she had ceased to perform her duties as Chair of the Canal de Isabel II Entity, the majority shareholder of the Company.
- Mr Pascual Fernández Martínez, who resigned as Chief Executive Officer, Vice-Chairman of the Board of Directors and member of the Board, effective 23 February 2023. This resignation was motivated by the Director's wish to take on new professional challenges.
- Mr Fernando Arlandis Pérez, who resigned from his position as member of the Board of Directors with the category of proprietary director, effective 6 July 2023, having ceased to hold the position of Director General for Decarbonisation and Energy Transition of the Region of Madrid.
- Mr Guillermo Hita Téllez, who resigned from his position as member of the Board of Directors with the category of proprietary director, effective 30 November 2023. The resignation was motivated by his termination as Chair of the Federation of Municipalities of Madrid, the entity that proposed his appointment and re-election, in accordance with article 12.2 of the Regulations of the Board of Directors.

In addition, Canal de Isabel II Public Entity, which was appointed as member of the Board of Directors on 30 March 2023, initially appointed Mr Pablo José Rodríguez Sardinero as a natural person representative for the permanent exercise of the duties inherent to the position of director. Subsequently, on 28 July 2023, the legal entity director notified the Company of the replacement of its previous representative by Mr Rafael García González.

### **B.3 System of remuneration of members of the governing bodies of the entity and indicate the remuneration paid during the financial year.**

In accordance with the Articles of Association in force at 31 December 2023, the members of the Board of Directors shall receive attendance fees for their presence at meetings of the Board of Directors and committee meetings, provided that there are no grounds for prohibiting or rendering incompatible the receipt of such attendance fees. The maximum amount of the annual compensation of all directors in their capacity as such shall be determined by the General Meeting and shall remain in force unless a modification thereof is approved. For these purposes, the Board of Directors shall be responsible for the distribution of compensation among the members of the Board of Directors according to the positions held and their affiliation and attendance at meetings of the collective bodies.

Without prejudice to the foregoing, a member of the Board of Directors who is appointed chief executive officer or is assigned executive duties by virtue of another title shall receive compensation for the

performance of his executive duties, which shall be established in the relevant contract to be entered into with the Company and which shall be previously approved by the Board of Directors, in accordance with the provisions of the Corporate Enterprises Law or the rule replacing it and the Articles of Association. The contract shall set out all the items for which compensation may be obtained in the performance of executive duties, including, in addition to a fixed pay, variable compensation and any severance payment for early termination of such duties, as the case may be, and shall comply with the legal provisions on incompatibilities and other limitations on compensation in relation to senior officers and managers in the public sector.

The remuneration of the members of the management body, accrued during the year, was as follows:

Remuneration item	In thousands of euros	
	Individual	Group
Fixed remuneration	109.2	-
Variable remuneration	16.1	-
Expenses	127.2	-
Other remunerations	-	-
TOTAL	252.5	-

#### Directors with executive functions

The fixed and variable remuneration corresponds to that of Mr Pascual Fernández Martínez, CEO of the Company between 1 January and 23 February 2023 and to that of Mr Mariano González Sáez, CEO from 24 February 2023.

#### B.4 Information on number of female directors on the Board of Directors or management body and other governing bodies of the company:

	Number of women							
	Financial year 2023		Financial year 2022		Financial year 2021		Financial year 2020	
	Number	%	Number	%	Number	%	Number	%
Board of Directors	4	28.57%	5	33.33%	4	36.36%	3	27.27%
Audit Committee	1	20.00%	-	0.00%	-	0.00%	-	0.00%
Appointments and Remuneration Committee	2	40.00%	3	75.00%	3	75.00%	2	40.00%
Sustainability Committee	3	60.00%	N/A		N/A		N/A	

On 29 February 2024, the Extraordinary General Meeting of the Company filled the vacancy on the Board, bringing the number of female Board members to 5, so that women now make up 33.33% of the Board members.



### **B.5 Diversity policies in relation to the Board of Directors and to the management and supervisory bodies of the entity in relation to, for example, age, gender, disability or professional training and experience.**

Canal de Isabel II, S.A. has not formally implemented specific diversity policies for the Board of Directors and its Committees. Without prejudice to the foregoing, the Regulations of the Board of Directors provide that both the Appointments and Remuneration Committee and the Board itself shall ensure that the procedures for the selection of its members foster diversity of knowledge, experience, age and gender, and shall endeavour to ensure that the number of directors of the least represented gender complies with best corporate practices. In addition, the Regulations of the various committees provide that the diversity of the profiles of the members of these committees will be encouraged, taking into account, particularly, their skills, sectoral knowledge, professional experience, age and gender.

### **B.6 URL and means of accessing the Company's website regarding information on corporate governance.**

Although, as an unlisted company, it is not required to do so, the Company has a corporate website, the following website was approved as corporate website for commercial purposes at the Extraordinary General Meeting on 23 November 2018: <http://www.canaldeisabelsegunda.es>. This website contains information on corporate governance in the section "About Us," under "Shareholders," in the sub-section "Corporate Governance." Furthermore, on the aforementioned website, in the section "Shareholders" and sub-section "Disclosures to the CNMV" there is a link to the website of the Spanish National Securities Market Commission, URL: <https://www.cnmv.es/portal/Otra-Informacion-Relevante/Consulta-OIR.aspx>, which contains disclosures regarding "Other Relevant Information" by Canal de Isabel II, S.A.

## **C RELATED AND INTRA-GROUP OPERATIONS**

The Company forms part of the Canal de Isabel II Group, the direct parent company of which is the Public Entity Canal de Isabel II (the Public Entity), which holds a stake in the Company's share capital of 82.32%. There are no other shareholders that may exercise, directly or indirectly or under agreements between shareholders, control of the Company (in the scenarios envisaged in article 4 of Securities Market and Investment Services Law 6/2023, of 17 March) or any significant influence over the taking of financial and operational decisions at the Company.

### **C.1 Transactions between the entity or group entities and the directors, management or members of the management body of the entity.**

N/A

### **C.2 Intra-group operations, including those carried out with entities that have control or significant influence over the entity.**

In accordance with the definition of "related party" provided for in the Ministry of Economy and Finance Order EHA/3050/2004, of 15 September 2004, Canal de Isabel II (Public Entity) and Madrid City Council have been deemed related parties with stakes of 82.35% and 10.00%, respectively.

The relationship between the Company and the Public Entity is established under the Contract-Programme, executed on 27 June 2012, which describes in detail the reciprocal undertakings and consideration during the term thereof, quantifying and specifying the services to be rendered by the Company and guaranteeing the sufficiency and balance of the financial resources assigned to comprehensive water cycle management.

Details of transactions with the Public Entity in 2023 are as follows:

Nature of the relationship	Type of operation	Sums excluding VAT (Thousands of euros)(1)
Contract-Programme	Provision of Technical assistance services	6,651
Contract-Programme	Fees for regulation, discharge and other payments to the Entity	8,232
Contract-Programme	Distributed dividends	67,290
Contract-Programme	Amortisation of debts – mirror debt-	14,762
Contract-Programme	Financial debt costs -mirror debt- and others	3,717
Contract-Programme	Tax obligations - VAT Self-supply theatre assignment -	464
Contract-Programme	Tax consolidation-Corporate Income Tax	1,250
Contract-Programme	Other income for service provision	200
Contributions	EU funds from the European Union's Recovery and Resilience Facility (RRF)	5,904

(1) Sums accrued in 2023

(2) Includes accruals from 2019 to 2022

Relations between the Company and the Madrid City Council are established under the Management Agreements, the provision of services as an institutional client and the tax obligations for which the Company is liable in line with the legislation in force.

Details of transactions with the Madrid City Council in 2023 are as follows:

Nature	Type of transaction	Sums excluding VAT (Thousands of euros)(1)
Contract	Service provision -integral water cycle-	20,298
Tax	Municipal taxes	11,118
Collective Bargaining Agreement	Discharge fees	4,397
Company dividends	Distribution dividends	8,171

(1) Sums accrued in 2023

Each year Canal draws up a Transfer Pricing Report in the Canal de Isabel II Group with the aim of complying with obligations in terms of reporting and documentation regarding entities and related transactions established by the Corporate Income Tax Law and the Corporate Income Tax Regulations.

Annual Corporate Governance Report 2023  
Canal de Isabel II, S.A.,M.P.

