FitchRatings

Corporates
Water/Wastewater Utility
Spain

Canal de Isabel II, S.A.

Ratings

Rating Type	Rating	Outlook	Last Rating Action
Long-Term IDR	BBB+	Stable	Affirmed 6 Nov 2019
Standalone Credit Profile	bbb+		Affirmed 6 Nov 2019

Click here for full list of ratings

Applicable Criteria

Government-Related Entities Rating Criteria (November 2019)

Corporate Rating Criteria (February 2019)

Parent and Subsidiary Rating Linkage (September 2019)

Corporates Notching and Recovery Ratings Criteria (October 2019)

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The affirmation of Canal de Isabel II, S.A.'s ratings reflects its low-risk business profile, with the majority of earnings generated by its regulated activities as a regional monopoly asset operator and provider of water and sewerage services under long-term concession agreements. It also reflects our assumption of the resumption of tariff increases from 2021 and the company's decision to reinstate dividend distributions in mid-2019, which in Fitch Ratings' view leads to a less conservative liquidity policy than European peers.

In addition, the company's strong fixed-charge cover and low leverage compared with our negative rating sensitivities supports the ratings.

The ratings take into account the loss of control and deconsolidation of its main operating company in Colombia, Triple A Barranquilla (Triple A), the postponement of divestment of Canal's interests outside the Madrid region and the company's ability to satisfy the total cash demand in the remote scenario of the full redemption of the EUR500 million notes. We expect the latter to remain in technical event of default (EoD) for an extended period.

The Stable Outlook mirrors that on its ultimate parent, the Autonomous Community of Madrid (BBB/Stable) and reflects the overall stable regulatory and contractual framework for water concessions in Spain, and the maintained financial and dividend policy.

Key Rating Drivers

Strong Credit Profile: Canal's strong credit profile is underpinned by its adequate financial profile and low business risk stemming from stability and good visibility of revenue generated through a 50-year water concession agreement in Madrid's region that expires in 2062. In 2019, we expect EBITDA of about EUR450 million (97% of total) from the regulated activities in Spain, 1% generated from regulated activities in Latin America, and the remaining 2% from non-regulated ancillary services.

Tariff Increase Is not Straightforward: Canal's management plans to propose a an above-inflation tariff increase in 2020 to the Community of Madrid, which is based on higher operating costs as a result of the implementation of the strategic plan and because tariffs have not increased since 2016. The proposed increase will include the impact of higher wages, chemical supplies costs and research, development and maintenance costs.

In our view, there is a degree of uncertainty about whether the proposed tariffs increases will be approved as proposed by Canal and if they will become effective in 2020, given the delay in the appointment of Canal's board of directors and the extended approval process involving different public stances for the Decreto de Tarifas Maximas. However, Canal has a good record of tariffs being approved as proposed by the company, thus we only assume a delay of one year for the approval relative to management's assumptions.

Dividend Payments Reinstated: We forecast an increase in funds from operations (FFO) adjusted for dividends net leverage to 3.4x in 2019 from 1.2x in 2018. This is due to the payment of EUR302 million of dividends that includes 2019's interim payment (EUR129 million) in addition to postponed dividends from 2017 and 2018 (EUR173 million). We view Canal's board of directors' decision to reinstate dividend payments in May 2019 as evidence of a shareholder-friendly management strategy.

We assume a normalised calendar of dividend payments. Historically, dividends have not been fully discretionary for Canal and we consequently classify them as being above funds from operations. This approach is supported by the company's recent decision to resume dividend payment.

Ample Leverage Headroom: We expect leverage to decline to around 2.0x by 2023 from the peak of 3.5x forecast for 2019, affording the company ample headroom compared with our negative rating sensitivity of 5.0x. This is based on our assumptions of normalised dividend distributions from 2020, resumption of tariff increases from 2021, limited proceeds from the disposal of real estate properties in Madrid and the postponement of disposals of all overseas interests and concessions outside the Madrid region (Caceres and Lanzarote).

In addition, we forecast average fixed-charge coverage of 9.1x for 2019-2023, which is well above the negative sensitivity of 4.0x.

Capex Flexibility Retained: Total capex of EUR1.3 billion to 2023 is due to new infrastructure (50%) and maintenance and network improvement (50%). We expect capex intensity (capex/revenue) to grow gradually to an average of 23% in 2019-2023 (from 17% in 2015-2018) due to the increased focus on maintenance and works related to the improvement of the distribution and sewage networks.

Overall, we believe that there is flexibility given that the company decides the level of spending based on its expectations for return on investment, and as investments needed to fulfil EU directives largely related to water treatment are already completed.

Divestment Plan Postponed: Canal's updated business plan to 2023 no longer contemplates the divestment of all overseas interests and concessions outside the Madrid region. Fitch's rating case assumes the postponement of the disposals to beyond 2023, as investigations into fraud allegations could affect market interest and execution. We assume limited cash proceeds for the sale of the real estate property in Madrid. In the absence of material cash proceeds from divestments, we do not see further deleveraging through to 2023.

Lengthy Technical EoD Process: We expect Canal's EUR500 million bond to remain in a technical EoD over the medium term, given that management's actions to resolve the issue have not been fruitful and we envisage little incentive from bondholders to request full redemption of bonds in their possession in the interest rate environment. Consequently, we have not assumed any cash needs arising from a potential bond repayment (none incurred so far) in our rating case, although we will continue to monitor the situation.

Full Redemption Unlikely: We see full redemption of the bond as a remote scenario and therefore it is not our rating case. However, we believe that Canal's liquidity position is adequate to cover a moderate bond redemption scenario (i.e. above 20% or EUR100 million) and that it would have the ability to ultimately raise sufficient funds to repay the bond in whole, if necessary, ahead of its maturity.

This is supported by our view of Canal's long and well-established relationships with banks, low business risk, a low leveraged capital structure, the fairly low amount of financing needed, a highly cash-generative business and flexibility around capex and dividends, although only temporarily for the latter. There has been no communication from the bondholders, commissioner or any individual request to prepay the bonds.

