Comisión Nacional del Mercado de Valores
Registros oficiales
Edison, 4
28006 Madrid

Madrid, 18 de diciembre de 2014

Dª. María Fernanda Richmond, como apoderada de “CANAL DE ISABEL II GESTIÓN, S.A.”, compañía domiciliada en Calle Santa Engracia, 125, 28003, Madrid y con N.I.F. A-86488087 (el **Emisor**), y en relación con el Programa Base de Emisión de Bonos (*Medium Term Note Programme*) del Emisor (el **Folleto de Base**), depositado e inscrito en los registros oficiales de la Comisión Nacional del Mercado de Valores.

HACE CONSTAR

Que la versión impresa del Folleto de Base, inscrito por la Comisión Nacional del Mercado de Valores con fecha 18 de diciembre de 2014, coincide exactamente con la versión en soporte informático que se adjunta.

Asimismo, por la presente se autoriza a la Comisión Nacional del Mercado de Valores para que el Folleto de Base sea puesto a disposición del público a través de su página web (www.cnmv.es).

Y para que así conste y surta los efectos oportunos, en Madrid, a 18 de diciembre de 2014.

CANAL DE ISABEL II GESTIÓN, S.A.
P.p.

Dª. María Fernanda Richmond

BASE PROSPECTUS

Canal de Isabel II Gestión, S.A.

(*incorporated with limited liability in the Kingdom of Spain*)

€1,000,000,000
Euro Medium Term Note Programme

Under this €1,000,000,000 Euro Medium Term Note Programme (the **Programme**), Canal de Isabel II Gestión, S.A. (**Canal Gestión** or the **Issuer**) may from time to time issue notes (the **Notes**) described in this base prospectus (the **Base Prospectus**) denominated in any currency agreed between the Issuer and the relevant Dealer (as defined below).

The Notes may be issued on a continuing basis to one or more of the Dealers (which, for the avoidance of doubt, includes the Arranger) specified under "*Overview of the Programme*" and any additional Dealer appointed under the Programme from time to time by the Issuer (each a **Dealer** and together the **Dealers**), which appointment may be for a specific issue or on an ongoing basis. References in this Base Prospectus to the **relevant Dealer** shall, in the case of an issue of Notes being (or intended to be) subscribed by more than one Dealer, be to all Dealers agreeing to subscribe such Notes.

An investment in Notes issued under the Programme involves certain risks. For a discussion of these risks see "*Risk Factors*".

This Base Prospectus constitutes a listing prospectus for the purposes of Article 3 of Directive 2003/71/EC of the European Parliament and of the Council of the European Union, as amended and implemented in each Member State (the **Prospectus Directive**) and has been prepared in accordance with, and including the information required by, Annexes IX and XIII of Regulation (EC) No. 809/2004. This Base Prospectus has been approved by the Spanish National Securities Market Commission (*Comisión Nacional del Mercado de Valores*) (the **CNMV)** in its capacity as competent authority under Law 24/1988, of 28 July, on the Securities Market (*Ley 24/1988, de 28 de julio, del Mercado de Valores*) *(*the **LMV**) and relevant implementing measures in Spain. The Base Prospectus will be valid for one year from the date of approval by the CNMV (www.cnmv.es), provided it is updated as necessary with the appropriate supplements according to the applicable laws and regulations.

Application will be made for the Notes issued under this Programme to be admitted to trading on the Spanish AIAF Fixed Income Securities Market (**AIAF**).

Notice of the aggregate nominal amount of Notes, interest payable in respect of Notes, the issue price of Notes and certain other information which is applicable to each Tranche (as defined under "*Terms and Conditions of the Notes*") of Notes will be set out in a final terms document (the **Final Terms**) which will be filed with the CNMV. Copies of Final Terms in relation to Notes to be listed on the AIAF will also be published on the website of the CNMV (www.cnmv.es).

The Issuer has been rated BBB+ by Fitch Ratings Ltd (**Fitch**) and Baa2 by Moody's Investors Service Ltd (**Moody's)**. Each of Fitch and Moody's is established in the European Union and is registered under Regulation (EC) No. 1060/2009 (as amended) (the **CRA Regulation**). Notes issued under the Programme may be rated or unrated by any one or more of the rating agencies referred to above. Where a Tranche of Notes is rated, such rating will be disclosed in the Final Terms and will not necessarily be the same as the rating assigned to the Issuer by the relevant rating agency. A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

Arranger

Banco Santander, S.A.

Dealers

Banco Bilbao Vizcaya Argentaria, S.A.

Banco Santander, S.A.

CaixaBank, S.A.

HSBC Bank plc

Société Générale Corporate & Investment Banking

The date of this Base Prospectus is 18 December 2014.

CONTENTS

Clause		Page
1.	Important Information	4
2.	Risk Factors	7
3.	Overview of the Programme	16
4.	Description of the Issuer	21
5.	Business Overview	28
6.	Terms and Conditions of the Notes	45
7.	Regulations of the Syndicate of Noteholders	68
8.	Applicable Final Terms	76
9.	Use of Proceeds	84
10.	Taxation	85
11.	Subscription and Sale	92
12.	Summary of Clearance and Settlement Procedures Applicable to Book-Entry Notes	94
13.	Additional Information	97
14.	Signatures	100
15.	Index to Financial Statements	102

1. IMPORTANT INFORMATION

This Base Prospectus comprises a base prospectus in respect of all Notes issued under the Programme for the purposes of Article 5.4 of Directive 2003/71/EC as amended (which includes the amendments made by Directive 2010/73/EU to the extent that such amendments have been implemented in a relevant Member State of the European Economic Area) (the **Prospectus Directive**).

The Issuer, having taken all reasonable care to ensure that such is the case, confirms that the information contained in the Base Prospectus is, to the best of its knowledge, in accordance with the facts and contains no omission likely to affect its import.

The Dealers have not independently verified the information contained herein. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by the Dealers as to the accuracy or completeness of the information contained or incorporated in this Base Prospectus or any other information provided by the Issuer in connection with the Programme. No Dealer accepts any liability in relation to the information contained or incorporated by reference in this Base Prospectus or any other information provided by the Issuer in connection with the Programme.

No person is or has been authorised by the Issuer to give any information or to make any representation not contained in or not consistent with this Base Prospectus or any other information supplied in connection with the Programme or the Notes and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer or any of the Dealers.

Neither this Base Prospectus nor any other information supplied in connection with the Programme or any Notes (a) is intended to provide the basis of any credit or other evaluation or (b) should be considered as a recommendation by the Issuer or any of the Dealers that any recipient of this Base Prospectus or any other information supplied in connection with the Programme or any Notes should purchase any Notes. Each investor contemplating purchasing any Notes should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuer. Neither this Base Prospectus nor any other information supplied in connection with the Programme or the issue of any Notes constitutes an offer or invitation by or on behalf of the Issuer or any of the Dealers to any person to subscribe for or to purchase any Notes.

Neither the delivery of this Base Prospectus, any Final Terms, or the offering, sale or delivery of any Notes shall in any circumstances imply that the information contained herein concerning the Issuer is correct at any time subsequent to the date hereof or that any other information supplied in connection with the Programme is correct as of any time subsequent to the date indicated in the document containing the same. The Dealers expressly do not undertake to review the financial condition or affairs of the Issuer during the life of the Programme or to advise any investor in the Notes of any information coming to their attention.

IMPORTANT INFORMATION RELATING TO THE USE OF THIS BASE PROSPECTUS AND OFFERS OF NOTES GENERALLY

This Base Prospectus does not constitute an offer to sell or the solicitation of an offer to buy any Notes in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. The distribution of this Base Prospectus and the offer or sale of Notes may be restricted by law in certain jurisdictions. The Issuer and the Dealers do not represent that this Base Prospectus may be lawfully distributed, or that any Notes may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Issuer or the Dealers which is intended to permit a public offering of any Notes or distribution of this Base Prospectus in any jurisdiction where action for that purpose is required. Accordingly, no Notes may be offered or sold, directly or indirectly, and neither this Base Prospectus nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this Base Prospectus or any Notes may come must inform themselves about, and observe, any such restrictions on the distribution of this Base Prospectus and the offering and sale of Notes. In particular, there are restrictions on the distribution of this Base Prospectus and the offer or sale of Notes in the United States and the United Kingdom, see "*Subscription and Sale*".

The Notes may not be a suitable investment for all investors. Each potential investor in the Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor may wish to consider, either on its own or with the help of its financial and other professional advisers, whether it:

(i) has sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained or incorporated by reference in this Base Prospectus or any applicable supplement;

(ii) has access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact the Notes will have on its overall investment portfolio;

(iii) has sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes, including Notes where the currency for principal or interest payments is different from the potential investor's currency;

(iv) understands thoroughly the terms of the Notes and is familiar with the behaviour of financial markets; and

(v) is able to evaluate possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

Legal investment considerations may restrict certain investments. The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (1) Notes are legal investments for it, (2) Notes can be used as collateral for various types of borrowing and (3) other restrictions apply to its purchase or pledge of any Notes. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of Notes under any applicable risk-based capital or similar rules.

The Notes have not been and will not be registered under the United States Securities Act of 1933, as amended, (the **Securities Act**) and are subject to U.S. tax law requirements. Subject to certain exceptions, Notes may not be offered, sold or delivered within the United States or to, or for the account or benefit of, U.S. persons (see "*Subscription and Sale*").

PRESENTATION OF INFORMATION

In this Base Prospectus, all references to **euro** and **€** refer to the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty on the Functioning of the European Union, as amended.

STABILISATION

In connection with the issue of any Tranche of Notes, the Dealer or Dealers (if any) named as the Stabilisation Manager(s) (or persons acting on behalf of any Stabilisation Manager(s)) in the applicable Final Terms may over-allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilisation Manager(s) (or persons acting on behalf of a Stabilisation

Manager) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the relevant Tranche of Notes is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the relevant Tranche of Notes and 60 days after the date of the allotment of the relevant Tranche of Notes. Any stabilisation action or over-allotment must be conducted by the relevant Stabilisation Manager(s) (or persons acting on behalf of any Stabilisation Manager(s)) in accordance with Regulation (EC) No. 2273/2003 and all other applicable laws and rules.

2. RISK FACTORS

In purchasing Notes, investors assume the risk that the Issuer may become insolvent or otherwise be unable to make all payments due in respect of the Notes. There is a wide range of factors which individually or together could result in the Issuer becoming unable to make all payments due in respect of the Notes. It is not possible to identify all such factors or to determine which factors are most likely to occur, as the Issuer may not be aware of all relevant factors and certain factors which it currently deem not to be material may become material as a result of the occurrence of events outside the Issuer's control. The Issuer has identified in this Base Prospectus a number of factors which could materially adversely affect its business and ability to make payments due under the Notes.

In addition, factors which are material for the purpose of assessing the market risks associated with Notes issued under the Programme are also described below.

Prospective investors should also read the detailed information set out elsewhere in this Base Prospectus and reach their own views prior to making any investment decision.

Risks relating to the Issuer

Relationship between the Issuer and Canal Ente

The Issuer's principal shareholder (holding 82.39956% of the issued share capital) is Canal de Isabel II (**Canal Ente**), which is an entity charged with carrying out a public service. The Issuer's relationship with Canal Ente is regulated in the framework agreement signed on 1 July 2012 between Canal Ente and Canal Gestión and approved by the regional cabinet of the Autonomous Community of Madrid under the terms of article 16, clause 2, point 4 of Law 3/2008, on 14 June 2012 (the **Framework Agreement**) (entered into for a 50-year period which began on 1 July 2012 and cannot be renewed). Whilst it is expected that the Framework Agreement will deal with most scenarios, it is possible that the Issuer and Canal Ente may have differing views on certain matters which are fundamental to the Issuer's business, such as the supply of water to certain municipalities or the tariff structure. As a public entity, Canal Ente is required to act in furtherance of the public interest and there may be conflict between Canal Ente and the Issuer as a result. Furthermore, as the majority shareholder of the Issuer, Canal Ente may be able to exert significant influence over the Issuer's strategy and operations.

The Framework Agreement can be terminated by the board of directors of Canal Ente, with the prior authorisation from the Board of Government of the Autonomous Community of Madrid (*Consejo de Gobierno de la Comunidad de Madrid*), upon occurrence of any of the events stated in the Framework Agreement (i.e. major breach of its obligations under the Framework Agreement by Canal Ente or Canal Gestión, mutual agreement or total or partial removal of the services provided under the Framework Agreement). In the event of termination of the Framework Agreement for any reason, Canal Ente will pay compensation to Canal Gestión for the investments carried out by Canal Gestión on the Madrid General Network (as defined on page 21). The amount of such compensation will depend on the investments made by Canal Gestión and the cause of termination. If the cause of termination is i) a major breach of Canal Ente's obligations under the Framework Agreement or ii) the total or partial removal of the services provided under the Framework Agreement, Canal Ente will pay to Canal Gestión an additional payment as compensation for damages. On termination of the Framework Agreement, Canal Gestión will be required to return the assets and rights that make up the Madrid General Network, and any other goods and installations in the public domain that are required to provide the service, to the public authorities in good working order and perfect condition.

Secure supply of safe and clean drinking water risk

Water supplies may be subject to contamination, emanating from naturally occurring compounds and pollution resulting from man-made sources or malicious acts. Although the Issuer has established contingency plans and incident management procedures and has controls in place in respect of water supplies, if one or more of the Issuer's water supplies becomes contaminated and the Issuer is unable to substitute a supply or to treat the contaminated water source adequately, there may be an adverse effect on its reputation, operating results and financial position. In extreme and remote circumstances, impacts may include unavoidable water resource shortages or an impact on public health. The Issuer could also be held liable for human exposure to hazardous substances in water supplies or other environmental damage, which may adversely affect the Issuer's business, operating results and financial condition.

Significant and catastrophic events

The Issuer's business involves the building, control and operation of water and wastewater networks and the maintenance of the associated assets with the objective of providing a continuous service to customers. This includes major construction work and operations above and below ground and includes the use of vehicles, equipment and chemicals subject to a variety of physical and environmental factors/conditions. In exceptional and remote circumstances where there is a failure of an asset, an element of a network or supporting systems, plant or equipment, the impact and effects could be significant. It could range from environmental impact, economic and social disruption to loss of life. Such consequences may arise due to a number of circumstances either within or outside the Issuer's control such as human error, an individual's malicious intervention or unavoidable resource shortfalls. Whilst the Issuer seeks to ensure that it has appropriate processes and preventative controls in place, there can be no certainty that such measures will be effective in preventing, or when necessary, managing large-scale incidents.

Catastrophic events such as dam bursts, fires, earthquakes, floods, droughts, terrorist attacks, sabotage, diseases, plant failure or other similar events could result in personal injury, loss of life, pollution or environmental damage, severe damage or destruction of the Issuer's water or wastewater treatment works, pumping stations, water mains, sewers or service pipes. Any resulting damage or suspension of operations of the Issuer could have a material adverse impact on the Issuer's business, operating results and financial condition.

Legal and regulatory risk

The Issuer's business is subject to extensive legal and regulatory obligations and controls in the countries in which it operates and thus the Issuer must comply with all applicable laws, regulations and regulatory standards. The application of these laws, regulations and regulatory standards could have a material adverse impact on the ability of the Issuer to meet its delivery standards.

Furthermore, whilst the Issuer is ordinarily made aware of any potential changes in laws or regulations that affect the Issuer's business and takes the necessary measures to ensure that their impact is minimal, the subsequent interpretation of new and/or existing laws or regulations may also change or the approach to their enforcement may become more rigorous. As a result, there is a risk that the Issuer's processes may fail or that such processes may not effectively keep pace with changes to legislation leading to a risk of non-compliance by the Issuer.

Environmental risk

The Issuer's business is subject to a number of laws and regulations relating to the protection of the environment and human health. These expose the Issuer to costs and liabilities relating to its operations. Although the Issuer commits significant resources towards ensuring compliance with these laws and regulations and maintains insurance cover on all its key property and liability exposures in the international insurance market, a major safety or environmental impact incident could expose employees, contractors and third parties to the risk of injury or a potential adverse environmental impact, thereby exposing the Issuer to potential liability and/or loss of reputation. Breaches of applicable environmental or health and safety laws or regulations may expose the Issuer to penalties, claims for financial compensation and/or adverse regulatory consequences.

Furthermore, there can be no assurance that the costs of compliance with applicable environmental standards and regulations will not increase and if any such increased costs are not incorporated into the Issuer's tariff structure (through the conditions of the Framework Agreement) or through any rebalancing of amounts due to the Issuer under any concession agreements, such costs could adversely affect the Issuer's financial performance and profitability.

Water shortages

Water shortages may be caused by periods of below average rainfall or drought, increasing demand, climate change, environmental considerations including loss of sources (for example due to contamination), service interruptions and leakage, or a combination of any of these factors. In the event of water shortages, additional costs may be incurred by the Issuer in order to provide emergency reinforcement to supplies in areas of shortage (i.e. pumping water). Any prolonged periods of water shortage could result in greater operating costs which may adversely affect the Issuer's business, operating results and financial condition.

Water demand

The demand for water could vary significantly from period to period as a result of various factors, some of which are outside the Issuer's control, including population changes, restrictions on water supply, water efficiency measures and climate change. A decrease in water demand could adversely affect the Issuer's business, operating results and financial condition, whereas an increase could give rise to the issues described in relation to water shortages above. The Issuer may be required to take measures to adapt its operations to mitigate the effects and may result in the need for new resources to be developed.

Operational service risk

Certain Issuer companies control and operate water and wastewater networks and maintain the associated assets with the objective of providing a continuous service to customers. These networks and assets are key to the on-going operation of the Issuer's business and the Issuer undertakes regular maintenance. However, the failure of a key component of the network could cause a significant interruption to the supply of services, materially affecting the way that the Issuer operates, prejudicing its reputation and resulting in additional costs including liability to customers or loss of revenue, each of which could have an adverse effect on the Issuer's business, operating results or financial condition.

Capital delivery risk

The Issuer's business requires significant capital expenditure (€145,569,000 for the nine months ended 30 September 2014, €273,931,000 in 2013 and €164,245,000 for the six months ending 31 December 2012), particularly in relation to new and replacement plant and equipment for water and wastewater networks and treatment facilities. Delivery of capital investment programmes could be affected by a number of factors including adverse legacy effects of earlier capital investments (such as increased maintenance, repair, reinstatement or renewal costs), amounts budgeted in prior capital investment programmes proving insufficient to meet the actual amount required, or the ability of the Issuer to fund such capital expenditure efficiently. This could affect the business, financial condition and results of operations of the Issuer and also result in the Issuer not being able to meet its capital expenditure requirements..

Increases in energy prices

The Group had energy costs (including the electricity consumption of each water plant and energy costs associated with the pumping of water) amounting to €62,400,000 as at 31 December 2013. Whilst any increases in energy prices are likely to be incorporated into the Issuer's tariff structure (through the conditions of the Framework Agreement) or through any rebalancing of amounts due to the Issuer under any concession agreements, if such costs are not covered this could lead to greater operating costs which could adversely affect the Issuer's business, operating results and financial condition.

Contractors, operators and maintenance companies

The Issuer entrusts a network of contractors, operators and maintenance companies to carry out the various services and functions across its businesses. Whilst the Issuer seeks to ensure that these contractors, operators and maintenance companies are of the highest standard and has contractual measures in place to ensure such entities satisfy their obligations, there can be no certainty that such entities will carry out all of their contractual responsibilities in accordance with the standards the Issuer expects or is required to deliver. Any failure of these contractors, operators and maintenance companies to carry out their work in this manner could have an adverse effect on the Issuer's business, reputation operating results or financial condition.

Insurance

The Issuer maintains insurance cover on all its key property and liability exposures in the international insurance market. No assurance can be given that the insurance cover acquired by the Issuer provides adequate or sufficient cover for all events or incidents. The international insurance market is volatile and therefore there can be no guarantee that existing cover will remain available or will be available at commercially acceptable rates. Should resulting damages or loss of profit on the occurrence of an event or incident exceed the coverage provided by the Issuer's insurance policies, this could materially adversely affect the Issuer's operating results.

Emerging and less developed markets

Canal Gestión and its subsidiaries' (**the Group**) operations outside Spain, primarily in emerging and growth markets in Latin America, in 2013 contributed 17.5% to the consolidated revenues of the Group. The Group's operations in these markets are subject to risks including potential political and economic instability, application of exchange controls, nationalisation or expropriation, external interferences, labour unrest, currency fluctuations, inflation, economic recession and changes in government policy. Exposure to these risks may increase if the Group grows in emerging and growth markets.

Moreover, these economies may not grow in a manner envisaged at the time the Group entered the relevant markets and may suffer from recession, high rates of inflation and real currency devaluation. Such factors could cause interruptions to the Group's operations, increase the costs of operating in those countries, adversely affect demand for the Group's service or the prices consumers are willing to pay or limit the ability of the Group to repatriate profits from those countries, all of which could have a material adverse effect on the Group's business, results of operations, cash flows or financial condition.

General financial risks

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

The Group's activities are exposed to certain financial risks (i.e. currency risk, credit risk, liquidity risk, and cash flow interest rate risk). Those of significance to the Group are explained in further detail below. The Group's global risk management programme focuses on uncertainty in the financial markets and aims to minimise the potential adverse effects on the Group's profits.

Risks are managed by the Group's central Treasury Department in accordance with policies approved by the board of directors. This department identifies, evaluates and mitigates financial risks in close collaboration with the Group's operational units. Failure by the central Treasury Department and the Group in general to manage these risks could have a material adverse effect on the Group's business, results of operations, cash flows or financial condition.

Variable interest rate risk

Variable interest rate risk is the impact on profit of a rise in variable rates of interest on the Group's indebtedness, which increases the cost of borrowings. The Issuer endeavours to mitigate this risk through drawdowns on fixed-rate loans, which at 31 December 2013 represent 35% of total borrowings (37% in 2012). The interest rate on variable-rate net debt is set with reference to EURIBOR in Spain and the DTF in Colombia. An increase of 1% in the EURIBOR rate would result in an increased financing cost of €6,824,452 when compared with the EURIBOR linked interest rates payable at 31 December 2013. An increase of 1% in the DTF rate would result in an increased financing cost of €710,000 when compared with the DTF linked interest rates payable at 31 December 2013. A significant change in the net finance cost for the year as a result of changes in interest rates, and the structure of net debt, could have an adverse effect on the Issuer's financial condition.

Liquidity risk

The Group applies a prudent policy to cover its liquidity risks, based on having cash and sufficient financing through credit facilities. Given the dynamic nature of its underlying business, the Group 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 financing requirements. In 2013 and 2012 the Group arranged long-term financing to meet its future investment requirements. The long term financing arrangements entered into in 2012 and 2013 are due to mature in 2020. Additionally, as at the date of this Base Prospectus, the Group's remaining repayment obligations under its indebtedness amount to €26,821,428 for the year ending 31 December 2014, €310,479,124 for the year ending 31 December 2015 and €190,763,964 for the year ending 31 December 2016. There can be no assurance that the Group will be able to raise debt in the future on terms that are satisfactory to it, or at all, and this may have an adverse effect on the Issuer's activity and results of operations.

Risks applicable to all Notes

The Notes may be redeemed prior to maturity

An optional redemption feature of Notes is likely to limit their market value. During any period when the Issuer may elect to redeem Notes, the market value of those Notes generally will not rise substantially above the price at which they can be redeemed. This also may be true prior to any redemption period.

The Issuer may be expected to redeem Notes when its cost of borrowing is lower than the interest rate on the Notes. At those times, an investor generally would not be able to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Notes being redeemed and may only be able to do so at a significantly lower rate. Potential investors should consider reinvestment risk in light of other investments available at that time.

Fixed/Floating Rate and Floating/Fixed Rate Notes

Fixed/Floating Rate Notes are Notes which may bear interest at a rate that converts from a fixed rate to a floating rate and Floating/Fixed Rate Notes are Notes which may bear interest at a rate that converts from a floating rate to a fixed rate. Where the Issuer has the right to effect such a conversion, this will affect the secondary market and the market value of the Notes since the Issuer may be expected to convert the rate when it is likely to produce a lower overall cost of borrowing. If the Issuer converts from a fixed rate to a floating rate in such circumstances, the spread on the Fixed/Floating Rate Notes may be less favourable than then prevailing spreads on comparable Floating Rate Notes tied to the same reference rate. In addition, the new floating rate at any time may be lower than the rates on other Notes. If the Issuer converts from a floating rate to a fixed rate in such circumstances, the fixed rate may be lower than then prevailing market rates.

Notes issued at a substantial discount or premium

The market values of securities issued at a substantial discount or premium to their principal amount tend to fluctuate more in relation to general changes in interest rates than do prices for more conventional interest-bearing securities. Generally, the longer the remaining term of such securities, the greater the price volatility as compared to more conventional interest-bearing securities with comparable maturities.

Modification and waiver of the Conditions of the Notes

The Conditions of the Notes contain provisions for calling meetings of Noteholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Noteholders including Noteholders who did not attend and vote at the relevant meeting and Noteholders who voted in a manner contrary to the majority.

The Conditions of the Notes also provide that the Issuer may amend the Conditions of the Notes insofar as they apply to the Notes to correct a manifest error or where the amendments are of a formal, minor or technical nature or to comply with mandatory provisions of law. In addition, the Issuer and the Noteholders, the latter with the sanction of a resolution of the Syndicate of Noteholders, may agree to any modification of, or to the waiver or authorisation of any breach or proposed breach of, any of the provisions of the Notes.

Subordinated claims to creditors of indebtedness that is not Relevant Indebtedness

The Notes are unsecured and unsubordinated obligations of the Issuer. Upon any insolvency of the Issuer, subject to statutory preferences and provided they do not qualify as subordinated claims pursuant to article 92 of the Spanish Insolvency Act (*Ley Concursal*), the Notes will rank equally with any of the Issuer's other unsecured and unsubordinated indebtedness. However, the Notes will be effectively subordinated to all of the Issuer's secured indebtedness which is not Relevant Indebtedness (as defined in the Conditions below), to the extent of the value of the assets securing such indebtedness, and other preferential obligations under Spanish law.

Enforcement against assets

To enable Canal Gestión to provide its services, article 16 of Law 3/2008 required the Autonomous Community of Madrid and Canal Ente to ascribe to Canal Gestión any assets in the public domain that make up the Madrid General Network and which are necessary for Canal Gestión to conduct the activities and functions entrusted to it. This obligation to ascribe does not mean that ownership of the public property assets is transferred to Canal Gestión but that Canal Gestión has only the right to use these assets. These public domain assets are subject to the limitations and rights linked to the public domain or attached to a public service. As a consequence, a Noteholder would not be able to enforce against such assets if Canal Gestión failed to make payments under the Notes.

Clearing and settlement

The Notes will be registered with Iberclear. Consequently, no physical Notes will be issued. Clearing and settlement relating to the Notes, as well as payment of distributions and redemption or adjustment of principal amounts, will be performed within Iberclear's account-based system. Holders are therefore dependent on the functionality of Iberclear's account-based system.

Title to the Notes will be evidenced by book entries, and each person shown in the Spanish Central Registry managed by Iberclear and in the registries maintained by the Iberclear Members as being a holder of Notes shall be (except as otherwise required by Spanish law) considered the Holder of the principal amount of the Notes recorded therein.

The Issuer will discharge its payment obligation under the Conditions by making payments through Iberclear. Holders must rely on the procedures of Iberclear and its participants to receive payments. The Issuer has no responsibility or liability for the records relating to, or payments made in respect of, Holders of the Notes according to book entries and registries as described in the previous paragraph.

A summary of clearance and settlement procedures applicable to book-entry Notes in Spain is contained under section 10 "*Summary of clearance and settlement procedures applicable to book-entry Notes*".

EU Directive on the taxation of savings income

Under Council Directive 2003/48/EC on the taxation of savings income, Member States are required to provide to the tax authorities of other Member States details of certain payments of interest or similar income paid or secured by a person established in a Member State to or for the benefit of an individual resident in another Member State or certain limited types of entities established in another Member State.

On 24 March 2014, the Council of the European Union adopted a Council Directive amending and broadening the scope of the requirements described above. Member States are required to apply these new requirements from 1 January 2017. The changes will expand the range of payments covered by the Directive, in particular to include additional types of income payable on securities. The Directive will also expand the circumstances in which payments that indirectly benefit an individual resident in a Member State must be reported. This approach will apply to payments made to, or secured for, persons, entities or legal arrangements (including trusts) where certain conditions are satisfied, and may in some cases apply where the person, entity or arrangement is established or effectively managed outside of the European Union.

For a transitional period, Luxembourg and Austria are required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments. The changes referred to above will broaden the types of payments subject to withholding in those Member States which still operate a withholding system when they are implemented. In April 2013, the Luxembourg Government announced its intention to abolish the withholding system with effect from 1 January 2015, in favour of automatic information exchange under the Directive.

The end of the transitional period is dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries. A number of non-EU countries and territories including Switzerland have adopted similar measures (a withholding system in the case of Switzerland).

If a payment were to be made or collected through a Member State which has opted for a withholding system and an amount of, or in respect of, tax were to be withheld from that payment, neither the Issuer nor any Paying Agent (as defined in the Conditions of the Notes) nor any other person would be obliged to pay additional amounts with respect to any Note as a result of the imposition of such withholding tax. The Issuer is required to maintain a Paying Agent in a Member State that is not obliged to withhold or deduct tax pursuant to the Directive.

U.S. Foreign Account Tax Compliance Withholding

Sections 1471 through 1474 of the U.S. Internal Revenue Code of 1986 (FATCA) impose a new reporting regime and, potentially, a 30 per cent. withholding tax with respect to (i) certain payments from sources within the United States, (ii) "foreign passthru payments" made to certain non-U.S. financial institutions that do not comply with this new reporting regime, and (iii) payments to certain investors that do not provide identification information with respect to interests issued by a participating non-U.S. financial institution. Whilst the Notes are cleared through Iberclear, in all but the most remote circumstances, it is not expected that FATCA will affect the amount of any payment received by the Iberclear. However, FATCA may affect payments made to custodians or intermediaries in the subsequent payment chain leading to the ultimate investor if any such custodian or intermediary generally is unable to receive payments free of FATCA withholding. It also may affect payment to any ultimate investor that is a financial institution that is not entitled to receive payments free of withholding under FATCA, or an ultimate investor that fails to provide its broker (or other custodian or intermediary from which it receives payment) with any information, forms, other documentation or consents that may be necessary for the payments to be made free of FATCA withholding. Investors should choose the custodians or intermediaries with care (to ensure each is compliant with FATCA or other laws or agreements related to FATCA) and provide each custodian or intermediary with any information, forms, other documentation or consents that may be necessary for such custodian or intermediary to make a payment free of FATCA withholding. Investors should consult their own tax adviser to obtain a more detailed explanation of FATCA and how FATCA may affect them. The Issuer's obligations under the Notes are discharged once it has paid Iberclear, and the Issuer has therefore no responsibility for any amount thereafter transmitted through Iberclear and custodians or intermediaries. Prospective investors should refer to the section "Taxation – Foreign Account Tax Compliance Act".

Change in law or administrative practice.

Other than Conditions 3 (*Form, Title and Transfer*), 4 (*Status of the Notes*), 14 (*Syndicate of Noteholders and Modification*) and Condition 20 (*Regulations of the Syndicate of Noteholders*) which are based on Spanish law, the Conditions of the Notes are based on English law in effect as at the date of this Base Prospectus. No assurance can be given as to the impact of any possible judicial decision or change to English law or administrative practice after the date of this Base Prospectus and any such change could materially adversely impact the value of any Notes affected by it.

Risks related to the market generally

There may not be an active trading market for the Notes

Notes may have no established trading market when issued, and one may never develop. If a market does develop, it may not be very liquid. Therefore, investors may not be able to sell their Notes easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market.

Exchange rate risks and exchange controls

The Issuer will pay principal and interest on the Notes in the Specified Currency. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the **Investor's Currency**) other than the Specified Currency. These include the risk that exchange rates may significantly change (including changes due to devaluation of the Specified Currency or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to the Specified Currency would decrease (1) the Investor's Currency-equivalent yield on the Notes, (2) the Investor's Currency-equivalent value of the principal payable on the Notes and (3) the Investor's Currency-equivalent market value of the Notes.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate or the ability of the Issuer to make payments in respect of the Notes. As a result, investors may receive less interest or principal than expected, or no interest or principal.

Fixed Rate Notes are subject to interest rate risks

Investment in Fixed Rate Notes involves the risk that if market interest rates subsequently increase above the rate paid on the Fixed Rate Notes, this will adversely affect the value of the Fixed Rate Notes.

Credit ratings may not reflect all risks

One or more independent credit rating agencies may assign credit ratings to the Issuer or the Notes. The ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed above, and other factors that may affect the value of the Notes. A credit rating is not a recommendation to buy, sell or hold securities and may be revised, suspended or withdrawn by the rating agency at any time.