The amounts of the Company's transactions with Group companies, associated companies and joint ventures in 2023 are as follows, as detailed in note 24 of the Company's individual annual accounts:

	In thousands of euros				
	Canal de Isabel II Public Entity	Canal Gestión Lanzarote S.A.U	GSS Venture, S.L.	Canal Extensia S.A.U.	Joint Ventures
<b>INCOME</b>					
Dividends	-	-	-	-	649
Materials sales	4	-	-	-	-
Financial income	-	8,551	-	2,591	518
Other operating income	200	822	-	7	-
<b>EXPENSES</b>					
Purchase of water	-	-	-	-	(1)
Telephone helpline	-	-	(2,379)	-	-
Technical assistance	(3,968)	-	-	-	-
Other current operating expenses	(464)	-	-	-	-
Finance expenses	(3,717)	-	-	-	-
<b>INVESTMENT</b>					
	-	-	-	-	-

In 2023, transactions between Group companies in which Canal de Isabel II, S.A. did not hold a stake were as follows:

			In thousands of euros
Company	Financia l	Financia l	Item
Canal Extensia. S.A.U.	787		
Canal Extensia America		717	Technical assistance
Amerika Tecnologías y Servicios, S.A.S.		70	Technical assistance
Canal Extensia America	1,315		
Amagua, CEM		1,291	Technical assistance
Amerika Tecnologías y Servicios, S.A.S.		24	Back office lease
Amerika Tecnologías y Servicios, S.A.S	481		
Canal Extensia America		36	Software services
AAA Dominicana, S.A.		163	Software services
Amagua, CEM		278	Software services
Gestus Gestión & Servicios, S.A.S.		4	Software services
Canal Extensia, S.A.U.	7,267		
Canal Extensia America		4,878	Interest on loans
Soluciones Andinas de Aguas, S.R.L.		2,389	Interest on loans
Canal Extensia America	2,628		
AAA Dominicana, S.A.		719	Interest on loans
Soluciones Andinas del Agua, S.R.L.		1,246	Interest on loans
Fontes da Serra		252	Interest on loans
Emissao, S.A.		343	Interest on loans
Gestus Gestión & Servicios, S.A.S.		68	Interest on loans
Soluciones Andinas del Agua, S.R.L.	1,139		
Emissao, S.A.		1,139	Interest on loans
Fontes da Serra	330		
Emissao, S.A.		330	Interest on loans

Operations linked to financing agreements were as follows:

"INTERCOMPANY" LOANS CANAL EXTENSIA, S.A.U.	
CANAL EXTENSIA AMERICA, S.A.	In thousands of dollars
Loan 6 February 2019	2,300
Loan 03 May 2019	42,702
1 <sup>st</sup> Addendum 25 November 2019	49,309
2 <sup>nd</sup> Addendum 13 October 2021	51,809
3 <sup>rd</sup> Addendum 22 March 2022	54,500
3 <sup>rd</sup> Addendum 11 August 2023	65,705
At 31 December 2023, 7,211 thousand dollars have not been drawn down	
SOLUCIONES ANDINAS DE AGUAS, S.R.L. (Emissao)	In thousands of euros
Loan 30 January 2019	2,900
1 <sup>st</sup> Addendum 3 May 2019	5,800
2 <sup>nd</sup> Addendum 25 November 2019	13,134
At 31 December 2023 it has drawn down the full amount of the credit	
SOLUCIONES ANDINAS DE AGUAS, S.R.L. (Purchase of Emissao)	In thousands of dollars
Credit 20 November 2013	14,500
INTERCOMPANY LOANS CANAL DE ISABEL II, S.A., M.P.	
CANAL EXTENSIA (CANAL EXTENSIA AMÉRICA, S.A)	In thousands of euros
Loan 6 February 2019	2,000
1 <sup>st</sup> Addendum 3 May 2019	4,700
2 <sup>nd</sup> Addendum 25 November 2019	8,373
3 <sup>rd</sup> Addendum 7 October 2021	10,573
4 <sup>th</sup> Addendum 2 March 2022	12,934
5 <sup>th</sup> Addendum 28 July 2023	23,121
At 31 December 2023, 6,431 thousand euros have not been drawn down	
CANAL EXTENSIA S.A.U.(Emissao)	In thousands of euros
Loan 29 January 2019	2,900
1 <sup>st</sup> Addendum 3 May 2019	5,800
2 <sup>nd</sup> Addendum 25 November 2019	13,134
At 31 December 2023 it has drawn down the full amount of the loan	
CANAL EXTENSIA, S.A.U.	in thousands of Euros
Loan 26 March 2019	4,000
1 <sup>st</sup> Addendum 31 March 2020	4,000
2 <sup>nd</sup> Addendum 28 July 2023	8,809
At 31 December 2023, 4,475 thousand euro have not been drawn down.	

### **C.3 Mechanisms established to detect, determine and resolve any possible conflicts of interest between the company or its group and controlling entities or entities with significant influence of the group, and the directors or members of the management body or executives of the company.**

Pursuant to the provisions of article 229 of the revised Corporate Enterprises Law, the members of the board of directors and the Company's executives must notify the board of directors of the existence of any situation of conflict, whether direct or indirect, they may have with the Company's interests. The board members and Company executives have informed the board of directors that neither they nor the related parties referred to in article 231 have any conflict of interest or hold any direct or indirect stake in the capital of any company pursuing the same or an analogous or supplementary type of activity as that comprising the Company's objects.

## **D CONTROL SYSTEMS AND RISK MANAGEMENT**

Canal de Isabel II has an Internal Audit, Risk Management and Control Sub-department, under the organic management of the Chief Executive Officer and the functional supervision of the Audit Committee. Its duties include Internal Audit, Risk Management and Internal Control, from the perspective of the COSO framework.

The Internal Audit, Risk Management and Control Sub-Directorate conducts its activities in line with the International Standards for the Professional Practice of Internal Auditing and has on its in-house audit staff a Certified Internal Auditor (CIA) and Certified in Control Self-Assessment (CCSA), along with Certification in Risk Management Assurance CRMA and COSO ERM and in Internal Control, COSO Internal Control Certificate Program, granted by the Global Institute of Internal Auditors and COSO

The International Standards, International Framework for the practice of Internal Audit, requires that the internal audit function has a Quality Assurance programme and that it is evaluated by an independent third party every five years. On 8 November 2023, the Quality Assessment (QA )was renewed with the maximum certification classification "GENERALLY COMPLIANT" granted by the Spanish Institute of Internal Auditors, a leader at national and international level, noting the adherence to International Standards for professional exercise of the Internal Audit function.

### **D.1 Entity's systems of control and risk management.**

Risk Management is a monitoring activity that seeks to keep permanently abreast of any risks that may have a bearing on the strategic targets to be met by the organisation.

The Risk Management Policy of Canal de Isabel II, S.A. was revised and approved by the Board of Directors on 30 January 2020 and all the Company's personnel are responsible for its correct application. Canal conducts its risk management based on the internationally recognised methodologies COSO (Committee of Sponsoring Organization of the Treadway Commission), COSO Internal Control and COSO ERM (Enterprise Risk Management) , adapted to suit the organisation's characteristics.

It is based on the following principles:

- I. Understanding risk to mean any threat that an event, action or omission might prevent Canal de Isabel II, S.A. from achieving its objectives, successfully implementing its strategies or correctly conducting its operations, or lead to lost opportunities. Considering the different types of risks, financial and non-financial (including operating, technological, legal, social, environmental, political and reputational) facing the Company.
- II. Setting in place the mechanisms for proper risk management, having regard to the identification, evaluation, response to, analysis of mitigation measures, monitoring and reporting of such risks.

- III. Promoting and implementing the strategy, culture, resources and processes comprising integrated risk management, to be reviewed periodically in order to adapt it to the situation of the organisation and its environment.
- IV. Assigning responsibility for identifying, analysing, evaluating and supervising the Risk Management System to the various levels of the organisation.
- V. Encouraging the creation and implementation of guidelines, limits and mechanisms that help to ensure that risk management is performed in line with the risk level accepted by the Organisation.
- VI. Fostering, encouraging and disseminating, by means of training and communication, the Risk Management System, guaranteeing awareness of this Policy, along with the documentation in which it is developed, and the information and internal control systems to be used to control and manage the aforementioned risks.

All of the Risk Management activity is managed via the SAP GRC application, which adds value by offering management characteristics such as:

- Global overview
- Traceability
- Historical records
- Possibility of joint risk management by various areas
- Monitoring automatic controls and conducting tests
- Common repository
- Integrated workflow (notification and monitoring of events)
- Scorecards
- Information security

The application enables to gather information from other management applications used at the Company and applies them in line with risk and control measuring needs. Capitalising on the advantages yielded by the tool, Canal de Isabel II is currently making considerable progress in automating indicators and controls.

A Risk Map is available, with the three levels of consolidation (Sub-department, Department and Company), where risks are assessed mainly by the Managers and Submanagers.

