

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

Fitch Ratings has affirmed Canal de Isabel II, S.A., M.P.'s (Canal) Long-Term Issuer Default Rating (IDR) at 'BBB+' with a Stable Outlook. The senior unsecured rating was also affirmed at 'BBB+' and Fitch continues to assess Canal's Standalone Credit Profile (SCP) at 'bbb+'.

The affirmation reflects Canal's low-risk business and solid financial profile, despite continuing regulatory uncertainty. We expect Canal's lasting tariff freeze and the ongoing ramp-up in investment to be mitigated by very low leverage (funds from operations (FFO) net leverage of 0.9x in 2023). We project average leverage of around 1.9x in 2024-2028, with ample rating headroom over the forecast horizon to 2028, versus our negative rating sensitivity of 4.3x.

## Key Rating Drivers

**Continuing Tariff Uncertainty:** Canal's domestic tariffs' variable portion and tariff structure were revised in June 2024 to encourage sobriety in water utilization. This will lead to an increase in unitary tariffs for consumers in the higher consumption blocks, leading to an overall increase in unitary price charged by Canal. This revision represents an upside to our estimation for 2024.

We still forecast the fixed portion and the commercial and industrial tariffs to remain frozen until end-2025 despite Canal's ramp-up of investment activities. Some inflationary cost pressures, higher headcount and capex acceleration should provide valid reasons for a tariff increase from 2026 but uncertainties remain.

The Autonomous Community of Madrid's (A-/Stable) record of tariff intervention and the absence of an independent regulator or transparent tariff-setting mechanisms remain a rating constraint.

**Ample Leverage Headroom:** We forecast Canal's FFO dividend-adjusted net leverage to increase to 2.2x in 2028 from 0.9x in 2023. This is driven by a material capex increase (average annual capex of EUR340million in 2024-2028 versus EUR160 million in 2020-2023), while EBITDA is rising only moderately, resulting in material negative free cash flow (FCF). However, we see FFO net leverage comfortably remaining below our negative sensitivity of 4.3x until 2028.

**Drivers for Investment Ramp-Up:** Canal's revised capex plan includes the modernisation of its sewage networks, the standardisation of materials in distribution, smart meter installation and the installation of photovoltaic plants to boost generation and self-consumption of clean energy. Capex deployment will be supported by a large permanent workforce and modernisation-related subsidies. Given that the capex acceleration does not relate to any deficiency of the current network and would not imply any material contract breach or penalty, Canal retains some flexibility in its investment plan.

**Temporarily Lower Margins:** EBITDA margin improved slightly in 2023, but we expect it to decrease below 30% in 2024. The inflationary environment (particularly on energy, reagents and other raw materials) and an increase in costs linked to the implementation of Canal's strategic plan are eroding profitability while also inflating capex versus our previous forecast.

Canal may implement some cost-saving measures to mitigate part of the cost increases. We expect margins to normalise to around 32% from 2025 onwards due to other price-adjustment initiatives and normalisation of costs.

**Updated GRE Criteria:** The update to our Government Related Entities (GRE) Criteria has had no impact on Canal's IDR. We evaluate decision-making and oversight as 'Very Strong', due to Madrid's full ownership of Canal and its close monitoring of Canal's financial and operational activities. We view the remaining key risk factors as 'Not Strong Enough'. All this results in a 12.5 support score, implying modest expectation of support, and leading to an IDR based on its SCP.

## Ratings

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

Long-Term IDR	BBB+
Senior Unsecured Debt - Long-Term Rating	BBB+

### Outlooks

Long-Term Foreign-Currency IDR	Stable
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2035 Climate Vulnerability Signal: 14

[Click here for the full list of ratings](#)

## Applicable Criteria

- [Corporate Rating Criteria \(November 2023\)](#)
- [Parent and Subsidiary Linkage Rating Criteria \(June 2023\)](#)
- [Government-Related Entities Rating Criteria \(January 2024\)](#)
- [Corporates Recovery Ratings and Instrument Ratings Criteria \(October 2023\)](#)

## Related Research

- [Global Corporates Macro and Sector Forecasts \(March 2024\)](#)
- [EMEA Water Utilities – Relative Credit Analysis \(March 2024\)](#)

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**Stable Underlying Business:** Canal's creditworthiness is supported by its low-risk business profile. We forecast water management revenue under its 50-year concession contract covering Madrid region infrastructure to remain stable, in line with the region's underlying population growth and water consumption patterns. We therefore see volume risk as low. Canal continues to focus on its domestic regional activities and capex plan with minimal contribution from international activity

## Financial Summary

(EUR 000)	2021	2022	2023	2024F	2025F	2026F
EBITDA	348,181	293,590	319,573	255,445	322,070	331,428
FFO	197,009	221,108	280,587	255,854	267,220	269,182
FCF after acquisitions and divestitures	107,071	74,390	-29,078	-139,035	-134,320	-122,565
FFO net leverage (x)	1.0	0.5	0.9	1.4	1.8	2.1
FFO interest coverage (x)	13.9	18.0	20.7	21.9	15.3	10.3

F – Forecast

Source: Fitch Ratings, Fitch Solutions

## Rating Derivation Relative to Peers

Canal is a water and sewage network operator, but unlike most of its European peers it does not own its asset base. However, its investments are supported by its concession value. Canal's leverage, adjusted for dividends, is well below that of peers such as Acea SpA (BBB+/Stable), Holding d'infrastructures des Metiers de l'Environnement (SAUR; BB+/Stable) and FCC Aqualia, S.A. (BBB-/Stable), although we give Canal's leverage a lower weight in the overall assessment compared with peers', given the specific features of its concession-based framework.