3. OVERVIEW OF THE PROGRAMME

The following overview does not purport to be complete and is taken from, and is qualified in its entirety by, the remainder of this Base Prospectus and, in relation to the terms and conditions of any particular Tranche of Notes, the applicable Final Terms.

This Overview constitutes a general description of the Programme for the purposes of Article 22.5(3) of Commission Regulation (EC) No 809/2004 implementing the Prospectus Directive (the **Prospectus Regulation**).

Words and expressions defined in "*Terms and Conditions of the Notes*" shall have the same meanings in this Overview.

Issuer:	Canal de Isabel II Gestión, S.A.
Risk Factors:	There are certain factors that may affect the Issuer's ability to fulfil its obligations under Notes issued under the Programme. In addition, there are certain factors which are material for the purpose of assessing the market risks associated with Notes issued under the Programme. These include certain risks relating to the structure of particular Series of notes and certain market risks. Each of these risks is set out under "*Risk Factors*" above.
Description:	Euro Medium Term Note Programme
Arranger:	Banco Santander, S.A.
Dealers:	Banco Bilbao Vizcaya Argentaria, S.A. Banco Santander, S.A. CaixaBank, S.A. HSBC Bank plc Société Générale Corporate & Investment Banking and any other Dealers appointed in accordance with the Dealer Agreement.
Certain Restrictions:	Each issue of Notes denominated in a currency in respect of which particular laws, guidelines, regulations, restrictions or reporting requirements apply will only be issued in circumstances which comply with such laws, guidelines, regulations, restrictions or reporting requirements from time to time (see "*Subscription and Sale*") including the following restrictions applicable at the date of this Base Prospectus. **Notes having a maturity of less than one year** Notes having a maturity of less than one year will, if the proceeds of the issue are accepted in the United Kingdom, constitute deposits for the purposes of the prohibition on

	accepting deposits contained in section 19 of the Financial Services and Markets Act 2000 unless they are issued to a limited class of professional investors and have a denomination of at least £100,000 or its equivalent; see "*Subscription and Sale*".
Paying Agent:	BNP Paribas Securities Services, S.C.A., Sucursal en España
Programme Size:	Up to €1,000,000,000 (or its equivalent in other currencies calculated as described in the Dealer Agreement) in aggregate principal amount of the Notes. In certain circumstances, the Issuer may increase the amount of the Programme for which purpose a supplement will be prepared by the Issuer and approved by the CNMV.
Distribution:	Subject to applicable selling restrictions, Notes may be distributed by way of private or public placement and in each case on a syndicated or non-syndicated basis.
Specified Currencies:	Notes may be denominated in, subject to any applicable legal or regulatory restriction, any currency agreed between the Issuer and the relevant Dealer and detailed in the Final Terms therein.
Maturities:	The Notes will have such maturities as may be agreed between the Issuer and the relevant Dealer, subject to such minimum or maximum maturities as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the Issuer or the relevant Specified Currency.
Issue Price:	Notes may be issued at any price, as specified in the relevant Final Terms. The price and amount of Notes to be issued under the Programme will be determined by the Issuer and the relevant Dealer(s) at the time of issue in accordance with prevailing market conditions.
Form of Notes:	The Notes will be issued in uncertificated, dematerialised book-entry form (*anotaciones en cuenta*) and will be registered with the *Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A. Unipersonal* (**Iberclear)** as managing entity of the central registry of the Spanish clearance and settlement system (the **Central Registry**).
Fixed Rate Notes:	Fixed interest will be payable on such date or dates as may be agreed between the Issuer and the relevant Dealer and on redemption and will be calculated on the basis of such Day Count Fraction as may be agreed between the Issuer and the relevant Dealer.
Floating Rate Notes:	Floating Rate Notes will bear interest at a rate determined on the basis of the Reference Rate set out in the applicable Final Terms.

	The margin (if any) relating to such floating rate will be agreed between the Issuer and the relevant Dealer for each Series of Floating Rate Notes.
	Floating Rate Notes may also have a maximum interest rate, a minimum interest rate or both.
	Interest on Floating Rate Notes in respect of each Interest Period, as agreed prior to issue by the Issuer and the relevant Dealer, will be payable on such Interest Payment Dates, and will be calculated on the basis of such Day Count Fraction, as may be agreed between the Issuer and the relevant Dealer.
Fixed/Floating Rate Notes	The provisions relating to Fixed Rate Notes will apply until the date indicated in the Final Terms at which point the provisions of the Floating Rate Notes will apply. Such “Change of Interest /Payment Basis” will be indicated in the applicable Final Terms.
Floating/Fixed Rate Notes	The provisions relating to Floating Rate Notes will apply until the date indicated in the Final Terms at which point the provisions of the Fixed Rate Notes will apply. Such “Change of Interest /Payment Basis” will be indicated in the applicable Final Terms.
Redemption:	Notes will be redeemable at their stated maturity at their Final Redemption Amount. Unless Issuer Call and/or Investor Put applies as indicated in the applicable Final Terms, Notes cannot be redeemed prior to their stated maturity (other than for taxation reasons or following an Event of Default).
Issuer Call:	The applicable Final Terms will indicate whether the relevant Notes will be redeemable at the option of the Issuer upon giving notice to the Noteholders on a date or dates specified prior to such stated maturity and at a price or prices and on such other terms as may be agreed between the Issuer and the relevant Dealer as further described in Condition 8.3 (*Redemption at the option of the Issuer*).
Investor Put:	The applicable Final Terms will indicate whether the relevant Notes will be redeemable at the option of the Noteholders upon giving notice to the Issuer on a date or dates specified prior to such stated maturity and at a price or prices and on such other terms as may be agreed between the Issuer and the relevant Dealer as further described in Condition 8.5 (*Redemption at the option of Noteholders*).
Denomination of Notes:	The Notes will be issued in such denominations as may be agreed between the Issuer and the relevant Dealer save that the minimum denomination of each Note will be such amount as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the relevant Specified Currency

	(see "*Certain Restrictions – Notes having a maturity of less than one year*" above) and save that the minimum denomination of each Note will be €100,000 (or, if the Notes are denominated in a currency other than euro, the equivalent amount in such currency).
Taxation:	All amounts payable in respect of Notes by the Issuer will be made free and clear of and without withholding or deduction for or on account of any present or future Taxes of whatever nature imposed or levied by or on behalf of the Kingdom of Spain or any political subdivision therein or any authority therein or thereof having power to tax, unless the withholding or deduction of such Taxes is required by law. In that event, the Issuer will, save in certain limited circumstances (please refer to Condition 10 (*Taxation*)), be required to pay such additional amounts as will result in receipt by the Noteholders of such amounts as would have been received by them had no such withholding or deduction been required.
Negative Pledge:	The Notes have the benefit of a negative pledge as further described in Condition 5 (*Negative Pledge*).
Cross Default:	The Notes have the benefit of a cross default as further described in Condition 11 (*Events of Default*).
Status of the Notes:	The Notes constitute direct, general, unconditional and (subject to Condition 5 (*Negative Pledge*)) unsecured obligations of the Issuer and in the event of insolvency (*concurso*) of the Issuer (unless they qualify as subordinated debts under article 92 of Law 22/2003 (*Ley Concursal*) dated 9 July 2003 (**Law 22/2003** or the **Insolvency Law**) or equivalent legal provision which replaces it in the future and subject to any legal and statutory exceptions) will rank *pari passu* without any preference among themselves and with all other outstanding unsecured and unsubordinated obligations of the Issuer, present and future.
Rating:	Series of Notes issued under the Programme may be rated or unrated. Where a Series of Notes is rated, such rating will be disclosed in the applicable Final Terms and will not necessarily be the same as the rating assigned to the Issuer. A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.
Listing:	Application will be made for Notes to be admitted to trading on the *AIAF, Mercado de Renta Fija,* the AIAF Fixed Income Securities Market, the Spanish market for trading in fixed income securities issued by industrial companies, financial institutions and regional public bodies.
Governing Law:	The terms and conditions of the Notes and any non-contractual obligations arising out of or in connection with the Notes will be governed by, and shall be construed in

accordance with, English law, except that the provisions of Condition 3 (*Form, Title and Transfer*), 4 (*Status of the Notes*), 14 (*Syndicate of Noteholders and Modification*) and the Regulations (as defined in Condition 14 (*Syndicate of Noteholders and Modification*)) and any non-contractual obligations arising out of or in connection with them will be governed by Spanish law.

Selling Restrictions: There are restrictions on the offer, sale and transfer of the Notes in the United States, the United Kingdom and such other restrictions as may be required in connection with the offering and sale of a particular Tranche of Notes; see *Subscription and Sale*.

4. DESCRIPTION OF THE ISSUER

General Information

Canal Gestión was incorporated pursuant to article 16, clause 1 of Law 3/2008 of 29 December 2008 (**Law 3/2008**), as amended by Law 6/2011 of 28 December 2011 (**Law 6/2011**), which authorised Canal Ente to create a corporation to provide water supply, sanitation and other water-related services and works under the terms of Law 17/1984 of 20 December 1984 (**Law 17/1984**), which regulates water supply and sanitation in the Autonomous Community of Madrid, and other applicable legislation.

Canal Gestión is a public entity of private legal status with its share capital indirectly owned by the Autonomous Community of Madrid. It was incorporated for an indefinite period with limited liability under Spanish law in Madrid on 27 June 2012 in a deed attested by the Madrid notary public Mr. Valerio Pérez de Madrid y Palá, who recorded this deed as entry 1531 in his notarial record book. Canal Gestión is registered at the Commercial Registry of Madrid under the first entry on sheet M-534929 of volume 29,733, page number 86, section 8 and with tax registration number A-86488087. Canal Gestión's registered office is located at Calle Santa Engracia, 125, 28003, Madrid with telephone number +34 91 5451000.

Share capital and major shareholders

Canal Gestión's current share capital is one billion, seventy four million and thirty two thousand euros (€1,074,032,000) divided into one billion, seventy four million and thirty two thousand (1,074,032,000) shares, each having a par value of one euro (€1). The share capital is fully paid up, issued and is owned by Canal Ente (82.39956%) and 111 municipalities of the Autonomous Community of Madrid (17.60044%) (of those 111 municipalities, the Madrid City Council owns 10.00% with the remaining 7.60044% being held by the other 110 municipalities).

The shares were issued with a share premium of one euro (€1) per share meaning a total amount of one billion, seventy four million and thirty two thousand euros (€1,074,032,000) of fully paid up share premium of which such reserves are fully distributable.

Canal Ente

Canal Ente was founded in 1851 as an entity with the objective of managing the City of Madrid's water supply. In 1984 it was incorporated into the Autonomous Community of Madrid's institutional framework as a public entity (*entidad pública empresarial)*, with its own legal personality and with its responsibilities regulated by Law 17/1984. Following the incorporation of Canal Gestión on 27 July 2012 and the entering into of the Framework Agreement (as described below), Canal Ente's rights and obligations in relation to the provision of water services in the Autonomous Community of Madrid were transferred from Canal Ente to Canal Gestión. The services that Canal Gestión is charged with carrying out are captured by the Framework Agreement and include the provision of water collection and treatment, wastewater treatment and water recycling in the Autonomous Community of Madrid.

In addition, Canal Gestión is responsible for distribution and sewerage services and urban drainage in Madrid's municipalities. In relation to the distribution and sewerage services and urban drainage, prior to the incorporation of Canal Gestión, Canal Ente signed a number of agreements with 179municipalities of the Autonomous Community of Madrid. These agreements are described below in the section "Canal Ente - Municipalities of Madrid Agreements".

With respect to Canal Ente, it retains all ownership, legal rights and obligations that are derived from concessions and authorisations granted in relation to public water collection and treatment, wastewater treatment and water recycling and any administrative powers in relation to these same services (such as tariff setting) as well as water quality, environmental and customer service standards.

Regulatory Framework

Law 17/1984, which regulates water supply and sanitation in the Autonomous Community of Madrid, details the functions assigned to the Autonomous Community of Madrid and the town councils in Madrid in relation to water responsibilities within the Autonomous Community of Madrid area. Under Law 17/1984, Canal Ente is responsible for providing water collection and treatment, wastewater treatment and water recycling services. The town councils in Madrid are responsible for providing distribution and sewerage services and urban drainage within their municipalities.

Law 3/2008 permitted Canal Ente to incorporate and establish a corporate entity (with limited liability), with the objective that such corporate entity would carry out the services assigned to Canal Ente in respect of collection and treatment, wastewater treatment and water recycling in the Autonomous Community of Madrid as described in Law 17/1984, and distribution and sewerage services and urban drainage in Madrid's municipalities with whom Canal Ente had signed different agreements before the incorporation of Canal Gestión (as described above).

Law 3/2008 also defines **the Madrid General Network**, by means of incorporating an additional provision into Law 17/1984. The Madrid General Network is comprised of all assets that belong to the Autonomous Community of Madrid, Canal Ente or any of the public entities or administrative bodies included in the institutional administration of the Autonomous Community of Madrid, and that are part of the integral water supply system, the integral water sanitation system and the water reutilisation system.

In accordance with Law 3/2008, as amended by Law 6/2011, Canal Ente retains the following powers and carries out the activities arising from the same and is entitled to any right and to any obligation thereto:

- concessions and authorisations (both existing concessions and authorisations and any to be awarded in the future) associated with public domain assets related to water supply (water collection and treatment and distribution), sanitation (sewerage services and urban drainage and wastewater treatment) and water recycling;

- any administrative powers held by the Autonomous Community of Madrid in relation to the water collection and treatment and wastewater treatment, including the power to impose penalties;

- the water collection and treatment and wastewater treatment services provided under Law 17/1984 and other applicable legislation;

- the water-related functions (distribution and sewerage services and urban drainage) entrusted to it by the Autonomous Community of Madrid, based on agreements signed with local authorities to assume the responsibilities assigned by article 5.3 of Law 17/1984 to the municipalities of Madrid; and

- all other water-related functions entrusted to it by the Autonomous Community of Madrid.

The relationship between Canal Ente and Canal Gestión and the functions assumed by each of them are regulated by means of the Framework Agreement (as described below).

To enable Canal Gestión to provide these services, article 16 of Law 3/2008 required the Autonomous Community of Madrid and Canal Ente to ascribe to Canal Gestión any assets in the public domain that make up the Madrid General Network and which are necessary for Canal Gestión to conduct the activities and functions entrusted to it. This obligation to ascribe does not mean that ownership of the public property assets is transferred to Canal Gestión but that Canal Gestión has only the right to use these assets. These public domain assets are subject to the limitations and rights linked to the public domain or attached to a public service. In addition, Canal Ente granted Canal Gestión the ownership of any other patrimonial assets which are not integrated into the Madrid General Network and of any stake in companies owned by Canal Ente at that time.

As a result of the above, the regional cabinet of the Autonomous Community of Madrid (*la Asamblea de Madrid)* approved the Framework Agreement (as described below) by virtue of which Canal Ente transferred to Canal Gestión (i) the water supply, sanitation and recycling services and (ii) the obligations that Canal Ente assumed under the agreements it entered into with certain municipalities of Madrid (as described below). These services include the operation and maintenance of the Madrid General Network and the provision of the supply, sanitation and recycling services relating to the network and, in general, all of the services and activities that were previously carried out by Canal Ente (other than those expressly reserved for Canal Ente under the terms of the Framework Agreement). As such, those services that are expressly reserved for Canal Ente and which shall be performed by it in all cases are:

(a) the functions, rights and obligations reserved to it under Law 3/2008 referring to: (i) any concession and authorisation granted over the water public domain related to the water supply, sanitation and re-use services; (ii) any administrative powers (including sanctioning powers) conceded on water collection and treatment and wastewater treatment to the Community Autonomous of Madrid; (iii) water supply and sanitation services under Law 17/1984 without prejudice to Canal Gestión's management of such services; (iv) any function related to water services assigned by the Autonomous Community of Madrid based on the agreements entered into with certain of the municipalities of Madrid (without prejudice to Canal Gestión's management of such services); and (v) any other water service assigned by the Community Autonomous of Madrid; and

(b) any other functions or competencies that are essential for the proper provision of the water service, including, among others, any function related to: (i) the general and strategic planning of the water service; (ii) the public domain assets integrated in the Madrid General Network and/or affected to the provision of the water service (i.e. manage the expropriations processes, approve the authorisations in relation to the of the land, facilities etc., monitor the management and operation of the Madrid General Network); (iii) works and infrastructure for water collection and treatment, and any other national infrastructure assigned to Canal Ente; (iv) the quality of the waters; (v) client relationships (i.e. ensuring that the relationship between Canal Gestión and its users are developed under good faith, fairness and trust criteria, the guaranteeing of certain levels of quality etc.); (vi) the relationship with public administrations and (vii) other functions related to the provision of the water service (i.e. management of European funds, monitoring and controllling the filing of brands and patents and co-ordinating visits to the facilities).

Law 6/2011 states that the municipalities in the Autonomous Community of Madrid must choose between: (i) joining the capitalisation process of Canal Gestión and the new management model set out in the Framework Agreement and therefore becoming equity holders of Canal Gestión; or (ii) not joining the capitalisation process and thus being entitled to receive an annual payment from Canal Gestión if private capital (up to 49.0%) is introduced in such company following article 16, clause 3, point 1 of Law 3/2008. In this case, the relevant municipality will be entitled to receive the annual payment from the date in which private capital is introduced in the company until the relevant water distribution agreement entered into with Canal Ente, if any, is no longer in force. Upon termination of such agreement the relevant municipality shall recover the ownership and management of its network while Canal Gestión is entitled to recover the investments made in this part of the network (net of any depreciation of the investments).

The Framework Agreement

In addition to the regulatory framework described above, under the terms of article 16, clause 2, point 4 of Law 3/2008, on 14 June 2012 the regional cabinet of the Autonomous Community of Madrid approved the framework agreement signed on 1 July 2012 between Canal Ente and Canal Gestión. The Framework Agreement describes the conditions under which Canal Gestión operates and also defines the reciprocal commitments between Canal Ente and Canal Gestión.

The Framework Agreement also specifies the manner in which tariffs are updated. Such tariffs are updated following an annual review of the consumer price index and additionally when there is an imbalance between the tariffs charged to consumers and costs incurred by Canal Gestión. The aim of such tariff updates is to maintain the economic equilibrium of the Framework Agreement and ensuring the tariff covers the costs incurred by Canal Gestión.

Furthermore, the Framework Agreement establishes when Canal Ente has to restore the economic balance of such contract and how this re-establishment is achieved. The economic balance of the Framework Agreement shall be restored: (i) when Canal Ente modifies the conditions of service for reasons of the general public interest; (ii) when reasons of force majeure or actions performed by the administration disrupt the economic parameters of the Framework Agreement or when there is an unjustified refusal to review the tariffs contravening the Framework Agreement; (iii) when amendments to the current legislation disrupt the Framework Agreement economic parameters; and (iv) when the development of new infrastructures imply a serious deviation of the economic plans envisaged in the Framework Agreement. The method to re-establish the economic balance of the Framework Agreement will be decided by Canal Ente (with the prior authorisation of the Board of Government of the Autonomous Community of Madrid) by either modifying the tariffs, adjusting any amounts owed by Canal Gestión to Canal Ente or amending the economic context of the Framework Agreement.

The Framework Agreement also determines the structure under which amendments to or cancellation of the agreement can be made and any penalties in such circumstances can be made. Any amendment by Canal Ente with the prior consent of the Board of Government of the Autonomous Community of Madrid shall be compulsory for Canal Gestión. Nevertheless, when there is private capital invested in Canal Gestión the amendments cannot modify the main conditions provided for in the Framework Agreement when such private capital was initially introduced to Canal Gestión.

The Framework Agreement can be terminated by the board of directors of Canal Ente, with the prior authorisation from the Board of Government of the Autonomous Community of Madrid, upon occurrence of any of the events stated in the Framework Agreement (i.e. major breach of its obligations under the Framework Agreement by Canal Ente or Canal Gestión, mutual agreement or total or partial removal of the services provided under the Framework Agreement). In the event of termination of the Framework Agreement for any reason, Canal Ente will pay compensation to Canal Gestión for the investments carried out by Canal Gestión on the Madrid General Network. The amount of such compensation will depend on the investments made by Canal Gestión and the cause of termination. If the cause of termination is i) a major breach of Canal Ente's obligations under the Framework Agreement or ii) the total or partial removal of the services provided under the Framework Agreement, Canal Ente will pay Canal Gestión an additional payment as compensation for damages.

Additionally, the Framework Agreement can also be terminated upon expiry of its term (50-year duration which began on 1 July 2012 and cannot be renewed). Once this period has elapsed and the Framework Agreement expires, Canal Ente is required to compensate Canal Gestión for any investments made to carry out new infrastructure plans which have not decreased in technical value while the Framework Agreement was in force. Any such compensation will take into account the condition of such infrastructures and the value of the investment made, deducting any technical depreciation under the terms set out in these plans.

On expiry or termination of the Framework Agreement, Canal Gestión will be required to return the assets and rights that make up the Madrid General Network, and any other goods and installations in the public domain that are required to provide the service, to the public authorities in good working order and perfect condition.

Neither the assets that do not form part of the Madrid General Network nor the shares nor equity holdings in trading companies previously held by Canal Ente will revert on completion of the Framework Agreement

The Framework Agreement provides for Canal Gestión's use and management of energy resources currently operated by Canal Ente, as well as any such activities that may be carried out in the future.

In addition, Canal Gestión is entitled to provide any other services entrusted to Canal Ente by the Autonomous Community of Madrid and in particularly closed user group mobile communications services.

The Autonomous Community of Madrid has assigned to Canal Gestión until 2025, the design, deployment, operation and maintenance of the network infrastructure and user terminal of a mobile communication system in digital independent technology of mobile commercial operators. It is designed to meet the needs in the field of voice and data critical services of the Emergency, Security and Rescue services of the Autonomous Community of Madrid. The main users of this communication system are municipality BESCAM Policemen, Firefighters, emergency medical services and SUMMA 112 and Forest Rangers in the Autonomous Community of Madrid. The communications network follows the TETRA standards and allows the reliable and secure provision of user group mobile communications services specifically geared to the needs of such groups.

The aforementioned infrastructure is public property as it is used for public services provided by Canal Gestión and, as such, may not be disposed of or seized. These assets may only be sold in the event that they are no longer required, but with the legal obligation to allocate the proceeds obtained to investments in the Madrid General Network.

Canal Ente - Municipalities of Madrid Agreements

Prior to the incorporation of Canal Gestión, Canal Ente signed 172 agreements for water distribution services with 172 municipalities in the Autonomous Community of Madrid. Of these municipalities of the Autonomous Community of Madrid, 111 subsequently joined the capitalisation process of Canal Gestión and the new management model set out in the Framework Agreement.

Additionally, prior to the incorporation of Canal Gestión, Canal Ente signed 132 agreements for sewerage services and urban drainage with 132 municipalities in the Autonomous Community of Madrid. Of these municipalities of the Autonomous Community of Madrid, 94 subsequently joined the capitalisation process of Canal Gestión and the new management model set out in the Framework Agreement. These 94 municipalities had also signed an agreement for the water distribution services as indicated above so they are included in the total number of 111 municipalities that joined the capitalisation process of Canal Gestión and the new management model set out in the Framework Agreement.

As a result of joining the capitalisation process of Canal Gestión and the new management model set out in the Framework Agreement, the previous distribution and sewerage services and urban drainage agreements terminated and Canal Ente and the 111 municipalities entered into new agreements on similar terms but for period of 50 years. Distribution services for the 111 municipalities that subsequently joined the capitalisation process of Canal Gestión and sewerage services and urban drainage for the 94 municipalities that subsequently joined the capitalisation process of Canal Gestión (such 94 municipalities having also signed an agreement for the water distribution services) were therefore transferred from Canal Ente to Canal Gestión.

The remaining 61 municipalities in the Autonomous Community of Madrid that did not join the new management model maintained the initial agreements (61 for the distribution services and 38 for sewerage services and urban drainage) which have an indefinite period. These agreements were transferred from Canal Ente to Canal Gestión under the Framework Agreement. The main types of agreements entered into with these municipalities in the Autonomous Community of Madrid are as follows:

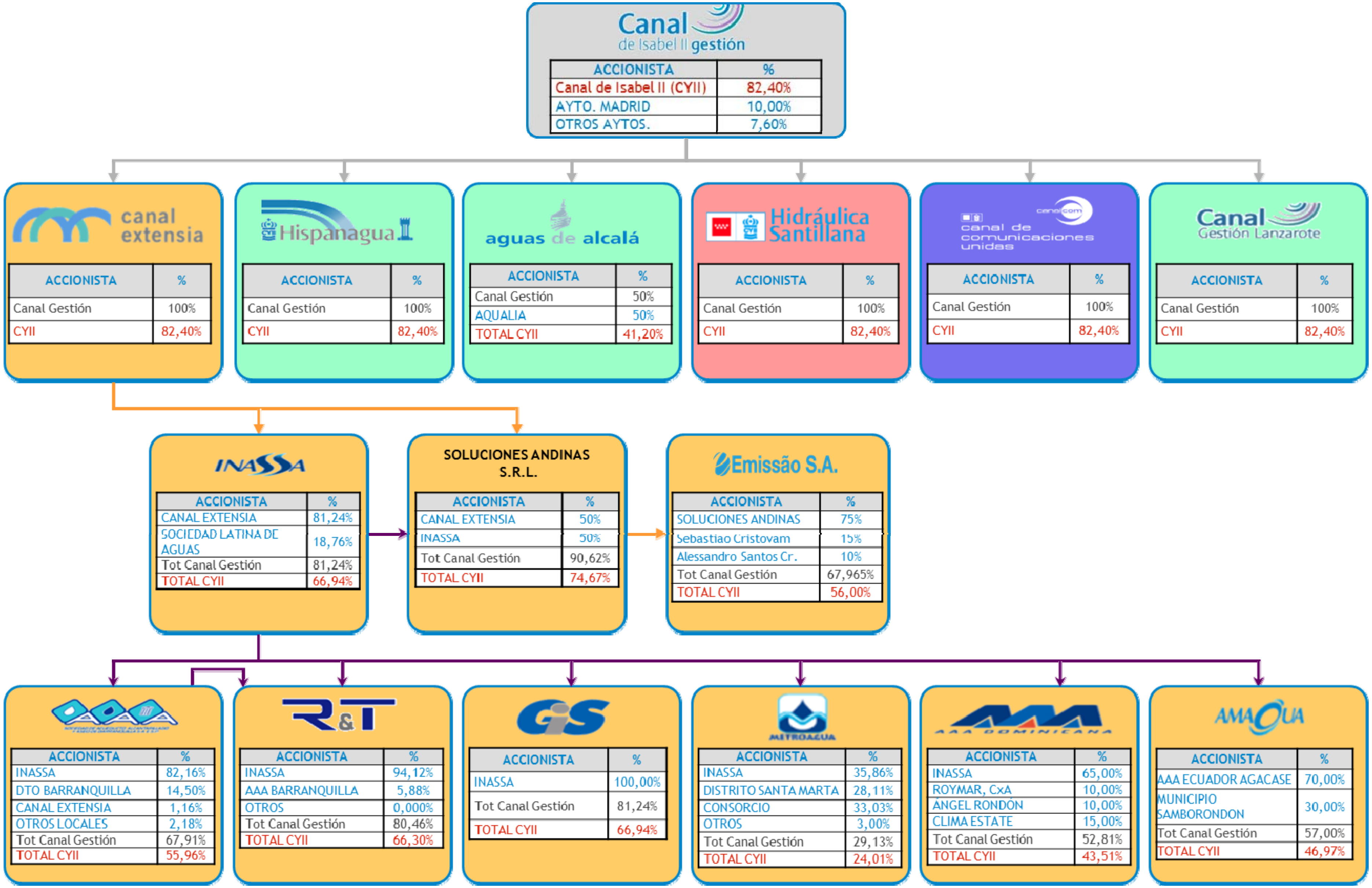
Type of agreement	Name of agreement	Characteristics of agreement
	Business Management	Canal Gestión carries out commercial management (contracts, meter readings, invoicing and payments) as well as the adaptation and maintenance of connections.

	Technical and business management of the water supply	Canal Gestión maintains and operates the municipal distribution network. This includes renovating distribution networks with a change in the form of distribution supplement that is paid by the customer.
Management Agreements	Integrated water supply management	Canal Gestión maintains operates and renovates the distribution network that is registered as part of the general supply system of the Autonomous Community of Madrid.
	Management of the sewerage system	Canal Gestión maintains and operates the municipal sewerage system.
	Management of sanitation infrastructures	Agreement between the Department of the Environment, Housing and Territorial Regulation, Canal Ente and the Local Councils pursuant to the provisions of Decree 170/1998 of 1 October, regarding the management of waste water sanitation infrastructures in the Autonomous Community of Madrid which stipulates the responsibilities involved in operating and maintaining sanitation infrastructures.
Non-management Agreements	Re-use of treated water	Collaboration in the construction of the necessary infrastructures and in the management of the re-usable supply of water from the wastewater treatment plants that have the appropriate treatment facilities, used for partial or total watering of green public spaces.

The distribution and sewerage and urban drainage services provided under the relevant agreements to the aforementioned 61 municipalities in the Autonomous Community of Madrid that did not join the new management model represent 1.2% of the total revenues of Canal Gestión in 2013.

Organisational Structure

The simplified corporate structure of Canal Gestión and its subsidiaries (the **Group**) is as follows as at the date of this Base Prospectus. There have been no changes to the simplified corporate structure since 31 December 2013. Dormant and non-material companies are not included:



5. BUSINESS OVERVIEW

Introduction

The Group's main task is the management of the integrated water cycle. The Group has operations in Spain (in its main location of Madrid and also Lanzarote), the Republic of Colombia, the Republic of Ecuador and Brazil. Additionally, the Group provides support services for the integrated water cycle and synergies relating to complete water cycle management.

As at 31 December 2013, the Group serves 9,570,000 consumers (compared to 9,163,000 consumers at 31 December 2012) (Source: National Statistics Institute (INE) for Spain; National Administrative Department of Statistics (DANE) for Colombia; National Institute of Statistics and Census (INEC) for Ecuador; and Brazilian Institute of Geography and Statistics (IBGE) for Brazil) in different countries with the following representing the geographical spread of its business:

- as at 31 December 2013 it served a population of 6,480,000 inhabitants (compared to 6,496,000 at 31 December 2012) (which represented 68% of all consumers served by the Group globally) in the Autonomous Community of Madrid (through Canal Gestión and Aguas de Alcalá UTE (**Aguas de Alcalá**), its core market (Source: INE and Canal Gestión); and

- the Group also has a presence in Latin America, where at 31 December 2013 it serves 2,870,000 consumers (compared to 2,639,000 at 31 December 2012). This represents 31.3% of all consumers served by the Group globally. (Source: DANE, INEC, IBGE and Canal Gestión).

All the international businesses are managed through subsidiaries, in which Canal Gestión holds stakes, with Canal Extensia (100% owned) being the holding company for the Latin American businesses.

Corporate Purpose

In accordance with its articles of association, Canal Gestión's statutory activity consists of: (i) comprehensive water cycle management throughout the Autonomous Community of Madrid; (ii) research activities and the provision of advice and assistance in all sectors relating to its statutory activity; (iii) the sale of electricity and all other activities that relate to or are instrumental or complementary to the water cycle management business; (iv) property development, construction, sale, rental and other associated activities, both in Spain and abroad, as well as the management of urban and land development projects; (v) any other public services or activities that reinforce the services provided by Canal Gestión and add value for users; (vi) telecommunications, information, communications, related activities and services and any similar activities that may arise in the future; and (vii) the acquisition, subscription, holding, 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. This excludes any activity restricted by law to collective investment undertakings or reserved by Spanish law to member brokers and brokerage firms.

Canal Gestión may carry out those activities within its corporate purpose in any Spanish territory or abroad, either indirectly or through the ownership of companies which have the same or analogous corporate purpose as Canal Gestión.

Business Operations

The integrated water cycle activities essentially involve two major phases known as "Supply" and "Sanitation". The re-use of waste water could be added as a third stage to this cycle which involves the treatment of wastewater in order to guarantee levels of sanitation for re-use in watering gardens, cleaning streets, irrigating sports facilities, and even for industrial purposes.

	Integrated Water Cycle Stage	Description
Water Supply	Water Collection & Treatment	The collection, reservoir, pipeline, treatment and deposit of water.
	Distribution	The distribution of water from the drinking water treatment plants to the user's tap.
Sanitation	Sewers and urban drainage	The collection of wastewater and rain water from the different municipalities, and subsequent transportation to wastewater treatment plants.
	Wastewater treatment	Return of water to the environment once it has been treated.
Re-use	Water recycling	Distribution of reclaimed water for installations that do not require drinking water, mainly street irrigation, public parks and golf courses.

Geographical spread

The group has a leading position in the Autonomous Community of Madrid, serving 99.77% of its population (6,480,000 people). Additionally, it serves 220,000 customers in other Spanish regions. The Group also manages the integrated water cycle for some cities in Colombia, Ecuador and Brazil, serving 2,870,000 inhabitants (95.67% of its population in the cities where the Group is present).