Parent Linkage Constrains Rating Upside: Canal's IDR represents its Standalone Credit Profile (SCP), which we view as stronger than that of its ultimate parent, the Community of Madrid. In June 2019, we revised Canal's SCP to 'bbb+' from 'a-' as a result of the decisions taken by the board of directors and management to reinstate dividend payments and adopt a less conservative liquidity policy.

Fitch assesses Canal's links with Madrid as weak under our criteria. Combined with the existence of internal targets (agreed financial targets and maximum dividend pay-outs) that restrict cash extraction from Canal, this gives rise to a one-notch maximum differential of Canal's IDR from Madrid IDR, which constrains any rating upside for Canal.

Benign Regulation: The decentralised regulatory environment for water companies in Spain is less robust and transparent than in some other European countries. It benefits from a full-cost-pass-through tariff mechanism and legal provisions under the concession agreements that protect the value of the investment. However, we believe that there is a higher risk of political interference in tariff-setting than in many other EU jurisdictions. This is reflected in the tariff review expected for 2021, which may not fully reflect increasing costs.

Financial Summary

(EUR 000)	Dec 2017	Dec 2018	Dec 2019F	Dec 2020F	Dec 2021F	Dec 2022F
Operating EBITDA (before income from associates)	530,592	475,136	457,320	414,758	418,647	420,148
Operating EBITDA margin (%)	46.3	44.1	45.5	42.0	41.6	41.2
FFO margin (%)	29.7	40.6	14.1	23.7	25.1	26.0
FFO adjusted net leverage (x)	2.5	1.2	3.4	2.1	2.1	2.1
FFO fixed-charge coverage (x)	8.4	12.1	5.5	8.8	9.7	10.3

Source: Fitch Ratings, Fitch Solutions

Rating Derivation Relative to Peers

Canal is a water and sewage network operator, which unlike most European peers does not own its asset base. However, its investments are supported by its concession value. Canal's leverage, adjusted for dividends, is well below other peers, such as Acea SpA (BBB+/Stable), Wessex Water Services Limited (BBB+/Negative) and FCC Aqualia, S.A. (BB+/Stable). However, Canal operates in a decentralised and less developed regulatory environment than some other European countries and its Latin American operations carry higher business and political risks.

In addition, as Canal does not own its assets, it does not benefit from the one-notch uplift to the senior unsecured rating typically afforded to regulated network utilities, which reflects above-average expected recoveries in case of default. No Country Ceiling constraints affect Canal's rating.

Governance risk factors related to operational execution and governance structure are contributing factors to our credit assessment of Canal but they have not driven a rating change. The Spanish courts' investigation into previous Canal's management acquisitions in Brazil, and Colombian General Prosecutor's seizure of Triple A's shares, indicate failures in internal controls related to acquisitions and corporate governance standards, though EBITDA from Latin American operations was only about 10% of Canal's EBITDA (before deconsolidation of Triple A from September 2018).

Navigator Peer Comparison

Issuer		Business profile						Financial profile		
	IDR/Outlook	Operating Environment	Management and Corporate Governance	Sector Positioning	Regulatory Environment	Asset Base	Operations	Profitability and Cash Flow	Financial Structure	Financial Flexibility
Canal de Isabel II, S.A.	BBB+/Sta	bbb+	bbb-	bbb+	bbb	bbb	a-	bbb+	a	bbb-
Aquanet S.A.	BBB+/Sta	a-	bbb	bbb+	bbb	bbb	bbb+	bbb-	a	bbb+
Acea SpA	BBB+/Sta	bbb+	bbb+	bb+	bbb+	bbb+	bbb+	bbb	a-	a-
FCC Aqualia, S.A.	BB+/Sta	a-	bbb-	bb+	bbb-	bbb	bbb+	bbb-	bb	bbb-
Wessex Water Services Limited	BBB+/Neg	aa-	a-	bbb+	a	bbb+	a-	bbb	bbb	bbb+

Source: Fitch Ratings. Importance: Higher, Moderate, Lower

Issuer		Business profile						Financial profile		
Name	IDR/Outlook	Operating Environment	Management and Corporate Governance	Sector Positioning	Regulatory Environment	Asset Base	Operations	Profitability and Cash Flow	Financial Structure	Financial Flexibility
Canal de Isabel II, S.A.	BBB+/Sta	0.0	-2.0	0.0	-1.0	-1.0	1.0	0.0	2.0	-2.0
Aquanet S.A.	BBB+/Sta	1.0	-1.0	0.0	-1.0	-1.0	0.0	-2.0	2.0	0.0
Acea SpA	BBB+/Sta	0.0	0.0	-3.0	0.0	0.0	0.0	-1.0	1.0	1.0
FCC Aqualia, S.A.	BB+/Sta	4.0	1.0	0.0	1.0	2.0	3.0	1.0	-1.0	1.0
Wessex Water Services Limited	BBB+/Neg	4.0	1.0	0.0	2.0	0.0	1.0	-1.0	-1.0	0.0

Source: Fitch Ratings. Worse positioned than IDR; In line with IDR; Better positioned than IDR

Rating Sensitivities

Developments That May, Individually or Collectively, Lead to Positive Rating Action

- An upgrade of Madrid, together with a positive revision of the SCP, including thanks to additional liquidity facilities to cover a potential scenario of full redemption of the bond, could lead to an upgrade of Canal's IDR.

Developments That May, Individually or Collectively, Lead to Negative Rating Action

- Significantly weaker liquidity, including failure to annually roll over the committed existing revolving credit facility (RCF), especially in case of full early redemption of bonds.
- Weaker cash-flow generation leading to FFO adjusted for dividends net leverage above 5.0x and FFO fixed-charge coverage below 4.0x on a sustained basis. This may be due to a worse-than-expected operating environment, including regulatory changes or higher dividends.
- Negative rating action on Madrid could trigger the same negative rating action for Canal, provided that the strength of the links between the two continues to allow for a maximum one-notch differential (i.e. there is lack of full legal ring-fencing).