Canal operates in a more decentralised and less developed regulatory environment than in some other European countries. 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 a default. No Country Ceiling constraints affect Canal's rating.

## Navigator Peer Comparison

Issuer	Business profile							Financial profile		
	IDR/Outlook	Operating Environment	Management and Corporate Governance	Sector Positioning	Regulatory Environment	Asset Base	Operational Profile	Profitability and Cash Flow	Financial Structure	Financial Flexibility
Acea SpA	BBB+/Stable	a-	bbb	bbb-	bbb+	bbb+	bbb+	bbb	bbb+	a-
Aquanet S.A.	BBB+/Negative	bbb+	bbb	bbb+	bbb-	bbb	bbb+	bbb-	a	bbb
Canal de Isabel II, S.A., M.P.	BBB+/Stable	bbb+	bbb-	bbb+	bbb-	bbb	a-	bbb+	a	bbb
FCC Aqualia, S.A.	BBB-/Stable	bbb+	bbb-	bb+	bbb-	bbb	bbb+	bbb	bbb-	bbb-
Holding d'infrastructures des Metiers de l'Environnement	BB+/Stable	a+	bbb-	bb+	bb+	bbb-	bbb	bb+	bb+	bbb
Miejskie Wodociągi i Kanalizacja w Bydgoszczy Sp. z o.o. (MWIK)	BBB/Stable	bbb+	bbb	bbb+	bbb-	bbb-	bbb+	bbb-	a	bbb-

Source: Fitch Ratings. Relative Importance of Factor: Higher (Red), Moderate (Blue), Lower (Light Blue)

Name	IDR/Outlook	Business profile							Financial profile		
		Operating Environment	Management and Corporate Governance	Sector Positioning	Regulatory Environment	Asset Base	Operational Profile	Profitability and Cash Flow	Financial Structure	Financial Flexibility	
Acea SpA	BBB+/Stable	+1	-1	-2	0	0	0	-1	0	+1	
Aquanet S.A.	BBB+/Negative	0	-1	0	-2	-1	0	-2	+2	-1	
Canal de Isabel II, S.A., M.P.	BBB+/Stable	0	-2	0	-2	-1	+1	0	+2	-1	
FCC Aqualia, S.A.	BBB-/Stable	+2	0	-1	0	+1	+2	+1	0	0	
Holding d'infrastructures des Metiers de l'Environnement	BB+/Stable	+6	+1	0	0	+1	+2	0	0	+2	
Miejskie Wodociągi i Kanalizacja w Bydgoszczy Sp. z o.o. (MWIK)	BBB/Stable	+1	0	+1	-1	-1	+1	-1	+3	-1	

Source: Fitch Ratings. Factor Score Relative to IDR: Worse positioned than IDR (Red), Within one notch of IDR (Blue), Better positioned than IDR (Light Blue)

## Rating Sensitivities

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade:

- Stronger links to Madrid under our GRE assessment
- The IDR may be upgraded on a growing record of independent application of the tariff-setting mechanism and a stronger regulatory framework

**Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade:**

- Weaker cash flow generation leading to FFO dividend-adjusted net leverage above 4.3x on a sustained basis. This may be due to a worse-than-expected operating environment, including regulatory changes, or higher dividends

**Liquidity and Debt Structure**

**Adequate Liquidity:** Canal's cash balance reached EUR444 million at end-2023, excluding EUR3 million of cash in Latin American countries but including EUR2 million of short-term deposits that Fitch deems as cash. Along with over EUR100 million undrawn overdraft maturing in December 2024, Canal's liquidity reached around EUR500 million at end-2023. We expect Canal to proactively refinance its EUR500 million bond maturing in 2025 during the current year.

Fitch expects Canal to renew its overdraft on an annual basis. Canal may require Madrid's approval for long-term committed facilities as per Madrid's Budget Law.

**ESG Considerations**

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit <https://www.fitchratings.com/topics/esg/products#esg-relevance-scores>.