Spain

Canal Gestión's activities in Spain cover the five stages of the integrated water cycle as described above.

Autonomous Community of Madrid

With respect to Canal Gestión's operations in Madrid, as at 31 December 2013 Canal Gestión manages 14 reservoirs with a total storage capacity of 945,900,000m^3 (945,900,000m^3 in 2012) and 75 wells (77 in 2012) (for the purpose of groundwater collection) which together have the capacity to supply up to 90,000,000m^3 of water per year. These water collection sources are subsequently channelled to treatment plants in Madrid (of which there are 13 in total (13 in 2012)).

In order to distribute the water to end users, Canal Gestión has a distribution network which as at 31 December 2013 covers 17,163km (17,087km in 2012). In addition, Canal Gestión manages, as at 31 December 2013, 20 major water pumping stations (24 in 2012) (and 139 minor pumping facilities (125 in 2012)) which draw water from the relevant tanks and raise it to a higher level in order to reach the more elevated areas of Madrid.

Once the water has been used, Canal Gestión manages, as at 31 December 2013, 11,148km of urban drainage (11,148km in 2012) and 125 waste water pumping stations (125 in 2012) with the water then being treated in Canal Gestión's framework of 156 waste water treatment plants (154 in 2012). For the purpose of regeneration and re-distribution of used water, Canal Gestión manages a 347km re-distribution network and

29 reclaimed water productions facilities for the irrigation of green public spaces, leisure and sports facilities and for industrial purposes.

Lanzarote

Canal Gestión Lanzarote, S.A.U. (a subsidiary of Canal Gestión) provides the framework for the above mentioned stages of the integrated water cycle to be carried out in Lanzarote.

Coverage

Canal Gestión's operations in Spain (where, as at 31 December 2013, it has entered into 1,524,000 contracts (1,430,000 in 2012)) represents 73% (73% in 2012) of all contracts entered into by the Group and 83% (83% in 2012) of all revenues generated by the Group. In Spain, Canal Gestíon supplies 6,701,000 inhabitants which represent 99.77% of all inhabitants in the region served (Source: Canal Gestión).

Tariff Structure

Canal Gestión is currently permitted to charge tariffs to its end users that are consistent with the maximum tariffs set by the Autonomous Community of Madrid and detailed in Royal Decree 135/2012. The regional cabinet of the Autonomous Community of Madrid will publish the applicable tariffs for each year. These tariffs will be the same for all municipalities in the Autonomous Community of Madrid whether or not they have adhered to the new management model or not.

As explained above, the tariffs are updated annually following an annual review of the consumer price index. Additionally, the tariffs may be modified, upon request from Canal Gestión, when there is an imbalance between the tariffs charged to consumers and costs incurred by Canal Gestión and that imbalance is not attributable to Canal Gestión. Canal Gestión will submit an amended tariff proposal to Canal Ente. Canal Ente will then review the proposal and if it consents, will pass the tariff amendment proposal to the Autonomous Community of Madrid for their final approval. If accepted by the Autonomous Community of Madrid, the publication of such tariffs will be made in the Community of Madrid's Official Bulletin (*Boletín Oficial de la Comunidad de Madrid*).

The aim of such tariff updates is to maintain the economic equilibrium of the Framework Agreement and ensuring the tariff covers the costs incurred by Canal Gestión.

The approved tariffs that are then available to clients will include all costs for the provision of water supply and sanitation services (which means collection, distribution, sewerage and treatment). Consumers are then subject to a tariff that is charged every second month and is comprised of a fixed and variable part. The fixed part of the tariff is a standing charge related to the size of the meter used to calculate water usage. The variable part of the tariff is a volumetric charge per cubic metre which progressively increases in line with consumption (depending on which block of three pre-determined ranges the consumption of the consumer falls within) and is varied depending on the time of consumption (i.e. higher tariffs in the summer period which is from 1 June until 30 September of each year) and discounts for certain consumers (i.e. large families and households).

Other incomes

In addition to the tariffs described above, Canal Gestión may obtain income from the following sources: (i) budget allocations contained in the Autonomous Community of Madrid Budget Law for each year; (ii) subsidies; (iii) assets owned by Canal Gestión as well as any profit made from them; (iv) energy sales; (v) provision of group mobile communications services; (vi) financial transactions; and (vii) any other private income.

Expenses

Canal Gestión will assume all the expenses derived from the execution of the services under the Framework Agreement, the staff costs, the maintenance costs, the surveillance costs and any ordinary and extraordinary costs related to the services or necessary in order to provide a quality service.

In addition, as established in the Framework Agreement, Canal Gestión has to give part of the income obtained through the tariffs to Canal Ente as consideration for the services reserved for Canal Ente under the Framework Agreement and which Canal Gestión benefit from. This consideration shall include i) the expenses incurred by Canal Ente for the provision of such services, ii) the regulatory fees, the dumping taxes and any other expenses to be paid in relation to the services provided and iii) the relevant Tax Added Value (*IVA*) to be paid as a result of the free transfer of Teatro Canal in Madrid by Canal Gestión to the Autonomous Community of Madrid. The consideration shall never exceed the relevant percentage of the income obtained by Canal Gestión through the tariffs as established in the Framework Agreement.

International Operations

Colombia

The Group's operations in Colombia are headed by Sociedad de Acueducto, Alcantarillado y Aseo de Barranquilla, S.A.E.S.P. (Triple A Barranquilla), Acueducto y Alcantarillado Metropolitano de Santa Marta S.A.E.S.P. (Metroagua) and Avanzadas Soluciones de Acueducto y Alcantarillado, S.A.E.S.P. (ASAA) and like the operations in Spain, cover the full five stages of the integrated water cycle (as described above). Over 2,690,000 inhabitants in Colombia are served with the Group subsidiaries based in Colombia having entered into 534,000 domestic contracts. Details of the Group's international operations with respect to the overall Group operations are provided in "International and national segmentation" below.

Brazil and Ecuador

The operations in Brazil and Ecuador are on a smaller scale when compared with the Group's other international operation in Colombia. Amagua CEM (Amagua) (Ecuador) and Emissao Engenharia e Construçoes, S.A. – Fontes da Serra Saneamento de Guapimirim LTDA (Brazil) are the principal entities that carry out operations. In Ecuador, Amagua is active in each stage of the integrated water cycle and in Brazil, Fontes da Serra concentrates its work on the water collection and treatment. Details of the Group's international operations with respect to the overall Group operations are provided in "International and national segmentation" below.

Investment and Strategy

The Group adopts a conservative investment and diversification policy where it is only willing to undertake new investments where such investments and projects are of a size that can result in profitability for the Group and which is consistent with its financial policy. In particular the Group is focused on maintaining its position and growing organically in the countries where the Group is already established.

At the date of this Base Prospectus, the Group has no fixed diversification or investment plans.

Under the terms of the agreement for the "Management of Sanitation Services" (*El Convenio de Encomienda de Gestión de los Servicios de Saneamiento*) (entered into for a 31-year period beginning on 19 December 2005) entered into by Madrid City Council, the Autonomous Community of Madrid and Canal Gestión, Canal Gestión is contractually bound to carry out any work necessary to maintain the wastewater treatment infrastructure, as well as to comply with the annual new work schedule and upgrade existing infrastructure. These investments are expected to total €613,000,000 by the end of the agreement term, of which €158,000,000 relates to wastewater treatment and €455,000,000 relates to sewers. At 31 December 2013, investments totalling €97,000,000 had been completed (€81,000,000 at 31 December 2012).

At 31 December 2013, the Group had no major investment commitments in their budgets for the coming year for their international operations.

Management – Board of Directors

As at the date of this Prospectus, the members of the board of directors of Canal Gestión, their position on the board and their principal activities outside Canal Gestión, where these are significant, are the following:

Name	Title	Date of appointment	Type of Director	Principal activities outside the Group
Mr. Salvador Victoria Bolívar	President	November 2012	Stakeholding*	Minister of Presidency and Justice in the Government of the Autonomous Community of Madrid (*Consejero de Presidencia, Justicia y Portavocía del Gobierno de la Comunidad de Madrid*)
Mr. José Manuel Serra Peris	Director	November 2012	Independent	Advisory and consulting lawyer
Mr. David Pérez García	Director	November 2012	Stakeholding**	The mayor of Alcorcón and head of the Federation of Municipalities of Madrid (*Alcalde de Alcorcón y Presidente de la Federación de Municipios de Madrid*)
Mr. Agapito Ramos Cuenca	Director	November 2012	Independent	No activities out of the Group
Mr. Enrique Ossorio Crespo	Director	November 2012	Stakeholding*	Minister of Finance for the Autonomous Community of Madrid (*Consejero de Economía y Hacienda de la Comunidad de Madrid*)
Mr. Diego Sanjuanbenito Bonal	Director	July 2013	Stakeholding***	Minister of Environment and Movility for the Municipality of Madrid (*Delegado del Área de Gobierno de Medio Ambiente y Movilidad del Ayuntamiento de Madrid*)
Mr. Manuel Beltrán Pedreira	Secretary	July 2014	Not applicable	

* In representation of the Autonomous Community of Madrid
** In representation of the Municipalities of Madrid (other than the Municipality of Madrid)
*** In representation of the Municipality of Madrid

There are no potential conflicts of interest between the Board of Directors duties to Canal Gestión and their private interests or other duties. The business address of the members of the board of directors is Madrid.

Management Committee

As at the date of this Prospectus, persons responsible for the day-to-day management of Canal Gestión and their functions are as follows:

Name	Title
Mr. Adrián Martín López de las Huertas	Director General

Name	Title
Mr. Luis Miguel Garrido Martínez	Director of Security
Mr. Manuel Beltrán Pedreira	Director General Technical Secretary
Ms. María Fernanda Richmond	Finance and Business Management Director
Mr. Fernando de Cevallos Aguarrón	Human Resources Director
Mr. Juan Ignacio Zubizarreta Pariente	Comercial Director
Mr. Juan Sánchez García	Director of Innovation and Engineering
Ms. Belén Benito Martínez	Operations Director
Ms. Nuria San Roman	Sub-Director of Communication

Audit Committee

As at the date of this Base Prospectus, the members of the audit committee of Canal Gestión are as follows:

Name	Title	Date of appointment
Mr. José Manuel Serra Peris	President	17 December 2014
Mr. Enrique Ossorio Crespo	Member	17 December 2014
Mr. Agapito Ramos Cuenca	Member	17 December 2014

In accordance with Additional Provision Eighteen of LMV, the audit committee was constituted on 17 December 2014 with the following main functions:

(1) inform the meeting of shareholders with respect to questions raised by shareholders regarding matters under the audit committee's competence;

(2) supervise the internal controls of the Issuer, its internal audit body, and the risks management systems, as well as discussing with the Issuer's auditors any deficiencies of the internal control systems identified within the audit process;

(3) supervise the producing and registration of regulated financial information;

(4) make proposals to the Board of Directors which in turn are to be submitted to any meeting of the shareholders regarding the appointment of external auditors as envisaged in the applicable legislation;

(5) liaise with external auditors in order to receive information on any matters that may threaten the Issuer's auditor's independence and any other matters relating to the audit process and any other communications provided for by any applicable audit legislation and technical regulations. In any event, the audit committee shall annually receive from the auditors written confirmation of the auditor's independence from the Issuer or any directly or indirectly related entity, as well as the information derived from the additional services provided by such auditors to the company or any related person or entity pursuant to Royal Legislative Decree 1/2011, of 1 July, approving the consolidated text of the Audit Law;

(6) annually issue a report prior to the issuance of the audit report, expressing its opinion regarding the independence of the auditors. This report shall contain in any event its opinion in relation to the additional services referred to above;

(7) inform the Board of Directors, prior to its ruling on any of the corresponding decisions, on any associated transactions, and on the creation or acquisition of any share in companies with special purposes or companies with registered offices in countries or territories considered tax havens, and any other transactions or operations of a similar nature which, by their complexity, could harm the transparency of the group; and

(8) any other general or specific reports and proposals as requested by the Board of Directors.

Internal Rules of Conduct

Canal Gestión will respect the relevant rules of conduct established under the LMV and, in particular, those included in the internal regulation of conduct of business which will be prepared by the Issuer and filed with the CNMV.

Overview Financial Information

International and national segmentation

Canal Gestión's management reviews the Group's internal information to assess performance and allocate resources. The Group analyses the business by geographical segments, which are the different strategic business units. The Group's segments are "domestic" and "international" and information on each segment is allocated on the basis of the financial statements of the different Group companies, which operate exclusively in their geographical area due to the nature of their activities.

The table below includes the segment reporting, as reported in the 31 December 2013 consolidated financial statements prepared in accordance with International Financial Reporting Standards, of the Group for the years ended 31 December 2013 and 31 December 2012, taking into account that the figures included for 31 December 2012 are for a period of six months due to the fact that Canal Gestión was incorporated in June 2012:

SEGMENT REPORTING AT 31 DECEMBER 2013			
(Expressed in thousands of Euros)			
	SEGMENTS		
	Domestic	**International**	**TOTAL**
Revenues	853,538	181,053	1,034,591
- Services to external customers	853,538	180,394	1,033,932
- Inter-segment services	-	659	659
Pre-tax profit of the segments	189,984	21,597	211,581
Finance income	6,263	4,930	11,193
Finance costs	(29,680)	(6,336)	(36,016)
Amortisation and depreciation	(100,508)	(17,222)	(117,730)
Share in profit/(loss) of equity-accounted investees	(211)	-	(211)
Losses, impairment and changes in provisions	(1,109)	-	(1,109)
Income tax expense	(4,680)	(7,016)	(11,696)
Segment assets	4,692,494	189,276	4,881,770
Segment liabilities	2,523,615	162,100	2,685,715

SEGMENT REPORTING AT 31 DECEMBER 2012			
(Expressed in thousands of Euros)			
	SEGMENTS		
	Domestic	**International**	**TOTAL**
Revenues	452,524	91,636	544,160
- Services to external customers	452,524	91,210	543,734
- Inter-segment services	-	426	426
Pre-tax profit of the segments	136,919	8,220	145,139
Finance income	2,984	1,835	4,819
Finance costs	(14,230)	(4,334)	(18,564)
Amortisation and depreciation	(48,586)	(8,529)	(57,115)
Share in profit/(loss) of equity-accounted investees	(262)	-	(262)
Losses, impairment and changes in provisions	4,118	-	4,118
Income tax expense	(1,757)	(4,608)	(6,365)
Segment assets	4,600,427	185,965	4,786,392
Segment liabilities	2,440,886	143,554	2,584,440

SEGMENT REPORTING AT 31 DECEMBER 2013

(Expressed in thousands of Euros)

	SEGMENTS		
	Domestic	**International**	**TOTAL**
Net cash flows from (used in)	(18,732)	(3,974)	(22,706)
- Operating activities	260,678	55,295	315,973
- Investing activities	(187,119)	(39,692)	(226,811)
- Financing activities	(92,291)	(19,577)	(111,868)
Acquisitions of non-current assets during the period	173,170	21,581	194,751

SEGMENT REPORTING AT 31 DECEMBER 2012

(Expressed in thousands of Euros)

	SEGMENTS		
	Domestic	**International**	**TOTAL**
Net cash flows from (used in)	7,527	1,525	9,052
- Operating activities	141,253	28,902	170,155
- Investing activities	(116,969)	(23,686)	(140,655)
- Financing activities	(16,757)	(3,691)	(20,448)
Acquisitions of non-current assets during the period	123,108	7,819	130,927

Capital Management

The Group manages its capital with the aim of safeguarding its capacity to continue operating as a going concern, so as to continue providing shareholder remuneration and benefiting other interested parties, while maintaining an optimum capital structure to reduce the cost of capital. To maintain and adjust the capital structure, the Group can adjust the amount of dividends payable to shareholders and can reimburse capital.

The Group controls its capital structure on a debt to equity ratio basis. This ratio is calculated as net debt divided by total capital. Net debt is the sum of financial debt less cash and cash equivalents. Total capital is the sum of equity plus net debt. The table below indicates the debt to equity ratios for the year ended 31 December 2013 and the six months ended 31 December 2012:

	Thousands of Euros	
	2013	**2012**
Loans and borrowings current and non-current	240,522	63,281
Payables to Group companies current and non-current	1,021,873	1,156,223
Less: Cash and cash equivalents	(22,627)	(47,257)
Net debt	**1,239,768**	**1,172,247**
Equity	**2,196,055**	**2,201,952**
Adjusted debt to equity ratio at 31 December	**0.56**	**0.53**

Financial Debt

The table below indicates the financial liabilities of the Group for the year ended 31 December 2013 and the six months ended 31 December 2012:

	Thousands of Euros			
	2013		**2012**	
	Non-current	**Current**	**Non-current**	**Current**
Loans and borrowings	183,663	56,859	49,058	14,223
Payables to Group companies	860,946	160,927	1,008,567	147,656
Other financial liabilities	119,265	87,415	93,002	88,331
Financial liabilities from issuing bonds and other marketable securities	-	-	-	15,743
Total	**1,163,874**	**305,201**	**1,150,627**	**265,953**

At 31 December 2013 current loans and borrowings include interest accrued of €2,091,000 (€1,015,000 in 2012). Additionally, at 31 December 2013, loans and borrowings are reflected net of arrangement costs which amount to €1,062,000.

Details of the Group's bank loans and borrowings are as follows:

				Thousands of Euros			
				2013			
COMPANY	**ORIGINAL AMOUNT**	**TYPE**	**MATURITY**	**ANNUAL INTEREST RATE**	**CURRENT**	**NON-CURRENT**	**TOTAL**
CANAL GESTIÓN[1]	EUR 134,400	Syndicated	28-dec-20	Euribor+4.35%	-	134,400	134,400
INASSA SUBGROUP							
Inassa (Colombia)	USD 15.4 million	Ordinary	Several	LIBOR+ (between 2.9 and 3.3) and DTF+ (between 2.4 and 4)	10,280	903	11,183
Inassa (Panama branch)	USD 2 million	Ordinary	Several	LIBOR+(between 2.8 and 4)	635	544	1,179
Triple A de Barranquilla	OP 220,700 million	Ordinary	Several	DTF+(between 1.8 and 5.5%)	16,328	48,814	65,142
GIS	COP 155 million	Cash	Several	DTF+7.44%	58	-	58
AAA Ecuador	USD 1.494 million	Commercial	Several	Between 3% and 10.5%	440	64	504
R&T	COP 1.100 million	Cash	31-dec-13	DTF+(between 2.61 and 3.37%)	414	-	414
				Total	**28,155**	**184,725**	**212,880**[2]

[1] Syndicated loan managed by Banco Santander and extended by BBVA, Banco Popular, Banco Sabadell, Caixabank and Bankinter. Canal Gestión undertakes to comply with a net financial debt /EBITDA ratio for this loan. At 31 December 2013 Canal Gestión complies with this ratio.

[2] When compared to the figure provided for Canal Gestion's total loans and borrowings on page 36 (€240,522,000 at 31 December 2013), the figure herein (€212,880,000) does not include Canal Gestión's credit lines with certain institutions amounting to €26,613,000 as well additional accrued and unpaid interest on certain other indebtedness.

Thousands of Euros							
2012							
COMPANY	**ORIGINAL AMOUNT**	**TYPE**	**MATURITY**	**ANNUAL INTEREST RATE**	**CURRENT**	**NON-CURRENT**	**TOTAL**
CANAL EXTENSIA	EUR 1 million	Ordinary	10-ma r-13	Euribor + 3.75%	987	-	987
INASSA SUBGROUP							
Inassa (Panama branch)	USD 2 million	Ordinary	Several	LIBOR(180)+(between 2.8 and 4)	1,129	104	1,233
Triple A de Barranquilla	COP 97,500 million	Ordinary	Several	DTF+(between 4.5% and 5.50%)	10,302	48,852	59,154
GIS	COP 155 million	Cash	Several	DTF + 6.77%	67	-	67
AAA Ecuador	USD 2,108 million	Commercial	Several	Between 3% and 11.23%	509	102	611
R&T	COP 500 million	Cash	31-dec-13	DTF + 2.9%	214	-	214
				Total	**13,208**	**49,058**	**62,266**[1]

[1] When compared to the figure provided for Canal Gestion's total loans and borrowings on page 36 (€63,281,000 at 31 December 2012), the figure herein (€62,266,000) does not include Canal Gestión's accrued and unpaid interest on certain of its indebtedness.

Mirrored Debt (Deuda Espejo)

As at 31 December 2013, Canal Gestión had an obligation to pay €1,012,241,000 to Canal Ente (€1,146,637,000 as at 31 December 2012) which reflects Canal Gestión's obligation to pay Canal Ente the amounts necessary to fulfil the latter's obligations arising under certain financing contracts entered into by Canal Ente prior to the incorporation of Canal Gestión. Such obligations of Canal Ente were transferred to Canal Gestión in accordance with the terms of the Framework Agreement. Both Canal Gestión and Canal Ente have 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. Although Canal Ente is still the named party in the financing contracts with the lender institutions, Canal Gestión has assumed all of the obligations originally agreed in these contracts at the corresponding amounts. Details of the aforementioned obligations as at 31 December 2013 are as follows:

Thousands of Euros

2013

BANKING ENTITY	ORIGINAL AMOUNT	TRANSA-CTION	MATURITY	ANNUAL INTEREST RATE	CURRENT	NON-CURRENT	TOTAL
BBVA	250,000	Syndicated loan	03-dec-16	Euribor + 0.059%	33,333	66,667	100,000
B.E.I.	150,000	Loan	01-dec-21	Fixed (3.894%)	14,286	100,000	114,286
ICO	170,000	Bilateral loan	20-jun-17	Euribor + 0.04%	42,500	106,250	148,750
ICO - LA CAIXA	130,000	Syndicated loan	25-nov-18	Euribor + 0.7%	0	130,000	130,000
BARCLAYS	30,000	Bilateral loan	30-sep-15	Euribor + 1.25%	6,000	6,000	12,000
NOVACAIXAGALICIA	25,000	Bilateral loan	01-sep-15	Euribor +	5,000	5,000	10,000

				1.48%			
NOVACAIXAGALICIA	10,000	Bilateral loan	30-sep-15	Euribor + 1.75%	2,000	2,000	4,000
BANKINTER	10,000	Bilateral loan	30-sep-15	Euribor + 1.25%	2,000	2,000	4,000
BBVA	88,000	Syndicated loan	30-sep-15	Euribor + 1.70%	17,600	17,600	35,200
BEI	100,000	Loan	15-oct-35	Fixed (3.268%)	0	100,000	100,000
BEI	200,000	Loan	21-feb-36	Fixed (2.894%)/Rev.	0	200,000	200,000
SOCIETE GENERALE	20,000	Bilateral loan	30-dec-18	Euribor + 2.00%	2,857	11,429	14,286
CAJA NAVARRA	10,000	Bilateral loan	30-dec-18	Euribor + 2.45%	1,428	5,714	7,143
BCO COOPERATIVO	18,000	Bilateral loan	30-dec-18	Euribor + 2.65%	2,572	10,286	12,857
SABADELL	30,000	Bilateral loan	31-dec-18	Euribor + 2.85%	4,286	17,143	21,429
BANKINTER	7,000	Bilateral loan	31-dec-18	Euribor + 2.90%	1,000	4,000	5,000
SANTANDER	22,500	Bilateral loan	01-nov-20	Euribor + 3.00%	2,812	16,875	19,687

SABADELL	15,000	Bilateral loan	30-nov-20	Euribor + 3.50%	1,875	11,250	13,125
BANKINTER	25,000	Bilateral loan	30-nov-20	Euribor + 3.50%	3,125	18,750	21,875
BANESTO	20,000	Bilateral loan	30-nov-20	Euribor + 3.50%	2,500	15,000	17,500
UNICAJA BANCO	20,000	Bilateral loan	30-nov-20	Euribor + 3.50%	2,500	15,000	17,500
				TOTAL	147,674	860,963	1,008,637[(1)]

(1) When compared to the figure provided for Canal Gestion's mirrored debt (*deuda espejo*) on page 40 (€1,012,241,000 as at 31 December 2013), the figure herein (€1,008,637,000) does not include Canal Gestión's accrued and unpaid interest on such indebtedness.

Going concern

Due to the normal course of operations conducted by Canal Gestión and the investments made, the consolidated financial statements present negative working capital of €250,029,000 at 31 December 2013 (€222,188,000 in 2012). However, Canal Gestión's directors have prepared the consolidated financial statements on a going concern basis considering that these circumstances were expected and reflect the nature of the business, taking into account its capacity to generate cash. Law 5/2013 of 23 December 2013, which passed the Madrid Regional Government's General Budgets for 2014, authorised Canal Gestión to obtain long-term borrowings of €148,000,000, an amount considered sufficient to meet its obligations by the respective maturity dates.

Forecasts and annual budget

As established under Law 1/1984, of 19 January, on the Institutional Administration of the Autonomous Community of Madrid (**Law 1/984**), any company where the Autonomous Community of Madrid holds directly or indirectly a majority of the share capital, will be considered a public company. Such public companies, will be governed by the rules of private law, and, according to article 59 of Law 1/1984 and article 79 of Law 9/1990, of 8 November, on the Treasury of the Autonomous Community of Madrid, shall prepare an annual operating budget, which shall contain a forecast of the profit and loss and the cash flows for the following year. A conversion to administrative budget will be annexed to such operating budget, along with a forecast of the company's balance sheet and a report explaining the content of these budgets.

Falling under such requirements, Canal Gestión will submit its annual operating budget in the draft of the annual general budget of the Autonomous Community of Madrid for the following year.. Further to the operating budget, the public company will also submit a report of the economic evaluation of the investment, or investments, planned for the following year and a description of the objectives to be achieved.

As at the date of this Prospectus the annual general budget of the Autonomous Community of Madrid for 2015 has not been approved and therefore the operating budget of Canal Gestión for 2015 has not been approved nor made public. Once the annual general budget of the Autonomous Community of Madrid is approved by means of the relevant budget law of the Autonomous Community of Madrid, it will be published in the Community of Madrid's Official Bulletin (*Boletín Oficial de la Comunidad de Madrid*) together with Canal Gestión's annual operating budget.

Financial Statements

In addition to the above information, the following documents are attached to, and form part of, this Base Prospectus in the section titled "Index to Financial Statements":

- The condensed consolidated interim financial statements for the nine month period ended 30 September, 2014 of the Issuer prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" as adopted by the European Union, as well as the auditor's review report thereon.

- The audited consolidated annual financial statements for the year ended 31 December, 2013 of the Issuer prepared in accordance with International Financial Reporting Standards as adopted by the European Union, as well as the audit report thereon.

- The audited consolidated annual accounts for the year ended 31 December, 2013 of the Issuer prepared in accordance with the applicable Spanish financial reporting framework, as well as the audited report thereon.

- The audited consolidated annual accounts for the year ended 31 December, 2012 of the Issuer prepared in accordance with the applicable Spanish financial reporting framework, as well as the audited report thereon.

Details of where to find information on the Group's financial position, income, equity, cash flows and notes to the financial statements are indicated in the section titled "Index to Financial Statements".

Employees

As at 31 December 2013 the Group has 4,056 direct employees (3,937 at 31 December 2012).

6. TERMS AND CONDITIONS OF THE NOTES

The following is the text of the terms and conditions which, as completed by the Part A of the Final Terms, will be applicable to Notes issued in dematerialised book-entry form and admitted to trading on the AIAF. The relevant Final Terms shall not amend or replace any information in this Base Prospectus. Subject to this, to the extent permitted by applicable law and/or regulation, the Final Terms in respect of any Tranche of Notes may complete any information in this Base Prospectus.

1. INTRODUCTION

1.1 Programme

Canal de Isabel II Gestión, S.A. (the **Issuer**) has established a Euro Medium Term Note Programme (the **Programme**) for the issuance of up to EUR1,000,000,000 in aggregate principal amount of notes (the **Notes**). Notes issued pursuant to the Programme are in dematerialised book-entry form (*anotaciones en cuenta*).

1.2 Final Terms

Notes issued under the Programme are issued in series (each a **Series**) and each Series may comprise one or more tranches (each a **Tranche**) of Notes. Each Tranche is the subject of a final terms document (the **Final Terms**) which completes these terms and conditions (the **Conditions**). The terms and conditions applicable to any particular Tranche of Notes are these Conditions as completed by the relevant Final Terms.

1.3 Deed of Covenant

The Notes have the benefit of a deed of covenant dated 18 December 2014 entered into by the Issuer to which these Conditions will be affixed (the **Deed of Covenant**). In the Deed of Covenant, the Issuer has covenanted in favour of each Noteholder that it will duly perform and comply with the obligations expressed to be undertaken by it in the Conditions.

1.4 Agency Agreement

The Notes are the subject of an agency agreement dated 18 December 2014 (the **Agency Agreement**) between, among others, the Issuer and BNP Paribas Securities Services, S.C.A., Sucursal en España as agent bank (the **Agent**, which expression includes any successor agent appointed from time to time in connection with the Notes).

1.5 The Notes

All subsequent references in these Conditions to **Notes** are to the Notes which are the subject of the relevant Final Terms. Copies of the relevant Final Terms will be available for viewing on www.cnmv.es.