Canal de Isabel II is affected by a range of different risks depending on the areas in which it operates and the activities it pursues, which may prevent it from successfully meeting its goals if not duly controlled. With this in mind it has set in place a dynamic Risk Management System, enabling to include any new risks, emerging risks, which might affect the Company and which are identified over the course of the year. It also ensures that the most significant risks are reviewed and fully assessed twice a year.

### **Bodies tasked with preparing and implementing the Risk Management System.**

The following bodies are in charge of the creation and implementation of the Risk Management System:

- Board of Directors: establishes the existence of a corporate risk management system.
- Audit Committee. This is a specialised body of the Board of Directors. It is the body ultimately responsible for Risk Management, as explained by the CNMV: "The Audit Committee's supervisory responsibility in the domain of risks targets the effectiveness of internal control and risk management systems as a whole, embracing both financial and non-financial risks."
- Chief Executive Officer. The Executive Vice-Chairperson is responsible for the Risk Management Model and is in charge of promoting and implementing it.
- Global Risk Manager: The Internal Audit, Risk Management and Control Sub-department, which coordinates, facilitates the implementation and supervises Risk Management.
- Risk Manager. The Risk Manager is the person responsible for managing risk at each Department and liaises between Global Risk Managers and users. There are a total of 9 users.
- Risk Valuers. The Risk Assessors are all the Managers and Submanagers, in charge of updating the Risk Map. Totalling 42.

- Persons in charge of Risk by Organisational Unit. They are responsible for defining the indicators and controls and for monitoring risks. Totalling 54.

In 2023, taking into account the above list of members from the CEO to the Risk Managers, the company had a total of 96 participants in the company's Risk Management.

## Risk Categories

The risks that may affect the achievement of the Company's objectives are classified on the basis of the categories used in COSO (Committee of Sponsoring Organization of the Treadway Commission), adapted to the reality of the company, with the following Risk Taxonomy, in line with best practices:

- Information Risks. Those regarding data and information of a financial, non-financial, internal and external nature at the Company.
- Compliance risks. These risks relate to regulatory compliance. These risks relate to the aim of ensuring that the regulator and society as a whole have the utmost trust in the Company's activity.
- Operational risks. Those pertaining to operational processes at the organisation. They relate to processes, persons and services rendered.
- Strategy risks. Those pertaining to the set of decisions taken by the Company in order to fulfil its remit.
- Financial risks. Those pertaining to economic and financial processes at the organisation.

Category No. Risks % of total:

- Information 9%
- Compliance 13%
- Strategy 21%
- Operations 47%
- Financial 10%

## Process

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

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

- Risks are assessed at the level of impact and likelihood based on scales that factor in various risk aspects.
- A list is drawn up of the potential risks at Canal de Isabel II based on the Risk Taxonomy.
- The entity's risk map is updated periodically (the Risk Map was updated twice in 2023).
- It is consolidated automatically using the information stored on SAP-GRC and the risk map is drawn up by department and for Canal de Isabel II as a whole. Each area in question, depending on the nature of its activity, has its own risk map and assesses the risks that directly or indirectly affect the fulfilment of its goals. Those in charge of assessment at each organisational unit are tasked with updating the risks for which they are responsible.
- Once the most relevant risks have been identified, risk management gets underway on a joint basis between the Organisational Unit, the person responsible for management and the Global Risk Manager, who makes the process easier. Both of them appoint the person responsible for the risk and, as from that moment and using the application, the risk in question will be controlled and monitored.

For each of the risks, as defined by the international COSO framework, the possible responses are: accept, avoid, reduce or share.

Among all the risks managed which are decided to be mitigated, 100% have indicators, 87% have controls that periodically evaluate their design and effectiveness, and 6% have measures (occasional controls that do not need to be maintained over time).



## Internal Control

According to the international COSO framework, internal control is a process conducted by a company's management and the rest of its staff, designed in order to provide a reasonable degree of certainty in connection with the achievement of goals.

In this 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 performed.

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 and the participants in this assessment.

Likewise, areas with specific (non-transversal) controls in the COSO model have been encouraged to perform analyses within the specific goals. There are specific ICSFR and compliance controls, the MPD, identifying 17 and 8 controls, respectively.

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 international framework of the "Three Lines Model"

## **E INTERNAL CONTROL AND RISK MANAGEMENT SYSTEMS RELATED TO FINANCIAL REPORTING (ICSFR) AND TO SUSTAINABILITY REPORTING (ICSSR)**

### **E.1. Mechanisms which comprise the internal control over financial reporting (ICSFR) and sustainability reporting (ICSSR) risk control and management systems at the entity.**

#### **E.1.1. Bodies and/or functions responsible for: (i) the existence and maintenance of adequate and effective ICSFR and ICSSR systems; (ii) their implementation; and (iii) their monitoring.**

Its "Internal Control System Policy on Financial Reporting and Sustainability Reporting", as approved by the Board of Directors at its meeting held on 30 November 2023, defines the responsibilities of the Board's specialised committees (Audit Committee and Sustainability Committee). These specialised committees are responsible, inter alia, for supervising the internal control systems in the area determined by regulations, i.e., the internal control system over financial reporting (hereinafter ICSFR) and the internal control system over sustainability reporting (hereinafter ICSSR).

Furthermore, Canal uses the "General Organisation Manual on ICSFR" which was last updated and approved by the Finance and Business Development Department on 26 October 2017. This manual provides more details of the organisational structure of the Finance and Business Development Department and other areas directly linked to ICSFR.

On the other hand, Canal has a "Procedure of the Internal Control System over Financial Reporting and Sustainability Reporting", dated November 2023, which details the scope, general aspects, control environment, financial and sustainability reporting risk assessment, control activities, reporting and communication, and monitoring and evaluation of the ICSFR and ICSSR.

The Finance and Business Development Department is responsible for the design, implementation and operation of the ICSFR and the ICSSR, the latter with the collaboration of the Studies and Programmes Sub-Department of the General Technical Secretariat. By virtue of this statement, in February 2018, this Division prepared the "ICSFR Management and Evaluation Manual" for the first time, which documents the ICSFR

management and evaluation methodology and is periodically updated based on the incorporated improvements. In 2022, the latter document was extended to the management and assessment of the ICSSR, and is hereinafter referred to as the "ICSFR and ICSSR Assessment Management Manual". It was revised in January 2023 and 2024.

Lastly, the Audit Committee, in support of the Board of Directors in their supervisory role, has amongst its duties, in accordance with the Company's Articles of Association (article 19.b and c), the following: to supervise the effectiveness of the Company's internal controls, internal audits and risk management systems and to oversee the preparation and presentation of regulated financial information.

### **E.1.2. Elements of the process of preparing financial information and sustainability information**

Departments and/or mechanisms responsible for: (i) designing and reviewing the organisational structure; (ii) clearly defining the lines of responsibility and authority with an adequate distribution of tasks and functions; and (iii) ensuring that there are sufficient procedures in place to correctly disseminate them throughout the entity.

The Board of Directors of Canal appoints the CEO and the rest of Managers and determines the organisational structure of the Company, on the basis of a report by the Appointments and Remuneration Committee, where applicable.

As described in E.1.1., the "General Organisation Manual on ICSFR" provides more details of the organisational structure of the Finance and Business Development Department and other areas directly linked to ICSFR. This Organisation Manual is aligned with the Duties and Responsibilities Manual of Canal. The periodic update of this manual is coordinated by the Resources Department, reviewed by the different Managers and approved by the CEO.

In the definition and assignment of responsibilities and tasks to the different sub-departments and the areas that report to them, the duties are identified and segregated with a view to ensuring that the preparation of financial information is managed appropriately.

ICSFR and ICSSR documentation includes a risk and control matrix which clearly defines the organisational structures and/or job functions that own each control mechanism in relation to the preparation of financial and sustainability information, respectively. These responsibilities have been validated by the sub-departments of these structures through a formal approval process.

**Code of conduct, approval body, level of distribution and instruction, principles and values included (indicating any specific mention of the recognition of transactions and the preparation of financial information), and the body responsible for analysing breaches and proposing corrective measures or penalties.**

To provide guidance and foster ethical professional practices, having assumed the new legislation on integrity and transparency, senior management has prepared a mandatory Code of Ethics and Conduct, applicable to all personnel of Canal de Isabel II, which states the Company's guiding principles and behaviour rules.

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. These documents are published both on the Canal Website and on the Intranet.

The Code of Ethics and Conduct includes the general standards and commitments of conduct applicable to the entire organisation, which include, most notably, the following:

- Legality.
- Business ethics.
- Respect for human, labour and social rights and civil liberties.
- Collaboration.
- Sustainable development.
- Responsible and efficient management of the Company's assets.

- Protection of confidential and proprietary information.
- Protection of intellectual and industrial property.
- Exemplarity and safeguarding the image and reputation of Canal de Isabel II.