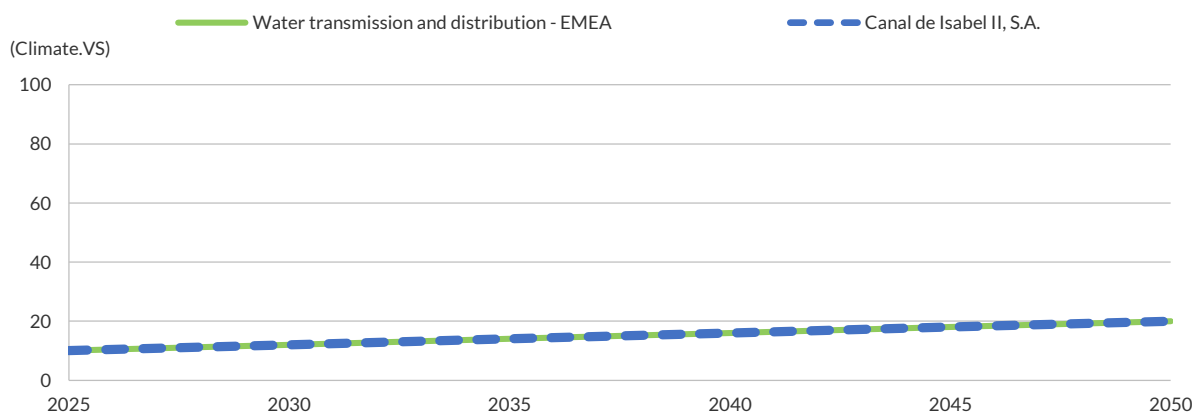
**Climate Vulnerability Considerations**

Fitch Ratings has published a Criteria Exposure Draft describing its approach to assessing Climate Vulnerability for Corporates. In this report, we describe our proposal to use Climate Vulnerability Signals (Climate.VS) as a screening tool to identify sectors and Fitch-rated issuers that are potentially most exposed to credit-relevant climate transition risks and, therefore, require additional consideration of these risks in rating reviews. [Click here for the Criteria Exposure Draft](#).

The FY23 revenue weighted Climate.VS for Canal de Isabel II for 2035 is 14 out of 100, suggesting low exposure to climate related-risks in that year. *Climate.VS can range from 0 (lowest risk) to 100 (highest risk). For further information on how Fitch perceives climate-related risks in the utilities sector, see [Utilities - Long-Term Climate Vulnerability Signals Update](#).*

**Climate.VS Evolution**

As of Jan 09, 2023



Source: Fitch Ratings

## Liquidity and Debt Maturities

### Liquidity Analysis

(EUR Thousands)	2024F	2025F	2026F
<b>Available liquidity</b>			
Beginning cash balance	444,219	290,422	-358,742
Rating case FCF after acquisitions and divestitures	-139,035	-134,320	-122,565
<b>Total available liquidity (A)</b>	<b>305,184</b>	<b>156,102</b>	<b>-481,308</b>
<b>Liquidity uses</b>			
Debt maturities	-14,762	-514,844	-14,762
<b>Total liquidity uses (B)</b>	<b>-14,762</b>	<b>-514,844</b>	<b>-14,762</b>
<b>Liquidity calculation</b>			
Ending cash balance (A+B)	290,422	-358,742	-496,070
Revolver availability	—	—	—
<b>Ending liquidity</b>	<b>290,422</b>	<b>-358,742</b>	<b>-496,070</b>
Liquidity score (x)	20.7	0.3	-32.6

F – Forecast.

Source: Fitch Ratings, Fitch Solutions, Canal de Isabel II, S.A., M.P.

### Scheduled Debt Maturities

(EUR Thousands)	31-Dec-23
2024	14,762
2025	514,844
2026	14,762
2027	14,762
2028	14,762
Thereafter	108,333
<b>Total</b>	<b>682,225</b>

Source: Fitch Ratings, Fitch Solutions, Canal de Isabel II, S.A., M.P.

## Key Assumptions

### Fitch's Key Assumptions Within Our Rating Case for the Issuer

- Madrid's water tariffs frozen until end-2025 and annually revised from 2026, closely tracking CPI
- Stable billed water volumes until 2028
- Annual capex on average at about EUR330 million for 2023-2028
- About 80% dividend payout based on consolidated accounts for Canal

## Summary of Financial Adjustments

Fitch treats dividend payments as a fixed non-discretionary operating charge similar to a concession fee. We adjust Canal's FFO calculations accordingly by deducting dividends.