2. INTERPRETATION

2.1 Definitions

In these Conditions the following expressions have the following meanings:

Additional Business Centre(s) means the city or cities specified as such in the relevant Final Terms;

Additional Financial Centre(s) means the city or cities specified as such in the relevant Final Terms;

AIAF means *AIAF, Mercado de Renta Fija*, the AIAF Fixed Income Securities Market, the Spanish market for trading in fixed income securities issued by industrial companies, financial institutions and regional public bodies;

Business Day means:

(a) in relation to any sum payable in euro, a TARGET Settlement Day and a day on which commercial banks and foreign exchange markets settle payments generally in each (if any) Additional Business Centre; and

(b) in relation to any sum payable in a currency other than euro, a day on which commercial banks and foreign exchange markets settle payments generally in London, in the Principal Financial Centre of the relevant currency and in each (if any) Additional Business Centre;

Business Day Convention, in relation to any particular date, has the meaning given in the relevant Final Terms and, if so specified in the relevant Final Terms, may have different meanings in relation to different dates and, in this context, the following expressions shall have the following meanings:

(a) **Following Business Day Convention** means that the relevant date shall be postponed to the first following day that is a Business Day;

(b) **Modified Following Business Day Convention** or **Modified Business Day Convention** means that the relevant date shall be postponed to the first following day that is a Business Day unless that day falls in the next calendar month in which case that date will be the first preceding day that is a Business Day;

(c) **Preceding Business Day Convention** means that the relevant date shall be brought forward to the first preceding day that is a Business Day;

(d) **FRN Convention**, **Floating Rate Convention** or **Eurodollar Convention** means that each relevant date shall be the date which numerically corresponds to the preceding such date in the calendar month which is the number of months specified in the relevant Final Terms as the Specified Period after the calendar month in which the preceding such date occurred **provided, however, that**:

    (i) if there is no such numerically corresponding day in the calendar month in which any such date should occur, then such date will be the last day which is a Business Day in that calendar month;

    (ii) if any such date would otherwise fall on a day which is not a Business Day, then such date will be the first following day which is a Business Day unless that day falls in the next calendar month, in which case it will be the first preceding day which is a Business Day; and

    (iii) if the preceding such date occurred on the last day in a calendar month which was a Business Day, then all subsequent such dates will be the last day which is a Business Day in the calendar month which is the specified number of months after the calendar month in which the preceding such date occurred; and

(e) **No Adjustment** means that the relevant date shall not be adjusted in accordance with any Business Day Convention;

Calculation Agent means the Agent or such other Person specified in the relevant Final Terms as the party responsible for calculating the Rate(s) of Interest and Interest Amount(s) and/or such other amount(s) as may be specified in the relevant Final Terms;

Calculation Amount has the meaning given in the relevant Final Terms;

Central Registry means the central registry of the Spanish clearance and settlement system managed by Iberclear;

Commissioner means the commissioner (*comisario*) within the meaning of the consolidated text of the Spanish Corporations Law, approved by Royal Legislative Decree 1/2010, of 2 July (*Texto Refundido de la Ley de Sociedades de Capital, aprobado por el Real Decreto Legislativo 1/2010, de 2 de julio*) of each Syndicate of Noteholders;

Day Count Fraction means, in respect of the calculation of an amount for any period of time (the **Calculation Period**), such day count fraction as may be specified in these Conditions or the relevant Final Terms and:

(a) if "Actual/Actual (ICMA)" is so specified, means:

(i) where the Calculation Period is equal to or shorter than the Regular Period during which it falls, the actual number of days in the Calculation Period divided by the product of (A) the actual number of days in such Regular Period and (B) the number of Regular Periods in any year; and

(ii) where the Calculation Period is longer than one Regular Period, the sum of:

(A) the actual number of days in such Calculation Period falling in the Regular Period in which it begins divided by the product of (I) the actual number of days in such Regular Period and (II) the number of Regular Periods in any year; and

(B) the actual number of days in such Calculation Period falling in the next Regular Period divided by the product of (I) the actual number of days in such Regular Period and (II) the number of Regular Periods in any year;

(b) if "Actual/365" or "Actual/Actual (ISDA)" is so specified, means the actual number of days in the Calculation Period divided by 365 (or, if any portion of the Calculation Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Calculation Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Calculation Period falling in a non-leap year divided by 365);

(c) if "Actual/365 (Fixed)" is so specified, means the actual number of days in the Calculation Period divided by 365;

(d) if "Actual/360" is so specified, means the actual number of days in the Calculation Period divided by 360;

(e) if "30/360" is so specified, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows

$$\text{Day Count Fraction} = \frac{[360x(Y_2 - Y_1)] + [30x(M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"Y_1" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"Y_2" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"M_1" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"M_2" is the calendar month, expressed as number, in which the day immediately following the last day included in the Calculation Period falls;

"D_1" is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D_1 will be 30; and

"D_2" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31 and D_1 is greater than 29, in which case D_2 will be 30";

(f) if "30E/360" or "Eurobond Basis" is so specified, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360x(Y_2 - Y_1)] + [30x(M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"Y_1" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"Y_2" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"M_1" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"M_2" is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"D_1" is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D_1 will be 30; and

"D_2" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31, in which case D_2 will be 30; and

if "30E/360 (ISDA)" is so specified, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360x(Y_2 - Y_1)] + [30x(M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"Y_1" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"Y_2" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"M_1" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"M_2" is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"D_1" is the first calendar day, expressed as a number, of the Calculation Period, unless (A) that day is the last day of February or (B) such number would be 31, in which case D_1 will be 30; and

"D_2" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless (A) that day is the last day of February but not the Maturity Date or (B) such number would be 31, in which case D_2 will be 30,

provided, however, that in each such case the number of days in the Calculation Period is calculated from and including the first day of the Calculation Period to but excluding the last day of the Calculation Period;

Early Redemption Amount means, in respect of any Note, its principal amount or such other amount as may be specified in the relevant Final Terms;

Early Termination Amount means, in respect of any Note, its principal amount or such other amount as may be specified in these Conditions or the relevant Final Terms;

EURIBOR means, in respect of any specified currency and any specified period, the interest rate benchmark known as the Euro zone interbank offered rate which is calculated and published by a designated distributor (currently Thomson Reuters) in accordance with the requirements from time to time of the European Banking Federation (or any other person which takes over the administration that rate) based on estimated interbank borrowing rates for a number of designated currencies and maturities which are provided, in respect of each such currency, by a panel of contributor banks (details of historic EURIBOR rates can be obtained from the designated distributor);

Final Redemption Amount means, in respect of any Note, its principal amount or such other amount as may be specified in the relevant Final Terms;

First Interest Payment Date means the date specified in the relevant Final Terms;

Fixed Coupon Amount has the meaning given in the relevant Final Terms;

Group means the Issuer together with its consolidated Subsidiaries;

Guarantee means, in relation to any Indebtedness of any Person, any obligation of another Person to pay such Indebtedness including (without limitation):

(a) any obligation to purchase such Indebtedness;

(b) any obligation to lend money, to purchase or subscribe shares or other securities or to purchase assets or services in order to provide funds for the payment of such Indebtedness;

(c) any indemnity against the consequences of a default in the payment of such Indebtedness; and

(d) any other agreement to be responsible for such Indebtedness;

Iberclear means *Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A. Unipersonal*, the Spanish central securities depositary responsible for both the Central Registry and the clearing and settlement of, inter alia, fixed income securities trading on AIAF;

Iberclear Members means each of the member entities from time to time of Iberclear, and **Iberclear Member** means any one of them;

Indebtedness means any indebtedness of any Person for money borrowed or raised including (without limitation) any indebtedness for or in respect of:

(a) amounts raised by acceptance under any acceptance credit facility;

(b) amounts raised under any note purchase facility;

(c) the amount of any liability in respect of leases or hire purchase contracts which would, in accordance with applicable law and generally accepted accounting principles, be treated as finance or capital leases;

(d) the amount of any liability in respect of any purchase price for assets or services the payment of which is deferred for a period in excess of 60 days; and

(e) amounts raised under any other transaction (including, without limitation, any forward sale or purchase agreement) having the commercial effect of a borrowing;

Interest Amount means, in relation to a Note and an Interest Period, the amount of interest payable in respect of that Note for that Interest Period;

Interest Commencement Date means the Issue Date of the Notes or such other date as may be specified as the Interest Commencement Date in the relevant Final Terms;

Interest Determination Date has the meaning given in the relevant Final Terms;

Interest Payment Date means the First Interest Payment Date and any other date or dates specified as such in the relevant Final Terms and, if a Business Day Convention is specified in the relevant Final Terms:

(a) as the same may be adjusted in accordance with the relevant Business Day Convention; or

(b) if the Business Day Convention is the FRN Convention, Floating Rate Convention or Eurodollar Convention and an interval of a number of calendar months is specified in the relevant Final Terms as being the Specified Period, each of such dates as may occur in accordance with the FRN Convention, Floating Rate Convention or Eurodollar Convention at such Specified Period of calendar months following the Interest Commencement Date (in the case of the first Interest Payment Date) or the previous Interest Payment Date (in any other case);

Interest Period means each period beginning on (and including) the Interest Commencement Date or any Interest Payment Date and ending on (but excluding) the next Interest Payment Date;

ISDA Definitions means the 2006 ISDA Definitions (as amended and updated as at the date of issue of the first Tranche of the Notes of the relevant Series (as specified in the relevant Final Terms) as published by the International Swaps and Derivatives Association, Inc.);

Issue Date has the meaning given in the relevant Final Terms;

LIBOR means, in respect of any specified currency and any specified period, the interest rate benchmark known as the London interbank offered rate which is calculated and published by a designated distributor (as at the date of the Base Prospectus Thomson Reuters) in accordance with the requirements from time to time of ICE Benchmark Administration Limited (or any other person which takes over the administration of that rate) based on estimated interbank borrowing rates for a number of designated currencies and maturities which are provided, in respect of each such currency, by a panel of contributor banks (details of historic LIBOR rates can be obtained from the designated distributor);

Margin has the meaning given in the relevant Final Terms;

Maturity Date has the meaning given in the relevant Final Terms;

Maximum Redemption Amount has the meaning given in the relevant Final Terms;

Minimum Redemption Amount has the meaning given in the relevant Final Terms;

Optional Redemption Amount (Call) means, in respect of any Note, its principal amount or such other amount as may be specified in the relevant Final Terms;

Optional Redemption Amount (Put) means, in respect of any Note, its principal amount or such other amount as may be specified in the relevant Final Terms;

Optional Redemption Date (Call) has the meaning given in the relevant Final Terms;

Optional Redemption Date (Put) has the meaning given in the relevant Final Terms;

Participating Member State means a Member State of the European Union which adopts the euro as its lawful currency in accordance with the Treaty;

Payment Business Day means:

(a) if the currency of payment is euro, any day which is a TARGET Settlement Day and a day on which dealings in foreign currencies may be carried on in each (if any) Additional Financial Centre; or

(b) if the currency of payment is not euro, any day which is a day on which dealings in foreign currencies may be carried on in the Principal Financial Centre of the currency of payment and in each (if any) Additional Financial Centre;

Person means any individual, company, corporation, firm, partnership, joint venture, association, organisation, state or agency of a state or other entity, whether or not having separate legal personality;

Principal Financial Centre means, in relation to any currency, the principal financial centre for that currency **provided, however, that** in relation to euro, it means the principal financial centre of such Member State of the European Communities as is selected (in the case of a payment) by the payee or (in the case of a calculation) by the Calculation Agent

Put Option Notice means a notice which must be delivered to the Agent by any Noteholder wanting to exercise a right to redeem a Note at the option of the Noteholder;

Put Option Receipt means a receipt issued by the Agent to a depositing Noteholder upon deposit of a Note with the Agent by any Noteholder wanting to exercise a right to redeem a Note at the option of the Noteholder;

Rate of Interest means the rate or rates (expressed as a percentage per annum) of interest payable in respect of the Notes specified in the relevant Final Terms or calculated or determined in accordance with the provisions of these Conditions and/or the relevant Final Terms;

Redemption Amount means, as appropriate, the Final Redemption Amount, the Early Redemption Amount, the Optional Redemption Amount (Call), the Optional Redemption Amount (Put), the Early Termination Amount or such other amount in the nature of a redemption amount as may be specified in the relevant Final Terms;

Reference Banks has the meaning given in the relevant Final Terms or, if none, four major banks selected by the Calculation Agent in the market that is most closely connected with the Reference Rate;

Reference Rate means EURIBOR or LIBOR as specified in the relevant Final Terms in respect of the currency and period specified in the relevant Final Terms;

Regular Period means:

(a) in the case of Notes where interest is scheduled to be paid only by means of regular payments, each period from and including the Interest Commencement Date to but excluding the first Interest Payment Date and each successive period from and including one Interest Payment Date to but excluding the next Interest Payment Date;

(b) in the case of Notes where, apart from the first Interest Period, interest is scheduled to be paid only by means of regular payments, each period from and including a Regular Date falling in any year to but excluding the next Regular Date, where **Regular Date** means the day and month (but not the year) on which any Interest Payment Date falls; and

(c) in the case of Notes where, apart from one Interest Period other than the first Interest Period, interest is scheduled to be paid only by means of regular payments, each period from and including a Regular Date falling in any year to but excluding the next Regular Date, where **Regular Date** means the day and month (but not the year) on which any Interest Payment Date falls other than the Interest Payment Date falling at the end of the irregular Interest Period.

Relevant Date means, in relation to any payment, whichever is the later of (a) the date on which the payment in question first becomes due and (b) if the full amount payable has not been received in the Principal Financial Centre of the currency of payment by the Agent on or prior to such due date, the date on which (the full amount having been so received) notice to that effect has been given to the Noteholders;

Relevant Financial Centre has the meaning given in the relevant Final Terms;

Relevant Indebtedness means any Indebtedness which is in the form of or represented by any bond, note, debenture, debenture stock, loan stock, certificate or other instrument which is, or is capable of being, listed, quoted or traded on any stock exchange or in any securities market (including, without limitation, any over-the-counter market);

Relevant Screen Page means the page, section or other part of a particular information service (including, without limitation, Reuters) specified as the Relevant Screen Page in the relevant Final Terms, or such other page, section or other part as may replace it on that information service or such other information service, in each case, as may be nominated by the Person providing or sponsoring the information appearing there for the purpose of displaying rates or prices comparable to the Reference Rate;

Relevant Subsidiary means any direct or indirect Subsidiary of the Issuer whose total assets represent not less than 10% of total assets of the Group, or whose total revenue represents not less than 10% of total revenue of the Group (determined by reference to the most recent publicly available audited consolidated annual accounts of the Issuer);

Relevant Time has the meaning given in the relevant Final Terms;

Security Interest means any mortgage, charge, pledge, lien or other security interest including, without limitation, anything analogous to any of the foregoing under the laws of any jurisdiction;

Specified Currency has the meaning given in the relevant Final Terms;

Specified Denomination(s) has the meaning given in the relevant Final Terms;

Specified Period has the meaning given in the relevant Final Terms;

Subsidiary means, in relation to any Person (the **first Person**) at any particular time, any other Person (the **second Person**):

(a) whose affairs and policies the first Person controls or has the power to control, whether by ownership of share capital, contract, the power to appoint or remove members of the governing body of the second Person or otherwise; or

(b) whose financial statements are, in accordance with applicable law and generally accepted accounting principles, consolidated with those of the first Person;

Syndicate of Noteholders means the syndicate (*sindicato*) within the meaning of the consolidated text of the Spanish Corporations Law, approved by Royal Legislative Decree 1/2010, of 2 July (*Texto Refundido de la Ley de Sociedades de Capital, aprobado por el Real Decreto Legislativo 1/2010, de 2 de julio*);

TARGET Settlement Day means any day on which TARGET2 is open for the settlement of payments in euro;

TARGET2 means the Trans-European Automated Real-Time Gross Settlement Express Transfer payment system which utilises a single shared platform and which was launched on 19 November 2007;

Treaty means the Treaty of the Functioning of the European Union, as amended;

2.2 Interpretation

In these Conditions:

(a) any reference to principal shall be deemed to include the Redemption Amount, any additional amounts in respect of principal which may be payable under Condition 10 (*Taxation*), any premium payable in respect of a Note and any other amount in the nature of principal payable pursuant to these Conditions;

(b) any reference to interest shall be deemed to include any additional amounts in respect of interest which may be payable under Condition 10 (*Taxation*) and any other amount in the nature of interest payable pursuant to these Conditions;

(c) if an expression is stated in Condition 2.1 (*Definitions*) to have the meaning given in the relevant Final Terms, but the relevant Final Terms gives no such meaning or specifies that such expression is "not applicable" then such expression is not applicable to the Notes; and

(d) any reference to the Agency Agreement shall be construed as a reference to the Agency Agreement as amended and/or supplemented up to and including the Issue Date of the Notes.

3. FORM, TITLE AND TRANSFER

3.1 Form

Notes will be issued in uncertificated, dematerialised book-entry form (*anotaciones en cuenta*) and will be registered with Iberclear as managing entity of the Central Registry.

3.2 Title

Title to the Notes will be evidenced by book entries and each person shown in the Central Registry and in the registries maintained by the Iberclear Members as being a holder of Notes shall be (except as required by Spanish law) considered the Noteholder of the principal amount of Notes recorded therein.

3.3 Certificates of title

One or more certificates (each, a **Certificate**) attesting to the relevant Noteholder's holding of Notes in the relevant registry will be delivered by the relevant Iberclear Member or, where the Noteholder is itself an Iberclear Member, by Iberclear (in each case, in accordance with the requirements of Spanish law and the relevant Iberclear Member's or, as the case may be, Iberclear's procedures) to such Noteholder upon such Noteholder's request.

3.4 Transfer of Notes

Notes may be transferred and title to the Notes may pass (subject to Spanish law and to compliance with all applicable rules, restrictions and requirements of Iberclear or, as the case may be, the relevant Iberclear Member) upon registration in the Central Registry or, as the case may be, the registry maintained by the relevant Iberclear Member. Each Noteholder will be (except as otherwise required by Spanish law) treated as the legitimate owner (*titular legítimo*) of the relevant book-entry Note for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any interest or any writing on, or the theft or loss of, the Certificate issued in respect of it) and no person will be liable for so treating the Noteholder.

4. STATUS OF THE NOTES

The Notes constitute direct, general, unconditional and (subject to Condition 5 (*Negative Pledge*)) unsecured obligations of the Issuer and in the event of insolvency (*concurso*) of the Issuer (unless they qualify as subordinated debts under article 92 of Law 22/2003 (*Ley Concursal*) dated 9 July 2003 (the **Law 22/2003** or the **Insolvency Law**) or equivalent legal provision which replaces it in the future and subject to any legal and statutory exceptions) will rank *pari passu* without any preference among themselves and with all other outstanding unsecured and unsubordinated obligations of the Issuer, present and future.

In the event of insolvency (concurso) of the Issuer, under the Insolvency Law, claims relating to the Notes (which are not subordinated pursuant to article 92 of the Insolvency Law) will be ordinary credits (créditos ordinarios) as defined in the Insolvency Law. Ordinary credits rank below credits against the insolvency estate (créditos contra la masa) and credits with a privilege (créditos privilegiados). Ordinary credits rank above subordinated credits and the rights of shareholders.

Pursuant to article 59 of the Insolvency Law, the accrual of interest shall be suspended as from the date of declaration of the insolvency of the Issuer. Interest on the Notes accrued but unpaid as of the commencement of any insolvency procedure of the Issuer shall constitute subordinated claims against the Issuer ranking in accordance with the provisions of article 92 of the Insolvency Law.

5. NEGATIVE PLEDGE

So long as any Note remains outstanding, the Issuer:

(a) shall not create or permit to subsist any Security Interest upon the whole or any part of its present or future undertaking, assets or revenues (including uncalled capital) to secure any Relevant Indebtedness or Guarantee of Relevant Indebtedness; and

(b) shall procure that none of its Relevant Subsidiaries will create or permit to subsist any Security Interest upon the whole or any part of its present or future undertaking, assets or revenues (including uncalled capital) to secure any Relevant Indebtedness of the Issuer or any other Relevant Subsidiary or any Guarantee of such Relevant Indebtedness,

without (i) at the same time or prior thereto securing the Notes equally and rateably therewith or (ii) providing such other security for the Notes as may be approved by a resolution of the relevant Syndicate of Noteholders.

6. FIXED RATE NOTE PROVISIONS

6.1 Application

This Condition 6 (*Fixed Rate Note Provisions*) is applicable to the Notes only if the Fixed Rate Note Provisions are specified in the relevant Final Terms as being applicable.

6.2 Accrual of interest

The Notes bear interest from the Interest Commencement Date at the Rate of Interest payable in arrear on each Interest Payment Date, subject as provided in Condition 9 (*Payments*). Each Note will cease to bear interest from the due date for final redemption unless, upon due presentation, payment of the Redemption Amount is improperly withheld or refused, in which case it will continue to bear interest in accordance with this Condition 6 (as well after as before judgment) until whichever is the earlier of (a) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant Noteholder and (b) the day which is seven days after the Agent has notified the Noteholders that it has received all sums due in respect of the Notes up to such seventh day (except to the extent that there is any subsequent default in payment).

6.3 Fixed Coupon Amount

The amount of interest payable in respect of each Note for any Interest Period shall be the relevant Fixed Coupon Amount and, if the Notes are in more than one Specified Denomination, shall be the relevant Fixed Coupon Amount in respect of the relevant Specified Denomination.

6.4 Calculation of interest amount

The amount of interest payable in respect of each Note for any period for which a Fixed Coupon Amount is not specified shall be calculated by applying the Rate of Interest to the Calculation Amount, multiplying the product by the relevant Day Count Fraction, rounding the resulting figure to the nearest sub-unit of the Specified Currency (half a sub-unit being rounded upwards) and multiplying such rounded figure by a fraction equal to the Specified Denomination of such Note divided by the Calculation Amount. For this purpose a **sub-unit** means, in the case of any currency other than euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, in the case of euro, means one cent.

7. FLOATING RATE NOTE PROVISIONS

7.1 Application

This Condition 7 (*Floating Rate Note Provisions*) is applicable to the Notes only if the Floating Rate Note Provisions are specified in the relevant Final Terms as being applicable.

7.2 Accrual of interest

The Notes bear interest from the Interest Commencement Date at the Rate of Interest payable in arrear on each Interest Payment Date, subject as provided in Condition 9 (*Payments*). Each Note will cease to bear interest from the due date for final redemption unless, upon due presentation, payment of the Redemption Amount is improperly withheld or refused, in which case it will continue to bear interest in accordance with this Condition (as well after as before judgment) until whichever is the earlier of (a) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant Noteholder and (b) the day which is seven days after the Agent has notified the Noteholders that it has received all sums due in respect of the Notes up to such seventh day (except to the extent that there is any subsequent default in payment).

7.3 Screen Rate Determination

If Screen Rate Determination is specified in the relevant Final Terms as the manner in which the Rate(s) of Interest is/are to be determined, the Rate of Interest applicable to the Notes for each Interest Period will be determined by the Calculation Agent on the following basis:

(a) if the Reference Rate is a composite quotation or customarily supplied by one entity, the Calculation Agent will determine the Reference Rate which appears on the Relevant Screen Page as of the Relevant Time on the relevant Interest Determination Date;

(b) if Linear Interpolation is specified as applicable in respect of an Interest Period in the applicable Final Terms, the Rate of Interest for such Interest Period shall be calculated by the Calculation Agent by straight-line linear interpolation by reference to two rates which appear on the Relevant Screen Page as of the Relevant Time on the relevant Interest Determination Date, where:

   (i) one rate shall be determined as if the relevant Interest Period were the period of time for which rates are available next shorter than the length of the relevant Interest Period; and

   (ii) the other rate shall be determined as if the relevant Interest Period were the period of time for which rates are available next longer than the length of the relevant Interest Period; ***provided, however, that*** if no rate is available for a period of time next shorter or, as the case may be, next longer than the length of the relevant Interest

Period, then the Calculation Agent shall determine such rate at such time and by reference to such sources as it determines appropriate;

(c) in any other case, the Calculation Agent will determine the arithmetic mean of the Reference Rates which appear on the Relevant Screen Page as of the Relevant Time on the relevant Interest Determination Date;

(d) if, in the case of (a) above, such rate does not appear on that page or, in the case of (c) above, fewer than two such rates appear on that page or if, in either case, the Relevant Screen Page is unavailable, the Calculation Agent will:

(i) request the principal Relevant Financial Centre office of each of the Reference Banks to provide a quotation of the Reference Rate at approximately the Relevant Time on the Interest Determination Date to prime banks in the Relevant Financial Centre interbank market in an amount that is representative for a single transaction in that market at that time; and

(ii) determine the arithmetic mean of such quotations; and

(e) if fewer than two such quotations are provided as requested, the Calculation Agent will determine the arithmetic mean of the rates (being the nearest to the Reference Rate, as determined by the Calculation Agent) quoted by major banks in the Principal Financial Centre of the Specified Currency, selected by the Calculation Agent, at approximately 11.00 a.m. (local time in the Principal Financial Centre of the Specified Currency) on the first day of the relevant Interest Period for loans in the Specified Currency to leading European banks for a period equal to the relevant Interest Period and in an amount that is representative for a single transaction in that market at that time,

and the Rate of Interest for such Interest Period shall be the sum of the Margin and the rate or (as the case may be) the arithmetic mean so determined; **provided, however, that** if the Calculation Agent is unable to determine a rate or (as the case may be) an arithmetic mean in accordance with the above provisions in relation to any Interest Period, the Rate of Interest applicable to the Notes during such Interest Period will be the sum of the Margin and the rate or (as the case may be) the arithmetic mean last determined in relation to the Notes in respect of a preceding Interest Period.

7.4 ISDA Determination

If ISDA Determination is specified in the relevant Final Terms as the manner in which the Rate(s) of Interest is/are to be determined, the Rate of Interest applicable to the Notes for each Interest Period will be the sum of the Margin and the relevant ISDA Rate where "ISDA Rate" in relation to any Interest Period means a rate equal to the Floating Rate (as defined in the ISDA Definitions) that would be determined by the Calculation Agent under an interest rate swap transaction if the Calculation Agent were acting as Calculation Agent for that interest rate swap transaction under the terms of an agreement incorporating the ISDA Definitions and under which:

(a) the Floating Rate Option (as defined in the ISDA Definitions) is as specified in the relevant Final Terms;

(b) the Designated Maturity (as defined in the ISDA Definitions) is a period specified in the relevant Final Terms;

(c) the relevant Reset Date (as defined in the ISDA Definitions) is either (i) if the relevant Floating Rate Option is based on LIBOR for a currency, the first day of that Interest Period or (ii) in any other case, as specified in the relevant Final Terms; and

(d) if Linear Interpolation is specified as applicable in respect of an Interest Period in the applicable Final Terms, the Rate of Interest for such Interest Period shall be calculated by the Calculation Agent by straight-line linear interpolation by reference to two rates based on the relevant Floating Rate Option, where:

(i) one rate shall be determined as if the Designated Maturity were the period of time for which rates are available next shorter than the length of the relevant Interest Period; and

(ii) the other rate shall be determined as if the Designated Maturity were the period of time for which rates are available next longer than the length of the relevant Interest Period

provided, however, that if there is no rate available for a period of time next shorter than the length of the relevant Interest Period or, as the case may be, next longer than the length of the relevant Interest Period, then the Calculation Agent shall determine such rate at such time and by reference to such sources as it determines appropriate.

7.5 Maximum or Minimum Rate of Interest

If any Maximum Rate of Interest or Minimum Rate of Interest is specified in the relevant Final Terms, then the Rate of Interest shall in no event be greater than the maximum or be less than the minimum so specified.

7.6 Calculation of Interest Amount

The Calculation Agent will, as soon as practicable after the time at which the Rate of Interest is to be determined in relation to each Interest Period, calculate the Interest Amount payable in respect of each Note for such Interest Period. The Interest Amount will be calculated by applying the Rate of Interest for such Interest Period to the Calculation Amount, multiplying the product by the relevant Day Count Fraction, rounding the resulting figure to the nearest sub-unit of the Specified Currency (half a sub-unit being rounded upwards) and multiplying such rounded figure by a fraction equal to the Specified Denomination of the relevant Note divided by the Calculation Amount. For this purpose a **sub-unit** means, in the case of any currency other than euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, in the case of euro, means one cent.

7.7 Publication

The Calculation Agent will cause each Rate of Interest and Interest Amount determined by it, together with the relevant Interest Payment Date, and any other amount(s) required to be determined by it together with any relevant payment date(s) to be notified to the Agent and each competent authority, stock exchange and/or quotation system (if any) by which the Notes have then been admitted to listing, trading and/or quotation as soon as practicable after such determination but (in the case of each Rate of Interest, Interest Amount and Interest Payment Date) in any event not later than the first day of the relevant Interest Period. Notice thereof shall also promptly be given to the Noteholders and the Commissioner. The Calculation Agent will be entitled to recalculate any Interest Amount (on the basis of the foregoing provisions) without notice in the event of an extension or shortening of the relevant Interest Period. If the Calculation Amount is less than the minimum Specified Denomination the Calculation Agent shall not be obliged to publish each Interest Amount but instead may publish only the Calculation Amount and the Interest Amount in respect of a Note having the minimum Specified Denomination.

7.8 Notifications etc

All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of this Condition by the Calculation Agent will (in the absence of manifest error) be binding on the Issuer, the Agent, the Noteholders and the Commissioner and (subject as aforesaid) no liability to any such Person will attach to the Calculation Agent in connection with the exercise or non-exercise by it of its powers, duties and discretions for such purposes.

8. REDEMPTION AND PURCHASE

8.1 Scheduled redemption

Unless previously redeemed, or purchased and cancelled, the Notes will be redeemed at their Final Redemption Amount on the Maturity Date, subject as provided in Condition 9 (*Payments*).

8.2 Redemption for tax reasons

The Notes may be redeemed at the option of the Issuer in whole, but not in part:

(a) at any time (unless the Floating Rate Note Provisions are specified in the relevant Final Terms as being applicable); or

(b) on any Interest Payment Date (if the Floating Rate Note Provisions are specified in the relevant Final Terms as being applicable),

on giving not less than 30 nor more than 60 days' notice to the Noteholders, or such other period(s) as may be specified in the relevant Final Terms, (which notice shall be irrevocable), at their Early Redemption Amount, together with interest accrued (if any) to the date fixed for redemption, if:

(i) the Issuer has or will become obliged to pay additional amounts as provided or referred to in Condition 10 (*Taxation*) as a result of any change in, or amendment to, the laws or regulations of the Kingdom of Spain or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations (including a holding by a court of competent jurisdiction), which change or amendment becomes effective on or after the date of issue of the first Tranche of the Notes; and

(ii) such obligation cannot be avoided by the Issuer taking reasonable measures available to it,

provided, however, that no such notice of redemption shall be given earlier than:

(A) where the Notes may be redeemed at any time, 90 days (or such other period as may be specified in the relevant Final Terms) prior to the earliest date on which the Issuer would be obliged to pay such additional amounts if a payment in respect of the Notes were then due; or

(B) where the Notes may be redeemed only on an Interest Payment Date, 60 days (or such other period as may be specified in the relevant Final Terms) prior to the Interest Payment Date occurring immediately before the earliest date on which the Issuer would be obliged to pay such additional amounts if a payment in respect of the Notes were then due.

Prior to the publication of any notice of redemption pursuant to this paragraph, the Issuer shall deliver to the Agent and the Commissioner (I) a certificate signed by two directors of the Issuer stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred and (II) an opinion of independent legal advisers of recognised standing to the effect that the Issuer has or will become obliged to pay such additional amounts as a result of such change or amendment. Upon the expiry of any such notice as is referred to in this Condition 8.2, the Issuer shall be bound to redeem the Notes in accordance with this Condition 8.2.

8.3 Redemption at the option of the Issuer

If the Call Option is specified in the relevant Final Terms as being applicable, the Notes may be redeemed at the option of the Issuer in whole or, if so specified in the relevant Final Terms, in part on any Optional Redemption Date (Call) at the relevant Optional Redemption Amount (Call) on the Issuer's giving not less than 30 nor more than 60 days' notice to the Noteholders, or such other period(s) as may be specified in the relevant Final Terms (which notice shall be irrevocable and shall oblige the Issuer to redeem the Notes in whole or, each Note shall be redeemed in part in the proportion which the aggregate principal amount of the outstanding Notes to be redeemed on the relevant Optional Redemption Date (Call) bears to the aggregate principal amount of outstanding Notes on the relevant Optional Redemption Date (Call) at the Optional Redemption Amount (Call) plus accrued interest (if any) to such date).

8.4 Partial redemption

If the Notes are to be redeemed in part only on any date in accordance with Condition 8.3 (*Redemption at the option of the Issuer*), each Note shall be redeemed in part in the proportion which the aggregate principal amount of the outstanding Notes to be redeemed on the relevant Optional Redemption Date (Call) bears to the aggregate principal amount of outstanding Notes on such date. If any Maximum Redemption Amount or Minimum Redemption Amount is specified in the relevant Final Terms, then the Optional Redemption Amount (Call) shall in no event be greater than the maximum or be less than the minimum so specified.

8.5 Redemption at the option of Noteholders

If the Put Option is specified in the relevant Final Terms as being applicable, the Issuer shall, at the option of the holder of any Note redeem such Note on the Optional Redemption Date (Put) specified in the relevant Put Option Notice at the relevant Optional Redemption Amount (Put) together with interest (if any) accrued to such date. In order to exercise the option contained in this Condition 8.5, the holder of a Note must, not less than 30 nor more than 60 days before the relevant Optional Redemption Date (Put) (or such other period(s) as may be specified in the relevant Final Terms), deposit with the Agent the relevant Certificate and a duly completed Put Option Notice in the form obtainable from the Agent. The Agent with which a Note is so deposited shall deliver a duly completed Put Option Receipt to the depositing Noteholder. No Put Option Notice, once delivered in accordance with this Condition 8.5, may be withdrawn; **provided, however, that** if, prior to the relevant Optional Redemption Date (Put), any such Note to which the Put Option Notice relates becomes immediately due and payable or, on the relevant Optional Redemption Date (Put), payment of the redemption moneys is improperly withheld or refused, the Agent shall mail notification thereof to the relevant Noteholder at such address as may have been given by such Noteholder in the relevant Put Option Notice and shall return to the relevant Noteholder the relevant Put Option Notice and Certificate against surrender of the relevant Put Option Receipt.

8.6 No other redemption

The Issuer shall not be entitled to redeem the Notes otherwise than as provided in paragraphs 8.1 to 8.4 above.

8.7 Purchase

The Issuer or any of its Subsidiaries may at any time purchase Notes in the open market or otherwise and at any price.

8.8 Cancellation

All Notes so redeemed by the Issuer or any of its Subsidiaries will be cancelled and may not be reissued or resold.

9. PAYMENTS

9.1 Method of payments

Payments in respect of the Notes (in terms of both principal and interest) will be made by transfer to the registered account of the relevant Noteholder maintained by or on behalf of it with a bank that processes payments in the currency in which the payment is due (or, if that currency is euro, any other account to which euro may be credited or transferred), details of which appear in the records of Iberclear or, as the case may be, the relevant Iberclear Member at the close of business on the date immediately preceding the Business Day on which the payment of principal or interest, as the case may be, falls due. Noteholders must rely on the procedures of Iberclear or, as the case may be, the relevant Iberclear Member to receive payments under the relevant Notes. None of the Issuer, the Agent or any of the Dealers will have any responsibility or liability for the records relating to payments made in respect of the Notes.

9.2 Payments subject to fiscal laws

All payments in respect of the Notes are subject in all cases to (a) any applicable fiscal or other laws and regulations in the place of payment, but without prejudice to the provisions of Condition 10 (*Taxation*); and (b) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986 (the **Code**) or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof, or (without prejudice to the provisions of Condition 10 (*Taxation*)) any law implementing an intergovernmental approach thereto. No commissions or expenses shall be charged to the Noteholders in respect of such payments.

9.3 Payments on business days

If the due date for payment of any amount in respect of any Note is not a Payment Business Day, the Noteholder shall not be entitled to payment in the relevant place of the amount due until the next succeeding Payment Business Day in such place and shall not be entitled to any further interest or other payment in respect of such delay.