Liquidity and Debt Structure

Adequate Liquidity: Canal's liquidity position in October 2019 comprised EUR438 million cash in hand and a EUR122 million committed RCF until December 2019, which is renewed annually. This should yield estimated total available liquidity of EUR560 million (before EUR143 million of pending dividends payments). We forecast small positive free cash flow (FCF) of cumulative EUR60 million (after capex and dividend payments) for 2019 and 2020.

Debt maturities are limited to about EUR30 million annually. However, there is potential liquidity risk as the EUR500 million bond, contractually maturing in February 2025, has been classified as a current liability in the company's 2018 accounts due to the technical EoD. We see full redemption of the bond as a remote scenario and it is in not our rating case.

We assume that the RCF will roll over on a yearly basis. Canal is subject to the Madrid Budgetary Law, which requires high-level authorisation to approve long-term committed credit lines. We view Canal's liquidity position as similar to other Fitch-rated Spanish utilities, where its less sizeable long-term committed credit lines are seen in conjunction with the company's fundamental neutral-to-positive FCF.

ESG Considerations

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. ESG issues are credit neutral or have only a minimal credit impact on the entity, either due to their nature or to the way in which they are being managed by the entity.

Canal has an ESG Relevance Score of '4' for GEX Management Strategy and ESG Relevance Score of '4' for GGV Governance Structure due to the Spanish Courts' investigation into previous management's acquisitions in Brazil, and Colombian General Prosecutor's seizure of Triple A's shares, which indicate failures in internal controls related to acquisitions and corporate governance standards, although Latin America EBITDA was only 10% of the group (before deconsolidation of Triple A from September 2018). This has a negative impact on the credit profile, and is relevant to the rating in conjunction with other factors.

Liquidity and Debt Maturity Scenario with No Refinancing

Available Liquidity (EUR 000)	2019F	2020F	2021F	2022F
Beginning cash balance	351,947	326,576	339,419	273,256
Rating case FCF after acquisitions and divestitures	16,568	43,953	-36,850	-13,799
Total available liquidity (A)	**368,514**	**370,529**	**302,569**	**259,458**
Liquidity Uses				
Debt maturities	-41,938	-31,111	-29,313	-14,818
<other uses of liquidity>				
Total liquidity uses (B)	**-41,938**	**-31,111**	**-29,313**	**-14,818**
Liquidity Calculation				
Ending cash balance (A+B)	326,576	339,419	273,256	244,640
Revolver availability[a]	0	0	0	0
Ending liquidity	**326,576**	**339,419**	**273,256**	**244,640**
Liquidity score	**8.8**	**11.9**	**10.3**	**17.5**

[a] The company has EUR122m of revolver credit facilities; however, these are roll over on a yearly basis
Source: Fitch Ratings, Fitch Solutions, Company

Scheduled Debt Maturities[a]	Original
Statement date	**31 December 2018**
2019	547,802
2020	31,111
2021	29,313
2022	14,818
2023	14,818
Thereafter	182,452
Total	820,313

[a] EUR500 million bond reclassified as short-term debt in financial accounts. However, for liquidity analysis we assume the original maturity
Source: Fitch Ratings

Key Assumptions

Fitch's Key Assumptions within Our Rating Case for the Issuer

- Madrid's water tariffs frozen until 2020 and annually revised from 2021 close to CPI;
- Slightly decreasing volume of water billed over the next four years;
- Slight increase in population and customers;
- Divestments of real estate properties in Madrid at appraised value in 2021;
- Fixed costs linked to Fitch's CPI assumptions;
- Declining gross debt to EUR0.8 billion by 2022. No new debt is raised over the rating horizon;
- Annual capex of around EUR230 million on average for 2019-2023;
- About 80% dividend pay-out based on individual accounts for Canal; 2017 final dividend and the total 2018 dividend paid in 2019;
- EUR74 million of potential cost compensation/fines are paid in 2021.

Financial Data

	Historical				Forecast			
(EUR 000)	Dec 2016	Dec 2017	Dec 2018	Dec 2019F	Dec 2020F	Dec 2021F	Dec 2022F	Dec 2023F
Summary Income Statement								
Gross Revenue	1,104	1,146	1,076	1,004	988	1,006	1,019	1,050
Revenue Growth (%)	-1.5	3.8	-6.0	-6.7	-1.6	1.7	1.3	3.1
Operating EBITDA (Before Income from Associates)	490	531	475	457	415	419	420	441
Operating EBITDA Margin (%)	44.3	46.3	44.1	45.5	42.0	41.6	41.2	42.0
Operating EBITDAR	505	547	490	473	430	434	435	456
Operating EBITDAR Margin (%)	45.8	47.7	45.6	47.1	43.5	43.1	42.7	43.5
Operating EBIT	263	302	272	268	224	224	222	238
Operating EBIT Margin (%)	23.9	26.4	25.2	26.7	22.6	22.3	21.8	22.7
Gross Interest Expense	-36	-33	-28	-16	-15	-14	-13	-13
Pretax Income (Including Associate Income/Loss)	242	269	214	245	229	206	204	221
Summary Balance Sheet								
Readily Available Cash and Equivalents	99	149	352	309	316	250	220	177
Total Debt with Equity Credit	1,084	962	820	778	747	718	703	688
Total Adjusted Debt with Equity Credit	1,210	1,094	942	900	869	840	825	810
Net Debt	986	814	468	470	432	468	484	511
Summary Cash Flow Statement								
Operating EBITDA	490	531	475	457	415	419	420	441
Cash Interest Paid	-31	-29	-24	-16	-15	-14	-13	-13
Cash Tax	17	-18	-6	-1	-2	-6	-2	-2
Dividends Received Less Dividends Paid to Minorities (Inflow/(Out)flow)	-2	-1	-1	-1	-1	-1	-1	-1
Other Items Before FFO	-185	-144	-9	-298	-163	-147	-142	-140
Funds Flow from Operations	291	341	437	141	234	253	265	289
FFO Margin (%)	26.3	29.7	40.6	14.1	23.7	25.1	26.0	27.5
Change in Working Capital	-38	6	-25	9	1	0	-2	-3
Cash Flow from Operations (Fitch Defined)	252	346	412	151	235	252	263	286
Total Non-Operating/Non-Recurring Cash Flow	0	0	0					
Capital Expenditure	-204	-162	-125					
Capital Intensity (Capex/Revenue) (%)	18.5	14.2	11.6					
Common Dividends	0	0	0					
Free Cash Flow	48	184	287					
Net Acquisitions and Divestitures	-7	0	0					
Other Investing and Financing Cash Flow	10	14	5	-18	-6	1	-2	8