## Financial Data

(EUR thousands)	2021	2022	2023	2024F	2025F	2026F
<b>Summary income statement</b>						
Gross revenue	915,024	947,727	945,520	956,822	1,018,356	1,037,397
Revenue growth (%)	-0.2	3.6	-0.2	1.2	6.4	1.9
EBITDA before income from associates	348,181	293,590	319,573	255,445	322,070	331,428
EBITDA margin (%)	38.1	31.0	33.8	26.7	31.6	31.9
EBITDA after associates and minorities	348,026	293,398	319,014	254,886	321,511	330,869
EBIT	165,190	113,422	148,120	82,524	140,100	142,122
EBIT margin (%)	18.1	12.0	15.7	8.6	13.8	13.7
Gross interest expense	-19,048	-22,439	-5,886	-12,200	-18,710	-28,945
Pretax income including associate income/loss	166,207	109,961	135,020	61,578	115,823	107,712
<b>Summary balance sheet</b>						
Readily available cash and equivalents	523,370	580,622	444,219	290,453	41,330	53,851
Debt	726,585	697,940	682,225	667,463	552,619	687,857
Net debt	203,215	117,318	238,006	377,011	511,289	634,007
<b>Summary cash flow statement</b>						
EBITDA	348,181	293,590	319,573	255,445	322,070	331,428
Cash interest paid	-15,243	-12,952	-13,479	-12,200	-18,710	-28,945
Cash tax	-1,993	443	-248	-979	-1,685	-1,225
Dividends received less dividends paid to minorities (inflow/outflow)	-155	-192	-559	-559	-559	-559
Other items before FFO	-134,373	-60,847	-39,905	13,468	-34,198	-32,088
FFO	197,009	221,108	280,587	255,854	267,220	269,182
FFO margin (%)	21.5	23.3	29.7	26.7	26.2	25.9
Change in working capital	31,513	-1,327	-43,486	14,938	-52,995	-27,943
CFO (Fitch-defined)	228,522	219,781	237,101	270,792	214,225	241,239
Total non-operating/nonrecurring cash flow	-	-	-	-	-	-
Capex	-121,739	-149,179	-266,179	-	-	-
Capital intensity (capex/revenue) (%)	13.3	15.7	28.2	-	-	-
Common dividends	-	-	-	-	-	-
FCF	106,783	70,602	-29,078	-	-	-
FCF margin (%)	11.7	7.5	-3.1	-	-	-
Net acquisitions and divestitures	288	3,788	-	-	-	-
Other investing and financing cash flow items	13,874	-2,005	-48,232	-	-	-
Net debt proceeds	-27,961	-15,004	-16,309	-14,762	-114,844	135,238
Net equity proceeds	-	-	-	-	-	-
Total change in cash	92,984	57,381	-93,619	-153,766	-249,123	12,521
<b>Calculations for forecast publication</b>						
Capex, dividends, acquisitions and other items before FCF	-121,451	-145,391	-266,179	-409,828	-348,545	-363,805
FCF after acquisitions and divestitures	107,071	74,390	-29,078	-139,035	-134,320	-122,565
FCF margin after net acquisitions (%)	11.7	7.8	-3.1	-14.5	-13.2	-11.8
<b>Gross Leverage ratios (x)</b>						
FFO leverage	3.4	3.0	2.4	2.5	1.9	2.3
CFO-capex/debt	14.7	10.1	-4.3	-21.1	-25.8	-17.8
<b>Net Leverage ratios (x)</b>						
FFO net leverage	1.0	0.5	0.9	1.4	1.8	2.1
CFO-capex/net debt	52.5	60.2	-12.2	-37.3	-27.8	-19.3

(EUR thousands)	2021	2022	2023	2024F	2025F	2026F
<b>Coverage ratios (x)</b>						
FFO interest coverage	13.9	18.0	20.7	21.9	15.3	10.3
FFO fixed-charge coverage	13.9	18.0	20.7	21.9	15.3	10.3
CFO – Cash flow from operations						
Source: Fitch Ratings, Fitch Solutions						

**How to Interpret the Forecast Presented**

The forecast presented above 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.