10. TAXATION

10.1 Gross up

All payments of principal and interest in respect of the Notes by or on behalf of the Issuer shall be made free and clear of, and without withholding or deduction for or on account of, any present or future taxes, duties, assessments or governmental charges (collectively, **Taxes**) of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of the Kingdom of Spain or any political subdivision therein or any authority therein or thereof having power to tax, unless the withholding or deduction of such Taxes is required by law. In that event, the Issuer shall pay such additional amounts as will result in receipt by the Noteholders after such withholding or deduction of such amounts as would have been received by them had no such withholding or deduction been required, except that no such additional amounts shall be payable in respect of any Note:

(a) held by or on behalf of a Noteholder which is liable to such Taxes in respect of such Note by reason of its having some connection with the Kingdom of Spain; or

(b) to, or to a third party on behalf of, a Noteholder in respect of whom the Issuer (or an agent acting on behalf of the Issuer) has not received such documentation or information as may be necessary to allow payments on such Note to be made free and clear of withholding or deduction on account of any such Taxes imposed by the Kingdom of Spain and, in particular, when the Issuer has not received in a timely manner a duly executed and complete certificate which complies with article 44 of Royal Decree 1065/2007 and any implementing legislation or regulation; or

(c) presented for payment by or on behalf of a Noteholder who does not provide to the Issuer or an agent acting on behalf of the Issuer the information or documentation concerning such Noteholder as may be required in order to comply with any procedures that may be implemented to comply with any interpretation of article 44 of Royal Decree 1065/2007 made by the Spanish taxing authorities; or

(d) where such withholding or deduction of such Taxes is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, this Directive; or

(e) to, or to a third party on behalf of, a Noteholder who is a fiduciary, a partnership, a limited liability company or other than the sole beneficial owner of that payment, to the extent that the payment would be required by the laws of the Kingdom of Spain to be included in the income for tax purposes of a beneficiary or settlor with respect to the fiduciary, a member of that partnership, an interest holder in that limited liability company or a beneficial owner who would not have been entitled to any additional amounts had it been the Noteholder.

10.2 Taxing jurisdiction

If the Issuer becomes subject at any time to any taxing jurisdiction other than the Kingdom of Spain, references in these Conditions to the Kingdom of Spain shall be construed as references to the Kingdom of Spain and/or such other jurisdiction.

11. EVENTS OF DEFAULT

If any of the following events occurs and is continuing:

11.1 Non-payment

the Issuer fails to pay any amount of principal in respect of the Notes within seven days of the due date for payment thereof, or fails to pay any amount of interest in respect of the Notes within 14 days of the due date for payment thereof; or

11.2 Breach of other obligations

the Issuer defaults in the performance or observance of any of its other obligations under or in respect of the Notes and such default remains unremedied for 30 days; or

11.3 Cross-default of Issuer or Relevant Subsidiary

(a) any Indebtedness of the Issuer or any of its Relevant Subsidiaries is not paid when due or (as the case may be) within any originally applicable grace period;

(b) any such Indebtedness becomes due and payable prior to its stated maturity otherwise than at the option of the Issuer, or (as the case may be) such Relevant Subsidiary or (**provided that** no event of default, howsoever described, has occurred) any Person entitled to such Indebtedness; or

(c) the Issuer or any of its Relevant Subsidiaries fails to pay when due any amount payable by it under any Guarantee of any Indebtedness.

No Event of Default shall occur under this provision if the aggregate amount of Indebtedness or Guarantee for Indebtedness falling within subparagraphs (a) to (c) above amounts to less than €50,000,000 (or its equivalent in any other currency).

11.4 Unsatisfied judgment

one or more judgment(s) or order(s) for the payment of any amount is rendered against the Issuer or any of its Relevant Subsidiaries for any amount in excess of 10% of the Group's consolidated gross assets and continue(s) unsatisfied and unstayed for a period of 30 days after the date(s) thereof or, if later, the date therein specified for payment; or

11.5 Security enforced

a secured party takes possession, or a receiver, manager or other similar officer is appointed, of the whole or any part of the undertaking, assets and revenues of the Issuer or any of its Relevant Subsidiaries where the aggregate value of such undertakings, assets and revenues is in excess of 10% of the Group's consolidated gross assets; or

11.6 Insolvency etc

(a) the Issuer or any of its Relevant Subsidiaries becomes insolvent (*concurso*) or is unable to pay its debts as they fall due, (b) an administrator or liquidator is appointed (or application for any such appointment is made) in respect of the Issuer or any of its Relevant Subsidiaries or the whole or substantially all of the undertaking, assets and revenues of the Issuer or any of its Relevant Subsidiaries, (c) the Issuer or any of its Relevant Subsidiaries takes any action for a readjustment or deferment of any of its obligations or makes a general assignment or an arrangement or composition with or for the benefit of its creditors or declares a moratorium in respect of any of its Indebtedness or any Guarantee of any Indebtedness given by it or (d) the Issuer or any of its Relevant Subsidiaries ceases or threatens to cease to carry on all or any substantial part of its business (otherwise than, in the case of a Relevant Subsidiary, for the purposes of or pursuant to an amalgamation, reorganisation or restructuring whilst solvent); or

11.7 Winding up etc

an order is made or an effective resolution is passed for the winding up, liquidation or dissolution (*liquidación o disolución*) of the Issuer or any of its Relevant Subsidiaries (otherwise than, in the case of a Relevant Subsidiary, for the purposes of or pursuant to an amalgamation, reorganisation or restructuring whilst solvent); or

11.8 Analogous event

any event occurs which under the laws of the Kingdom of Spain has an analogous effect to any of the events referred to in paragraphs 11.4 to 11.7 above; or

11.9 Failure to take action etc

any action, condition or thing at any time required to be taken, fulfilled or done in order (a) to enable the Issuer lawfully to enter into, exercise its rights and perform and comply with its obligations under and in respect of the Notes, (b) to ensure that those obligations are legal, valid, binding and enforceable and (c) to make the Notes admissible in evidence in the courts of the Kingdom of Spain is not taken, fulfilled or done; or

11.10 Unlawfulness

it is or will become unlawful for the Issuer to perform or comply with any of its obligations under or in respect of the Notes; or

11.11 Government intervention

(a) all or any substantial part of the undertaking, assets and revenues of the Issuer or any of its Relevant Subsidiaries is condemned, seized or otherwise appropriated by any Person acting under the authority of any national, regional or local government or (b) the Issuer or any of its Relevant Subsidiaries is prevented by any such Person from exercising normal control over all or any substantial part of its undertaking, assets and revenues,

then (i) the Commissioner, acting upon a resolution of the Syndicate of Noteholders in respect of all of the Notes of the relevant Series or (ii) any Noteholder of the relevant Series in respect of such Notes and provided that such Noteholder does not contravene the resolution of the Syndicate of Noteholders (if any) may, by written notice to the Issuer, declare that such Notes or Note (as the case may be) and (if the Notes or Note are or is interest-bearing) all interest then accrued but unpaid on such Notes or Note (as the case may be) shall be forthwith due and payable, whereupon the same shall (to the extent permitted by applicable Spanish law) become immediately due and payable at its Early Termination Amount, together with all interest accrued thereon without further formality.

Law 22/2003 provides, among other things, that: (a) any claim may become subordinated if it is not reported to the insolvency administrators (administradores concursales) within one month from the last official publication of the court order declaring the insolvency (if the insolvency proceeding is declared as abridged, the term to report may be reduced to 15 days) in the Spanish Official Gazette (Boletín Oficial del Estado), (b) actions deemed detrimental for the insolvent estate of the insolvency debtor carried out during the two year period preceding the date of its declaration of insolvency may be rescinded, (c) provisions in a contract granting one party the right to terminate by reason only of the other's insolvency may not be enforceable, and (d) accrual of interest (other than interest accruing under secured liabilities up to an amount equal to the value of the asset subject to the security) shall be suspended as from the date of the declaration of insolvency and any amount of interest accrued up to such date and unpaid (other than any interest accruing under secured liabilities up to an amount equal to the value of the asset subject to the security) shall become subordinated.

12. PRESCRIPTION

Claims for principal and interest on redemption in respect of Notes shall become void within ten years (in the case of principal) and five years (in the case of interest) of the appropriate Relevant Date.

13. AGENT

In acting under the Agency Agreement and in connection with the Notes, the Agent acts solely as agent of the Issuer and does not assume any obligations towards or relationship of agency or trust for or with any of the Noteholders.

The initial Agent and its Specified Office is listed below. The initial Calculation Agent (if any) is specified in the relevant Final Terms. The Issuer reserves the right at any time to vary or terminate the appointment of the Agent and to appoint a successor agent or Calculation Agent and additional or successor paying agents; **provided, however, that**:

(a) the Issuer shall at all times maintain an agent; and

(b) if a Calculation Agent is specified in the relevant Final Terms, the Issuer shall at all times maintain a Calculation Agent in respect of such Series; and

(c) if and for so long as the Notes are admitted to listing, trading and/or quotation by any competent authority, stock exchange and/or quotation system which requires the appointment of a paying agent in any particular place, the Issuer shall maintain a paying agent having its Specified Office in the place required by such competent authority, stock exchange and/or quotation system.

Notice of any change in any of the agents or in their Specified Offices shall promptly be given to the Noteholders.

14. SYNDICATE OF NOTEHOLDERS AND MODIFICATION

14.1 Syndicate of Noteholders

The Noteholders of a relevant Series shall meet in accordance with the regulations governing the relevant Syndicate of Noteholders (the **Regulations**) as set out in the Agency Agreement. The Regulations contain the rules governing the functioning of each Syndicate and the rules governing its relationship with the Issuer. A set of pro forma Regulations is included in the Base Prospectus.

A provisional Commissioner will be appointed for each Syndicate of Noteholders. Upon the subscription of the Notes, the Commissioner will call a general meeting of the Syndicate of Noteholders, the duty of which shall be to ratify or oppose the acts of the Commissioner, confirm him in his appointment or appoint a substitute and to ratify the Regulations.

Every Noteholder of each Series, by subscribing for the relevant Notes, will be deemed to have agreed to the appointment of the provisional Commissioner and to membership in the Syndicate of Noteholders in respect of such Series of Notes and to have granted full power and authority to the Agent with respect to such Series of Notes to take any action and/or to execute and deliver any document or notices for the purposes of attending on behalf of the Noteholders at the first meeting of the Syndicate of Noteholders of such Series and vote in favour of ratifying the Regulations in respect of such Syndicate of Noteholders, the designation and appointment of the Commissioner of such Syndicate of Noteholders and the actions of the Commissioner of such Syndicate of Noteholders performed prior to such first meeting of such Syndicate of Noteholders.

Provisions for meetings of the Syndicate of Noteholders will be contained in the Regulations. Such provisions shall have effect as if incorporated herein.

14.2 Modification

The Issuer may, with the consent of the relevant Commissioner, but without the consent of the holders of the Notes of any Series, amend these Conditions insofar as they may apply to such Notes to correct a manifest error or amendments which are of a formal, minor or technical nature or to comply with mandatory provisions of law. In addition to the above, the Issuer and the Noteholders, the latter with the sanction of a resolution of the Syndicate of Noteholders, may agree any modification, whether material or not, to these Conditions and any waiver or any breach or proposed breach of these Conditions.

In accordance with article 425 of the Spanish Corporations law (Ley de Sociedades de Capital), a general meeting of the Syndicate of Noteholders shall be quorate upon first being convened provided that the Noteholders holding or representing two-thirds of the Notes outstanding attend. If the necessary quorum is not achieved at the first meeting, a second general meeting may be reconvened to meet one month after the first general meeting and shall be quorate regardless of the number of the Noteholders who attend. A resolution shall be passed by the Noteholders holding an absolute majority in principal amount of Notes present or duly represented at any properly constituted meeting.

15. FURTHER ISSUES

The Issuer may from time to time, without the consent of the Noteholders, create and issue further notes having the same terms and conditions as the Notes in all respects (or in all respects except for the first payment of interest) so as to form a single series with the Notes.

16. NOTICES

16.1 The Issuer shall ensure that all notices are duly published in a manner which complies with the rules and regulations of any stock exchange or other relevant authority on which the Notes are for the time being listed and/or admitted to trading. Any such notice shall be deemed to have been given on the date of such publication or, if published more than once, on the first date on which publication is made. If publication as provided above is not practicable, notice will be given in such other manner, and shall be deemed to have been given on such date, as the Commissioner may approve.

So long as the Notes are listed on AIAF, notices to the Noteholders may be published in the *Boletín de Cotización de AIAF* (the official bulletin of AIAF). Any such notice will be deemed to have been given on the date of the first publication. In addition, so long as the Notes are represented by book-entries, all notices to Noteholders may be made through Iberclear for on transmission to their respective accountholders.

16.2 Notice of a General Meeting of the Syndicate of Noteholders

Notice of a general meeting of the Syndicate of Noteholders of a Series must be given in accordance with the relevant Regulations.

16.3 To Commissioner

Copies of any notice given to any Noteholders will be also given to the Commissioner of the Syndicate of Noteholders of the relevant Series.

17. CURRENCY INDEMNITY

If any sum due from the Issuer in respect of the Notes or any order or judgment given or made in relation thereto has to be converted from the currency (the **first currency**) in which the same is payable under these Conditions or such order or judgment into another currency (the **second currency**) for the purpose of (a) making or filing a claim or proof against the Issuer, (b) obtaining an order or judgment in any court or other tribunal or (c) enforcing any order or judgment given or made in relation to the Notes, the Issuer shall indemnify each Noteholder, on the written demand of such Noteholder addressed to the Issuer and delivered to the Issuer or to the Specified Office of the Agent, against any loss suffered as a result of any discrepancy between (i) the rate of exchange used for such purpose to convert the sum in question from the first currency into the second currency and (ii) the rate or rates of exchange at which such Noteholder may in the ordinary course of business purchase the first currency with the second currency upon receipt of a sum paid to it in satisfaction, in whole or in part, of any such order, judgment, claim or proof.

This indemnity constitutes a separate and independent obligation of the Issuer and shall give rise to a separate and independent cause of action.

18. ROUNDING

For the purposes of any calculations referred to in these Conditions (unless otherwise specified in these Conditions or the relevant Final Terms), (a) all percentages resulting from such calculations will be rounded, if necessary, to the nearest one hundred-thousandth of a percentage point (with 0.000005% being rounded up to 0.00001%) and (b) all amounts denominated in a currency used in or resulting from such calculations will be rounded in accordance with applicable market convention.

19. GOVERNING LAW AND JURISDICTION

19.1 Governing law

Conditions 3 (*Form, Title and Transfer*), 4 (*Status of the Notes*), 14 (*Syndicate of Noteholders and Modification*) and the Regulations (as defined in Condition 14 (*Syndicate of Noteholders and Modification*)) are governed by Spanish law. Subject as provided above, the terms and conditions of the Notes and all non contractual obligations arising from or connected with the Notes, the Agency Agreement and the Deed of Covenant are governed by, and shall be construed in accordance with, English law.

19.2 English courts

The courts of England have exclusive jurisdiction to settle any dispute (a **Dispute**) arising out of or in connection with the Notes (including any non-contractual obligation arising out of or in connection with the Notes).

19.3 Appropriate forum

The Issuer agrees that the courts of England are the most appropriate and convenient courts to settle any Dispute and, accordingly, that it will not argue to the contrary.

19.4 Rights of the Noteholders to take proceedings outside England

Condition 19.2 (*English courts*) is for the benefit of the Noteholders only. As a result, nothing in this Condition 19 (*Governing Law and Jurisdiction*) prevents any Noteholder from taking proceedings relating to a Dispute (**Proceedings**) in any other courts with jurisdiction. To the extent allowed by law, Noteholders may take concurrent Proceedings in any number of jurisdictions.

19.5 Service of process

The Issuer agrees that the documents which start any Proceedings and any other documents required to be served in relation to those Proceedings may be served on it by being delivered to Law Debenture Corporate Services Limited at Fifth Floor, 100 Wood Street, London EC2V 7EX, or to such other person with an address in England or Wales and/or at such other address in England or Wales as the Issuer may specify by notice in writing to the Noteholders. Nothing in this paragraph shall affect the right of any Noteholder to serve process in any other manner permitted by law. This Condition applies to Proceedings in England and to Proceedings elsewhere.

7. REGULATIONS OF THE SYNDICATE OF NOTEHOLDERS

For each Series of Notes, a Syndicate of Noteholders will be created in accordance with the Spanish Corporations law (*Ley de Sociedades de Capital*).

In the Final Terms of each Series of Notes the name of the Syndicate, its address and the name of the provisional Commissioner will be indicated.

The Regulations of the Syndicate of Noteholders to be created for each Series of Notes will be as follows:

The Spanish version of the Regulations of the Syndicate of Noteholders is the legally binding version. The English translation provided below is an accurate translation of the Spanish text given for information purpose only.

REGLAMENTO	**REGULATIONS**
A continuación se recoge el Reglamento del Sindicato de Bonistas de la Emisión de los Bonos conforme a lo establecido en las Condiciones Finales correspondientes (la "Emisión").	The Regulations that follow correspond to the Syndicate of Noteholders of the Notes which are referred in the applicable Final Terms (the "Issue").
En caso de discrepancia la versión española prevalecerá.	In the case of discrepancy, the Spanish version shall prevail.
TÍTULO I	TITLE I
CONSTITUCIÓN, DENOMINACIÓN, OBJETO, DOMICILIO Y DURACIÓN DEL SINDICATO DE BONISTAS.	INCORPORATION, NAME, PURPOSE, ADDRESS AND DURATION FOR THE SYNDICATE OF NOTEHOLDERS.
ARTÍCULO 1°. – CONSTITUCIÓN	**ARTICLE 1°. – INCORPORATION**
Con sujeción a lo dispuesto en el Capítulo IV del Título XI del Real Decreto Legislativo 1/2010, de 2 de julio, por el que se aprueba el texto refundido de la Ley de Sociedades de Capital (la "Ley de Sociedades de Capital"), quedará constituido un sindicato de los titulares de los Bonos (los "Bonistas").	In accordance with the provisions of Chapter IV of Title XI of the Spanish Royal Legislative Decree 1/2010, of 2 July 2010, approving the Spanish Capital Companies Act ("*Real Decreto Legislativo 1/2010, de 2 de julio, que aprueba el texto refundido de la Ley de Sociedades de Capital*") (the "Spanish Capital Companies Act"), there shall be incorporated a Syndicate of the owners of the Notes (hereinafter, the "Noteholders").
Este Sindicato se regirá por el presente Reglamento, por la Ley de Sociedades de Capital, por las disposiciones de los estatutos sociales de CANAL DE ISABEL II GESTIÓN, S.A. (la "Sociedad Emisora") y demás disposiciones legales vigentes.	This Syndicate shall be governed by these Regulations, by the Spanish Capital Companies Act, by the applicable provisions of the articles of association of CANAL DE ISABEL II GESTIÓN, S.A. (the "Issuer") and other applicable legislation.
ARTÍCULO 2°. – DENOMINACIÓN	**ARTICLE 2°. – NAME**
El Sindicato se denominará conforme a lo	The Syndicate shall be named as set in the

establecido en las Condiciones Finales de los Bonos correspondientes

applicable Final Terms of the Notes.

ARTÍCULO 3°. – OBJETO

El Sindicato tendrá por objeto la representación y defensa de los legítimos intereses de los Bonistas frente a CANAL DE ISABEL II GESTIÓN, S.A., mediante el ejercicio de los derechos que le reconocen las Leyes por las que se rigen y el presente Reglamento, para ejercerlos y conservarlos de forma colectiva, y bajo la representación que se determina en las presentes normas.

ARTICLE 3°. – PURPOSE

This Syndicate is formed for the purpose of representing and protecting the lawful interest of the Noteholders before CANAL DE ISABEL II GESTIÓN, S.A., by means of the exercise of the rights granted by the applicable laws and the present Regulations, to exercise and preserve them in a collective way and under the representation determined by these Regulations.

ARTÍCULO 4°. – DOMICILIO

El domicilio del Sindicato será el establecido en las correspondientes Condiciones finales de los Bonos.

La Asamblea General de Bonistas podrá, sin embargo, reunirse, cuando se considere oportuno, en otro lugar de la ciudad de Madrid, expresándose así en la convocatoria.

ARTICLE 4°. – ADDRESS

The address of the Syndicate shall be as set in the applicable Final Terms of the Notes.

However, the Noteholders General Meeting is also authorised to hold a meeting, when considered convenient, in any other place in Madrid that is specified in the notice convening the meeting.

ARTÍCULO 5°. – DURACIÓN

El Sindicato estará en vigor hasta que los Bonistas se hayan reintegrado de cuantos derechos derivados de los Bonos por principal, intereses o cualquier otro concepto les correspondan.

ARTICLE 5°. – DURATION

This Syndicate shall be in force until the *Noteholders* have been reimbursed for any rights deriving from the Notes they may hold for the principal, interest or any other concept.

TÍTULO II

RÉGIMEN DEL SINDICATO

ARTÍCULO 6°. –* ÓRGANOS *DEL SINDICATO

El gobierno del Sindicato corresponderá:

(a) A la Asamblea General de Bonistas (la "Asamblea General").

(b) Al Comisario de la Asamblea General de Bonistas (el "Comisario").

TITLE II

SYNDICATE'S REGIME

ARTICLE 6°. – SYNDICATE MANAGEMENT BODIES

The Management bodies of the Syndicate are:

(a) The General Meeting of Noteholders (the "General Meeting").

(b) The Commissioner of the General Meeting of Noteholders (the "Commissioner").

ARTÍCULO 7°. – NATURALEZA JURÍDICA

La Asamblea General, debidamente convocada y constituida, es el órgano de expresión de la voluntad de los Bonistas, con sujeción al presente Reglamento, y sus acuerdos vinculan a todos los Bonistas en la forma establecida por las Leyes.

ARTICLE 7°. – LEGAL NATURE

The General Meeting, duly called and constituted, is the body of expression of the Noteholders' will, subject to the provisions of these Regulations, and its resolutions are binding for all the Noteholders in the way established by the Law.

ARTÍCULO 8°. – LEGITIMACIÓN PARA

ARTICLE 8°. – CONVENING MEETINGS

CONVOCATORIA

La Asamblea General será convocada por el Consejo de Administración de la Sociedad Emisora o por el Comisario, siempre que cualquiera de ellos lo estime conveniente.

The General Meeting shall be convened by the Board of Directors of the Issuer or by the Commissioner, whenever they may deem it convenient.

Sin perjuicio de lo anterior, el Comisario deberá convocarla cuando lo soliciten por escrito, y expresando el objeto de la convocatoria, los Bonistas que representen, por lo menos, la vigésima parte del importe total de la Emisión que no esté amortizado. En este caso, la Asamblea General deberá convocarse para ser celebrada dentro de los cuarenta y cinco (45) días siguientes a aquél en que el Comisario hubiere recibido solicitud válida al efecto.

Notwithstanding the above, the Commissioner shall convene a General Meeting when Noteholders holding at least the twentieth of the non-amortised entire amount of the Issue, request it in writing. In such case, the General Meeting shall be held within forty five (45) days following the receipt by the Commissioner of a valid written notice for this purpose.

ARTÍCULO 9°. – FORMA DE CONVOCATORIA

ARTICLE 9°. – PROCEDURE FOR CONVENING MEETINGS

La convocatoria de la Asamblea General se hará, por lo menos quince (15) días, o cuando la Asamblea General sea convocada para tratar o resolver asuntos relativos a la modificación de los términos y condiciones de Emisión de los Bonos y otros de trascendencia análoga, a juicio del Comisario, al menos con tantos días de preaviso como sea necesario bajo la Ley de Sociedades de Capital, antes de la fecha fijada para su celebración, mediante (i) anuncio que se publicará en el "Boletín Oficial del Registro Mercantil" y en uno de los diarios de mayor circulación de Madrid; o (ii) cualquier otro método establecido en la Ley de Sociedades de Capital.

The General Meeting shall be convened at least fifteen (15) days, or when the General Meeting is convened to consider or resolve matters relating to the amendment of the terms and conditions of the Issue of the Notes or any other matters considered to be of similar relevance by the Commissioner, at least such number of days notice required under the Spanish Capital Companies Act, before the date set for the meeting, by (i) notice published in the Official Gazette of the Mercantile Registry and in a newspaper of significant circulation in Madrid; or (ii) any other method stipulated in the Spanish Capital Companies Act.

Adicionalmente al medio de convocatoria que, conforme a lo establecido en el párrafo anterior, se utilice, la convocatoria de la Asamblea General se podrá realizar (i) mediante su publicación en el Boletín de Cotización de AIAF, Mercado de Renta Fija, S.A., siempre y cuando los Bonos hayan sido previamente admitidos a cotización en dicho mercado y (ii) mediante la correspondiente comunicación a Iberclear, para su posterior transmisión a los titulares de las correspondientes cuentas de valores, siempre y cuando los Bonos se encuentren representados por medio de anotaciones en cuenta.

In addition to the procedure for convening a General Meeting, as provided in the preceding paragraph, the General Meeting may be convened (i) by notice in the *Boletín de Cotización de AIAF* (the official bulletin of AIAF), so long as the Notes are listed on that market and (ii) through Iberclear for on transmission to their respective accountholders, so long as the Notes are represented by book-entries.

En todo caso, se expresará en el anuncio el

In any case, the notice shall state the name of the *nombre de la sociedad y la denominación del Sindicato, el lugar y la fecha de reunión, los asuntos que hayan de tratarse y la forma de acreditar la titularidad de los Bonos para tener derecho de asistencia a la Asamblea General.*

company and the naming of the Syndicate, the place and the date for the meeting, the agenda for the meeting and the way in which the ownership of the Notes shall be proved in order to have the right to attend the meeting.

ARTÍCULO 10°. – DERECHO DE ASISTENCIA

ARTICLE 10°. – RIGHT TO ATTEND MEETINGS

Tendrán derecho de asistencia a la Asamblea General las personas que consten registradas como Bonistas con cinco (5) días de antelación, por lo menos, a aquél en que haya de celebrarse la reunión (y si el quinto día anterior a la fecha en que haya de celebrarse la reunión no fuera un día hábil a efectos de Iberclear, el día anterior a éste que sea un día hábil para Iberclear)

Persons who are registered as Noteholders at least five (5) days prior to the date on which the meeting is scheduled (or if such date is not a business day for Iberclear, the day preceding such date which is a business day for Iberclear), shall have the right to attend the meeting.

Los Consejeros de la Sociedad Emisora y el Agente (Agent) de la Emisión tendrán derecho de asistencia a la Asamblea General aunque no hubieren sido convocados.

The members of the Board of Directors of the Issuer and the Agent under the Issue shall have the right to attend the meeting even if they have not been requested to attend.

Adicionalmente, en cada convocatoria de la Asamblea General podrán habilitarse medios de asistencia telemática a la misma, que garanticen debidamente la identidad del Bonista y, en su caso, la debida representación. En caso de que tales medios se pongan a disposición de los Bonistas, en la convocatoria se describirán los plazos, formas y modos de ejercicio de los derechos de los Bonistas para permitir el ordenado desarrollo de la Asamblea General.

Additionally, for each notice of the General Meeting remote attendance may be implemented for the General Meeting through electronic methods that duly guarantee the Noteholder’s identity and, as the case may be, his representative. Should these methods be enabled, the convening of the General Meeting shall describe the time frame, ways and means to allow Noteholders to exercise such rights and ensure the General Meeting is conducted in an orderly fashion.

ARTÍCULO 11°. – DERECHO DE REPRESENTACIÓN

ARTICLE 11°. – RIGHT TO BE REPRESENTED

Todo Bonista que tenga derecho de asistencia a la Asamblea General podrá hacerse representar por medio de otra persona. La representación deberá conferirse por escrito y con carácter especial para cada Asamblea General.

All Noteholders having the right to attend the meetings also have the right to be represented by another person. Appointment of a proxy must be in writing and only for each particular meeting.

ARTÍCULO 12°. – QUÓRUM DE ASISTENCIA Y ADOPCIÓN DE ACUERDOS

ARTICLE 12°. – QUORUM FOR MEETINGS AND TO PASS RESOLUTIONS

La Asamblea General podrá adoptar acuerdos siempre que los Bonistas asistentes a la misma o debidamente representados en la misma representen al menos las dos terceras partes

The General Meeting shall be entitled to pass resolutions if Noteholders representing at least two thirds of the outstanding Notes are present or duly represented at the meeting, and these *de los Bonos en circulación, debiendo adoptarse estos acuerdos por mayoría absoluta de los Bonos en circulación asistentes o debidamente representados.*

resolutions shall be approved by an absolute majority of the outstanding Notes present or duly represented at the meeting.

En el caso de que no se lograre la concurrencia de las dos terceras partes de los Bonos en circulación, podrá convocarse una nueva Asamblea General para su celebración un mes después de su convocatoria, pudiendo entonces tomarse los acuerdos con independencia de los Bonos en circulación que asistan o estén debidamente representados en la misma y adoptándose los acuerdos por mayoría absoluta de los Bonos en circulación asistentes o debidamente representados.

In the case that two thirds of the outstanding Notes are not present or duly represented at the first meeting of the General Meeting, a new General Meeting may be convened to be held one month after the call, and will be validly constituted regardless of the number of outstanding Notes present or duly represented and the resolutions may be passed by absolute majority of the outstanding Notes present or duly represented at the meeting.

Los Bonistas que, en su caso, emitan sus votos a distancia deberán ser tenidos en cuenta a efectos de constitución de la Asamblea General como presentes.

Noteholders voting by correspondence must be regarded to be present for the intents and purposes of establishing a quorum of the General Meeting.

No obstante, la Asamblea General se entenderá convocada y quedará válidamente constituida para tratar de cualquier asunto de la competencia del Sindicato, siempre que estén presentes o debidamente representados los Bonistas titulares de todos los Bonos y los asistentes acepten por unanimidad la celebración de la Asamblea General.

Nevertheless, the General Meeting shall be deemed validly constituted to transact any business within the remit of the Syndicate if Noteholders representing all the outstanding Notes are present or duly represented, and provided that they unanimously approve the holding of such meeting.

ARTÍCULO 13°. – DERECHO DE VOTO

ARTICLE 13°. – VOTING RIGHTS

En las reuniones de la Asamblea General cada Bono conferirá derecho a un voto.

In the meetings of the General Meeting, the right to one vote shall be granted for each Note.

Asimismo, si en la convocatoria de la Asamblea General se hubieran previsto medios de asistencia telemática a la misma, se habilitarán medios de voto a distancia a través de los cuales los Bonistas podrán emitir su voto. Tales medios garantizarán suficientemente la identificación del Bonista y, en su caso, su debida representación. En estos casos, la convocatoria de la Asamblea General deberá contener las instrucciones precisas para el ejercicio del derecho de voto o, alternativamente, designar una página web y/o dirección de correo electrónico en la que dichas instrucciones y los formularios u otros medios necesarios para la formulación de los votos puedan obtenerse.

Additionally, should the convening of the General Meeting enable remote attendance to the General Meeting by electronic methods, voting by correspondence methods for the Noteholders will be enabled. Such voting methods will duly guarantee the Noteholder’s identity and, as the case may be, his representation. In these cases the convening of the General Meeting shall contain the precise instructions to exercise the voting rights or, alternatively, indicate a website and/or an email address in which such instructions together with any form or necessary mechanism for the exercise of the voting rights can be obtained.

ARTÍCULO 14°. – PRESIDENCIA DE LA ASAMBLEA GENERAL

ARTICLE 14°. – PRESIDENT OF THE GENERAL MEETING

La Asamblea General estará presidida por el Comisario, quien dirigirá los debates, dará por terminadas las discusiones cuando lo estime conveniente y dispondrá que los asuntos sean sometidos a votación.

ARTÍCULO 15°. – LISTA DE ASISTENCIA

El Comisario formará, antes de entrar a discutir el orden del día, la lista de los asistentes, expresando el carácter y representación de cada uno y el número de Bonos propios o ajenos con que concurren.

ARTÍCULO 16°. – FACULTADES DE LA ASAMBLEA GENERAL

La Asamblea General podrá acordar lo necesario para la mejor defensa de los legítimos intereses de los mismos frente a la Sociedad Emisora; modificar (ya sea una modificación relevante o no), de acuerdo con la misma, los términos y condiciones de los Bonos, otorgar cualquier dispensa o acordar cualquier incumplimiento o posible incumplimiento de los términos y condiciones de los Bonos; destituir o nombrar Comisario; renunciar al ejercicio de sus facultades o derechos bajo los términos y condiciones de los Bonos, ejercer, cuando proceda, las acciones judiciales correspondientes y aprobar los gastos ocasionados por la defensa de los intereses de los Bonistas y cualquier otra que le confiera la normativa vigente.

ARTÍCULO 17°. – IMPUGNACIÓN DE LOS ACUERDOS

Los acuerdos de la Asamblea General podrán ser impugnados por los Bonistas conforme a lo dispuesto en el Capítulo IX del Título V de la Ley de Sociedades de Capital.

ARTÍCULO 18°. – ACTAS

El acta de la sesión podrá ser aprobada por la propia Asamblea General, acto seguido de haberse celebrado ésta, o, en su defecto, dentro del plazo de quince (15) días, por el Comisario y al menos un Bonista designado al efecto por la Asamblea General.

ARTÍCULO 19°. – CERTIFICACIONES

Las certificaciones de las actas de los acuerdos de la Asamblea General serán expedidas por el Comisario.