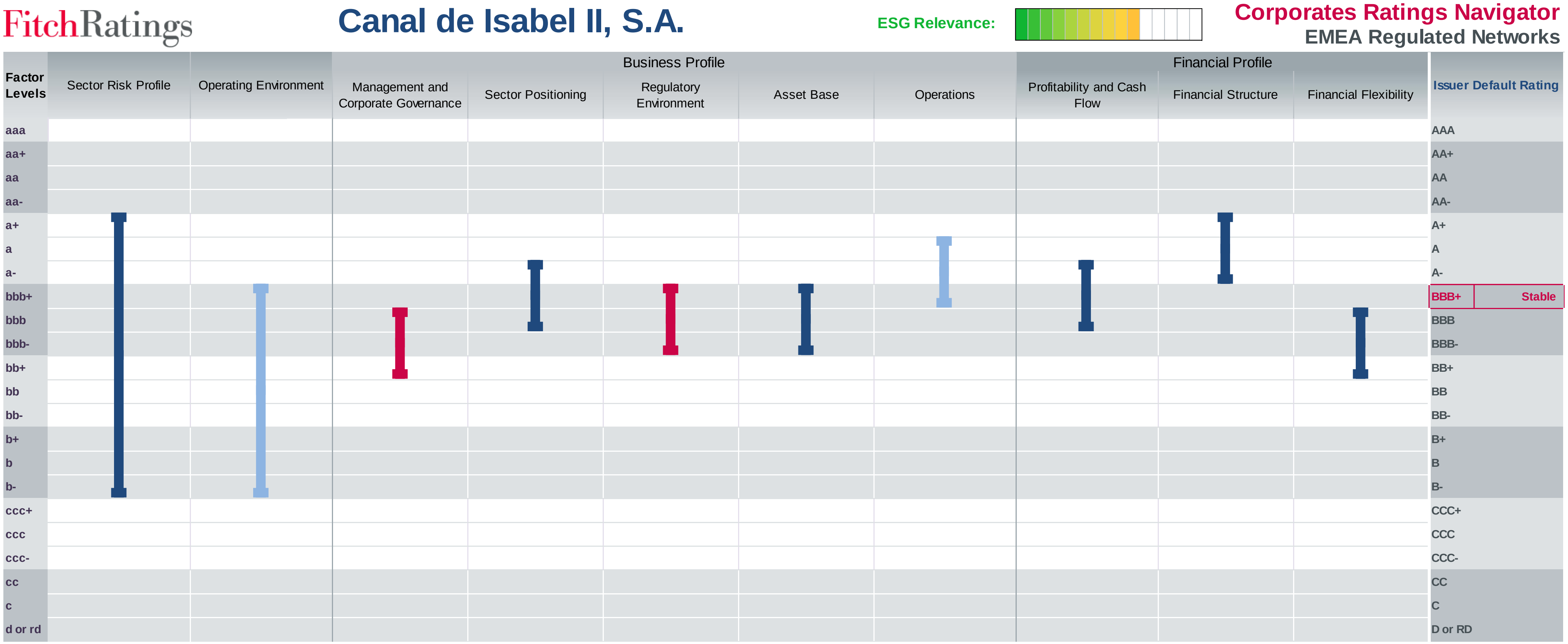
Items								
Net Debt Proceeds	-110	-147	-90	-42	-31	-29	-15	-15
Net Equity Proceeds	0	0	0	0	0	0	0	0
Total Change in Cash	-59	51	202	-43	7	-65	-31	-43
Calculations for Forecast Publication								
Capex, Dividends, Acquisitions and Other Items Before FCF	-211	-162	-125	-134	-191	-289	-277	-321
Free Cash Flow After Acquisitions and Divestitures	41	184	287	17	44	-37	-14	-36
Free Cash Flow Margin (After Net Acquisitions) (%)	3.7	16.1	26.7	1.7	4.4	-3.7	-1.4	-3.4
Coverage Ratios								
FFO Interest Coverage (x)	10.3	12.7	19.2	9.8	16.9	19.4	21.3	23.6
FFO Fixed Charge Coverage (x)	7.2	8.4	12.1	5.5	8.8	9.7	10.3	11.2
Operating EBITDAR/Interest Paid + Rents (x)	10.8	12.0	12.5	15.1	14.3	15.0	15.4	16.3
Operating EBITDA/Interest Paid (x)	15.7	18.3	19.8	28.4	28.1	30.6	32.4	34.8
Leverage Ratios								
Total Adjusted Debt/Operating EBITDAR (x)	2.4	2.0	1.9	1.9	2.0	1.9	1.9	1.8
Total Adjusted Net Debt/Operating EBITDAR (x)	2.2	1.7	1.2	1.3	1.3	1.4	1.4	1.4
Total Debt with Equity Credit/Operating EBITDA (x)	2.2	1.8	1.7	1.7	1.8	1.7	1.7	1.6
FFO Adjusted Leverage (x)	3.6	2.9	2.0	5.2	3.3	3.0	2.8	2.6
FFO Adjusted Net Leverage (x)	3.3	2.5	1.2	3.4	2.1	2.1	2.1	2.0