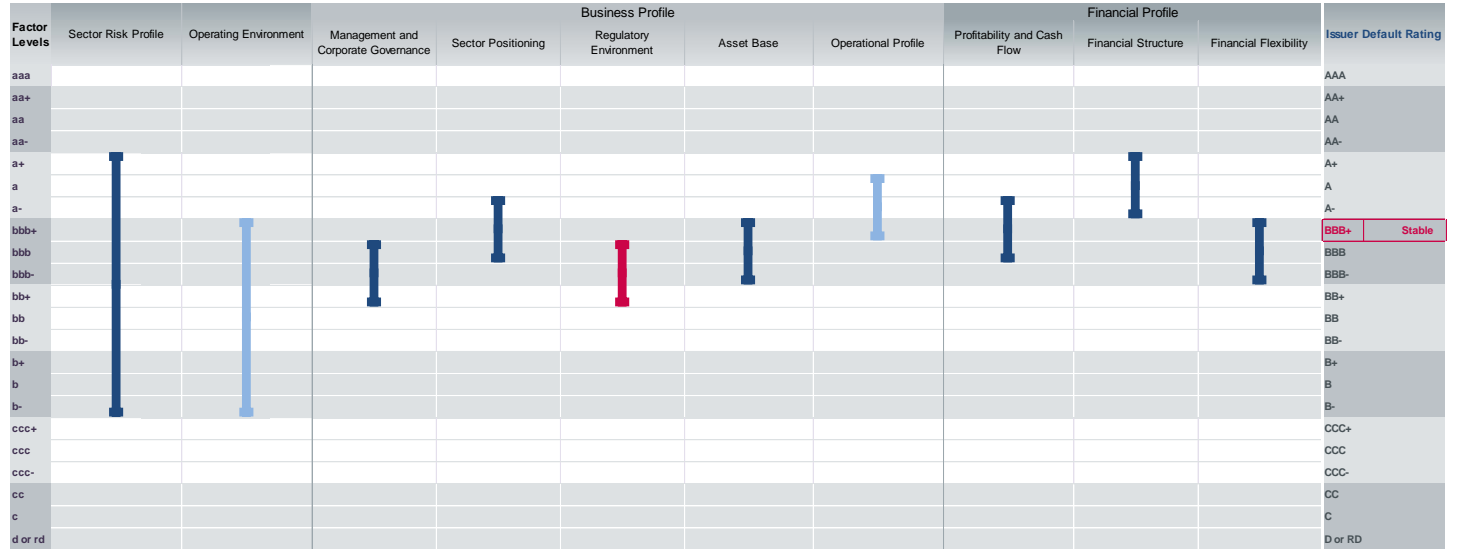
Ratings Navigator

FitchRatings

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



Corporates Ratings Navigator  
EMEA Regulated Networks



**Bar Chart Legend:**

Vertical Bars = Range of Rating Factor	Bar Arrows = Rating Factor Outlook
Bar Colors = Relative Importance	<ul style="list-style-type: none"> <li>↑ Positive</li> <li>↓ Negative</li> <li>↕ Evolving</li> <li>□ Stable</li> </ul>
<ul style="list-style-type: none"> <li>Higher Importance</li> <li>Average Importance</li> <li>Lower Importance</li> </ul>	

Operating Environment			Management and Corporate Governance		
a-	Economic Environment	bbb	bbb+	Management Strategy	bb
bbb+	Financial Access	bbb	bbb	Governance Structure	bb
b-	Systemic Governance	a	bbb-	Group Structure	bbb
ccc+			bb+	Financial Transparency	bb
			bb		
Sector Positioning			Regulatory Environment		
a	Operation Type	bbb	bbb+	Independence, Transparency, Predictability	bb
a-	Non-Regulated Earnings (% of Total Earnings)	a	bbb	Licensing, Ring-Fencing, Concessioning	bbb
bbb+			bbb-	Cost and Investment Recovery	bb
bbb			bb+	Volume and Price Risk	bbb
bbb-			bb		
Asset Base			Operational Profile		
a-	Diversification	bbb	a+	Performance Measures	a
bbb+	Critical Mass	a	bbb+	Counterparty Risk	a
bbb	Asset Quality and Residual Life	bbb	a-		
bbb-			bbb+		
bb+			bbb		
Profitability and Cash Flow			Financial Structure		
a	Return on Capital	bbb	aa-	FFO Leverage	a 4.5x
a-	Volatility of Profitability	bbb	a+	FFO Net Leverage	a 4.0x
bbb+	Investment Cycle	a	a	Adjusted Net Debt/Asset Base (or Regulated Asset Base)	a 60%
bbb			a-	Cash PMCR	
bbb-			bbb+	Nominal PMCR	
Financial Flexibility			Credit-Relevant ESG Derivation		
a-	Financial Discipline	bbb	Canal de Isabel II, S.A., M.P. has 12 ESG potential rating drivers		
bbb+	Liquidity	bbb	key driver	0	issues 5
bbb	FFO Interest Coverage	a 4.5x	driver	0	issues 4
bbb-	FX Exposure	bbb	potential driver	12	issues 3
bb+	Dividend Cover	n.a.	not a rating driver	1	issues 2
				1	issues 1

**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.

Showing top 6 issues

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



### Credit-Relevant ESG Derivation

Canal de Isabel II, S.A., M.P. has 12 ESG potential rating drivers

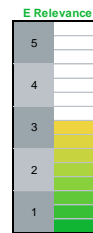
- ➔ Canal de Isabel II, S.A., M.P. has exposure to energy regulatory risk but this has very low impact on the rating.
- ➔ Canal de Isabel II, S.A., M.P. has exposure to water management risk but this has very low impact on the rating.
- ➔ Canal de Isabel II, S.A., M.P. has exposure to waste & impact management risk but this has very low impact on the rating.
- ➔ Canal de Isabel II, S.A., M.P. has exposure to extreme weather events but this has very low impact on the rating.
- ➔ Canal de Isabel II, S.A., M.P. has exposure to access/affordability risk but this has very low impact on the rating.
- ➔ Canal de Isabel II, S.A., M.P. has exposure to customer accountability risk but this has very low impact on the rating.

Show top 6 issues

			ESG Relevance to Credit Rating
key driver	0	issues	5
driver	0	issues	4
potential driver	12	issues	3
not a rating driver	1	issues	2
	1	issues	1

### Environmental (E) Relevance Scores

General Issues	E Score	Sector-Specific Issues	Reference
GHG Emissions & Air Quality	1	Emissions from operations	Profitability and Cash Flow
Energy Management	3	Energy and fuel use in operations; entities' financial targets for losses/shrinkage	Profitability and Cash Flow
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
Waste & Hazardous Materials Management, Ecological Impacts	3	Impact of waste including pollution incidents; discharge compliance; sludge disposal	Operations; Profitability and Cash Flow; Financial Flexibility
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



### How to Read This Page

ESG relevance scores range from 1 to 5 based on a 15-level color gradation. Red (5) is most relevant to the credit rating and green (1) is least relevant.