The declaration of knowledge and acceptance of the Code of Ethics and Conduct is a requirement to be fulfilled prior to subscribing employment contracts for new personnel. It is also a prerequisite for the homologation of suppliers and is included in the annexes of the Specific Administrative Clauses of the several public tenders. It is also one of the requirements for tenderers through the small procurement carried out through the CYCLO application.

In addition, Canal has Internal Conduct Regulations on matters relating to the Securities Markets, which was approved by the Board of Directors at its meeting held on 8 January 2015 and which has been amended by resolution of the Board of Directors on 29 March 2021, in order to adapt it to the new European regulations on market abuse, and to reflect the organisational changes in the company. This regulation includes, among others, the following aspects related to financial reporting:

- Codes of conduct relating to personal transactions of liable persons
- Codes of conduct in relation to privileged information
- Codes of conduct in relation to relevant information
- Codes of conduct in relation to handling trading.

This regulation is applicable, among others, to persons that may have regular and recurring access to privileged information, with the Registry of Liable Persons created in 2015. In 2023 the specific updates to the said Registry were made when any of the persons included in the scope of said Regulation are incorporated or replaced.

- **Whistle-blowing channel, which allows the Audit Committee to be informed of any financial and accounting irregularities, in addition to any breaches of the Code of Conduct and irregular activities within the organisation, stating whether this channel is confidential in nature.**

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.

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 its **operation Regulations**.

The Ethics Line will be available, among others and as provided for in the Code of Ethics and Conduct, 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.

Access to the Ethics Line is via the form available on the corporate website.

The Regulations of the Ethics and Compliance Committee approved on 20 July 2023 have superseded the previous Regulations of the Ethics and Compliance Committee of Canal de Isabel II dated 12 November 2015 and the Statute of the Compliance Function and Compliance Officer dated 8 May 2019.

The Ethics and Compliance Committee is also formed as the supervisory and control body referred to in article 31 bis of the Criminal Code, which establishes the criminal liability of legal entities.

The Committee's duties include the following:

- Ensuring dissemination of the values and principles of the Code of Ethics and Conduct, as well as of Canal's compliance system and crime prevention model.
- Revising the Code of Ethics and Conduct, the Compliance Policy and other regulations of the Compliance System and making the necessary proposals for their improvement; as well as monitoring their operation and compliance in an effective and proactive manner.
- Periodically revising the compliance system, the Code of Ethics and Conduct and the crime prevention model and assessing their effectiveness.
- Ensuring the proper operation of the internal information system, i.e. the Company's internal information channel known as the Ethics Line, and managing the communications or reports received through the means established for this purpose.
- In relation to the compliance system and the internal information system, approving, modifying and revoking the regulations implementing these Regulations, the Compliance Policy and the Code of Ethics and Conduct of the Company, subject to a report from the Audit Committee.

In 2023, the Ethics and Compliance Committee met on nine occasions.

In 2023, none of the notifications received via the ethical line were related to irregularities that could affect the financial reporting.

- **Training programmes and regular refresher courses for personnel involved in the preparation and review of financial and sustainability information and the assessment of ICSFR and ICSSR, covering at least accounting standards, audit, internal control and risk management.**

Training programmes and regular refresher courses for personnel involved in the preparation and review of financial and sustainability information and the assessment of ICSFR and ICSSR, respectively, covering at least accounting standards, audit, internal control and risk management.

The 2023 Training Programme included a block course of training aimed at personnel from the financial department with the aim of extending and updating their knowledge in fiscal and accounting matters and code of conduct. Similarly, training has been provided for staff involved in the preparation of sustainability information.

In 2023, personnel from the Finance and Business Development Department that take part in preparing and reviewing the financial information, received a total of 579.5 hours of training.

7 courses were held, which were taught by consulting agencies or external entities, and attended by 34 employees. Most of the courses were on accounting, consolidation and taxation and code of ethics and conduct.

Moreover, throughout 2023, 1 participant from a subsidiary was trained in sessions organised by the Finance and Business Development Department on ICSFR management and the use of SAP-GRC.

Also, at the Parent Company Canal de Isabel II, S.A., the Finance and Business Development Department organised eight training sessions attended by a total of 9 persons in 2023.

## **E.2. Risk assessment of financial and sustainability reporting**

### **E.2.1. Features of the risk identification process, including the process of identifying the risks of error or fraud, with respect to:**

Whether the process exists and is documented.

Apart from the integrated risk management system in Canal and described in the previous sections, the Internal Control System of Financial Reporting and the Internal Control System of Sustainability Reporting also include a specific process for identifying risks regarding financial and sustainability information in the parent company.

**Whether the process covers all financial and sustainability reporting objectives (existence and occurrence; completeness; valuation; presentation, disclosures and comparability; rights and obligations), whether it is updated and, if so, how frequently.**

With regard to specific ICSFR risks, the purpose of the financial reporting scope matrix, developed by the Finance and Business Development Department, is to identify the accounts and disclosures that carry significant associated risk and have a potential impact on the financial information, thus requiring special attention.

The specific risks of the ICSSR, associated with the different controls, are based on the identification of the most relevant aspects of corporate responsibility, arising from the materiality analysis carried out by the Studies and Programmes Sub-department, which is part of the General Technical Secretariat.

Financial and sustainability risk management consists of identifying risks in respect of the reliability of the financial and sustainability information and establishing controls to mitigate these risks.

This financial and sustainability risk management is a separate section in the SAP GRC IT application, which in turn contains the documentation of the processes that affect internal control over financial and sustainability reporting as well as the risks and controls that have been established for each process.

The starting point for the management of financial reporting risks, independent of the Company's Global Risk Management, is the analysis of the information contained in the Company's financial statements, selecting the most significant accounting items based on quantitative criteria (materiality) and qualitative criteria (transaction complexity, volume of transactions, difficulty of calculations, use of judgements, estimates or projections, if subject to fraud, etc.). The selected items are associated with processes and/or sub-processes where the information is generated. As a result of this analysis the financial reporting risks are identified.

At the same time, other risks from any of the established categories are identified that, although they may not exceed the established quantitative and qualitative thresholds, might still compromise the reliability of the financial information. Fraud-related risks and the risk of errors in financial reporting are of particular relevance and are specifically identified.

Risk assessment is performed annually and fulfils the objectives that ensure the reliability of the financial and sustainability information published: existence and occurrence, completeness, valuation, presentation, disclosures and comparability, rights and obligations.

At the beginning of 2022, testing of the accounting closing and reporting process controls in the subsidiaries Amagua, Amerika and ASAA was launched via SAP-GRC. In the second half of 2022, an additional control has been incorporated into the Sustainability Report process, .

In accordance with all of the foregoing, the commitment was fulfilled to extend this control system to the rest of group companies and to introduce new processes in accordance with the methodology described in the "ICSFR and ICSSR Management and Evaluation Manual."

Lastly, note that, throughout 2023, the Finance and Business Development Department completed the monthly monitoring reports concerning frequent assessment of the functioning of internal control over financial and sustainability reporting.

**Whether a specific process is in place to define the consolidated group, taking into account among other aspects, the possible existence of complex corporate structures, special purpose entities, etc.**

The Finance and Business Development Department of Canal has approved the consolidation process of the financial statements, which regulates the calculations and the updating of the consolidated group. The consolidated group remains unchanged while there are no changes to the investments in consolidated companies. However, should any change occur in the percentages of direct, indirect or crossed ownership in the investees, the consolidated group is recalculated. The ownership percentages are reviewed at each monthly close.

The map of Group companies is updated on a regular basis and whenever there is a change in the interest held in a company. All changes occurring in a given period are specifically identified.

Whether the process considers the impact of other risk types (operational, technological, financial, legal, reputational, environmental, etc.) that may affect the financial statements and sustainability reporting.

The risks identified in the Internal Control System of Financial Reporting are a part, as financial risks, of the company's overall corporate risk management system, and are summarised as a single risk that forms a part of the organisation's corporate risk management, managed by means of the risk management application (SAP-GRC).

Likewise, the risks identified in the Internal Control System of Sustainability Reporting are a part, as risks, of the overall corporate risk management system, and are summarised as a single risk that forms a part of the organisation's corporate risk management, managed by means of the risk management application (SAP-GRC).

Which governing body within the entity supervises the process.

The Canal de Isabel II Audit Committee is responsible for ensuring the control and supervision of the effectiveness of the ICSFR.

The ICSFR and ICSSR is integrated in the SAP-GRC.

This application identifies the critical processes, associated risks, control activities to mitigate these recognised in the relevant risk matrix and controls and the process structure is identified and integrated in this application, together with the units responsible for executing the control activity.