Source: Fitch Ratings, Fitch Solutions

How to Interpret the Forecast Presented

The forecast presented is based on Fitch Ratings' internally produced, conservative rating case forecast. It does not represent the forecast of the rated issuer. The forecast set out above is only one component used by Fitch Ratings to assign a rating or determine a rating outlook, and the information in the forecast reflects material but not exhaustive elements of Fitch Ratings' rating assumptions for the issuer's financial performance. As such, it cannot be used to establish a rating, and it should not be relied on for that purpose. Fitch Ratings' forecasts are constructed using a proprietary internal forecasting tool, which employs Fitch Ratings' own assumptions on operating and financial performance that may not reflect the assumptions that you would make. Fitch Ratings' own definitions of financial terms such as EBITDA, debt or free cash flow may differ from your own such definitions. Fitch Ratings may be granted access, from time to time, to confidential information on certain elements of the issuer's forward planning. Certain elements of such information may be omitted from this forecast, even where they are included in Fitch Ratings' own internal deliberations, where Fitch Ratings, at its sole discretion, considers the data may be potentially sensitive in a commercial, legal or regulatory context. The forecast (as with the entirety of this report) is produced strictly subject to the disclaimers set out at the end of this report. Fitch Ratings may update the forecast in future reports but assumes no responsibility to do so. Original financial statement data for historical periods is processed by Fitch Solutions on behalf of Fitch Ratings. Key financial adjustments and all financial forecasts credited to Fitch Ratings are generated by rating agency staff.

Ratings Navigator



FitchRatings

Canal de Isabel II, S.A.

Corporates Ratings Navigator
EMEA Regulated Networks

Operating Environment

a-	Economic Environment	bbb	Average combination of countries where economic value is created and where assets are located.
bbb+	Financial Access	bbb	Average combination of issuer-specific funding characteristics and the strength of the relevant local financial market.
	Systemic Governance	a	Systemic governance (eg rule of law, corruption, government effectiveness) of the issuer's country of incorporation consistent with 'a'.
b-			
ccc+			

Management and Corporate Governance

bbb+	Management Strategy	bb	Strategy generally coherent but some evidence of weak implementation.
bbb	Governance Structure	bb	Board effectiveness questionable, with few independent directors. "Key man" risk from dominant CEO or shareholder.
bbb-	Group Structure	bbb	Some group complexity leading to somewhat less transparent accounting statements. No significant related-party transactions.
bb+	Financial Transparency	bb	Financial reporting is appropriate but with some failings (eg lack of interim or segment analysis).
bb			

Sector Positioning

a	Operation Type	bbb	Local or regional monopoly asset owners, regional monopoly asset operators.
a-	Non-Regulated Earnings (% of Total Earnings)	a	up to 10%
bbb+			
bbb			
bbb-			

Regulatory Environment

a-	Independence, Transparency, Predictability	bbb	Less transparent frameworks, with emerging track record and multi-year tariffs; exposed to political risk. Medium-term predictability.
bbb+	Licensing, Ring-Fencing, Concessioning	bbb	Less demanding licensing and ring-fencing provisions; moderate concession renewal risk.
bbb	Cost and Investment Recovery	bbb	Tariff setting with challenge mechanisms that may limit efficiently incurred cost and investment recovery, with moderate regulatory lag.
bbb-	Volume and Price Risk	bbb	Moderate insulation from price and volume risk and revenue under-recovery.
bb+			

Asset Base

a-	Diversification	bbb	Limited diversification by geography without regulatory diversification; regional utility.
bbb+	Critical Mass	a	Critical mass in one regulated asset; does not affect efficiency of operations (cost base, customer base, key personnel).
bbb	Asset Quality and Residual Life	bbb	Mid-range asset quality not affecting opex and capex requirements compared with peers. The residual life of regulatory assets is average.
bbb-			
bb+			

Operations

a+	Performance Measures	a	Key performance measures in line with or above sector average and/or regulatory target.
a	Counterparty Risk	a	Low counterparty risk; high collection rates for water suppliers. Economy of area served provides structurally stable background.
a-			
bbb+			
bbb			

Profitability and Cash Flow

a	Return on Capital	bbb	Return on capital comparable with the regulatory benchmark.
a-	Volatility of Profitability	bbb	Stability and predictability of profit in line with utility peers.
bbb+	Investment Cycle	a	Investment cycle position and dividend policy leading to broadly neutral free cash flow. High flexibility in smoothing capex plans.
bbb			
bbb-			

Financial Structure

aa-	Lease-Adjusted FFO Gross Leverage	a	4.5x
a+	Lease-Adjusted FFO Net Leverage	a	4.0x
a	Net Debt/Asset Base	a	60%
a-			
bbb+			

Financial Flexibility

bbb+	Financial Discipline	bbb	Financial policies less conservative than peers but generally applied consistently.
bbb	Liquidity	bb	Liquidity ratio around 1.0x. Less smooth debt maturity or concentrated funding.
bbb-	FFO Fixed-Charge Cover	a	4.5x
bb+	FX Exposure	bbb	Some FX exposure on profitability and/or debt/cash flow match. Effective hedging.
bb	PMICR: (CFO - Maintenance Capex)/Interest		n.a.

How to Read This Page: The left column shows the three-notch band assessment for the overall Factor, illustrated by a bar. The right column breaks down the Factor into Sub-Factors, with a description appropriate for each Sub-Factor and its corresponding category.

Credit-Relevant ESG Derivation

Canal de Isabel II, S.A. has 2 ESG rating drivers and 10 ESG potential rating drivers

- Strategy development and implementation
- Board independence and effectiveness; ownership concentration
- Energy and fuel use in operations; entities' financial targets for losses/shrinkage
- Water usage in operations; water utilities' financial targets for water quality, leakage and usage
- Impact of waste including pollution incidents; discharge compliance; sludge disposal
- Exposure to extreme weather events - negative (e.g. risk of drought and flooding) or positive (e.g. additional return on capex for network weather-resilience)

Showing top 6 issues

			Overall ESG
key driver	0	issues	5
driver	2	issues	4
potential driver	10	issues	3
not a rating driver	1	issues	2
	1	issues	1

For further details on Credit-Relevant ESG scoring, see page 3.