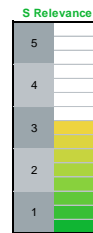
The Environmental (E), Social (S) and Governance (G) tables break out the ESG general issues and the sector-specific issues that are most relevant to each industry group. Relevance scores are assigned to each sector-specific issue, signaling the credit-relevance of the sector-specific issues to the issuer's overall credit rating. The Criteria Reference column highlights the factor(s) within which the corresponding ESG issues are captured in Fitch's credit analysis. The vertical color bars are visualizations of the frequency of occurrence of the highest constituent relevance scores. They do not represent an aggregate of the relevance scores or aggregate ESG credit relevance.

The Credit-Relevant ESG Derivation table's far right column is a visualization of the frequency of occurrence of the highest ESG relevance scores across the combined E, S and G categories. The three columns to the left of ESG Relevance to Credit Rating summarize rating relevance and impact to credit from ESG issues. The box on the far left identifies any ESG Relevance Sub-factor issues that are drivers or potential drivers of the issuer's credit rating (corresponding with scores of 3, 4 or 5) and provides a brief explanation for the relevance score. All scores of '4' and '5' are assumed to reflect a negative impact unless indicated with a '+' sign for positive impact.

Classification of ESG issues has been developed from Fitch's sector ratings criteria. The General Issues and Sector-Specific Issues draw on the classification standards published by the United Nations Principles for Responsible Investing (PRI), the Sustainability Accounting Standards Board (SASB), and the World Bank.

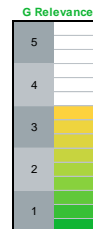
### Social (S) Relevance Scores

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



### Governance (G) Relevance Scores

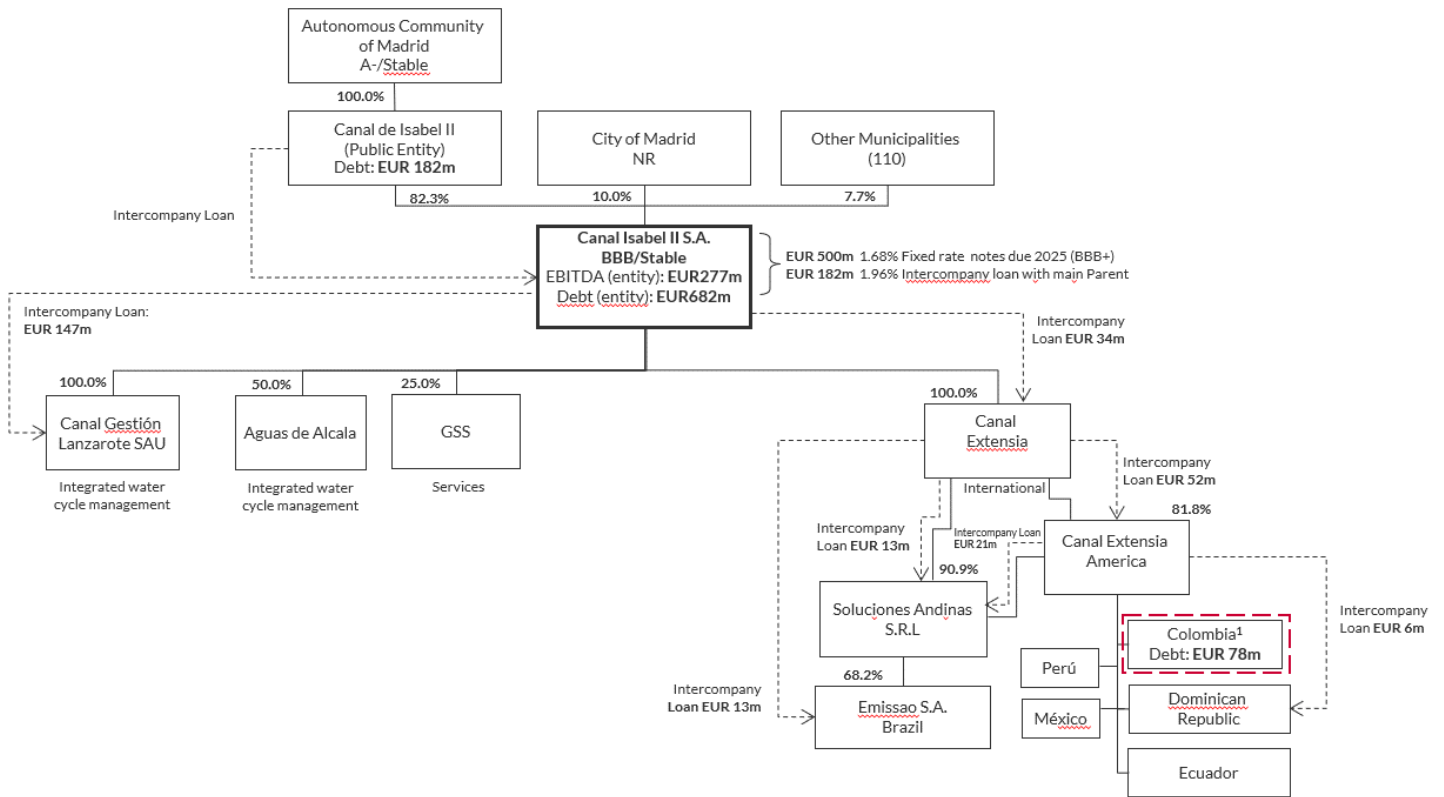
General Issues	G Score	Sector-Specific Issues	Reference
Management Strategy	3	Strategy development and implementation	Management and Corporate Governance
Governance Structure	3	Board independence and effectiveness; ownership concentration	Management and Corporate Governance
Group Structure	3	Complexity,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