### **E.3. Control activities**

**E.3.1. Procedures to review and authorise financial and sustainability reporting and the ICSFR system description to be published on the stock markets, indicating those responsible for execution, as well as documentation describing the flow of activities and controls (including those relating to fraud risk) for the different kinds of transactions that may have a material impact on the financial statements, including the procedure for the accounting close and the specific review of relevant judgements, estimates, valuations and projections.**

The review process and authorisation of the Company's financial and sustainability information, as well as the description of the ICSFR and ICSSR, are formally carried out every year. Also, monthly reviews are performed, with the main objective of guaranteeing both the quality of the financial information reflected in the financial statements and the quality of the sustainability information reflected in the sustainability report.

In the ICSFR, in the aforesaid review process, those in charge of the Sub-department of Financial Administration, the Sub-department of Management Control, the Sub-department of Finance and the Sub-department of IT systems, as well as the corresponding areas within each sub-department, review and validate the reliability of the financial information prepared on their areas of responsibility.

In the ICSSR, also in this review process, the heads of the Studies and Programmes Sub-department, as well as other Sub-departments and Areas involved, review and validate the reliability of the sustainability reports prepared under their responsibility.

In line with the ICSFR scope matrix, the Finance and Business Development Department launched the internal control documentation commencing with the processes/sub-processes that cover different types of transactions that could have a material impact on the financial statements, which have been identified as key processes in Spain and cover more than 70% of the line items in the consolidated financial statements. In addition, it was determined necessary to document a process based on qualitative risk factors.

Below is a table showing the number of control tests launched in 2022 in each of the Canal Group companies with ICSFR and ICSSR implemented:

COMPANY	No. of design tests	No. of effectiveness tests	Total Test
CANAL "business"	126	391	517
CANAL "IT"	78	107	185
CANAL GESTIÓN LANZAROTE	118	336	454
CANAL EXTENSIA AMERIKA, S.A.	37	110	147
EMISSAO	13	43	56
AAA DOMINICANA	14	56	70
AMERIKA	15	53	68
AMAGUA	15	55	70
ASAA	17	44	61
COSO - ICSFR	17	17	34
TOTAL	450	1,212	1,662

The total number of tests conducted in 2023, under the ICSFR, in the aforementioned companies amounted to 1,644.

This information includes high-level descriptions of key processes/sub-processes for financial reporting:

- Accounting close, which includes the key controls related to relevant judgements, estimates and projections.
- Consolidation and reporting
- Budgets
- Asset management
- Cash
- Tax management
- Invoicing and collection
- Contracting, supplies and payments
- Salaries and social securities
- Preparation of Financial Statements

With regard to the ICSSR, the table below shows the total number of tests conducted in 2023, under the documented process (Sustainability reporting):

	No. of design tests	No. of effectiveness tests	Total Test
Preparation of sustainability report	25	61	86

Canal de Isabel II, S.A. has implemented the internal control management tool (SAP GRC) which serves to report and store the documentation, with a view to improving process effectiveness. This tool makes it easier to obtain, evaluate and review the information, as well as improving the organisation's control environment. SAP GRC shall contribute to a more robust control environment, easing the review and updating of documentation of procedures, the self-assessment of control effectiveness and the follow up of the stage of completion of action plans, through a more efficient assignment of responsibilities for performing controls.

Furthermore, since 2019, Canal, along with other leading companies, is taking part in the collaborative space for the internal control over financial reporting (CSICSFR) system to pool experiences, know-how and best practices in connection with ICSFR.

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.

### E.3.2. Internal control over financial reporting system policies and procedures (including access security, monitoring changes, how changes are made, operating continuity and segregation of duties) which support the entity's relevant processes for the preparation and publication of financial information.

The control activities operating in the IT systems for the critical processes associated with the preparation and publication of the financial information of Canal, as defined in the Company's ICSFR, have been identified. Specifically, a series of policies and actions that focus on the following aspects have been designed and implemented:

- Information Security - policy and function
- Management of weaknesses and security incidents
- Security of access to information systems
- Security in contracting and use of cloud services
- Separation of functions
- Management of software and infrastructure modifications
- Project management
- Secure software development
- Operations management
- Business Continuity

A set of controls aimed at providing reasonable assurance as to the reliability of the financial information has been defined as part of these activities. Design and effectiveness tests have been carried out throughout the year.

#### Information security policy and function

Canal has an Information Security Policy in place, approved by the Board of Directors on 23 February 2023 and published on the corporate Intranet.

In addition, in order to increase employees' awareness and cybersecurity actions, security recommendations and information alerts have been disseminated during periods of known malware distribution campaigns, a cybersecurity training has been given to all Canal employees and this training has been included in the welcome pack for new recruits.

Special attention has been paid to the prevention of phishing through the implementation of three campaigns aimed at all users, and the subsequent development of informative content to all users who were involved in the various campaigns

Following the Operating Technology Security Master Plan (OTSMP), developed throughout 2020, identifying the information security risks for the various types of facilities for comprehensive water cycle operations. Based on this diagnosis, the policies, organisation and securing programmes of Operating Technology (OT) were established. In relation to the PDSOT, in 2021 the Action Plans identified in the project SUSTRATO of the Innovation and Engineering Department were mapped, through which these action plans will be implemented in 2022-2023, being planned as tasks in Action 3.3.4 of Plan 3.3 of Strategic Line 3.

During 2021, a study of Canal's compliance with the requirements of the National Security Scheme (ENS) was conducted, resulting in the advice to take a series of actions at an organisational level, personnel regulations, IT equipment regulations, computer application development regulations, electronic signature regulations and document cleaning (metadata). An update of this study was carried out in 2023 for compliance with Royal Decree 311/2022 of 3 May, regulating the National Security Framework (ENS).



In 2021, the Centralised Electronic Signature project was launched to comply with the Electronic Signature Regulations identified within the requirements of the ENS. Throughout 2022, the Centralised Electronic Signature project was implemented, with Canal de Isabel II, S.A. being constituted as a delegated Registration Authority (RA), with the appointment of the relevant registration officers, defining an Electronic Signature and Certificate Policy in accordance with the ENS, replacing with a final nature the previous local certificates with the new high level qualified centralised certificates for Civil Servants, Representative and Seal, which are much more secure as they use a second authentication factor for the signature, allow the authorised delegation of the signature, have audit capabilities for the use of certificates (which certificate and where), etc. The Portafirmas (with all the previously existing signature circuits) and Self-Service of Portafirmas functionalities have also been fully configured and are ready to be implemented.

In 2023, all information assets were updated, their assessment in the dimensions of Accessibility, Confidentiality, Integrity, Availability and Auditability (ACIAA) by the respective owners/controllers of the information and their classification, as set out in the General Procedure for the Classification and Secure Treatment of Information (PGS-0001). In 2022, work began on the implementation of the project SISTRATO to increase cybersecurity in the operational processes and OT technology in the various plants, facilities and workplaces. In connection with this point, a specific risk analysis of all information assets and infrastructures of the current Security Systems Area has also been carried out, using an industrial security solution with the capacity to identify assets, their possible vulnerabilities, identify risks and prioritise remediation actions.

Also during 2023, three phishing campaigns have been carried out to all employees of Canal de Isabel II, S.A., M.P. resulting, among others related to training and awareness, in the implementation of three security measures aimed at increasing Canal's security

- Corporate branding has been applied to the Office 365 authentication and MFA screens to reduce the risk of phishing.
- In the Outlook client, a button has been enabled for all users to report emails identified as possibly malicious, for review by both the Cybersecurity team and Microsoft.
- The external mail warning banner has been updated, so that the user's level of attention to mail from outside Canal is not reduced.
- The Microsoft defender for Office protection module has been activated to protect against phishing and malware attacks and protect beyond email, including Office365 collaboration tools.

#### Management of weaknesses and security incidents

The IT systems are updated periodically whenever the various software manufacturers issue notifications that periodic software patches and security updates are available. Likewise, weaknesses reported by these manufacturers or official and non-official lists of distribution of threat intelligence are taken into account.

In 2019, Canal de Isabel II S.A. was designated an essential operator in accordance with Royal Decree-Law 12/2018, of 7 September, concerning the security of information networks and systems, and reports security incidents to the Information Security Incident Response unit of the National Cryptological Centre (CCN-CERT), as indicated in the National Guide for the Notification and Management of Cyber-incidents. In 2019, SAT-INET probe was installed to enable the CCN to monitor the systems exposed to Internet. The monitoring stipulated in the collaboration agreement signed in 2014 with INCIBE and CNPIC to manage cyber-incidents remains in operation.

In 2019, two cyber-incidents were reported to CCN-CERT which did not have an impact on the information systems of Canal de Isabel II S.A. and which were resolved using the Company's own resources. No cyber incidents were reported to CCN-CERT in 2021.