Navigator Version: RN 2.2.0.0

FitchRatings

Canal de Isabel II, S.A.

Corporates Ratings Navigator
EMEA Regulated Networks

Credit-Relevant ESG Derivation

Canal de Isabel II, S.A. has 2 ESG rating drivers and 10 ESG potential rating drivers

- Canal de Isabel II, S.A. has exposure to strategic risk which, in combination with other factors, impacts the rating.
- Canal de Isabel II, S.A. has exposure to board independence risk which, in combination with other factors, impacts the rating.
- Canal de Isabel II, S.A. has exposure to energy regulatory risk but this has very low impact on the rating.
- Canal de Isabel II, S.A. has exposure to water management risk but this has very low impact on the rating.
- Canal de Isabel II, S.A. has exposure to waste & impact management risk but this has very low impact on the rating.
- Canal de Isabel II, S.A. has exposure to extreme weather events but this has very low impact on the rating.

Showing top 6 issues

			Overall ESG Scale
key driver	0	issues	5
driver	2	issues	4
potential driver	10	issues	3
not a rating driver	1	issues	2
	1	issues	1

Environmental (E)

General Issues	E Score	Sector-Specific Issues	Reference	E Scale
GHG Emissions & Air Quality	1	Emissions from operations	Profitability and Cash Flow	5
Energy Management	3	Energy and fuel use in operations; entities' financial targets for losses/shrinkage	Profitability and Cash Flow	4
Water & Wastewater Management	3	Water usage in operations; water utilities' financial targets for water quality, leakage and usage	Operations; Profitability and Cash Flow; Financial Structure; Financial Flexibility	3
Waste & Hazardous Materials Management; Ecological Impacts	3	Impact of waste including pollution incidents; discharge compliance; sludge disposal	Operations; Profitability and Cash Flow; Financial Flexibility	2
Exposure to Environmental Impacts	3	Exposure to extreme weather events - negative (e.g. risk of drought and flooding) or positive (e.g. additional return on capex for network weather-resilience)	Operations; Profitability and Cash Flow; Financial Flexibility	1

Social (S)

General Issues	S Score	Sector-Specific Issues	Reference	S Scale
Human Rights, Community Relations, Access & Affordability	3	Product affordability and access	Profitability and Cash Flow; Regulatory Environment	5
Customer Welfare - Fair Messaging, Privacy & Data Security	3	Quality and safety of products and services; data security	Profitability and Cash Flow	4
Labor Relations & Practices	3	Impact of labor negotiations and employee (dis)satisfaction	Profitability and Cash Flow; Financial Structure; Financial Flexibility	3
Employee Wellbeing	2	Worker safety and accident prevention	Financial Structure; Financial Flexibility	2
Exposure to Social Impacts	3	Social resistance to major projects that leads to delays and cost increases	Operations; Profitability and Cash Flow	1

Governance (G)

General Issues	G Score	Sector-Specific Issues	Reference	G Scale
Management Strategy	4	Strategy development and implementation	Management and Corporate Governance	5
Governance Structure	4	Board independence and effectiveness; ownership concentration	Management and Corporate Governance	4
Group Structure	3	Complexity, transparency and related-party transactions	Management and Corporate Governance	3
Financial Transparency	3	Quality and timing of financial disclosure	Management and Corporate Governance	2
				1

How to Read This Page
ESG scores range from 1 to 5 based on a 15-level color gradation. Red (5) is most relevant and green (1) is least relevant.

The Environmental (E), Social (S) and Governance (G) tables break out the individual components of the scale. The left-hand box shows the aggregate E, S, or G score. General Issues are relevant across all markets with Sector-Specific Issues unique to a particular industry group. Scores are assigned to each sector-specific issue. These scores signify the credit-relevance of the sector-specific issues to the issuing entity's overall credit rating. The Reference box highlights the factor(s) within which the corresponding ESG issues are captured in Fitch's credit analysis.

The Credit-Relevant ESG Derivation table shows the overall ESG score. This score signifies the credit relevance of combined E, S and G issues to the entity's credit rating. The three columns to the left of the overall ESG score summarize the issuing entity's sub-component ESG scores. The box on the far left identifies the [number of] general ESG issues that are drivers or potential drivers of the issuing entity's credit rating (corresponding with scores of 3, 4 or 5) and provides a brief explanation for the score.