The Commissioner shall be the president of the General Meeting, shall chair the discussions, shall have the right to bring the discussions to an end when he considers it convenient and shall arrange for matters to be put to the vote.

ARTICLE 15°. – ATTENDANCE LIST

Before discussing the agenda for the meeting, the Commissioner shall form the attendance list, stating the nature and representation of each of the Noteholders present and the number of Notes at the meeting, both directly owned and/or represented.

ARTICLE 16°. – POWER OF THE GENERAL MEETING

The General Meeting may pass resolutions necessary for the best protection of Noteholders' lawful interests before the Issuer; to modify (whether material or not), in accordance with the Issuer, the terms and conditions of the Notes, grant any waiver or agree to any breach or proposed breach of the terms and conditions.; to dismiss or appoint the Commissioner; to refuse to exercise its powers or rights under the terms and conditions of the Notes; to exercise, when appropriate, the corresponding legal claims and to approve the expenses caused by the defence of the Noteholders' interest and any other as provided by the law in force.

ARTICLE 17°. – CHALLENGE OF RESOLUTIONS

The resolutions of the General Meeting may be challenged by the Noteholders in accordance with Chapter IX of Title V of the Spanish Capital Companies Act.

ARTICLE 18°. – MINUTES

The minutes of the meeting may be approved by the General Meeting, after the meeting has been held or, if not, within a term of fifteen (15) days by the Commissioner and at least one Noteholder appointed for such purpose by the General Meeting.

ARTICLE 19°. – CERTIFICATES

The certificates of the minutes of the resolutions of the General Meeting shall be issued by the Commissioner.

ARTÍCULO 20°. – EJERCICIO INDIVIDUAL DE ACCIONES

Los Bonistas sólo podrán ejercitar individualmente las acciones judiciales o extrajudiciales que corresponda cuando no contradigan los acuerdos adoptados previamente por el Sindicato, dentro de su competencia, y sean compatibles con las facultades que al mismo se hubiesen conferido.

ARTICLE 20°. – INDIVIDUAL EXERCISE OF ACTIONS

The Noteholders will only be entitled to individually exercise judicial or extra judicial claims if such claims do not contradict the resolutions previously adopted by the Syndicate, within its powers, and are compatible with the faculties conferred upon the Syndicate.

ARTÍCULO 21°. – GASTOS DEL SINDICATO

Los gastos normales y razonables que normalmente ocasione el sostenimiento del Sindicato correrán a cargo de la Sociedad Emisora, no pudiendo exceder en ningún caso del dos por ciento (2%) de los intereses anuales devengados por los Bonos.

ARTICLE 21°. – EXPENSES OF THE SYNDICATE

The ordinary and reasonable expenses properly incurred resulting from the maintenance of the Syndicate shall be for the account of the Issuer, but they will not exceed, in any year, an amount of two per cent. (2%) of the annual interests accrued by the Notes.

TITULO III

DEL COMISARIO

TITLE III

THE COMMISSIONER

ARTÍCULO 22°. – NATURALEZA JURÍDICA DEL COMISARIO

Incumbe al Comisario ostentar la representación legal del Sindicato y actuar de órgano de relación entre éste y la Sociedad Emisora.

ARTICLE 22°. – NATURE OF THE COMMISSIONER

The Commissioner shall bear the legal representation of the Syndicate and shall be the body for liaison between the Syndicate and the Issuer.

ARTÍCULO 23°. – NOMBRAMIENTO Y DURACIÓN DEL CARGO

Sin perjuicio del nombramiento inicial del Comisario provisional, que deberá ser ratificado por la Asamblea General, esta última tendrá facultad para nombrar al Comisario, quien ejercerá su cargo en tanto no sea destituido por la Asamblea General.

ARTICLE 23°. – APPOINTMENT AND DURATION OF THE OFFICE

Notwithstanding the initial appointment of the provisional Commissioner, which will require the ratification of the General Meeting, this latter shall have the power to appoint the Commissioner and he shall exercise his office as long as he is not dismissed by the General Meeting.

ARTÍCULO 24°. – FACULTADES

Serán facultades del Comisario:

1º Concurrir, en nombre de los Bonistas, a la firma de las Condiciones Finales de emisión de la Serie de Bonos correspondiente y tutelar los intereses comunes de los Bonistas.

2° Convocar y presidir las Asambleas Generales.

3° Informar a la Sociedad Emisora de los

ARTICLE 24°. – FACULTIES

The Commissioner shall have the following faculties:

1° To subscribe, on behalf of the Noteholders, the Final Terms of the relevant Series of Notes and protect the common interest of the Noteholders.

2° To call and act as president of the General Meeting.

3° To inform the Issuer of the resolutions passed *acuerdos del Sindicato.*

4° Vigilar el pago de los intereses y del principal.

5° Llevar a cabo todas las actuaciones que estén previstas realice o pueda llevar a cabo el Comisario de acuerdo con los términos y condiciones de los Bonos.

6° Ejecutar los acuerdos de la Asamblea General.

7° Ejercitar las acciones que correspondan al Sindicato.

8° En general, las que le confiere la Ley y el presente Reglamento.

by the Syndicate.

4° To control the payment of the principal and the interest.

5° To carry out all those actions provided for in the terms and conditions of the Notes to be carried out or that may be carried out by the Commissioner.

6° To execute the resolutions of the General Meeting.

7° To exercise the actions corresponding to the Syndicate.

8° In general, the ones granted to him by Law and the present Regulations.

TITULO IV

DISPOSICIONES ESPECIALES

ARTÍCULO 25°. – SUMISIÓN A FUERO

Para cuantas cuestiones se deriven de este Reglamento, los Bonistas, por el solo hecho de serlo, se someten, de forma exclusiva, con renuncia expresa a cualquier otro fuero que pudiera corresponderles, a la jurisdicción de los Juzgados y Tribunales de la ciudad de Madrid.

TITLE IV

SPECIAL DISPOSITIONS

ARTICLE 25°. – JURISDICTION

For any dispute arising from these Regulations, the Noteholders, by the sole fact of being so, shall submit to the exclusive jurisdiction of the courts and tribunals of the city of Madrid.

8. APPLICABLE FINAL TERMS

Set out below is the form of Final Terms in respect of each Tranche of Notes, duly completed to reflect the particular terms of the relevant Notes and their issue. Text in this section appearing in italics does not form part of the form of the Final Terms but denotes directions for completing the Final Terms.

Final Terms dated [●]

Canal de Isabel II Gestión, S.A.

Issue of [Aggregate Nominal Amount of Tranche] [Title of Notes]
€1,000,000,000
Euro Medium Term Note Programme

PART A – CONTRACTUAL TERMS

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the **Conditions**) set forth in the Base Prospectus dated 18 December 2014 [and the supplemental Base Prospectus dated [●]] which [together] constitute[s] a base prospectus (the **Base Prospectus**) for the purposes of the Prospectus Directive. This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with the Base Prospectus.

Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Base Prospectus. The Base Prospectus is available for viewing at www.cnmv.es and during normal business hours at Calle Santa Engracia 125, Dirección Financiera y Desarrollo de Negocio, 28003, Madrid and copies may be obtained from this address for the purposes of Article 14 of the Prospectus Directive.

The expression **Prospectus Directive** means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive and the expression **2010 PD Amending Directive** means Directive 2010/73/EU **provided, however, that** all references in this document to the "Prospectus Directive" in relation to any Member State of the European Economic Area refer to Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the relevant Member State), and include any relevant implementing measure in the relevant Member State.

[*Include whichever of the following apply or specify as "Not Applicable" (N/A). Note that the numbering should remain as set out below, even if "Not Applicable" is indicated for individual paragraphs (in which case the sub-paragraphs of the paragraphs which are not applicable can be deleted). Italics denote guidance for completing the Final Terms*.]

1.	Issuer:	[●]
2.	[(i) Series Number:]	[●]
	[(ii) Tranche Number:	[●]
	[(iii) Date on which the Notes become fungible:	[Not Applicable/The Notes shall be consolidated, form a single series and be interchangeable for trading purposes with the existing [●] per cent. Notes due [●] and issued on [[●]/the Issue Date].]
3.	Specified Currency or Currencies:	[●]

4.	Aggregate Nominal Amount:		[●]
	[(i)]	[Series]:	[●]
	[(ii)	Tranche:	[●]]
5.	(i)	Issue Price:	[●] per cent. of the Aggregate Nominal Amount [plus accrued interest from, and including, [●] to, but excluding, the Issue Date which amounts to [●]]
	(ii)	Net Proceeds:	[●]
6.	(i)	Specified Denominations:	[●]
	(ii)	Calculation Amount:	[●]
7.	(i)	Issue Date:	[●]
	(ii)	Interest Commencement Date:	[[●]/Issue Date]
8.	Maturity Date:		[*Specify date or (for Floating Rate Notes) Interest Payment Date falling in or nearest to the relevant month and year*]
9.	Interest Basis:		[[●] per cent. Fixed Rate] [●][●] [EURIBOR/LIBOR]+/– [●] per cent. Floating Rate] (see paragraph [14/15] below)
10.	Redemption/Payment Basis:		Subject to any purchase and cancellation or early redemption, the Notes will be redeemed on the Maturity Date at [100] per cent. of their nominal amount.
11.	Change of Interest/Payment Basis:		[*Specify the date when any fixed to floating rate change occurs or refer to paragraphs 14 and 15 below and identify there*/Not Applicable]
12.	Put/Call Options:		[Investor Put] [Issuer Call] [See paragraph [16/17] below)]
13.	Date [Board] [Shareholder] [Department of Finance and Taxation of the Autonomous Community of Madrid] [Directorate General for the Treasury and Financial Policy of the Ministry of Economy and Competitiveness] approval for issuance of Notes obtained:		[●] *(N.B Only relevant where such (or similar) authorisation is required for the particular tranche of Notes)*

PROVISIONS RELATING TO INTEREST PAYABLE

14.	**Fixed Rate Note Provisions**		[Applicable/Not Applicable] (*If not applicable, delete the remaining sub-paragraphs of this paragraph*)
	(i)	Rate[(s)] of Interest:	[●] per cent. per annum payable in arrear on each Interest

			Payment Date
	(ii)	Interest Payment Date(s):	[●] in each year
	(iii)	Fixed Coupon Amount[(s)]:	[●] per Calculation Amount
	(iv)	Broken Amount(s):	[Not Applicable] / [●] per Calculation Amount, payable on the Interest Payment Date falling [in/on] [●]
	(v)	Day Count Fraction:	[30/360 / Actual/Actual (ICMA/ISDA) / Actual/365(Fixed) / Actual/360 / 30E/360]
15.	**Floating Rate Note Provisions**		[Applicable/Not Applicable] *(If not applicable delete the remaining sub-paragraphs of this paragraph)*
	(i)	Specified Period/Specified Interest Payment Dates:	[●] [*N.B. The Specified Period for the purposes of calculating the rate of interest for Floating Rate Notes to be included or otherwise the Specified Interest Payment Dates.*]
	(iii)	[First Interest Payment Date]:	[●]
	(iv)	Business Day Convention:	[Floating Rate Convention/Following Business Day Convention/ Modified Following Business Day Convention/ Preceding Business Day Convention/No Adjustment]
	(v)	Additional Business Centre(s):	[Not Applicable/[●]]
	(vi)	Manner in which the Rate(s) of Interest is/are to be determined:	[Screen Rate Determination/ISDA Determination]
	(vii)	Party responsible for calculating the Rate(s) of Interest and/or Interest Amount(s) (if not the [Agent]):	[●] shall be the Calculation Agent
	(viii)	Screen Rate Determination:	
		• Reference Rate:	[●][●] [EURIBOR/ LIBOR] [*N.B. Appropriate EURIBOR/LIBOR reference rate to be added here.*]
		• Interest Determination Date(s):	[●]
		• Relevant Screen Page:	[●]
		• Relevant Time:	[●]

	•	Relevant Financial Centre:	[●]
(ix)	ISDA Determination:		
	•	Floating Rate Option:	[●]
	•	Designated Maturity:	[●]
	•	Reset Date:	[●]
(x)	[Linear interpolation		[Not Applicable/Applicable – the Rate of Interest for the [long/short] [first/last] Interest Period shall be calculated using Linear Interpolation (*specify for each short or long interest period*)]
(xi)	Margin(s):		[+/-][●] per cent. per annum
(xii)	Minimum Rate of Interest:		[●] per cent. per annum
(xiii)	Maximum Rate of Interest:		[●] per cent. per annum
(xiv)	Day Count Fraction:		[30/360 / Actual/Actual (ICMA/ISDA) / Actual/365(Fixed) / Actual/360 / 30E/360]

PROVISIONS RELATING TO REDEMPTION

16.	Call Option			[Applicable/Not Applicable] (*If not applicable, delete the remaining sub-paragraphs of this paragraph*)
	(i)	Optional Redemption Date(s) (Call):		[●]
	(ii)	Optional Redemption Amount(s) of each Note:		[●] per Calculation Amount
	(iii)	If redeemable in part:		
		(a)	Minimum Redemption Amount:	[●] per Calculation Amount
		(b)	Maximum Redemption Amount	[●] per Calculation Amount
	(iv)	Notice period:		[●]
17.	Put Option			[Applicable/Not Applicable] (*If not applicable, delete the remaining sub-paragraphs of this paragraph*)
	(i)	Optional Redemption Date(s) (Put):		[●]
	(ii)	Optional Redemption Amount(s) of each Note and method, if any, of calculation of such amount(s):		[●] per Calculation Amount

	(iii) Notice period:	[●]
18.	Final Redemption Amount of each Note	Par per Calculation Amount
19.	Early Redemption Amount	
	Early Redemption Amount(s) per Calculation Amount payable on redemption for taxation reasons or on event of default or at the option of the Issuer or at the option of Noteholders (as the case may be):	Par per Calculation Amount/Not Applicable]

GENERAL PROVISIONS APPLICABLE TO THE NOTES

20.	Form of Notes:	Uncertificated dematerialised book-entry form Notes (*anotaciones en cuenta*) registered with Iberclear as managing entity of the Central Registry.
21.	Additional Financial Centre(s) or other special provisions relating to payment dates:	[Not Applicable/*give details*. *Note that this paragraph relates to the date of payment, and not the end dates of interest periods for the purposes of calculating the amount of interest, to which sub-paragraph 15(v) relates*]
22.	Commissioner	
	(i) Name of Commissioner:	[BNP Paribas Securities Services S.C.A., Sucursal en España]
	(ii) Name of the Syndicate of Noteholders:	[●]
	(iii) Address of the Syndicate of Noteholders:	[Calle Santa Engracia, 125, Madrid, 28003, Spain]

PART B – OTHER INFORMATION

1.	**LISTING AND ADMISSION TO TRADING**	
	(i) Admission to Trading:	[Application has been made by the Issuer (or on its behalf) for the Notes to be admitted to trading on the Spanish AIAF Fixed Income Securities Market with effect from [●].] [Application is expected to be made by the Issuer (or on its behalf) for the Notes to be admitted to trading on the Spanish AIAF Fixed Income Securities Market with effect from [●].] [Not Applicable.] (*When documenting a fungible issue need to indicate that original Notes are already admitted to trading.)*
	(ii) Estimate of total expenses related to admission to trading:	[●] [*N.B. only expenses incurred in relation to the admission to trading to be included here.*]
2.	**RATINGS**	The Notes to be issued [have been/are expected to be] rated]/[The following ratings reflect ratings assigned to Notes of this type issued under the Programme generally]:
	Ratings:	
		[*insert details of rating*] by [*insert the legal name of the relevant credit rating agency entity(ies) and associated defined terms*]. [Each of [*insert defined terms for rating agencies*] is established in the European Union and is registered under Regulation (EC) No. 1060/2009 (as amended) (the **CRA Regulation**).]

3. **INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE ISSUE/OFFER**

(*Need to include a description of any interest, including conflicting ones, that is material to the issue/offer, detailing the persons involved and the nature of the interest. May be satisfied by the inclusion of the statement below:)*

[Save for any fees payable to the [Managers/Dealers], so far as the Issuer is aware, no person involved in the offer of the Notes has an interest material to the offer. The [Managers/Dealers] and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform other services for, the Issuer and [its/their] affiliates in the ordinary course of business. (*Amend as appropriate if there are other interests*)]

[*(When adding any other description, consideration should be given as to whether such matters described constitute "significant new factors" and consequently trigger the need for a supplement to the Prospectus under Article 16 of the Prospectus Directive.)*]

4. **[YIELD**

Indication of yield:	[●]
	[The yield is calculated at the Issue Date on the basis of the Issue Price. It is not an indication of future yield.]
	[*N.B. Include a description of method of calculation of*

yield]

5. [**HISTORIC INTEREST RATES (***Floating Rate Notes only*)

Details of historic [LIBOR/EURIBOR/replicate other as specified in the Conditions] rates can be obtained from [Reuters].]

6. **OPERATIONAL INFORMATION**

ISIN:	[●]
Common Code:	[●]
Delivery:	Delivery versus payment
Names and addresses of additional Paying Agent(s) (if any):	
[Intended to be held in a manner which would allow Eurosystem eligibility:	
	[Yes. Note that the designation "yes" simply means that the Notes are intended upon issue to be recognised as eligible collateral for Eurosystem monetary policy and intra day credit operations by the Eurosystem either upon issue or at any or all times during their life. Such recognition will depend upon the ECB being satisfied that Eurosystem eligibility criteria have been met.]/ [No. Whilst the designation is specified as "no" at the date of these Final Terms, should the Eurosystem eligibility criteria be amended in the future such that the Notes are capable of meeting them the Notes may then be recognised as eligible collateral for Eurosystem monetary policy and intra day credit operations by the Eurosystem at any time during their life. Such recognition will depend upon the ECB being satisfied that Eurosystem eligibility criteria have been met.]

7. **DISTRIBUTION**

(i) Method of Distribution:	[Syndicated/Non-syndicated]
(ii) If syndicated:	
Names of Dealers	[Not Applicable/*give names*]
(iii) If non-syndicated, name of Dealer:	[Not Applicable/*give names*]
(iv) Stabilisation Manager(s), if any:	[Not Applicable/*give names*]
(v) U.S. Selling Restrictions:	Reg S Compliance Category [1/2]

THIRD PARTY INFORMATION

[*Relevant third party information*] has been extracted from [*specify source*]. [The Issuer confirms that such information has been accurately reproduced and that, so far as it is aware, and is able to ascertain from information published by [*specify source*], no facts have been omitted which would render the reproduced information inaccurate or misleading.]

Signed on behalf of
CANAL DE ISABEL II GESTIÓN, S.A.:

By: ....
Duly authorised

Signed by the Provisional Commissioner of the Syndicate of Noteholders
[**BNP PARIBAS SECURITIES SERVICES S.C.A., SUCURSAL EN ESPAÑA**]:

By: ....
Duly authorised

9. USE OF PROCEEDS

The net proceeds from each issue of Notes will be applied by the Issuer for its and the Group's general corporate purposes (which may include the refinancing of the Group's existing financial indebtedness)

10. TAXATION

Spain

Introduction

The following summary describes the main Spanish tax implications arising in connection with the acquisition and holding of the Notes by individuals or entities who are the beneficial owners of the Notes (the ***Noteholders*** *and each a* ***Noteholder****). The information provided below does not purport to be a complete analysis of the tax law and practice currently applicable in Spain and does not purport to address the tax consequences applicable to all categories of investors, some of which may be subject to special rules.*

All the tax consequences described in this section are based on the general assumption that the Notes are initially registered for clearance and settlement in Iberclear.

Prospective purchasers of the Notes should consult their own tax advisers as to the tax consequences, including those under the tax laws of the country of which they are resident, of purchasing, owning and disposing of Notes.

The summary set out below is based upon Spanish law as in effect on the date of this Prospectus and is subject to any change in such law that may take effect after such date, including changes with retroactive effect. In particular, prospective investors or Noteholders are advised to consider the recently enacted tax reform approving three different Bills regarding the Personal Income Tax, the Non-Resident Income Tax, the Corporate Income Tax and the Value Added Tax (all of them, the ***Tax Reform****) which will affect the taxation of the Notes as well as the developments of the Law 10/2014, dated 26 June 2014, recently approved.*

This information has been prepared in accordance with the following Spanish tax legislation in force at the date of this Prospectus:

(a) *of general application, Additional Provision One of Law 10/2014, dated 26 June 2014 (****Law 10/2014****), which also applies to debt instruments issued by Spanish resident companies and Spanish public entities having corporate form, as well as Royal Decree 1065/2007, dated 27 July 2007, as amended by Royal Decree 1145/2011, dated 29 July 2011;*

(b) *for individuals resident for tax purposes in Spain which are subject to the Personal Income Tax (****PIT****), Law 35/2006, dated 28 November 2006, on PIT, as amended, and Royal Decree 439/2007, dated 30 March 2007, enacting the PIT Regulations, as amended by Law 26/2014, of 27 November, along with Law 19/1991, dated 6 June 1991, on Wealth Tax, as amended, and Law 29/1987, dated 18 December 1987, on Inheritance and Gift Tax (****IGT****);*

(c) *for legal entities resident for tax purposes in Spain which are subject to the Corporate Income Tax (****CIT****), Royal Legislative Decree 4/2004, dated 5 March 2004, promulgating the Consolidated Text of the CIT Law and Law 27/2014, of 27 November, applicable to tax periods starting on 1 January 2015, and Royal Decree 1777/2004, dated 30 July 2004, promulgating the CIT Regulations, as amended; and*

(d) *for individuals and entities who are not resident for tax purposes in Spain which are subject to the Non-Resident Income Tax (****NRIT****), Royal Legislative Decree 5/2004, dated 5 March 2004, promulgating the Consolidated Text of the NRIT Law, as amended by Law 26/2014, of 27 November, along with Law 19/1991, dated 6 June 1991, on Wealth Tax, as amended, and Royal Decree 1776/2004, dated 30 July 2004, promulgating the NRIT Regulations, as amended , and Law 29/1987, dated 18 December 1987, on IGT.*

Indirect taxation

Whatever the nature and residence of the Noteholder, the acquisition and transfer of Notes will be exempt from indirect taxes in Spain, i.e. exempt from Transfer Tax and Stamp Duty, in accordance with the Consolidated Text of such tax promulgated by Royal Legislative Decree 1/1993, dated 24 September 1993, and exempt from Value Added Tax, in accordance with Law 37/1992, dated 28 December 1992, regulating such tax.

Direct taxation

The Issuer understands that the Notes should be deemed as financial assets with an explicit yield for Spanish tax purposes, according to article 91 of the PIT Regulations and article 61 of the CIT Regulations.

Individuals with tax residency in Spain

Personal Income Tax (Impuesto sobre la Renta de las Personas Físicas)

Both interest periodically received and income derived from the transfer, redemption or repayment of the Notes constitute a return on investment obtained from the transfer of a person's own capital to third parties in accordance with the provisions of article 25.2 of the PIT Law, and must be included in the investor's PIT savings taxable base.

The PIT savings taxable base is taxed in 2014 at a flat rate of 21% on the first €6,000, 25% on the following €18,000 and 27% for any amount in excess of €24,000. The applicable rates on this type of income will be (following the Tax Reform) (i) for taxable income up to €6,000: 20% as from 1 January 2015 and 19% as from 1 January 2016; (ii) for taxable income from €6,001 to €50,000: 22% as from 1 January 2015 and 21% as from 1 January 2016; and (iii) for any amount in excess of €50,000: 24% as from 1 January 2015 and 23% as from 1 January 2016.

Individual investors subject to PIT will be subject to a (current) 21% withholding on account of PIT (which will be reduced (following the Tax Reform) to 20% as from 1 January 2015 and 19% as from 1 January 2016 onwards) by the Issuer on interest payments as well as on income derived from the redemption or repayment of the Notes.

However, income derived from the transfer of the Notes should not be subject to withholding on account of PIT provided that the Notes are:

(a) registered in book-entry form (*anotaciones en cuenta*); and

(b) traded in a Spanish official secondary market (*mercado secundario oficial*), such as AIAF.

Notwithstanding the above, 21% withholding tax (which will be reduced (following the Tax Reform) to 20% as from 1 January 2015 and 19% as from 1 January 2016 onwards) shall apply on the part of the transfer price that corresponds to the accrued interest when the transfer of the Notes takes place within the 30-day period prior to the moment in which such interest is due when the following requirements are fulfilled:

(a) the acquirer would be a non-Spanish tax resident or a CIT taxpayer;

(b) the explicit yield derived from the transfer of the Notes is exempt from withholding tax.

In any event, the individual Noteholder may credit the withholding tax applied by the Issuer against his or her final PIT liability for the relevant tax year.

Wealth Tax (Impuesto sobre el Patrimonio)

According to Royal Decree-law 13/2011, dated 16 September 2011, as amended, and the bill for a Law on the General State Budget for 2015, in 2014 and 2015 all Spanish resident individuals are liable for Wealth

Tax. This tax is levied on the net worth of an individual's assets and rights. The marginal rates range between 0.2% and 2.5% and some reductions could apply. Individuals with tax residency in Spain who are under the obligation to pay Wealth Tax must take into account the amount of the Notes which they hold as at 31 December in each year, when calculating their Wealth Tax liabilities.

Inheritance and Gift Tax (Impuesto sobre Sucesiones y Donaciones)

Individuals who are resident in Spain for tax purposes who acquire ownership or other rights over any Notes by inheritance, gift or legacy will be subject to IGT in accordance with the applicable Spanish regional and state rules. The applicable tax rates range between 7.65% and 81.6% for 2014, depending on relevant factors.

Legal entities with tax residency in Spain

Corporate Income Tax (Impuesto sobre Sociedades)

Both interest periodically received and income derived from the transfer, redemption or repayment of the Notes are subject to CIT (at the current general tax rate of 30% for 2014 which will be reduced (following the Tax Reform) to 28% in year 2015 and 25% from year 2016 onwards) in accordance with the rules for such tax.

No withholding on account of CIT will be imposed on interest payments or on income derived from the redemption or repayment of the Notes by Spanish CIT taxpayers subject to the fulfilment of the relevant requirements, as described in *"Compliance with certain requirements in connection with income payments"* section below.

With regard to income derived from the transfer of the Notes, in accordance with article 59.q) of the CIT Regulations, there is no obligation to withhold on income obtained by Spanish CIT taxpayers (which include Spanish tax resident investment funds and Spanish tax resident pension funds) provided that the Notes are:

(a) registered in book-entry form (*anotaciones en cuenta*); and

(b) negotiated in a Spanish official secondary market (*mercado secundario official*), such as AIAF or in the Alternative Fixed-Income Securities Market (*Mercado Alternativo de Renta Fija*).

Wealth Tax (Impuesto sobre el Patrimonio)

Legal entities resident in Spain for tax purposes that acquire ownership or other rights over the Notes are not subject to Wealth Tax.

Inheritance and Gift Tax (Impuesto sobre Sucesiones y Donaciones)

Legal entities resident in Spain for tax purposes that acquire ownership or other rights over the Notes by inheritance, gift or legacy are not subject to IGT but generally must include the market value of the Notes in their taxable income for CIT purposes.

Individuals and legal entities that are not tax resident in Spain

1. *Investors that are not resident in Spain for tax purposes, acting in respect of the notes through a permanent establishment in Spain*

Non-Resident Income Tax (Impuesto sobre la Renta de no Residentes)

If the Notes form part of the assets affected to a permanent establishment in Spain of a person or legal entity that is not resident in Spain for tax purposes, the tax rules applicable to income deriving from such Notes are, generally, the same as those set forth above for Spanish CIT taxpayers. See *"Legal entities with tax residency in Spain – Corporate Income Tax (Impuesto sobre Sociedades)"* section above.

Ownership of the Notes by investors who are not resident in Spain for tax purposes will not in itself create the existence of a permanent establishment in Spain.

Wealth Tax (Impuesto sobre el Patrimonio)

If the Notes form part of the assets affected to a permanent establishment in Spain of a person or legal entity that is not resident in Spain for tax purposes, Wealth Tax will not become applicable.

Inheritance and Gift Tax (Impuesto sobre Sucesiones y Donaciones)

If the Notes form part of the assets affected to a permanent establishment in Spain of a person or legal entity that is not resident in Spain for tax purposes, IGT will apply in the same manner as described in *"Legal entities with tax residency in Spain – Inheritance and Gift Tax (Impuesto sobre Sucesiones y Donaciones)"* section above.

2. *Investors that are not resident in Spain for tax purposes, not acting in respect of the Notes through a permanent establishment in Spain*

Non-Resident Income Tax (Impuesto sobre la Renta de no Residentes)

Both interest payments periodically received under the Notes and income derived from the transfer, redemption or repayment of the Notes, obtained by individuals or entities who are not resident in Spain for tax purposes and who do not act, with respect to the Notes, through a permanent establishment in Spain, are exempt from NRIT. No withholding on account of NRIT will be levied on such income subject to the fulfilment of the relevant requirements, as described in *"Compliance with certain requirements in connection with income payments"* section below.

Wealth Tax (Impuesto sobre el Patrimonio)

In relation to fiscal year 2014 and 2015, non-Spanish tax resident individuals holding Notes will be subject to Wealth Tax to the extent that such Noteholders own Notes (along with other property located in Spain and rights which could be exercised in Spain) valued at a combined net amount in excess of €700,000 as of 31 December. Spanish Wealth Tax rates vary between 0.2% and 2.5%. To the extent that income deriving from the Notes is exempt from NRIT, individuals who do not have tax residency in Spain who hold such Notes on the last day of the year will be exempt from Wealth Tax. Furthermore, individuals resident in a country with which Spain has entered into a double tax treaty in relation to Wealth Tax will generally be exempt from Wealth Tax. If the exemptions outlined do not apply, individuals who are not tax residents in Spain will be subject to Wealth Tax to the extent that the Notes are located in Spain or the rights deriving from the Notes can be exercised in Spain.

Inheritance and Gift Tax (Impuesto sobre Sucesiones y Donaciones)

Individuals not resident in Spain for tax purposes who acquire ownership or other rights over the Notes by inheritance, gift or legacy will be subject to IGT in accordance with the applicable Spanish state rules (EU individuals not resident in Spain for tax purposes are expected to apply regional rules), unless they reside in a country for tax purposes with which Spain has entered into a double tax treaty in relation to IGT. In such case, the provisions of the relevant double tax treaty will apply.

If no double tax treaty in relation to IGT applies, applicable IGT rates would range between 7.65% and 81.6% for 2014, depending on relevant factors.

Non-Spanish tax resident legal entities that acquire ownership or other rights over the Notes by inheritance, gift or legacy are not subject to IGT. Such acquisitions may be subject to NRIT (as described above), unless otherwise applicable under the provisions of any applicable double tax treaty entered into by Spain. In general, double tax treaties provide for the taxation of this type of income in the country of tax residence of the Noteholder.

Compliance with certain requirements in connection with income payments

Interest payments made by the Issuer in respect of the Notes for the benefit of Spanish CIT taxpayers and non-Spanish tax resident investors will not be subject to Spanish withholding tax, provided that the conditions set forth in Additional Provision One of Law 10/2014 are met and the Iberclear Members that have the Notes registered in their securities account on behalf of third parties, as well as the entities that manage the clearing systems located outside Spain that have an agreement with Iberclear, if applicable, provide the Issuer, in a timely manner, with a duly executed and completed statement (a **Payment Statement**), in accordance with section 4 of article 44 of Royal Decree 1065/2007, dated 27 July 2007, as amended by Royal Decree 1145/2011, dated 29 July 2011, containing the following information:

1. Identification of the Notes.

2. Total amount of the income paid by the Issuer.

3. Amount of the income corresponding to individual residents in Spain that are PIT taxpayers.

4. Amount of the income that must be paid on a gross basis.

If the Iberclear Members fail or for any reason are unable to deliver a duly executed and completed Payment Statement to the Issuer in a timely manner in respect of a payment of interest made by the Issuer under the Notes, the Issuer will make the relevant Spanish withholding tax at the applicable rate (currently 21%, which is expected to be reduced (according to the current draft of the Tax Reform) to 20% as from 1 January 2015 and 19% as from 1 January 2016 onwards) on such payment of interest and the Issuer will not pay any additional amounts with respect to any such withholding tax.

If this were to occur, affected Noteholders will receive a refund of the amount withheld, with no need for action on their part, if the Iberclear Members submit a duly executed and completed Payment Statement to the Issuer no later than the tenth calendar day of the month immediately following the relevant payment date. In addition, Noteholders which are not resident in Spain for tax purposes may apply directly to the Spanish tax authorities for any refund to which they may be entitled, according to the procedures set forth in the Spanish NRIT Law and its Regulations.

Prospective investors should note that the Issuer does not accept any responsibility relating to the lack of delivery of a duly executed and completed Payment Statement by the Iberclear Members in connection with each payment of income under the Notes. Accordingly, the Issuer will not be liable for any damage or loss suffered by any Noteholder who would otherwise be entitled to an exemption from Spanish withholding tax but whose income payments are nonetheless paid net of Spanish withholding tax because the Payment Statement was not duly delivered to the Issuer. Moreover, the Issuer will not pay any additional amounts with respect to any such withholding tax.