Furthermore, Canal de Isabel II S.A. has outsourced an information Security Operating Centre (SOC) which analyses all events from the integrated sources in order to detect and identify potential threats and launch necessary processes for containment and remediation. This SOC also warns Canal's cybersecurity teams in connection with vulnerabilities or malware or phishing campaigns in order to take the necessary preventive and remedial measures.

In 2020 the General Security Procedure PGS-0005 , was established and approved, defining the complete cycle of integrated management of security-related cyber-incidents.

The renewal of the Technical Security Office (TOS) and Security Operations Centre (SOC) service started at the end of 2021.

In 2022, the renewal of the Security Operations Centre (SOC) and the Technical Security Office (TSO) service was signed through the Cyber Defence Centre. This new contract will allow not only to continue with the services already provided, but also to increase their volume, as well as to have additional resources to be able to face major challenges such as the necessary tasks of adaptation to the security requirements set out in Royal Decree 311/2022, of 3 May, which regulates the National Security Scheme (hereinafter, ENS), to ensure compliance by Canal de Isabel II, S.A. before 3 May 2024, the design of dashboards for senior management, the implementation of new security services (e.g. early detection of possible intrusions), continuing with the integration of security event sources in the SIEM, having a dedicated team for the Threat Hunting function, etc.

As part of the Risk Management System (RMS) Cyber-attack Corporate Risk is defined and managed.

During 2023, 20 security audits of both internal applications and applications published on the Internet were carried out.

### Security of access to information systems

Several measures at different levels have been defined to prevent unauthorised access to data and software.

Canal has its main DPC in Madrid and a back-up centre in Majadahonda to ensure that IT systems would be available in the event of any contingency. The Company's Infrastructure Security Area, reporting to the Security Department, has installed access control systems at these facilities that only allow access by authorised personnel and record all entries.

On a logical level, the Company has authorisation procedures for access to software and systems which are managed by business managers, for both internal and external personnel, implemented via the Access requests and permissions management tool. Authentication is carried out by applying a policy of complex passwords. Remote access control implements a multi-factor authentication (MFA) system.

In 2019, the Company commenced implementation of a multi-factor authentication system in the access to corporate e-mail and corporate storage on the Microsoft Office 365 platform, which became fully implemented in 2020. In 2021, this authentication mechanism was incorporated into the corporate remote access system.

In 2020, a Technical Instruction (IT-0578) was developed and approved which defines the risks associated with contracting and using cloud services and the necessary security controls for their management. This technical instruction is used as minimum security requirements for possible cloud service providers.

In 2020, a standard for access to the information system was established, defining the functions and responsibilities of the various parties intervening in the process and which includes the periodic review process by the persons responsible for the business of the applications of users having access to them.

An additional web application firewall (WAF) security layer was implemented in 2021 for 5 applications with external access. A fraud protection service was also activated in the remote access system.

In 2022, in collaboration with the Coordination of Network and Access Services, work continued to increase the security of the web pages published on the Internet by incorporating them into the Advanced Web Application Firewall (AWAF) system, increase from 5 to 6 protected applications (blocking mode) and 3 currently being monitored (transparent mode), to be put into production during the first months of 2023.

In 2022, the IT Infrastructure Area also began the process of installing the corporate EDR solution on Windows servers as a complement to the anti-malware solution already available, thereby increasing the protection of these environments.

Also in 2022, together with the Coordination of Network and Access Services, a new Technical Instruction (IT-0594) was created and approved for the implementation of compliance policies in the corporate solution for access control to the corporate data network, through a compliance matrix and communication flows

in cases of detection of unidentified equipment or equipment that does not comply with the established security policies (non-compliance), for its rapid resolution.

Likewise, in 2022, the multi-factor authentication (MFA) system provided by Office 365 was integrated into all remote accesses to Canal de Isabel II, S.A.'s systems, including those of external personnel, thus increasing their security. In addition, Office 365 security events have been integrated into the SIEM service managed within the SOC, thereby increasing the capacity to monitor security events and, therefore, visibility in the event of possible cyber incidents. Work has also begun to limit remote access only to corporate laptops, identified by certificate, which will implement an additional security layer for remote employee access.

In 2022, a system was developed for the management of access to applications under the project IDENTITY on the IT request and incident management platform, which will enable the review and certification of users in the applications by the business managers of the applications

In 2023, the first review (certification) by business managers of user access to IT applications was carried out in accordance with the procedure defined in the rules for access to information systems.

In 2023, the internal network segmentation firewalls and the centralised network management policy system were implemented.

#### Separation of functions

Prior authorisations and periodic reviews are used to monitor super users by means of ICSFR T1.02.02.03. The implementation of the identity management project will also make these aspects more robust.

Segregation of duties in SAP financial reporting systems was implemented in 2022

#### Management of software and infrastructure modifications

Canal, as part of the project to introduce a Service Desk system, defined a procedure for the Management of Modifications, implemented in the tool, to minimise risks that could have a negative impact on the stability or integrity of the production environment.

#### Project management

With the objective of ensuring the value and quality of project deliverables and correctly assigning Project priorities and coordination of all the projects, Canal has developed and introduced a Project management methodology and a project portfolio management methodology. Likewise, it was provided with a programme and project management office.

In light of the lack of capacity of the IT team to field all the requests to the information systems, a filter has been established to orient IT resources to projects of the systems necessary for compliance with Canal's Strategic Plan, those deriving from regulatory obligations and those requested by the Management Committee.

#### Secure software development

Within the framework of the Information Security Management System, a General Security Procedure for the Secure Development of Applications (PGS-0002) was compiled, containing a full set of best practices in regard to secure coding and development, as well as a list of Technical Guides associated with said General Security Procedure as reference documentation, with the aim of it all being integrated into the development life cycle of software as a coding requirement and whose implementation will help mitigate the most common vulnerabilities of software in all the software development and implementation projects carried out by Canal. Said procedure contemplates performing security assessments in all phases of development and implementation, as well as the mandatory security audits and assessments in each of the phases. Likewise, a Continuous Integration system is in place based on standards to control the quality of software that is to be delivered to production.

For the systems, particularly those accessible from the Internet, security software audits are implemented as a preliminary step prior to their entry into service.

In 2020, implementation was consolidated of a continuous security audit system for the permanent assessment of the security of the corporate websites and applications posted online.

In 2021, PGS-0002 was updated and five secure development technical guides on particular technologies were generated: Cordova, Web, Cloud, iOS and .NET.

In 2022, the service was renewed, which will allow to continue to increase the number of assets published on the Internet to be audited on an ongoing basis, increasing from the current 10 to an estimated total of 20 during the period 2022-2025.

Through the status of compliance with the National Security Scheme by the Cybersecurity team in 2021, the need for Canal to define and approve a Secure Development Methodology through the Computer Applications Area has been identified.

In 2022, a practical analysis of all the aspects to be considered when carrying out software projects with security in mind has been carried out from the design phase of the new information system.

The security model of the application for incident, request and change management in information systems was also analysed

### Operations management

Various initiatives have been carried out to ensure that information systems are operated correctly:

- A Planner and Operations Manual provide support to the planned execution of processes.
- Systems are monitored at various levels: services and network availability, performance, user experience, process execution.
- Back-up systems and procedures are in place to guarantee the availability of information. Additionally, the safekeeping of the information is ensured through the storage of back-up tapes in an external bunker.
- Technical training on Capacity Management has been developed as a guide to the correct execution of the Capacity Management process with regard to present and future requirements.
- System users can contact a 24x7 User Service Centre if they detect any incidents.
- In 2022, a new digital user experience system has been implemented that allows proactive action to be taken when user equipment is performing poorly or to determine the use of software licences for optimisation

### Business Continuity

The Business Continuity Management System (BCMS) aims to cover the different scenarios that may affect business continuity (employees, workplaces and infrastructures, information and telecommunications systems and suppliers).

At the end of 2021, the Continuity Office was created with the main objective of Business Continuity Management. This Office was previously part of the Quality Systems Sub-department, but due to organisational changes in November 2022, it is now part of the Resources Department

Some of the duties of this Office include:

- To develop Business Continuity Policies, Framework and Methodology.
- To update the Business Continuity Model in accordance with experiences and changes and to submit these changes to the CCN for approval.
- To integrate, update and provide with cohesion the master lines that guide the development of the business continuity plan (Centre of Excellence).
- To adapt, incorporate and contrast best practices in the development of the Canal's business continuity plan.
- To draw up the schedule for the implementation of Business Continuity in Canal and follow up on it.
- To promote and manage the proper implementation of the business continuity plan.
- To perform quality control and monitoring of the business continuity plan.
- To analyse and validate the changes proposed to BCPs by the different Areas/Units of Canal.