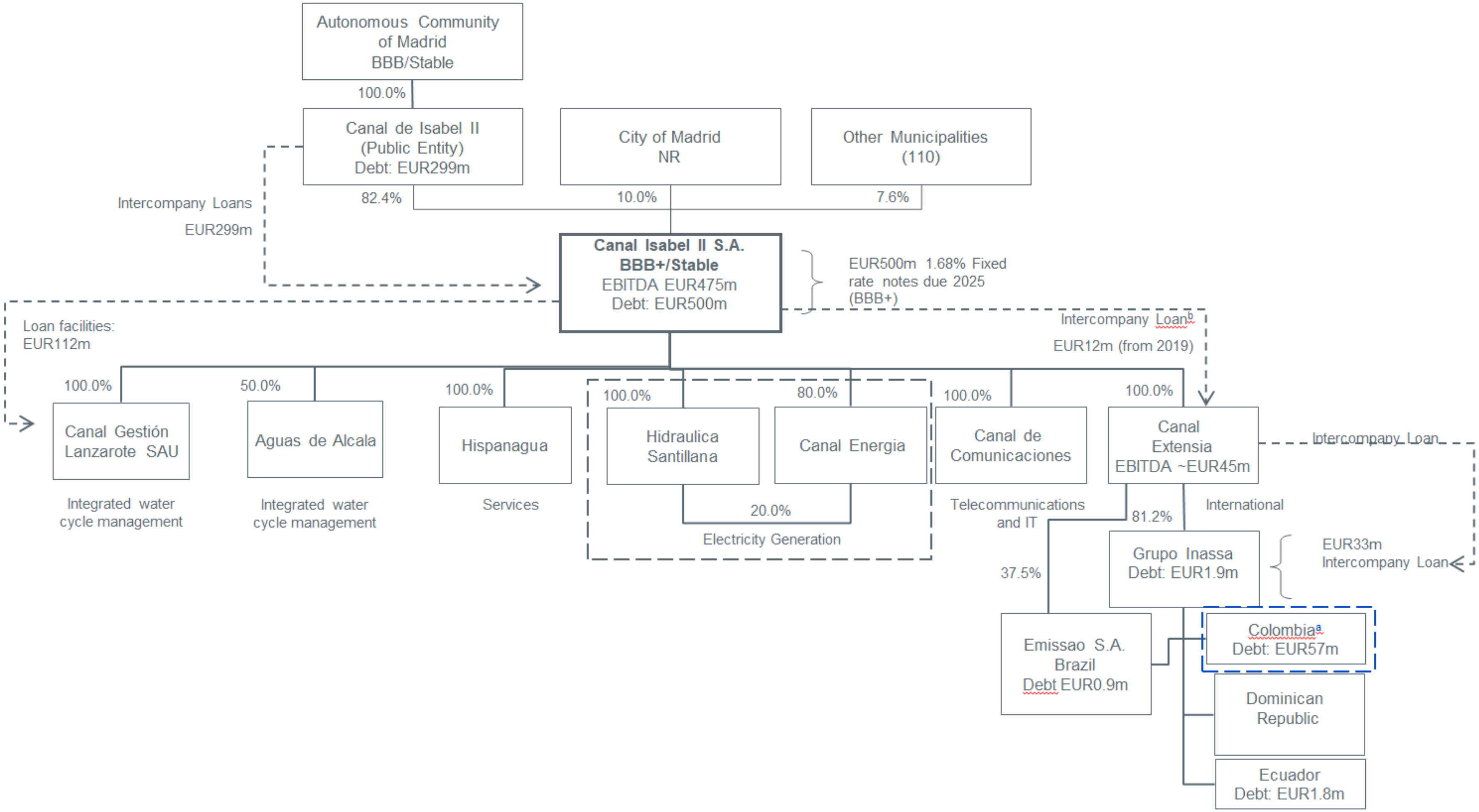
Classification of ESG issues has been developed from Fitch's sector and sub-sector ratings criteria and the General Issues and the Sector-Specific Issues have been informed with SASB's Materiality Map.

CREDIT-RELEVANT ESG SCALE

How relevant are E, S and G issues to the overall credit rating?

5	Highly relevant, a key rating driver that has a significant impact on the rating on an individual basis. Equivalent to "higher" relative importance within Navigator.
4	Relevant to rating, not a key rating driver but has an impact on the rating in combination with other factors. Equivalent to "moderate" relative importance within Navigator.
3	Minimally relevant to rating, either very low impact or actively managed in a way that results in no impact on the entity rating. Equivalent to "lower" relative importance within Navigator.
2	Irrelevant to the entity rating but relevant to the sector.
1	Irrelevant to the entity rating and irrelevant to the sector.

Simplified Group Structure Diagram



[a] Colombia refers to Triple A whose control has been seized by the Colombian authorities. Debt in Triple A by end-August 2018
[b] New intercompany loans have been signed between Canal and Canal Extensia in 2019 for about EUR12 million.
Source: Fitch Ratings from company documentation. The chart does not include equity method consolidated stakes. Debt position, Intercompany loans and EBITDA as at 31 December 2018

Peer Financial Summary

Company	IDR	Financial Statement Date	Operating EBITDA (Before Income from Associates) (EURm)	Operating EBITDA Margin (%)	FFO Margin (%)	FFO Adjusted Net Leverage (x)	FFO Fixed Charge Coverage (x)
Canal de Isabel II, S.A.	BBB+						
		2021F	419	41.6	25.1	2.1	9.7
		2020F	415	42.0	23.7	2.1	8.8
		2019F	457	45.5	14.1	3.4	5.5
	BBB+	2018	475	44.1	40.6	1.2	12.1
	BBB+	2017	531	46.3	29.7	2.5	8.4
Acea SpA	BBB+						
		2021F	1,080	30.0	21.3	4.8	7.7
		2020F	994	29.4	21.0	4.9	8.1
		2019F	928	29.6	20.9	4.7	8.1
	BBB+	2018	890	29.4	21.8	4.2	6.9
	BBB+	2017	813	29.1	20.8	4.5	6.7
Wessex Water Services Limited	BBB+						
		2021F	331	49.8	30.9	9.1	3.3
		2020F	409	63.8	41.6	7.4	4.0
		2019F	383	63.7	42.8	7.1	4.1
	BBB+	2018	381	62.1	45.8	6.4	4.7
	BBB+	2017	392	62.8	45.8	6.3	4.8
Aquanet S.A.	BBB+						
		2021F	40	31.7	30.1	2.8	15.5
		2020F	39	31.3	30.1	2.3	16.2
		2019F	40	32.5	31.2	1.7	15.9
	BBB+	2018	44	35.8	35.7	1.9	17.4
	BBB	2017	47	41.0	40.4	2.1	18.1
FCC Aqualia, S.A.	BB+						
		2021F	200	19.3	17.9	5.3	5.3
		2020F	200	18.3	16.7	5.4	5.2
		2019F	198	18.4	16.8	5.5	5.2
	BB+	2018	198	19.6	15.2	6.3	3.5
	BB+	2017	190	20.0	14.9	8.5	4.7