### 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



<sup>1</sup> Colombia refers to Triple A whose control has been seized by the Colombian authorities.

Source: Fitch Ratings, Canal de Isabel II, S.A., M.P. The chart does not include equity method consolidated stakes. Debt position and intercompany as at 31 December 2023.

## Peer Financial Summary

Company	Issuer Default Rating	Financial statement date	EBITDA (EURm)	FFO (EURm)	FCF (EURm)	FFO net leverage (x)	FFO interest coverage (x)
Canal de Isabel II, S.A., M.P.	BBB+						
	BBB+	2023	320	281	-29	0.9	20.7
	BBB+	2022	294	221	71	0.5	18.0
FCC Aqualia, S.A.	BBB+	2021	348	197	107	1.0	13.9
	BBB-						
	BBB-	2022	331	239	-33	5.9	5.0
Holding d'Infrastructures des Metiers de l'Environnement	BBB-	2021	218	189	17	4.8	6.9
	BB+	2020	192	186	84	5.2	7.4
	BBB-	2023	150	126	-178	8.2	11.4
Acea SpA	BBB-	2022	206	172	26	5.0	14.7
	BBB-	2021	181	140	69	4.8	6.6
	BBB+						
Aquanet S.A.	BBB+	2023	1,353	896	-91	4.9	6.3
	BBB+	2022	1,259	762	-641	5.8	7.4
	BBB+	2021	1,213	794	-428	5.0	8.7
Miejskie Wodociągi i Kanalizacja w Bydgoszczy Sp. z o.o. (MWiK)	BBB+						
	BBB+	2022	35	35	-29	2.5	8.5
	BBB+	2021	35	37	-4	1.9	53.8
Miejskie Wodociągi i Kanalizacja w Bydgoszczy Sp. z o.o. (MWiK)	BBB+	2020	35	35	-13	2.0	22.1
	BBB						
	BBB	2022	14	16	-5	-1.4	9.1
Miejskie Wodociągi i Kanalizacja w Bydgoszczy Sp. z o.o. (MWiK)	BBB	2021	15	14	2	-1.3	14.6
	BBB	2020	17	18	2	0.2	11.0

Source: Fitch Ratings, Fitch Solutions

## Fitch Adjusted Financials

(EUR 000 as of 31 Dec 23)	Notes and formulas	Standardised values	Lease treatment	Other adjustments	Adjusted values
<b>Income statement summary</b>					
Revenue		945,520	–	–	945,520
EBITDA	(a)	282,600	-5,389	42,362	319,573
Depreciation and amortization		-134,089	4,998	-42,362	-171,453
EBIT		148,511	-391	–	148,120
<b>Balance sheet summary</b>					
Debt	(b)	682,225	–	–	682,225
Of which other off-balance-sheet debt		–	–	–	–
Lease-equivalent debt		–	–	–	–
Lease-adjusted debt		682,225	–	–	682,225
Readily available cash and equivalents	(c)	445,203	–	-984	444,219
Not readily available cash and equivalents		–	–	–	3,065
<b>Cash flow summary</b>					
EBITDA	(a)	282,600	-5,389	42,362	319,573
Dividends received from associates less dividends paid to minorities	(d)	–	–	-559	-559
Interest paid	(e)	-13,479	–	–	-13,479
Interest received	(f)	15,205	–	–	15,205
Preferred dividends paid	(g)	–	–	–	–
Cash tax paid		-248	–	–	-248
Other items before FFO		-132,918	–	93,013	-39,905
FFO	(h)	151,160	-5,389	135,375	280,587
Change in working capital		-43,486	–	–	-43,486
CFO	(i)	107,674	-5,389	135,375	237,101
Non-operating/nonrecurring cash flow		–	–	–	–
Capex	(j)	-108,456	–	-157,723	-266,179
Common dividends paid		-80,992	–	80,992	–
FCF		-81,774	-5,389	58,644	-29,078
<b>Gross leverage (x)</b>					
FFO leverage	b/(h-e-f-g)	4.6	–	–	2.4
(CFO-capex)/debt (%)	(i+j)/b	-0.1	–	–	-4.3
<b>Net leverage (x)</b>					
FFO net leverage	(b-c)/(h-e-f-g)	1.6	–	–	0.9
(CFO-capex)/net debt (%)	(i+j)/(b-c)	-0.3	–	–	-12.2
<b>Coverage (x)</b>					
FFO interest coverage	(h-e-f-g)/(-e-g)	11.1	–	–	20.7