- To advise on the definition of the testing field and scope of the business continuity plan
- To analyse the results of the BCP tests (partial and total).
- Develop internal, corporate communication and awareness-raising plans.
- To conduct training and coaching in the field of the business continuity plan (BCP).
- To maintain an adequate level of information and knowledge on Business Continuity developments and trends, through sources of information, both external and internal to the Organisation.
- To keep track of possible updates in current legislation.

In 2022, the Business Impact Analysis (BIA, as it is commonly known) of all the organisation's processes were updated. This analysis looks at the criticality of the processes, as well as the resources needed (People, ICT, Locations and Suppliers) so that they can continue to operate, should a contingency occur.

As a consequence of the update above, the Recovery Strategies, which identify the different alternatives to be used depending on the scenario, and the Recovery Procedures, which indicate the procedures to be used in each scenario affecting the critical processes previously identified in the BIA, have also been updated.

Also due to the update above, the documents that make up the Business Continuity Management System (BCMS) have been updated:

- Test Plan.
- Training Plan.
- Crisis Management Plan and Manual.
- Business Continuity Governance Framework.
- Update Plan.

Within the 2022 test plan, a total of 12 tests were carried out, where the following scenarios were worked out:

- Buildings (Building 4, Laboratory Building, Plaza Castilla Building, José Abascal 10 Building, Majadahonda Complex)
- Facilities (DWTP Colmenar).
- ICT (Information and Communication Technology) (Majadahonda Complex, Majadahonda DPC Crisis, NOVATA).
- Suppliers (DWTP Reagent, DWTP Electricity Supply, Commercial Service Provider).
- People (Treatment Personal Communication, Laboratory Personal Communication).

A first version of the Continuity of Operations Plans (COOP) was also drafted jointly with all the heads of all the areas with critical processes, aiming for each area to define its own recovery procedures for critical situations.

- During the first quarter of 2023, a new Crisis Management Plan was drafted at the request of the Appointments and Remuneration Committee (ARC), which aims to define the phases, actions to be taken and escalation criteria (incidence, contingency and crisis), as well as the associated roles and responsibilities for responding to a disruptive event.
- A Business Continuity Plan (BCP) was also drafted, the objective of which is to define the steps to be taken in the event of a crisis scenario caused by an unavailability that could affect the business continuity of Canal's critical processes, so that it can continue to carry out its activities at an acceptable level, minimising the impact on the service provided

Last September 2023, an assessment of the current Business Continuity Management System (BCMS) was carried out, following the recommendations of the Appointments and Remuneration Committee (ARC), which revealed an extension of the scope of the current system, including the Sanitation processes. The current system only covered Supply processes. As a result of this assessment, an action plan has been drafted, which will be implemented in 2024. This month also saw the approval of the Service Continuity Policy, which reflects the Canal Management's commitment to ensure service continuity in the face of different threats, as well as the different principles on which this Policy is based and which constitute a framework for developing more specific objectives in the short and medium term.

With regard to the tests carried out under the annual test plan, in total 13 tests were carried out, in which the following unavailability scenarios were worked on:

- DWTP facilities
- Conservation Buildings
- Peripheral Laboratories
- IT (failure in the air-conditioning of the CPD Santa Engracia)

### **E.3.3. Internal control policies and procedures to supervise management of activities outsourced to third parties, as well as issues related to evaluation, calculation or valuation which are entrusted to independent experts and which may have a material impact on the financial statements.**

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

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

In 2023, the operation of wastewater treatment plants, an activity carried out in annual periods by the Canal de Isabel II, S.A. Operations Department continues to be one of the significant activities outsourced to third parties in Spain with an impact on the financial statements.

Canal ensures the technical capacity and competence of the subcontractor and the Company has introduced controls to validate the reasonableness of readings:

## **E.4 Information and communication**

### **E.4.1. A specific area responsible for defining and updating accounting policies (accounting policies area or department) and resolving queries or disputes arising from their interpretation, maintaining fluid communications with those responsible for operations in the organisation, and an up-to-date accounting policies manual that is distributed to the units through which the entity operates.**

The Sub-department of Financial Administration, which reports directly to the Finance and Business Development Manager, is responsible for defining and updating accounting policies, as well as resolving queries or disputes arising from their interpretation. The Sub-department maintains fluid communications with the organisation's operations managers and, particularly, with those in charge of accounting duties.

The Sub-department of Financial Administration is also responsible for editing and distributing appropriately the Group's Accounting Practices Manual. The purpose of this manual is to establish the principles, bases, conventions, rules and specific practices in relation to the recognition of certain specific financial transactions carried out as part of the Group's activity. The accounting practices manual is updated every year.

Any standards identified as having an impact on the Group's accounting policies are included in the manual at the end of the year. The latest version, dated December 2021 was distributed to all the Group's control departments in January 2024.

#### **E.4.2. Mechanisms to capture and prepare financial information in standard formats, applied and used in all units within the entity or group, which support the main financial statements and accompanying notes as well as disclosures concerning ICSFR.**

The mechanism to capture and prepare the information that supports the Canal de Isabel II Group's principal financial statements is mainly based on use of the SAP Business Planning and Consolidation (BPC) tool, which can be accessed from anywhere in the world and has been rolled out to the entire Group.

A large part of the information that supports the disclosures in and notes to the financial statements is included in the consolidation tool. The remainder is captured from standard format worksheets that are prepared for the yearly closes.

### **E.5 Supervision of system operation**

#### **E.5.1. The ICSFR monitoring activities carried out by the Audit Committee. Internal audit function, the responsibilities of which include supporting the committee in its monitoring of the internal control system, including ICSFR. Scope of the assessment of ICSFR in the year and the process by which the person responsible for conducting the evaluation reports the results, action plan detailing any corrective measures, and its impact on financial reporting.**

As established in Article 19 of the Articles of Association, "The Company shall have an Audit Committee, which shall be of an internal, consultative and informative nature and shall be composed of at least three directors, appointed by the Board of Directors. The Committee shall comprise exclusively non-executive directors, the majority of which, at least, must be independent directors and one, at least, must be appointed considering his or her knowledge and experience of accountancy and/or auditing."

The Audit Committee meets with the frequency determined and whenever the Chair or two of its members call(s) a meeting. During 2023, 14 meetings were held by the Audit Committee.

Any member of the management team or Company personnel shall attend meetings of the Committee and provide cooperation and access to the information available to them whenever required.

The Audit Committee is currently comprised of three independent directors and two proprietary directors.

The Committee provides support to the board of directors with regard to their oversight duties, by periodically reviewing the process for preparing financial/economic information, the Company's internal control procedures and the independence of the external auditor.

The duties of the Audit Committee are listed in section B.1 of this report.

In 2023, the first meeting of the Audit Committee was held on 19 January 2023, and the last on 14 December 2023.

To perform its duties, the Audit Committee relies on the information and documentation provided by the Finance and Business Development Department, the Internal Audit, Risk and Control Sub-department, the Compliance Unit and the General Technical Secretariat, among others.

Based on the constitution of the Audit Committee and the meetings thereof, a matter is included on the agenda of the Board of Directors, informing of the various items discussed in each of its meetings and of the resolutions adopted.

#### **E.5.2. Discussion process is in place whereby the auditor (in accordance with the provisions of the Technical Standards on Auditing), the Internal Audit Department and other experts may inform senior management and the Audit Committee or directors of the entity of significant internal control weaknesses identified during the review of the annual accounts or any other processes assigned to them. Action plan to correct or mitigate the weaknesses found.**



In accordance with the provisions of Technical Guide 3/2017 on Audit Committees at Public- Interest Entities, the Audit Committee must establish a channel for effective and frequent communication with its usual points of contact, including:

- the management of the entity, especially directorate general and financial management;
- the officer or unit responsible for internal audit;
- the main auditor responsible for statutory audit as defined by Law on the Auditing of Accounts.

The Finance and Business Development Department reports financial information to the Audit Committee, ensuring the transparency and accuracy of the information and describing the internal control systems and accounting criteria applied.

It also informs on the main accounting procedures and processes used in the preparation of the economic/financial information and the financial statements with regard to the main risks and contingencies and the provisions that cover these.

The Internal Audit Department periodically presents to the Audit Committee, among other documents:

- Internal Audit Plan for the Committee's information, approval and /or modification, if appropriate.
- The stage of completion of the Audit Plan, together with the main conclusions and recommendations included in Internal Audit reports.
- The level of implementation by the organisational units audited of the guidelines agreed in the audit reports.

Lastly, the external auditor communicates any control weaknesses found during the audit to the Audit Committee and attends an Audit Committee meeting at least once a year and whenever his/her presence is required.

Specifically, the external auditor appeared before the Audit Committee four times during 2023.