Source: Fitch Ratings, Fitch Solutions

Reconciliation of Key Financial Metrics

(EUR Thousand, As reported)	31 Dec 2018
Income Statement Summary	
Operating EBITDA	475,136
+ Recurring Dividends Paid to Non-controlling Interest	-1,048
+ Recurring Dividends Received from Associates	0
+ Additional Analyst Adjustment for Recurring I/S Minorities and Associates	0
= Operating EBITDA After Associates and Minorities (k)	**474,088**
+ Operating Lease Expense Treated as Capitalised (h)	**15,231**
= Operating EBITDAR after Associates and Minorities (j)	**489,319**
Debt & Cash Summary	
Total Debt with Equity Credit (l)	**820,313**
+ Lease-Equivalent Debt	121,848
+ Other Off-Balance-Sheet Debt	0
= Total Adjusted Debt with Equity Credit (a)	**942,161**
Readily Available Cash [Fitch-Defined]	351,947
+ Readily Available Marketable Securities [Fitch-Defined]	0
= Readily Available Cash & Equivalents (o)	**351,947**
Total Adjusted Net Debt (b)	**590,214**
Cash-Flow Summary	
Preferred Dividends (Paid) (f)	**0**
Interest Received	1,251
+ Interest (Paid) (d)	**-23,936**
= Net Finance Charge (e)	**-22,685**
Funds From Operations [FFO] (c)	**436,587**
+ Change in Working Capital [Fitch-Defined]	-24,666
= Cash Flow from Operations [CFO] (n)	**411,921**
Capital Expenditures (m)	**-124,892**
Multiple applied to Capitalised Leases	**8.0**
Gross Leverage	
Total Adjusted Debt / Op. EBITDAR* [x] (a/j)	**1.9**
FFO Adjusted Gross Leverage [x] (a/(c-e+h-f))	**2.0**
Total Adjusted Debt/(FFO - Net Finance Charge + Capitalised Leases - Pref. Div. Paid)	
Total Debt With Equity Credit / Op. EBITDA* [x] (l/k)	**1.7**
Net Leverage	
Total Adjusted Net Debt / Op. EBITDAR* [x] (b/j)	**1.2**
FFO Adjusted Net Leverage [x] (b/(c-e+h-f))	**1.2**
Total Adjusted Net Debt/(FFO - Net Finance Charge + Capitalised Leases - Pref. Div. Paid)	
Total Net Debt / (CFO - Capex) [x] ((l-o)/(n+m))	**1.6**
Coverage	
Op. EBITDAR / (Interest Paid + Lease Expense)* [x] (j/-d+h)	**12.5**
Op. EBITDA / Interest Paid* [x] (k/(-d))	**19.8**
FFO Fixed Charge Cover [x] ((c+e+h-f)/(-d+h-f))	**12.1**
(FFO + Net Finance Charge + Capit. Leases - Pref. Div Paid) / (Gross Int. Paid + Capit. Leases - Pref. Div. Paid)	
FFO Gross Interest Coverage [x] ((c+e-f)/(-d-f))	**19.2**
(FFO + Net Finance Charge - Pref. Div Paid) / (Gross Int. Paid - Pref. Div. Paid)	

* EBITDA/R after Dividends to Associates and Minorities
Source: Fitch, based on information from company reports.

Source: Fitch Ratings, Fitch Solutions, Company

Fitch Adjustment Reconciliation

	Reported Values 31 Dec 18	Sum of Fitch Adjustments	.Intcorp - Other adjustments	Restricted/Not readily available cash	Div	Adjustment for Cash Interest	capital grants	CORP - Lease Treatment	Adjusted Values
Income Statement Summary									
Revenue	1,076,446	0							1,076,446
Operating EBITDAR	475,136	15,231						15,231	490,367
Operating EBITDAR after Associates and Minorities	475,136	14,183			-1,048			15,231	489,319
Operating Lease Expense	0	15,231						15,231	15,231
Operating EBITDA	475,136	0							475,136
Operating EBITDA after Associates and Minorities	475,136	-1,048			-1,048				474,088
Operating EBIT	271,783	0							271,783
Debt & Cash Summary									
Total Debt With Equity Credit	820,313	0							820,313
Total Adjusted Debt With Equity Credit	820,313	121,848						121,848	942,161
Lease-Equivalent Debt	0	121,848						121,848	121,848
Other Off-Balance Sheet Debt	0	0							0
Readily Available Cash & Equivalents	355,418	-3,471		-3,471					351,947
Not Readily Available Cash & Equivalents	0	3,471		3,471					3,471
Cash-Flow Summary									
Preferred Dividends (Paid)	0	0							0
Interest Received	5,525	-4,274				-4,274			1,251
Interest (Paid)	-23,936	0							-23,936
Funds From Operations [FFO]	397,509	39,078	60,165		-16,813	-4,274			436,587
Change in Working Capital [Fitch-Defined]	-24,666	0							-24,666
Cash Flow from Operations [CFO]	372,843	39,078	60,165		-16,813	-4,274			411,921
Non-Operating/Non-Recurring Cash Flow	0	0							0
Capital (Expenditures)	-101,099	-23,793	-60,165				36,372		-124,892
Common Dividends (Paid)	-16,813	16,813			16,813				0
Free Cash Flow [FCF]	254,931	32,098				-4,274	36,372		287,029
Gross Leverage									
Total Adjusted Debt / Op. EBITDAR* [x]	1.7								1.9
FFO Adjusted Leverage [x]	2.0								2.0
Total Debt With Equity Credit / Op. EBITDA* [x]	1.7								1.7
Net Leverage									
Total Adjusted Net Debt / Op. EBITDAR* [x]	1.0								1.2
FFO Adjusted Net Leverage [x]	1.1								1.2
Total Net Debt / (CFO - Capex) [x]	1.7								1.6
Coverage									
Op. EBITDAR / (Interest Paid + Lease Expense)* [x]	19.9								12.5
Op. EBITDA / Interest Paid* [x]	19.9								19.8
FFO Fixed Charge Coverage [x]	17.4								12.1
FFO Interest Coverage [x]	17.4								19.2

*EBITDA/R after Dividends to Associates and Minorities
Source: Fitch, based on information from company reports.

Source: Fitch Ratings, Fitch Solutions, Company

The ratings above were solicited and assigned or maintained at the request of the rated entity/issuer or a related third party. Any exceptions follow below.