Foreign Account Tax Compliance Act

Sections 1471 through 1474 of the U.S. Internal Revenue Code of 1986 (**FATCA**) impose a new reporting regime and potentially a 30% withholding tax with respect to certain payments to (i) any non-U.S. financial institution (a "foreign financial institution", or **FFI** (as defined by FATCA)) that does not become a **Participating FFI** by entering into an agreement with the U.S. Internal Revenue Service (**IRS**) to provide the IRS with certain information in respect of its account holders and investors or is not otherwise exempt from or in deemed compliance with FATCA and (ii) any investor (unless otherwise exempt from FATCA) that does not provide information sufficient to determine whether the investor is a U.S. person or should otherwise be treated as holding a "United States account" of the Issuer (a **Recalcitrant Holder**). The Issuer may be classified as an FFI.

The new withholding regime is now in effect for payments from sources within the United States and will apply to **foreign passthru payments** (a term not yet defined) no earlier than 1 January 2017. This withholding would potentially apply to payments in respect of (i) any Notes characterised as debt (or which are not otherwise characterized as equity and have a fixed term) for U.S. federal tax purposes that are issued after the **grandfathering date**, which is the date that is six months after the date on which final U.S. Treasury regulations defining the term foreign passthru payment are filed with the Federal Register, or which are materially modified on or after the grandfathering date and (ii) any Notes characterised as equity or which do not have a fixed term for U.S. federal tax purposes, whenever issued. If Notes are issued on or before the grandfathering date, and additional Notes of the same series are issued after that date, the additional Notes may not be treated as grandfathered, which may have negative consequences for the existing Notes, including a negative impact on market price.

The United States and a number of other jurisdictions have announced their intention to negotiate intergovernmental agreements to facilitate the implementation of FATCA (each, an **IGA**). Pursuant to FATCA and the "Model 1" and "Model 2" IGAs released by the United States, an FFI in an IGA signatory country could be treated as a **Reporting FI** not subject to withholding under FATCA on any payments it receives. Further, an FFI in an IGA jurisdiction would generally not be required to withhold under FATCA or an IGA (or any law implementing an IGA) (any such withholding being **FATCA Withholding**) from payments it makes. Under each Model IGA, a Reporting FI would still be required to report certain information in respect of its account holders and investors to its home government or to the IRS The United States and Spain have entered into an agreement (the **U.S.-Spain IGA**) based largely on the Model 1 IGA.

If the Issuer is treated as a Reporting FI pursuant to the US-Spain IGA it does not anticipate that it will be obliged to deduct any FATCA Withholding on payments it makes. There can be no assurance, however, that the Issuer will be treated as a Reporting FI, or that it would in the future not be required to deduct FATCA Withholding from payments it makes. The Issuer and financial institutions through which payments on the Notes are made may be required to withhold FATCA Withholding if (i) any FFI through or to which payment on such Notes is made is not a Participating FFI, a Reporting FI, or otherwise exempt from or in deemed compliance with FATCA or (ii) an investor is a Recalcitrant Holder.

Whilst the Notes are cleared through Iberclear, it is expected that FATCA will not affect the amount of any payments made under, or in respect of, the Notes by the Issuer and any paying agent, given that each of the entities in the payment chain between the Issuer and the participants in Iberclear is a major financial institution whose business is dependent on compliance with FATCA and that any alternative approach introduced under an IGA will be unlikely to affect the Notes.

FATCA is particularly complex and its application is uncertain at this time. The above description is based in part on regulations, official guidance and model IGAs, all of which are subject to change or may be implemented in a materially different form. Prospective investors should consult their tax advisers on how these rules may apply to the Issuer and to payments they may receive in connection with the Notes.

EU Savings Directive

Under Council Directive 2003/48/EC on the taxation of savings income, Member States are required to provide to the tax authorities of other Member States details of certain payments of interest or similar income paid or secured by a person established in a Member State to or for the benefit of an individual resident in another Member State or certain limited types of entities established in another Member State.

On 24 March 2014, the Council of the European Union adopted a Council Directive amending and broadening the scope of the requirements described above. Member States are required to apply these new requirements from 1 January 2017. The changes will expand the range of payments covered by the Directive, in particular to include additional types of income payable on securities. The Directive will also expand the circumstances in which payments that indirectly benefit an individual resident in a Member State must be reported. This approach will apply to payments made to, or secured for, persons, entities or legal arrangements (including trusts) where certain conditions are satisfied, and may in some cases apply where the person, entity or arrangement is established or effectively managed outside of the European Union.

For a transitional period, Luxembourg and Austria are required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments. The changes referred to above will broaden the types of payments subject to withholding in those Member States which still operate a withholding system when they are implemented. In April 2013, the Luxembourg Government announced its intention to abolish the withholding system with effect from 1 January 2015, in favour of automatic information exchange under the Directive.

The end of the transitional period is dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries. A number of non-EU countries and territories including Switzerland have adopted similar measures (a withholding system in the case of Switzerland).

11. SUBSCRIPTION AND SALE

The Dealers have, in a Dealer Agreement (such Dealer Agreement as modified and/or supplemented and/or restated from time to time, the **Dealer Agreement**) dated 18 December 2014, agreed with the Issuer a basis upon which they or any of them may from time to time agree to purchase Notes. Any such agreement will extend to those matters stated under "*Terms and Conditions of the Notes*". In the Dealer Agreement, the Issuer has agreed to reimburse the Dealers for certain of their expenses in connection with the establishment and any future update of the Programme and the issue of Notes under the Programme and to indemnify the Dealers against certain liabilities incurred by them in connection therewith.

United States

The Notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act

The Notes are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. Treasury regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986 and Treasury regulations promulgated thereunder. The applicable Final Terms (or Pricing Supplement, in the case of Exempt Notes) will identify whether TEFRA C rules or TEFRA D rules apply or whether TEFRA is not applicable.

Until 40 days after the commencement of the offering of any Series of Notes, an offer or sale of such Notes within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with an available exemption from registration under the Securities Act.

United Kingdom

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

(a) in relation to any Notes which have a maturity of less than one year, (i) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business and (ii) it has not offered or sold and will not offer or sell any Notes other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or as agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the Notes would otherwise constitute a contravention of Section 19 of the Financial Services and Markets Act 2000 (**FSMA**) by the Issuer;

(b) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and

(c) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

General

Each Dealer has agreed and each further Dealer appointed under the Programme will be required to agree that it will (to the best of its knowledge and belief) comply with all applicable securities laws and regulations in force in any jurisdiction in which it purchases, offers, sells or delivers Notes or possesses or distributes this Base Prospectus and will obtain any consent, approval or permission required by it for the purchase, offer, sale or delivery by it of Notes under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers, sales or deliveries and neither the Issuer nor any of the other Dealers shall have any responsibility therefor.

None of the Issuer and the Dealers represents that Notes may at any time lawfully be sold in compliance with any applicable registration or other requirements in any jurisdiction, or pursuant to any exemption available thereunder, or assumes any responsibility for facilitating such sale.

12. SUMMARY OF CLEARANCE AND SETTLEMENT PROCEDURES APPLICABLE TO BOOK-ENTRY NOTES

Below is a brief summary of the Spanish clearance and settlement procedures applicable to book–entry notes such as the Notes.

Notwithstanding that, it should be noted that Law 32/2011, of 4 October which amends Law 24/1988, of 28 July on the Securities Market (*Ley 32/2011, de 4 de octubre, por la que se modifica la Ley 24/1988, de 28 julio, del Mercado de Valores*), provides for certain changes that are yet to be implemented in the Spanish clearing, settlement and registry procedures of securities transactions. These will modify the system and allow for the integration of the post trading Spanish systems into the TARGET System (**TARGET2**), which is scheduled to be fully implemented in February 2017.

The project to reform Spain's clearing, settlement and registry system and its connection to the TARGET System (the **Reform**) introduces significant new features that affect all classes of securities and all post-trade activities.

The Reform will be implemented in two phases:

(a) The first phase will take place at the beginning of 2015 and will involve setting up a new system for equities to include all the changes envisaged in the Reform, including the creation of a central clearing counterparty (CCP) in post-trade whose design must be compatible with the TARGET System (messages, account structure, definition of operations, etc.). Accordingly, the SCLV (Servicio de Compensación y Liquidación de Valores) platform will be discontinued.

    That system will continue to settle by the current deadline of T+3, although that should be reduced to T+2 within a period of 2-3 months since that is the settlement period in the proposed regulation on improving securities settlement in the European Union and on central securities depositories (CSDs).

    The CADE (*Central de Anotaciones de Deuda Pública*) platform will continue to operate unchanged and cash settlements in the new system will be made in the TARGET2-Bank of Spain cash accounts, as at present.

(a) The second phase will be implemented to coincide with Iberclear's connection to the TARGET System, scheduled for February 2017. At that time, fixed-income securities will be transferred to the new system, and CADE will be discontinued.

    Equities will also be settled in accordance with the procedures and time periods of the TARGET System, so that the interim settlement procedure used in the first phase will be discontinued.

    The second phase will entail unifying the registry and settlement approach for both equities and fixed-income.

Iberclear

Iberclear is the Spanish central securities depository in charge of both the register of securities held in book-entry form, and the clearing and settlement of all trades from the Spanish Stock Exchanges, Latibex (the Latin American stock exchange denominated in Euro), The Book-Entry Public Debt Market , the Alternative Stock Market (MAB) and AIAF. To achieve this, Iberclear uses two technical platforms, SCLV (for the Spanish Stock Exchanges, Latibex and the Alternative Stock Market (MAB)) and CADE (for The Book-Entry Public Debt Market and AIAF).

Iberclear is owned by Bolsas y Mercados Españoles, Sociedad Holding de Mercados y Sistemas Financieros, S.A., a holding company, which holds a 100% interest in each of the Spanish official secondary markets and settlement systems.

Iberclear Securities Registration System

Iberclear and the Iberclear Members have, among others, the function of keeping the book-entry register of securities traded on the AIAF.

The book-entry register structure is divided into: (i) the Spanish Central Registry managed by Iberclear, that reflects the aggregate balance of the securities held by each of the Iberclear Members (segregated into the Iberclear Members' own account and accounts held on behalf of third parties), and (ii) an itemised individual register managed by each of the Iberclear Members, in which securities are listed under the security owner's name.

Spanish law considers the legal owner of the securities to be:

(a) the Iberclear Member appearing in the records of Iberclear as holding the relevant securities in its own name; or

(b) the investor appearing in the records of the Iberclear Member as holding the securities.

Iberclear Settlement of securities traded in AIAF

Securities traded in AIAF are private fixed income securities, including corporate bonds (for example, medium term notes and mortgage backed bonds), represented in the form of either book entries or certificates.

In the AIAF settlement system, transactions may be settled spot, forward (settlement date more than five days after the relevant trade date), with a repurchase agreement on a fixed date and double or simultaneous transactions (two trades in opposite directions with different settlement dates).

The settlement system used for securities admitted to listing on AIAF is the Model 1 delivery versus payment system, as per the classification of the Bank for International Settlements: that is, it is a "transaction-to-transaction" cash and securities settlement system with simultaneity in its finality.

Transactions are settled on the business day agreed by participants at the moment of the trade.

Settlement Cycles: The CADE Platform

The process of settling all reported trades with a value date on a specific day, is be carried out in three phases:

(a) First settlement cycle,

(b) Real-time settlement, and

(c) Session close.

The first cycle includes all transactions reported to CADE up to 6 PM of D-1, and these are settled if sufficient funds and an adequate securities balance are available in the pertinent accounts.

The real-time settlement process is carried out between 7 AM and 4 PM of the settlement day, and the system first checks if a sufficient securities balance is available. If it is available, but the buyer of the securities does not have available funds, the order is rejected and returned to CADE, and placed in a queue. The process is periodically activated until enough balance is available in the relevant accounts to settle outstanding orders with finality. If the balance in the seller's securities account is insufficient, the transaction is placed in a queue. When a credit is lodged in a securities account, the system checks whether queued orders can be processed.

At the end of the day, the system tries one last time to settle all transactions not settled in the first cycle or during the process in real time. The settlement cycle at the end of the day takes place at 5 PM.

If the seller's securities account has sufficient balance, the system checks - by means of a comparison with the payment side - if there is also sufficient balance in the buyer's cash account. That is, securities and cash are not immediately blocked. Once the transfers of securities and cash have been executed, each of the transactions is considered final.

13. ADDITIONAL INFORMATION

Authorisation

The establishment of the Programme has been duly authorised by:

(a) resolutions of the Board of Directors of Canal de Isabel II Gestión, S.A. dated 24 September 2014 and 17 December 2014; and

(b) resolutions of the shareholders of Canal de Isabel II Gestión, S.A. dated 3 December 2014.

There is no requirement for the Department of Finance and Taxation of the Autonomous Community of Madrid (*Consejería de Economía y Hacienda de la Comunidad de Madrid*) or the Directorate General for the Treasury and Financial Policy of the Ministry of Economy and Competitiveness (*Secretaría General del Tesoro y Política Financiera del Ministerio de Economía*) to authorise the establishment of the Programme.

Each issue of Notes under this Programme will (depending on the legal authorisations required at the date of each issuance of Notes) be duly authorised by:

(a) resolutions of the shareholders of Canal de Isabel II Gestión, S.A.;

(b) resolutions of the Board of Directors of Canal de Isabel II Gestión, S.A.;

(c) the Department of Finance and Taxation of the Autonomous Community of Madrid (*Consejería de Economía y Hacienda de la Comunidad de Madrid*); and

(d) the Directorate General for the Treasury and Financial Policy of the Ministry of Economy and Competitiveness (*Secretaría General del Tesoro y Política Financiera del Ministerio de Economía*).

Key Information. Interest of natural and legal persons involved in the issue

Certain of the Dealers and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform other services for, the Issuer and its affiliates in the ordinary course of business. As at the date of this Base Prospectus, each Dealer has either a syndicated or bilateral credit facility outstanding with Canal Gestión.

Statement of the capacity in which the advisers have acted

In addition to the Dealers, the following have provided advisory services in relation with the preparation of this Base Prospectus:

- Allen & Overy has acted as legal adviser to the Issuer on Spanish and English law; and
- Clifford Chance, S.L. has acted as legal adviser to the Dealers on Spanish and English law.

Listing of Notes

This Base Prospectus has been registered with the CNMV in its capacity as competent authority under the LMV and relevant implementing matters in Spain. Application will be made for Notes issued under the Programme to be admitted to trading on AIAF within 30 days of the Issue Date for such Notes. The Notes may also be admitted to trading on any other secondary market as may be agreed by the Issuer and Dealers.

Governmental, legal or arbitration proceedings

Neither the Issuer nor any other member of the Group is or has been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware) in the 12 months preceding the date of this document which may have or have in such period had a significant effect on the financial position or profitability of the Issuer or the Group.

Financial and trading position

There has been no significant change in the financial or trading position of the Group since 30 September 2014 and there has been no material adverse change in the prospects of the Issuer since 31 December 2013.

Auditors

The auditors of the Issuer are KPMG Auditores, S.L., members of the *Instituto de Censores Jurados de Cuentas de España*, who have audited the Issuer's consolidated financial statements for the year ended 31 December 2013 prepared in accordance with International Financial Reporting Standards as adopted by the European Union on which they have issued an unqualified opinion. They have also issued an unqualified review report on the Issuer's condensed consolidated interim financial statements for the period ended 30 September 2014 prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting". KPMG Auditores, S.L. have also audited the Issuer's consolidated annual accounts prepared in accordance with the applicable Spanish financial reporting framework, for each of the financial years ended 31 December 2013 and 31 December 2012 on which they have issued unqualified opinions.

KPMG Auditores, S.L. have also audited the Issuer's individual annual accounts for the years ended 31 December 2013 and 31 December 2012, prepared in accordance with the applicable Spanish financial reporting framework.

Documents Available

For the period of 12 months following the date of this Base Prospectus, copies of the following documents will be available:

(a) the constitutional documents of the Issuer, from the Commercial Registry (*Registro Mercantil*) of Madrid, the registered office of the Issuer and the registered office of the CNMV;

(b) the resolutions of the Board of Directors of Canal de Isabel II Gestión, S.A. dated 24 September 2014 and 17 December 2014 and the resolutions of the shareholders of Canal de Isabel II Gestión, S.A. dated 3 December 2014, from the registered office of the Issuer and the registered office of the CNMV;

(c) the consolidated audited annual accounts of the Issuer prepared in accordance with the applicable Spanish financial reporting framework in respect of each of the years ended 31 December 2013 and 31 December 2012 (original versions in Spanish with an English translation of each also available), in each case together with the audit reports prepared in connection therewith, from the registered office of the Issuer, the registered office of the CNMV and on the Issuer's website (www.canalgestion.es);

(d) the consolidated audited annual financial statements of the Issuer prepared in accordance with International Financial Reporting Standards as adopted by the European Union in respect of the year ended 31 December 2013 together with the audit report prepared in connection therewith (original versions in English and Spanish are available), from the registered office of the Issuer, the registered office of the CNMV and on the Issuer's website (www.canalgestion.es);

(e) the condensed consolidated interim financial statements of the Issuer prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" as adopted by the European Union in respect of the period of nine months ended 30 September 2014 (original versions in English and Spanish are available) together with the auditor's review report prepared in connection therewith, from the registered office of the Issuer, the registered office of the CNMV and on the Issuer's website (www.canalgestion.es);

(f) a copy of this Base Prospectus, any supplement to the Base Prospectus and any Final Terms from the registered office of the Issuer, the registered office of the CNMV and on the CNMV website (www.cnmv.es);

(g) For each issue of Notes under this Programme (depending on the legal authorisations required at the date of each issuance of Notes), the resolutions of the shareholders of Canal de Isabel II Gestión, S.A., the resolutions of the Board of Directors of Canal de Isabel II Gestión, S.A., the authorisation of the Department of Finance and Taxation of the Autonomous Community of Madrid (*Consejería de Economía y Hacienda de la Comunidad de Madrid*) and the authorisation of the Directorate General for the Treasury and Financial Policy of the Ministry of Economy and Competitiveness (*Secretaría General del Tesoro y Política Financiera del Ministerio de Economía*), each from the registered office of the Issuer and the registered office of the CNMV; and

(h) the audited non-consolidated annual accounts of the Issuer prepared in accordance with the applicable Spanish financial reporting framework in respect of the years ended 31 December 2013 and 31 December 2012 (originals version in Spanish with English translations also available), in each case together with the audit reports prepared in connection therewith, from the registered office of the Issuer, the registered office of the CNMV (Spanish version available only) and on the Issuer's website (www.canalgestion.es).

14. SIGNATURES

In witness to their knowledge and approval of the contents of this Base Prospectus drawn up according to Annexes IX and XIII of Commission Regulation (EC) No. 809/2004 of 29 April 2004, it is hereby signed by María Fernanda Richmond, acting under a special power of attorney granted by the Board of Directors of the Issuer, in Madrid, on 24 September 2014 and 17 December 2014.

(This page has been left blank intentionally)

15. INDEX TO FINANCIAL STATEMENTS

Contents	**Page**
CANAL DE ISABEL II GESTIÓN, S.A.	
The condensed consolidated interim financial statements for the nine month period ended 30 September, 2014 of the Issuer prepared in accordance with International Accounting Standard 34 “Interim Financial Reporting” as adopted by the European Union, as well as the auditor’s review report thereon. These interim financial statements are English original versions (Spanish original versions also available as indicated above).	F1
• Statement of financial position	F6
• Statements of income and comprehensive income	F8
• Statement of changes in equity	F10
• Statement of cash flows	F11
• Notes to financial statements	F12
The audited consolidated annual financial statements for the year ended 31 December, 2013 of the Issuer prepared in accordance with International Financial Reporting Standards as adopted by the European Union, as well as the audit report thereon. These consolidated annual accounts are English original versions (Spanish original versions also available as indicated above).	F52
• Statement of financial position	F57
• Statements of income and comprehensive income	F59
• Statement of changes in equity	F61
• Statement of cash flows	F62
• Notes to financial statements	F63
The audited consolidated annual accounts for the year ended 31 December, 2013 of the Issuer prepared in accordance with the applicable Spanish financial reporting framework, as well as the audit report thereon. These consolidated annual accounts are English translations of Spanish original versions. The English text given is for information purpose only and the Spanish version should be viewed in the case of any inconsistency.	F161
• Balance Sheet	F168
• Income Statement	F172
• Statement of changes in equity	F174
• Statement of cash flows	F176
	F178

- Notes to financial statements

The audited consolidated annual accounts for the year ended 31 December, 2012 of the Issuer prepared in accordance with the applicable Spanish financial reporting framework, as well as the audit report thereon. These consolidated annual accounts are English translations of Spanish original versions. The English text given is for information purpose only and the Spanish version should be viewed in the case of any inconsistency. F311

- Balance Sheet F317
- Income Statement F321
- Statement of changes in equity F323
- Statement of cash flows F325
- Notes to financial statements F327

Condensed Consolidated Interim Financial Statements.

(Prepared in accordance with International Financial Reporting Standards as adopted by the European Union)

2014

30 September 2014

Canal de Isabel II gestión

KPMG Auditores S.L.
Edificio Torre Europa
Paseo de la Castellana, 95
28046 Madrid

Report on Review of Condensed Consolidated Interim Financial Statements

To the Shareholders of
Canal de Isabel II Gestión, S.A. as commissioned by the Directors

Introduction

We have reviewed the condensed consolidated interim financial statements of Canal de Isabel II Gestión, S.A. (the "Company") and subsidiaries, which comprise the statement of financial position at 30 September 2014, the income statement, the statement of comprehensive income, the statement of changes in equity, the statement of cash flows and the explanatory notes (all consolidated and condensed) for the nine-month period then ended. The Directors of the Company are responsible for the preparation and presentation of these condensed consolidated interim financial statements in accordance with International Accounting Standard 34 (IAS) "Interim Financial Reporting" as adopted by the European Union. Our responsibility is to express a conclusion on these condensed consolidated interim financial statements based on our review.

Scope of review

We conducted our review in accordance with the International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the accompanying condensed consolidated interim financial statements.

Conclusion

Based on our review, which can under no circumstances be considered an audit, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial statements for the nine-month period ended 30 September 2014 have not been prepared, in all material respects, in accordance with International Accounting Standard 34 "Interim Financial Reporting", as adopted by the European Union.

Emphasis of Matter

The Directors of the Company have prepared these condensed consolidated interim financial statements in accordance with IAS 34, "Interim Financial Reporting", as adopted by the European Union. Consequently, as specified in accompanying note 2, these financial statements present condensed interim information and do not include all the disclosures required in complete financial statements. The accompanying condensed consolidated interim financial statements should therefore be read in conjunction with the consolidated financial statements for the year ended 31 December 2013. This matter does not modify our conclusion.

We draw attention to explanatory note 2(a), which states that the accompanying condensed consolidated interim financial statements have been prepared within the context of the preparation of a euro medium term note programme, and will be included in the base prospectus that the Company is preparing for submission to the Spanish National Securities Market Commission (CNMV). This matter does not modify our conclusion.

KPMG Auditores, S.L.

Borja Guinea López

3 December 2014

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(prepared in accordance with International Financial Reporting Standards as adopted by the European Union)

30 September 2014

CONTENTS

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS AT 30 SEPTEMBER 2014

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AT 30 SEPTEMBER 2014 AND 31 DECEMBER 2013

CONDENSED CONSOLIDATED INTERIM INCOME STATEMENTS FOR THE NINE-MONTH PERIODS ENDED 30 SEPTEMBER 2014 AND 30 SEPTEMBER 2013

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF COMPREHENSIVE INCOME FOR THE NINE-MONTH PERIODS ENDED 30 SEPTEMBER 2014 AND 30 SEPTEMBER 2013

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN EQUITY FOR THE NINE-MONTH PERIODS ENDED 30 SEPTEMBER 2014 AND 30 SEPTEMBER 2013

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS FOR THE NINE-MONTH PERIODS ENDED 30 SEPTEMBER 2014 AND 30 SEPTEMBER 2013

EXPLANATORY NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS AT 30 SEPTEMBER 2014

1	NATURE, PRINCIPAL ACTIVITIES AND COMPOSITION OF THE CONSOLIDATED GROUP
2	BASIS OF PRESENTATION
3	SIGNIFICANT ACCOUNTING POLICIES
4	SEGMENT REPORTING
5	BUSINESS COMBINATIONS
6	PROPERTY, PLANT AND EQUIPMENT, INTANGIBLE ASSETS AND GOODWILL
7	INVESTMENT PROPERTY
8	INVESTMENTS IN EQUITY-ACCOUNTED ASSOCIATES
9	JOINT VENTURES
10	FINANCIAL ASSETS
11	OTHER ASSETS
12	CASH AND CASH EQUIVALENTS
13	EQUITY
14	FINANCIAL LIABILITIES
15	GOVERNMENT GRANTS
16	PROVISIONS
17	TAXATION
18	RELATED PARTY BALANCES AND TRANSACTIONS
19	FINANCIAL INSTRUMENTS AND FAIR VALUE
20	EMPLOYEE INFORMATION
21	OTHER RELEVANT INFORMATION
22	EVENTS AFTER THE REPORTING PERIOD
Appendix I	DETAILS OF SUBSIDIARIES AT 30 SEPTEMBER 2014

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AT 30 SEPTEMBER 2014 AND 31 DECEMBER 2013 (Expressed in thousands of Euros)			
ASSETS	**NOTES**	**30/09/2014**	**31/12/2013**
Property, plant and equipment	6 a	29,234	27,566
Investment property	7	21,921	22,748
Goodwill	6 b	22,120	13,114
Other intangible assets	6 a	4,346,215	4,325,390
Equity-accounted investees	8	4,045	3,927
Deferred tax assets		4,168	3,056
Other non-current financial assets	10	102,538	81,946
Other non-current assets	11	63,091	83,232
Total non-current assets		**4,593,332**	**4,560,979**
Inventories		8,706	8,416
Current tax assets		22,299	21,949
Trade and other receivables	10	284,642	230,726
Other financial assets	10	35,275	32,756
Receivable on called-up capital		1,550	1,450
Other current assets		3,029	2,867
Cash and cash equivalents	12	180,738	22,627
Total current assets		**536,239**	**320,791**
Total assets		**5,129,571**	**4,881,770**

The accompanying explanatory notes form an integral part of the condensed consolidated interim financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AT 30 SEPTEMBER 2014 AND 31 DECEMBER 2013 (Expressed in thousands of Euros)			
EQUITY AND LIABILITIES	**NOTES**	**30/09/2014**	**31/12/2013**
Capital		1,074,032	1,074,032
Share premium		1,074,032	1,074,032
Other reserves		32,865	13,151
Retained earnings		159,573	167,181
Translation differences		(5,718)	(9,343)
Interim dividend	13	-	(145,220)
Equity attributable to equity holders of the Parent		**2,334,784**	**2,173,833**
Non-controlling interests		29,029	22,222
Total equity		**2,363,813**	**2,196,055**
Loans and borrowings, non-current	14	193,166	183,663
Other non-current financial liabilities	14	131,578	119,265
Government grants, non-current	15	688,848	690,262
Payables to the Public Entity	14	770,830	860,946
Deferred tax liabilities		24,265	24,973
Non-current provisions	16	227,181	190,247
Other non-current liabilities		30,605	45,539
Total non-current liabilities		**2,066,473**	**2,114,895**
Loans and borrowings	14	177,907	56,859
Payables to the Public Entity	14	168,357	160,927
Other financial liabilities	14	64,177	87,415
Government grants, current	15	13,762	13,735
Trade and other payables		192,821	175,869
Current tax liabilities		1,206	1,220
Provisions	16	79,737	73,121
Other current liabilities		**1,318**	**1,674**
Total current liabilities		**699,285**	**570,820**
Total equity and liabilities		**5,129,571**	**4,881,770**

The accompanying explanatory notes form an integral part of the condensed consolidated interim financial statements.

CONDENSED CONSOLIDATED INCOME STATEMENTS FOR THE NINE-MONTH PERIODS ENDED 30 SEPTEMBER 2014 AND 30 SEPTEMBER 2013 (Expressed in thousands of Euros)

	NOTES	30/09/2014	30/09/2013
Revenues		820,851	793,409
Other income		27,356	28,924
Non-current self-constructed assets		11,660	13,518
Merchandise, raw materials and consumables used		(193,919)	(172,319)
Employee benefits expense		(129,555)	(114,415)
Depreciation and amortisation	6 and 7	(90,184)	(88,913)
Impairment/(reversals of impairment) on non-current assets		(1,121)	(1,127)
Other expenses		(240,535)	(256,258)
Finance income		8,863	6,754
Finance costs		(31,041)	(26,013)
Share in profit/(loss) of equity-accounted investees	8	52	(6)
Pre-tax profit from continuing operations		**182,427**	**183,554**
Income tax expense	17	(7,902)	(9,368)
Profit for the period from continuing operations		**174,525**	**174,186**
Profit for the period		**174,525**	**174,186**
Profit for the period attributable to equity holders of the Parent		**172,158**	**170,974**
Profit for the period attributable to non-controlling interests		**2,367**	**3,212**

The accompanying explanatory notes form an integral part of the condensed consolidated interim financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE NINE-MONTH PERIODS ENDED 30 SEPTEMBER 2014 AND 30 SEPTEMBER 2013.			
(Expressed in thousands of Euros)	Notes	30/09/2014	30/09/2013
PROFIT FOR THE PERIOD		**174,525**	**174,186**
Items that will be reclassified to profit or loss			
Exchange differences on translation of financial statements of foreign operations		3,625	(5,027)
OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX		**3,625**	**(5,027)**
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:			
Equity holders of the Parent		175,783	165,947
Non-controlling interests		2,367	3,212

The accompanying explanatory notes form an integral part of the condensed consolidated interim financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY FOR THE NINE-MONTH PERIODS ENDED 30 SEPTEMBER 2014 AND THE NINE-MONTH PERIODS ENDED 30 SEPTEMBER 2013 AND 31 DECEMBER 2013

(Expressed in thousands of Euros)

	EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT								
	Capital	**Share premium**	**Other reserves**	**Retained earnings**	**Interim dividend**	**Translation differences**	**Total**	**Non-controlling interests**	**TOTAL**
BALANCE AT 31 DECEMBER 2012	**1,074,032**	**1,074,032**	**-**	**103,101**	**(69,511)**	**(2,971)**	**2,178,683**	**23,269**	**2,201,952**
Profit	-	-	-	170,974	-	-	170,974	3,212	174,186
Other comprehensive income	-	-	-	-	-	(5,027)	(5,027)	-	(5,027)
Total other comprehensive income	**-**	**-**	**-**	**170,974**	**-**	**(5,027)**	**165,947**	**3,212**	**169,159**
Distribution of profit for the period							-		-
Reserves	-	-	13,151	(13,151)	-	-	-	-	-
Dividends	-	-	-	(118,353)	69,511	-	(48,842)	-	(48,842)
Other movements	-	-	-	44	-	-	44	(4,683)	(4,639)
BALANCE AT 30 SEPTEMBER 2013	**1,074,032**	**1,074,032**	**13,151**	**142,615**	**-**	**(7,998)**	**2,295,832**	**21,798**	**2,317,630**
Profit	-	-	-	24,651	-	-	24,651	1,046	25,697
Other comprehensive income	-	-	-	-	-	(1,345)	(1,345)	-	(1,345)
Total other comprehensive income	**-**	**-**	**-**	**24,651**	**-**	**(1,345)**	**23,306**	**1,046**	**24,352**
Distribution of profit for the period							-		-
Dividends (note 13b)	-	-	-	-	(145,220)	-	(145,220)	-	(145,220)
Other movements	-	-	-	(85)	-	-	(85)	(622)	(707)
BALANCE AT 31 DECEMBER 2013	**1,074,032**	**1,074,032**	**13,151**	**167,181**	**(145,220)**	**(9,343)**	**2,173,833**	**22,222**	**2,196,055**
Profit	-	-	-	172,158	-	-	172,158	2,367	174,525
Other comprehensive income						3,625	3,625	-	3,625
Total other comprehensive income	**-**	**-**	**-**	**172,158**	**-**	**3,625**	**175,783**	**2,367**	**178,150**
Distribution of profit for the period									
Reserves	-	-	19,959	(19,959)	-	-	-	-	-
Dividends (note 13b)	-	-	-	(159,675)	145,220	-	(14,455)	-	(14,455)
Other movements	-	-	(245)	(132)	-	-	(377)	4,440	4,063
BALANCE AT 30 SEPTEMBER 2014	**1,074,032**	**1,074,032**	**32,865**	**159,573**	**-**	**(5,718)**	**2,334,784**	**29,029**	**2,363,813**

The accompanying explanatory notes form an integral part of the condensed consolidated interim financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE NINE-MONTH PERIODS ENDED 30 SEPTEMBER 2014 AND 30 SEPTEMBER 2013.