## **F** OTHER INFORMATION OF INTEREST

Canal de Isabel II, S.A., within the framework of its 2018-2030 Strategic Plan, drew up a Plan to improve the good governance of the company and strengthen internal control, which was based on the Good Governance Code of Listed Companies approved by the National Securities Market Commission (hereinafter, the "GGC").

Regarding compliance by Canal de Isabel II, S.A. with the recommendations of the Good Governance Code of Listed Companies, many of them are not applicable in practice, as it is an unlisted company, since its shares are not traded on official markets, and as it is a fully publicly owned company. On other occasions, the factual situation resulting in the applicability of certain recommendations has not occurred. In particular, Canal de Isabel II, S.A. complies with the following recommendations from among those contained in the GGC:

- During the Annual General Meeting, the Chair of the Board of Directors verbally informs the shareholders of the most relevant aspects of the Company's corporate governance.
- The Company publishes the operating reports of the specialised committees of the Board of Directors on its website.
- The Audit Committee ensures that the financial statements presented by the Board of Directors at the General Meeting are drawn up in accordance with accounting standards. In addition, at the Annual General Meeting, the Chair of the Audit Committee explains the Committee's opinion on the exceptions expressed by the auditor.
- The Board of Directors performs its duties with unity of purpose and independence of judgement, treats all shareholders in the same position equally and acts based on corporate interest. In the pursuit of corporate interest, in addition to compliance with laws and regulations and a behaviour based on good faith, ethics and respect for generally accepted customs and good practices, it seeks to reconcile its own corporate interest with, as appropriate, the legitimate interests of its employees, its suppliers, its customers and other stakeholders that may be affected, as well as with the impact of the company's activities on the community as a whole and on the environment.
- The Board of Directors currently comprises 15 directors, the adequate number for effective and participatory functioning, .



- External directors constitute a large majority in the Board and the number of executive directors is the minimum necessary.
- The percentage of proprietary directors out of the total number of non-executive directors is not greater than the proportion between the share capital of the Company represented by such directors and the rest of the share capital.
- The Company, which has a shareholder owning more than 30% of the share capital, has a number of independent directors representing more than one third of the total number of directors. At present, independent directors represent 46.67 % of the total number of members of the Board of Directors.
- The company publishes and updates information on its directors on its website.
- The Board of Directors has not proposed the removal of any independent director before the expiry of the statutory period of their appointment.
- The Company has established rules obliging directors to report and, where appropriate, to resign when situations affecting them arise, whether or not related to their performance in the Company itself, which may damage the Company's credit and reputation. Directors are also obliged to inform the Board of Directors of any criminal proceedings in which they are under investigation, as well as of the progress of the proceedings.
- Directors may clearly express their opposition when they consider that any proposal submitted to the Board of Directors may be contrary to the corporate interest.
- Every time a director has resigned from office before its expiry date, said director has sufficiently explained the reasons for his resignation in a letter sent to all members of the Board of Directors and the Company has published the resignation, including sufficient reference to the reasons or circumstances provided by the director.
- The Appointments and Remuneration Committee has analysed the availability of time of the candidates for non-executive directors for the proper performance of their duties. The Board Regulations set forth the maximum number of company boards on which directors may serve.
- The Board of Directors meets as often as necessary to carry out its roles effectively. During the financial year 2023, the Board held thirteen meetings, all in accordance with the schedule established at the beginning of the year.
- The absence of directors at meetings has been reduced to unavoidable cases and, in all cases, a proxy has been granted.
- When any of the directors or the Secretary have expressed concerns about any matter and such concerns have not been resolved by the Board of Directors, they have been recorded in the minutes.
- The Company has established the appropriate channels for directors to obtain the necessary advice for the performance of their duties, including, where appropriate, external advice at the Company's expense.
- The Company has provided Directors with refresher training programmes and a Directors' training and refresher training plan has been approved and implemented.
- The agendas of Board meetings clearly indicate those points on which the Board of Directors must adopt a decision or resolution, so that the directors may study or obtain, in advance, the information necessary for its adoption.
- The Chair, as the person responsible for the effective functioning of the Board of Directors, in addition to statutory and legal duties, prepares and submits a schedule of dates to the Board, organises and coordinates the regular evaluation of the Board, is responsible for managing the Board and for the effectiveness of its functioning and ensures that sufficient discussion time is devoted to strategic matters.
- The Secretary of the Board takes special care to ensure that the Board takes into account in its actions and decisions the recommendations on good governance applicable to the Company.
- An assessment process by the Board of Directors of the functioning of the Board itself and its specialised committees has been conducted.
- The Board of Directors has adopted an action plan to correct the deficiencies identified.
- The members of the Audit Committee, and in particular its Chair, have been appointed on the basis of their knowledge and expertise in accounting, auditing or risk management. In addition, the majority of the members of this Committee are independent directors.
- Canal de Isabel II, S.A. has a unit that, under the supervision of the Audit Committee, is in charge of the internal audit function and that reports functionally to the Audit Committee. Internal Audit is an independent and objective assurance and consulting activity designed to add value and improve the organisation's operations. It helps the organisation to meet its objectives by providing a systematic and disciplined approach to assessing and improving the effectiveness of risk management, control and governance processes.
- The person in charge of the internal audit function submits its annual work plan to the Audit Committee for approval and reports directly to it on its performance, including any incidents and limitations to the scope of its implementation that may arise, the results and follow-up of its recommendations, and submits an activity report to it at the end of each year.

- The Audit Committee performs, in relation to internal control and information systems and in relation to the external auditor, the duties listed in Recommendation 42 of the GGC.
- The Audit Committee may summon any employee or manager of Canal de Isabel II and order them to appear without the presence of any other manager.
- The Audit Committee is informed of the structural and corporate changes planned by the company for prior analysis and report to the Board of Directors on their financial conditions and accounting impact.
- Supervision of compliance with internal codes of conduct is the responsibility of the Audit Committee.
- The Company's risk management considers and identifies the elements covered by Recommendation 45 of the GGC.
- The Company has established an internal risk control and management function, under the direct supervision of the Audit Committee.
- The members of the Appointments and Remuneration Committee are elected with a view to ensuring that they have the knowledge, skills and expertise appropriate to the duties of the Committee. The majority of the members of this Committee are independent directors.
- The Appointments and Remuneration Committee performs the duties listed in Recommendation 50 of the GGC as applicable to Canal de Isabel II, S.A.
- The Appointments and Remuneration Committee refers to the CEO of the Company on matters relating to senior management.
- A Sustainability Committee has been set up to monitor compliance with the company's environmental, social and corporate governance policies and rules. This Committee is comprised solely of non-executive directors, the majority of whom are independent.
- The Board of Directors has approved a Sustainability Policy that sets out the key aspects listed in Recommendation 55 of the GGC.
- Variable compensation linked to the Company's performance and personal performance is limited to executive directors. Furthermore, the payment of variable components of compensation is subject to sufficient verification that the performance or other conditions set in advance have been effectively fulfilled, with the possibility for the Company to claim repayment of the variable components of compensation when the circumstances provided in Recommendation 63 of the GGC are met. The recommendations on termination payments are also complied with.

As for the remaining recommendations contained in the GGC that may be applicable, most of them are in the process of being fulfilled, within the framework of the objectives set by the Strategic Plan 2018-2030 of Canal de Isabel II, S.A.

The Corporate Tax Policy of Canal de Isabel II, S.A, M.P., the Procedure for Reporting Investments or Transactions of Special Tax Significance and the adherence to the Code of Best Tax Practices (CBTP) were approved at the meeting of the Board of Directors held on 28 September 2023.

Adherence to the CBTP took place through the communication received on 23 October 2023 from the Technical Secretariat of the Large Business Forum, at the request of the State Tax Administration Agency, that it had been included in the list of entities adhering to the Code of Best Tax Practices.

Canal de Isabel II, S.A., in accordance with the provisions of sections 1 and 2 of the Code of Best Tax Practices, as well as sections 3 and 4 of its Corporate Tax Policy, informs that it has complied with the contents of said code from its approval.

PREPARATION

2023

## SIGNATURE CERTIFICATION FOR THE PREPARATION OF THE FINANCIAL STATEMENTS AND DIRECTORS' REPORT FOR THE FINANCIAL YEAR 2023

The Directors of Canal de Isabel II, Sociedad Anónima, M.P. at 21 March 2024 and pursuant to the requirements established in Article 253.2 of the Revised Text of the Corporate Enterprises Law and in Article 37 of the Spanish Commercial Code, have prepared the Financial Statements and the Directors' Report for the financial year from 01 January 2023 to 31 December 2023.

Mr Carlos Novillo Piris Chair of the Board of Directors	
Mr Mariano González Sáez Vice-Chair 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	Public Entity Canal de Isabel II (represented by Mr Rafael García González) Director
Mr Pablo Cristóbal Mayoral Director	Ms Judith Piquet Flores Director



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