CFO - Cash flow from operations

Note: The standardised items presented above are based on Fitch's taxonomy for the given sector and region.

Reported items may not match the Fitch taxonomy, but they are captured into corresponding lines accordingly.

Debt includes other off-balance-sheet debt.

Source: Fitch Ratings, Fitch Solutions, Canal de Isabel II, S.A., M.P.

## Government Related Entity Analysis

### Canal de Isabel II, S.A., M.P. Rating Derivation Summary

GRE Key Risk Factors and Support Score	
<b>Responsibility to support</b>	12.5
Decision-making and oversight	Very Strong
Precedents of support	Not Strong Enough
<b>Incentives to support</b>	0.0
Preservation of provision of public service or sovereignty or strategic assets	Not Strong Enough
Contagion risk	Not Strong Enough
<b>Support score</b>	<b>12.5</b>
<b>Summary</b>	
<b>Supporting government</b>	Madrid, Autonomous Community of
<b>Government LT IDR</b>	A-
<b>GRE SCP</b>	bbb+
<b>Support category</b>	Modest Expectations
<b>Notching expression</b>	
Single equalisation factor	No
<b>GRE LT IDR</b>	BBB+

LT IDR – Long-Term Issuer Default Rating.  
 GRE – Government-related entity. SCP – Standalone Credit Profile.  
 n.a. – Not applicable.  
 Source: Fitch Ratings

Government LT IDR	GRE SCP	GRE LT IDR
AAA	aaa	AAA
AA+	aa+	AA+
AA	aa	AA
AA-	aa-	AA-
A+	a+	A+
A	a	A
A-	a-	A-
BBB+	bbb+	BBB+
BBB	bbb	BBB
BBB-	bbb-	BBB-
BB+	bb+	BB+
BB	bb	BB
BB-	bb-	BB-
B+	b+	B+
B	b	B
B-	b-	B-
CCC+	ccc+	CCC+
CCC	ccc	CCC
CCC-	ccc-	CCC-
CC	cc	CC
C	c	C
RD	rd	RD
D	d	D

Source: Fitch Ratings

Notching Guideline

	A	B	C	D	E	F	G
GRE's SCP - Government's IDR	Equal to or more than 45.0	Between 42.5 and 35.0 <sup>a</sup>	Between 32.5 and 30.0 <sup>a</sup>	Between 25.0 and 20.0 <sup>a</sup>	15.0 <sup>a</sup>	12.5	Equal to or less than 10.0
>0	Standalone or constrained	Standalone or constrained	Standalone or constrained	Standalone or constrained	Standalone or constrained	Standalone or constrained	Standalone or constrained
0	0	0	0	Standalone	Standalone	Standalone	Standalone
-1	0	0	0	+1 <sup>b</sup>	Standalone	Standalone	Standalone
-2	0	0	0	+1	Standalone	Standalone	Standalone
-3	0	0	-1	+1	Standalone	Standalone	Standalone
-4	0	-1	-2	+1	Standalone	Standalone	Standalone
-5	0	-1	-2	+2	+1	Standalone	Standalone
-6	0	-1	-2	+3	+2	+1	Standalone
-7	0	-1	-2	+4	+2	+1	Standalone
-8	0	-1	-2	+4	+3	+1	Standalone
-9	0	-1	-2	+5	+3	+1	Standalone
-10	0	-2	-3	+5	+3	+1	Standalone
-11	-1	-2	-4	+5	+3	+1	Standalone
-12	-1	-3	-4	+5	+3	+1	Standalone
-13	-2	-3	-5	+5	+3	+1	Standalone
-14	-2	-3	-5	+5	+3	+1	Standalone
-15	-2	-3	-5	+5	+3	+1	Standalone
No SCP	0	-1	-2	-3	n.a	n.a	n.a

<sup>a</sup> Including those values.

<sup>b</sup> Capped at government IDR minus one if the credit drivers of the GRE are largely similar to or interrelated with those of the government (typical for policy GREs).

Note: Columns A to C refer to notching down from the government IDR and columns D to F refer to notching up from the Standalone Credit Profile. See Fitch's *Government-Related Entities Rating Criteria* for more information.

GRE - Government-related entity. SCP - Standalone Credit Profile. LT IDR - Long-Term Issuer Default Rating. n.a. - Not applicable.

Source: Fitch Ratings

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