(Expressed in thousands of Euros)

	30/09/2014	30/09/2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit for the period	**174,525**	**174,186**
Adjustments for:		
Depreciation and amortization	90,184	88,913
Impairment	9,923	9,852
Change in provisions	84,510	92,815
Grants recognized in the income statement	(10,322)	(9,724)
(Gains)/losses on disposals of fixed assets	870	999
(Gains)/losses on disposals of financial instruments	-	-
Finance income	(16,610)	(6,754)
Finance costs	31,041	26,013
Exchange losses	931	-
Income tax	7,902	9,368
Changes in working capital, excluding effect of acquisitions and translation differences		
Inventories	1,543	1,616
Trade and other receivables	(45,608)	(41,913)
Other current assets	1,330	-
Trade and other payables	12,086	4,021
Other current liabilities	-	-
Provisions	(51,046)	(69,496)
Other non-current assets and liabilities	2,119	(895)
Cash flows generated by operating activities	**293,378**	**279,001**
Interest paid	(29,673)	(22,088)
Interest received	6,233	2,222
Income tax received/(paid)	(2,903)	(8,124)
Cash flows from operating activities	**267,035**	**251,011**
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments due to investments in related companies	(218)	(1,154)
Payments for acquisition of intangible assets	(119,648)	(142,840)
Payments for acquisition of property, plant and equipment	(3,203)	(5,898)
Payments for acquisition of investment property	(28)	-
Payments for acquisition of financial assets	(24,392)	(9,678)
Proceeds from sale of intangible assets	1,498	640
Proceeds from sale of property, plant and equipment	628	3
Proceeds from sale of other financial assets	12,284	6,575
Cash flows used in investing activities	**(133,079)**	**(152,352)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from grants, donations and bequests received	8,935	21,668
Proceeds from loans and borrowings	144,406	25,109
Proceeds from debts with related companies	-	2,962
Proceeds form other debts	10,615	-
Payments for other bonds and other marketable securities	-	-
Payment due to payables to the Public Entity	(89,342)	(76,887)
Payments of other debts	(23,040)	(27,349)
Dividends paid	(26,488)	(12,933)
Cash flows form (used in) financing activities	**25,086**	**(67,430)**
Effect of exchange rate fluctuations	(931)	(5,028)
NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS	**158,111**	**26,201**
Cash and cash equivalents at beginning of period	**22,627**	**47,257**
Cash and cash equivalents at end of period	**180,738**	**73,458**

The accompanying explanatory notes form an integral part of the condensed consolidated interim financial statements.

EXPLANATORY NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS AT 30 SEPTEMBER 2014

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

Canal de Isabel II Gestión, S.A. (hereinafter Canal de Isabel II Gestión, the Parent or the Company) was incorporated pursuant to article 16.1 of Law 3/2008 of 29 December 2008 (on Tax and Administration Measures), amended by Law 6/2011 of 28 December 2011 (on Tax and Administration Measures), which authorised Canal de Isabel II (hereinafter the Public Entity) to create a corporation to provide water supply, sanitation and other water-related services and works under the terms of Law 17/1984 of 20 December 1984, which regulates water supply and sanitation in the Community of Madrid, and other applicable legislation.

The Parent was incorporated with limited liability under Spanish law on 27 June 2012 in a deed attested by the Madrid notary public Mr. Valerio Pérez de Madrid y Palá, who recorded this deed as entry 1531 in his notarial record book. The Company is the first entry on sheet M-534929 of volume 29,733, page 86, section 8 of the Madrid Mercantile Registry. Its registered office is located at Calle Santa Engracia 125, in Madrid.

According to its articles of association, the Parent's statutory activity consists of the following:

- Comprehensive water cycle management throughout the Madrid region, which involves:

  - Managing the supply and recycling of drinking water.
  - Overseeing the sewer service.
  - Controlling materials disposed of through the sewer system and water-related assets in the public domain.
  - Running the wastewater treatment service.
  - Conducting studies and research, whether technical, financial, legal or administrative, where necessary for the services and activities listed above to be carried out satisfactorily.
  - Carrying out and/or overseeing any work, including civil work, necessary to maintain, replace, upgrade, install or extend the infrastructures used to provide the services listed above.

- Research activities and the provision of advice and assistance in all sectors relating to its statutory activity.
- The sale of electricity and all other activities that relate to or are instrumental or complementary to this business.
- Property development, construction, sale, rental and other associated activities, both in Spain and abroad, as well as the management of urban and land development projects.
- Any other public services or activities that reinforce the services provided by the Company and add value for users.
- Telecommunications-, information- and communications-related activities and services and any similar activities that may arise in the future.
- The acquisition, subscription, holding, 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. This excludes any activity restricted by law to collective investment undertakings or reserved by the Stock Market Law to member brokers and brokerage firms.

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

When commissioned to do so by the corresponding public authority, the Parent may also be involved in the process of collecting government revenue.

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

Under the terms of article 16, clause two, point 4 of Law 3/2008, on 14 June 2012 the Regional Cabinet of the Community of Madrid approved the Contract-Programme between the Public Entity and the Parent. The Contract-Programme, which was signed on 1 July 2012, establishes the mutual obligations and commitments assumed by both parties within the framework of the general financial policy and water policy of the regional authorities of the Community of Madrid, in turn within the scope of Law 17/84 of 20 December 1984, which regulates water supply and sanitation in the Community of Madrid. Its purpose is to establish the conditions necessary to carry out the capitalisation process foreseen in Law 3/2008 and manage the services assigned to the Public Entity by Law 17/1984, which include running (operation, maintenance and upkeep) the Community of Madrid General Network and providing the corresponding water supply, sanitation and recycling services. The agreement has a 50-year term which cannot be extended.

As established in article 4 of its articles of association, the Parent began operating on 1 July 2012.

In 2012 the Public Entity made a non-monetary contribution consisting of the activity, assets and liabilities, and shares and equity holdings in trading companies.

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

(i) Contract-Programme

The Contract-Programme regulating the relationship between the Public Entity and the Parent in running the comprehensive water service was approved by the Regional Cabinet of the Community of Madrid on 14 June 2012 and came into force on 1 July 2012.

The Regional Cabinet of the Community of Madrid has authorised the transfer of the water supply, sanitation and recycling services, previously entrusted to the Public Entity by any permits, to Canal de Isabel II Gestión, S.A. These services include the operation and maintenance of the Community of Madrid General Network and the provision of the supply, sanitation and recycling services relating to this network and, in general, all of the services and activities that were previously carried out by the Public Entity, except those expressly reserved to the Entity under the terms of the Contract-Programme, specifically the capacity to exercise the powers, rights and obligations derived from (i) concessions and authorisations associated with water-related assets in the public domain, (ii) any administrative powers held by the Community of Madrid in relation to the distribution and treatment of water, including the power to impose penalties, (iii) the supply and sanitation services provided under Law 17/1984 and other applicable legislation, (iv) the water-related functions entrusted to it by the Community of Madrid, based on agreements signed with local authorities, and (v) all other water-related functions entrusted to it by the Community of Madrid.

So that it can provide these services, article 16 of Law 3/2008 requires the Community of Madrid and the Public Entity to convey to the Parent any assets in the public domain that make up the Community of Madrid General Network and which are necessary for the Company to conduct the activities and functions entrusted to it. The Contract-Programme also provides for the Parent’s use and management of energy resources currently operated by the Public Entity, as well as any such activities that may be carried out in the future. Moreover, the Parent is entitled to provide any other services entrusted to the Public Entity by the Community of Madrid, particularly Closed User Group mobile communications services. All of these infrastructures are public property as they are used for public services provided by the Parent and, as such, may not be disposed of or seized and are not subject to any statute of limitations. These assets may only be sold in the event that they are no longer required, but with the legal obligation to allocate the gains obtained to investments in the Community of Madrid General Network.

The Contract-Programme has a 50-year duration from 1 July 2012 and cannot be renewed. Once this period has elapsed and the Contract-Programme expires, the Public Entity is required to compensate the Parent for any investments made to carry out new infrastructure plans and not depreciated while the Contract-Programme was in force, taking into account the condition of such infrastructures and the value of the investment made, deducting any technical depreciation under the terms set out in these plans. On expiry of the Contract-Programme, the Parent is required to return the assets and rights that make up the Community of Madrid General Network, and any other goods and installations in the public domain that are required to provide the service, to the public authorities in good working order and perfect condition, as required by the progress clause governing the Contract-Programme, ensuring that these assets are still capable of providing the service based on the depreciation schedules of the different constituent items.

Neither the assets that do not form part of the Community of Madrid General Network nor the shares and equity holdings in trading companies previously held by the Public Entity will revert on completion of the Contract-Programme.

(ii) Changes in the consolidated group

Canal de Isabel II Gestión includes its investments in all of its subsidiaries, associates and joint arrangements when preparing its consolidated financial statements. Details of the companies forming the Canal de Isabel II Gestión Group and which are consolidated at the date of the accompanying condensed consolidated interim financial statements are provided in Appendix I hereto.

(a) During the nine-month period ended 30 September 2014

Changes in the consolidated group due to additions of new companies in the first nine months of 2014 are as follows:

Through Recaudos y Tributos, S.A. (RYT, S.A.), the Group incorporated RYT Panamá S.A. and RYT Resultados y Tecnología S.R.L. in the Dominican Republic for US Dollars 10,000 and Dominican Pesos 100,000. The majority shareholder in both cases is RYT S.A., with an interest of 95%. The Group holds an 80.50% effective interest in these companies. The principal activity of the two companies is the rendering of comprehensive advisory services in relation to local taxes.

On 1 January 2014, Emissao Engenharia e Construcoes, S.A. was included in the consolidated group (see note 5). This subsidiary was acquired on 14 November 2013 for Brazilian Reals 69 million, equivalent to Euros 21.4 million. This subsidiary was not consolidated at 31 December 2013 due to the fact that at that date the related financial information was not available in order to determine the fair value of the assets acquired and liabilities assumed, and nor, therefore, to determine the goodwill on consolidation. Nonetheless, the effect of not fully consolidating this investment in the consolidated financial statements of Canal de Isabel II Gestión and subsidiaries at 31 December 2013 was insignificant. The effective percentage ownership is 67.96%.

(b) During the year ended 31 December 2013

In 2013, through Canal de Isabel II Gestión, S.A., the Group incorporated Canal Gestión Lanzarote S.A. for Euros 60 thousand s. Canal Gestión Lanzarote, S.A.'s principal activity is comprehensive water cycle management.

On 13 September 2013, through Interamericana de Aguas y Servicios, S.A., the Group acquired 40% of Avanzadas Soluciones y Acueducto y Alcantarillado, S.A. E.S.P., a comprehensive water cycle operator domiciled in Riohacha (Colombia). This shareholding cost Euros 339 thousand.

In 2013, through Canal Extensia, S.A.U. and Interamericana de Aguas y Servicios S.A., the Group incorporated Soluciones Andinas de Aguas, S.R.L. This company's registered office is located in Montevideo (Uruguay) and its principal activity is asset investment and holding.

Moreover, on 14 November 2013, Soluciones Andinas de Aguas, S.R.L. acquired 75% of Emissao Engenharia e Construcoes, S.A., a company domiciled in Brazil and engaged in waterworks maintenance and operation and water distribution and sanitation activities (see note 10).

Amerika Tecnologías de la Información, S.A.S. was incorporated in Barranquilla (Colombia) in August 2013 as a result of spinning off a branch of activity from Interamericana de Aguas y Servicios S.A. Its principal activity is the design, maintenance, development, support and management of information technology projects.

2. BASIS OF PRESENTATION

The condensed consolidated interim financial statements have been prepared on the basis of the accounting records of the Company and of the Group companies. The condensed consolidated interim financial statements for the nine-month period ended 30 September 2014 have been prepared in accordance with International Accounting Standard (IAS) 34 "Interim Financial Reporting", to present fairly the consolidated equity and consolidated financial position of the Canal de Isabel II Gestión Group at 30 September 2014, and consolidated results, consolidated cash flows and changes in consolidated equity for the nine-month period then ended.

As the accompanying condensed consolidated interim financial statements do not include all the information required in a set of complete financial statements, they should be read in conjunction with the annual consolidated financial statements for the year ended 31 December 2013.

The consolidated financial statements at 31 December 2013 were the first to be prepared under International Financial Reporting Standards as adopted by the European Union (IFRS-EU), and IFRS 1 "First-time Adoption of International Financial Reporting Standards" therefore applied. The date of first-time adoption was 1 July 2012.

These condensed consolidated interim financial statements have been authorised for issue by the board of directors on 3 December 2014.

a. Purpose of the condensed consolidated interim financial statements

The accompanying condensed consolidated interim financial statements have been prepared within the context of a euro medium term note programme, the purpose of which is to refinance part of the Company's debt. They will be included in the base prospectus that the Company is preparing for submission to the Spanish National Securities Market Commission (CNMV) (see note 21).

b. Functional and presentation currency

The figures disclosed in the condensed consolidated interim financial statements are expressed in thousands of Euros, the Parent's functional and presentation currency, rounded off to the nearest unit.

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

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

A summary of the items requiring a greater degree of judgement or which are more complex, or where the assumptions and estimates made are significant to the preparation of the consolidated financial statements, is as follows:

- The Group tests investment property, intangible assets and goodwill for potential impairment at least annually, irrespective of whether there is any indication that the assets may be impaired, to verify whether the carrying amount of these assets exceeds their recoverable amount. Discounted cash flow calculations are based on projections in the budgets approved by management. The cash flows take into consideration past experience and represent the best estimate of future market performance. The key assumptions employed when determining fair value (less costs to sell, where applicable) and value in use include growth rates, the weighted average cost of capital and tax rates. The estimates, including the methodology used, could have a significant impact on values and impairment.

- The Parent recognises a provision on a systematic basis for the replacement of infrastructure assigned by third parties based on the best estimate of the annual replacement investment to be made in this infrastructure over the concession term. For the rest of its infrastructure, located in Latin America, the Group considers that a suitable preventative and corrective maintenance programme eradicates the need for any significant replacements.

- 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 level of judgement by management.

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

- The condensed consolidated interim financial statements for the period include an estimate of the water supplied but not yet billed at 30 September (approximately one month's supply). Due to the meter-reading procedure, this supply is billed the following month. The amount is estimated based on billed water use for each contract for two comparable preceding periods, following the estimation method set forth in the Canal de Isabel II Gestión Water Distribution Service Regulations.

- The Group is subject to regulatory and legal processes and inspections by government bodies in various jurisdictions. It recognises a provision for liabilities (see note 16) 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 and in estimating the amount.

- The Group has receivables from certain town and city councils due to work carried out on the water distribution infrastructure. These receivables are recognised at amortised cost considering recovery periods estimated by management based on past experience, representing the best estimate of the balance to be recovered in the future (see note 10).

- The Parent has recognised security deposits placed by customers to guarantee payment for the water they use. These security deposits are recognised at amortised cost considering the average reimbursement period, estimated by the Company based on past experience, which is the best estimate of the amount to be reimbursed in the future (see note 14 c).

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

d. Determining fair values

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

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

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.

- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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

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

e. Comparative information

The condensed consolidated interim financial statements for the nine-month period ended 30 September 2014 include consolidated comparative figures for the nine-month period ended 30 September 2013, except for the condensed consolidated interim statement of financial position, which include comparative figures at 31 December 2013.

f. Accounting standards

(i) Standards effective from 1 January 2014 which would require changes to accounting policies and presentation:

- IFRS 10 Consolidated Financial Statements.
- IFRS 11 Joint Arrangements.
- IFRS 12 Disclosure of Interests in Other Entities.
- IAS 28 Investments in Associates and Joint Ventures.
- IAS 32 Financial Instruments: Presentation. Amendment to disclosures regarding the offset of financial assets and financial liabilities.
- Amendment to IAS 39: Novation of derivatives and continuation of hedge accounting.

Application of these standards and amendments has not had a significant impact on the Group's condensed consolidated interim financial statements.

(ii) Standards issued and not in force for periods commencing on or after 1 January 2014:

- IFRS 9 Financial Instruments (annual periods beginning on or after 1 January 2018). Pending adoption by the EU.
- Amendments to IFRS 11 set out in Accounting for Acquisitions of Interests in Joint Operations (annual periods beginning on or after 1 January 2016). Pending adoption by the EU.
- Revenue from Contracts with Customers. Effective for annual periods beginning on or after 1 January 2017. Pending adoption by the EU.
- Clarification of Acceptable Methods of Depreciation and Amortisation. Effective prospectively for annual periods beginning on or after 1 January 2016. Pending adoption by the EU.

In preparing the accompanying condensed consolidated interim financial statements, the Group has not early-applied any published standards, interpretations or amendments that have not yet come into force.

g. Going concern

Due to the activities ordinarily conducted by the Parent and the investments made, the condensed consolidated interim financial statements present negative working capital of Euros 163,046 thousand at 30 September 2014 (Euros 250,029 thousand at 31 December 2013). However, the Parent's directors have prepared the accompanying condensed consolidated interim financial statements on a going concern basis considering that these circumstances were expected and reflect the nature of the business, taking into account its capacity to generate cash by the Group. On the other hand, law 5/2013 of 23 December 2013, which passed the Madrid Regional Government's General Budgets for 2014, authorised the Parent to obtain long-term borrowings of Euros 148 million, an amount considered sufficient to meet its obligations by the respective maturity dates.

Moreover, at its session held on 29 October 2014, the board of directors agreed to submit a proposed euro medium term note programme to the shareholders for approval at their extraordinary general meeting to be held on 3 December 2014. This programme would have a duration of one year, and would be renewable. It would be for a maximum nominal amount of Euros 1,000 million, and would entail an initial issue of fixed-income marketable securities for a nominal amount of up to Euros 500 million.

3. SIGNIFICANT ACCOUNTING POLICIES

In preparing the accompanying condensed consolidated interim financial statements, Canal de Isabel II Gestión, S.A. has applied the same accounting principles as in 2013, which are specified in note 3 to the consolidated financial statements at 31 December 2013 prepared in accordance with IFRS-EU applicable at the time of their preparation., with the exceptions indicated in section f) of the preceding note.

4. SEGMENT REPORTING

Canal de Isabel II Gestión management reviews the Group's internal information to assess performance and allocate resources.

The Group analyses the business by geographical segments, which are the different strategic business units.

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

The Group’s segments are “domestic” and “international”. Information on each segment is allocated on the basis of the financial statements of the different Group companies, which operate exclusively in their geographical area due to the nature of their activities.

Information on the Group’s different geographical segments is as follows:

SEGMENT REPORTING AT 30 SEPTEMBER 2014			
(Expressed in thousands of Euros)			
	SEGMENTS		
	Domestic	International	TOTAL
Revenues	664,053	156,798	820,851
- Services to external customers	664,053	155,954	820,007
- Inter-segment services	-	844	844
Pre-tax profit of the segments	167,299	15,128	182,427
Finance income	6,294	2,569	8,863
Finance costs	(25,850)	(5,191)	(31,041)
Depreciation and amortization	(78,675)	(11,509)	(90,184)
Share in profit /(loss) of equity-accounted investees	15	37	52
Losses, impairment and changes in provisions	(1,093)	(28)	(1,121)
Income tax	(1,826)	(6,076)	(7,902)
SEGMENT REPORTING AT 31 DECEMBER 2014			
Segment assets	4,898,966	230,605	5,129,571
Segment liabilities	2,577,618	188,140	2,765,758
SEGMENT REPORTING AT 30 SEPTEMBER 2014			
Net cash flows from (used in)			
- Operating activities	216,737	50,298	267,035
- Investing activities	(106,985)	(26,094)	(133,079)
- Financing activities	17,143	7,943	25,086
Acquisitions of non-current assets during the period	86,257	18,158	104,415

SEGMENT REPORTING AT 30 SEPTEMBER 2013

(Expressed in thousands of Euros)

	SEGMENTS		
	Domestic	International	TOTAL
Revenues	658,602	134,807	793,409
- Services to external customers	658,602	134,376	792,978
- Inter-segment services	-	431	431
Pre-tax profit of the segments	168,192	15,362	183,554
Finance income	4,424	2,330	6,754
Finance costs	(20,123)	(5,890)	(26,013)
Depreciation and amortization	(74,962)	(13,951)	(88,913)
Share in profit /(loss) of equity-accounted investees	(40)	34	(6)
Losses, impairment and changes in provisions	(1,149)	22	(1,127)
Income tax	(3,951)	(5,417)	(9,368)
SEGMENT REPORTING AT 31 DECEMBER 2013			
Segment assets	4,692,494	189,276	4,881,770
Segment liabilities	2,523,615	162,100	2,685,715
SEGMENT REPORTING AT 30 SEPTEMBER 2013			
Net cash flows from (used in)			
- Operating activities	203,731	47,280	251,011
- Investing activities	(122,480)	(29,872)	(152,352)
- Financing activities	(46,080)	(21,350)	(67,430)
Acquisitions of non-current assets during the period	173,170	21,581	194,751

5. BUSINESS COMBINATIONS

On 1 January 2014, Emissao Engenharia e Construcoes, S.A. was included in the consolidated group (see note 5). This subsidiary was acquired on 14 November 2013 for Brazilian Reals 69 million, equivalent to Euros 21.4 million. This subsidiary was not consolidated at 31 December 2013 due at this date the information relates the financial information was not available to determine the fair value of the assets acquired and liabilities assumed, and nor, therefore, the goodwill on consolidation. Nonetheless, the effect of not fully consolidating this investment in the consolidated financial statements of Canal de Isabel II Gestión and subsidiaries at 31 December 2013 was negligible. The effective percentage ownership is 67.96%

The acquiree generated revenues of Euros 24,788 thousand and consolidated profit of Euros 345 thousand for the Group during the period from 1 January 2014 to the close of the nine-month period ended 30 September 2014.

Details of the consideration given, the fair value of the net assets acquired and goodwill are as follows:

	Thousands of Euros
Total acquisition cost	21,391
- Fair value of net assets acquired	**(11,951)**
Difference between carrying amount of net assets acquired and amount paid:	
Goodwill (Note 6)	**9,440**
Assets and liabilities arising on acquisition:	
Non-current assets	**4,346**
Current assets	15,450
Total assets	**19,796**
Non-current liabilities	(2,836)
Current liabilities	(5,009)
Total liabilities	**(7,845)**
Net assets acquired	**11,951**

Current assets include Euros 13,617 thousand and Euros 1,165 thousand corresponding to Trade and other receivables and Inventories, respectively.

Calculations in relation to business combinations are provisional until the Group determines the fair value of the assets acquired and the liabilities assumed and are subject to adjustment for one year after the acquisition date.

The Group has recognised Euros 212 thousand of transaction costs under other expenses in the condensed consolidated interim income statement.

6. PROPERTY, PLANT AND EQUIPMENT, INTANGIBLE ASSETS AND GOODWILL

a. Property, plant and equipment and other intangible assets

Movement in property, plant and equipment and other intangible assets during the nine-month period of 2014 and in the year 2013 is as follows:

	Thousands of Euros		
	Property, plant and equipment	Other Intangible assets	Total
Cost:			
Opening balance at 31 December 2013	**75,411**	**6,670,995**	**6,746,406**
Additions	3,248	100,137	103,385
Capitalised borrowing costs	-	146	146
Disposals	(1,002)	(51,811)	(52,813)
Transfers (note 7)	13	(31)	(18)
Translation differences	1,279	8,821	10,100
Additions to consolidated group	2,044	5,380	7,424
Cost at 30 September 2014	**80,993**	**6,733,637**	**6,814,630**
Accumulated amortisation/depreciation at 31 December 2013:	**(47,845)**	**(2,345,531)**	**(2,393,376)**
Amortisation/depreciation	(3,078)	(86,233)	(89,311)
Disposals	274	49,547	49,821
Translation differences	(890)	(4,661)	(5,624)
Additions to consolidated group	(220)	(471)	(691)
Accumulated amortisation/depreciation at 30 September 2014	**(51,759)**	**(2,387,349)**	**(2,439,181)**
Accumulated impairment at 31 December 2013	**-**	**(73)**	**(73)**
Accumulated impairment at 30 September 2014	**-**	**(73)**	**(73)**
CARRYING AMOUNT AT 30 SEPTEMBER 2014	**29,234**	**4,346,215**	**4,375,449**

	Thousands of Euros		
	Property, plant and equipment	**Other Intangible assets**	**Total**
Cost:			
Opening balance at 31 December 2012	**76,191**	**6,519,061**	**6,595,252**
Additions	2,207	141,802	144,009
Disposals	(234)	(12,741)	(12,975)
Transfers	(545)	493	(52)
Translation differences	(1,641)	(20,942)	(22,583)
Cost at 30 September 2013	**75,978**	**6,627,673**	**6,703,651**
Additions	1,077	48,790	49,867
Capitalised borrowing costs	-	351	351
Disposals	(1,205)	(51)	(1,256)
Transfers	8	(8)	-
Translation differences	(447)	(5,762)	(6,209)
Cost at 31 December 2013	75,411	6,670,993	6,746,404
Accumulated amortisation/depreciation:			
Opening balance at 31 December 2012	(46,979)	(2,260,414)	(2,307,393)
Amortisation/depreciation	(3,068)	(84,972)	(88,040)
Disposals	231	12,100	12,331
Transfers	403	(384)	19
Translation differences	976	12,493	13,469
Accumulated amortisation/depreciation at 30 September 2013	**(48,437)**	**(2,321,177)**	**(2,369,614)**
Amortisation/depreciation	(920)	(27,607)	(28,527)
Disposals	1,130	3	1,133
Transfers	-	6	6
Translation differences	382	3,245	3,627
Accumulated amortisation/depreciation at 31 December 2013	**(47,845)**	**(2,345,530)**	**(2,393,375)**
Accumulated impairment at 30 September 2013	**-**	**(85)**	**(85)**
Reversals of impairment	-	12	12
Accumulated impairment at 31 December 2013	**-**	**(73)**	**(73)**
CARRYING AMOUNT AT 30 SEPTEMBER 2013	**27,541**	**4,306,411**	**4,333,952**
CARRYING AMOUNT AT 31 DECEMBER 2013	**27,566**	**4,325,390**	**4,352,956**

At 30 September 2014 the Group has recognised concession arrangements and administrative concessions under intangible assets with a carrying amount of Euros 4,071,848 thousand (Euros 3,961,350 at 30 September 2013). Details and characteristics of the main concessions are provided in note 8(a) to the consolidated financial statements at 31 December 2013.

Additions to intangible assets during the first nine months of 2014 include the following:

Renovations forming part of the plan to update the network, including the renewal of pipelines in the different Community of Madrid municipalities, subdivision of the supply network, and the installation of meters and connections for new contracts signed.

Supply works include those for the third section of the second main drinking water distribution ring in the Community of Madrid, specifically in San Fernando, Rivas and Madrid. Significant investments include those to reinforce supply to Valdemanco, Bustarviejo, Valdilecha, Villar del Olmo, Nuevo Baztan, Olmeda de las Fuentes, Colmenar del Arroyo and Chapinería, and for the connection of the Tagus drinking water treatment plant to the Almoguera-Algodor conduit in Colmenar de Oreja.

New storage tanks have been installed in Villarejo de Salvanes, Fuentidueña de Tajo and Monte de Batres, with a connection to the Canal de Isabel II Gestión conduit network. An electrical substation has been constructed to pump water in the Canal Alto-Canal Bajo-Canal del Atazar connection, and the collection network has been fitted out and connected to the electricity supply.

Telecontrol, remote control and systems integration work has been carried out to link the new telecommunications centres with the transmission equipment and items and integrate them into the existing network.

Initiatives undertaken to replace drinking water with reclaimed water include the construction of the advanced tertiary treatment system at the Arroyo Culebro upper-middle basin wastewater treatment plant and the installation of new regulating tanks in Leganés, Arganda del Rey and Villaviciosa de Odón, with their corresponding reclaimed water distribution networks.

Concession arrangements and administrative concessions include the following:

During the nine-month period ended 30 September 2014 the Parent recognised a provision of Euros 70,378 thousand (Euros 69,724 thousand at 30 September 2013) for the replacement of infrastructure in the Community of Madrid Network, and a provision of Euros 1,021 thousand (Euros 1,021 thousand at 30 September 2013) in connection with the assignment by Madrid City Council of the rights to use the transport infrastructure and reclaimed water supply network.

Furthermore, during the first nine months of 2014 the Parent recognised a provision of Euros 12,242 thousand (Euros 12,285 thousand at 30 September 2013) for replacement of infrastructure, in connection with its use of the treatment infrastructure owned by Madrid City Council.

The main additions in 2013 were as follows:

Replacement of the peat bed and biofilter treatments at Valdepiélagos with more modern systems with greater treatment capacity, by constructing a new wastewater treatment plant.

In treatment facilities, Canal Isabel II Gestión enlarged the sewage pumping station in Pedrezuela to increase its capacity and promoted the sewage pumping station in Moralzarzal. A new spillway was built in the A-6 outfall of the Casaquemada system between wells P29 and P30 at the connection point with the L municipal sewer which comes from Coslada.

Investments were made in control and automation at the various wastewater treatment plants (Artemisa project): Arroyo del Soto, Aranjuez, Fuente el Saz. An access control system with CCTV surveillance was installed at 68 local telecommunications stations and new monitoring centres were incorporated in the distribution network, which was in turn included in the general telecontrol system, thereby facilitating the measurement of capacity, pressure and the flow direction in the pipes.

Investments in the Community of Madrid Network for the extension and improvement of canals and major conduits encompassed various stages of the project to back up the supply to towns in the southeast region from the San Juan reservoir. Investments recognised in 2013 included a pumping station to take water to the drinking water treatment plant at Rozas de Puerto Real. Also noteworthy were the investments made to supply El Álamo and in the water distribution system of Guadalix de la Sierra through the replacement of the existing fibre cement pipes with ductile cast iron pipes, which improve the water supply and regulate the capacity and pressure, in accordance with Canal de Isabel II Gestión's rules for supplying water.

The most significant supply infrastructure work carried out in 2013 included a new storage tank built in Vallecas on the existing one, as well as a pumping station and 9,000 metres of new connection pipelines constructed next to this tank. The Company also completed the works to extend the water storage tank at Colmenar Viejo, which now has a capacity of 10,000 m3 with a perimeter ring for transporting drinking water and will be used to supply water to the distribution networks for new developments, and to connect the ring to the new storage tank.

With respect to water supply, a pump was built next to the Montaña de Aranjuez tank to take water from the Tagus river to consumption areas, through the Getafe-Aranjuez artery to the storage tank at Getafe. Additionally, wells 17 and 19 were added to the Guadarrama well field, after they were fitted out and connected to the electricity supply.

As part of the plan to update the network, the pipelines in various streets of Madrid were renewed, replacing fibre cement, polyethylene and PVC pipes with ductile cast iron pipes to improve the water supply, regulate capacity and pressure, reduce incidents in the network and update connections, in accordance with Canal de Isabel II Gestión's rules for supplying water. During the period, various investments were made to install meters and connections for new contracts signed.

Canal de Isabel II Gestión constructed a new bottling plant to supply water to customers in the event of service interruptions, in which case the water from the Colmenar Viejo drinking water treatment plant would be bottled.

Wastewater recycling is a key aspect of the comprehensive management of water resources and contributes to the net increase in available water in the region. In recent years Canal de Isabel II Gestión has distributed reclaimed water to facilities not requiring drinking water; for example, for street cleaning, watering public parks and golf courses and for industrial use. One of the highlights in 2013 in this respect was the regulating reservoir in Coslada for the storage of reclaimed water. The reclaimed water distribution networks were expanded with the investments and network extensions carried out in Coslada, San Sebastián de los Reyes, Getafe and Villanueva de la Cañada.

Investments in the extension, upgrading and improvement of canals and major conduits notably included the various stages of the project to reinforce the Picadas-Majadahonda arterial conduit.

The budget for investments to be carried out by the Parent during 2015, still pending approval by the board of directors, is expected to be in line with investments estimated for 2014, between Euros 200 million and Euros 220 million, of which approximately Euros 70 million will be earmarked for replacement initiatives.

Under the terms of the Agreement for the Management of Sanitation Services entered into by Madrid City Council, the Community of Madrid and Canal de Isabel II, the Parent is contractually bound to carry out any work necessary to maintain the wastewater treatment infrastructure, as well as to comply with the annual new works schedule and upgrade existing infrastructure. These investments are expected to total Euros 613 million by the end of the agreement term, of which Euros 158 million reflects treatment and Euros 455 million relates to sewers. At 30 September 2014, investments totalling Euros 103 million had been carried out (Euros 86 million at 30 September 2013).

At 30 September 2014 the Latin American subsidiaries do not have any major investment commitments in their budgets for the coming year

The carrying amount of the Group’s intangible assets located outside of Spain at 30 September 2014 is Euros 136,505 thousand (Euros 126,012 thousand in September 2013).

Details of gains and losses on the disposal of fixed assets are as follows:

	Thousands of Euros	
	30/09/2014	30/09/2013
Gains		
Property, plant and equipment	3	48
Intangible assets	-	498
	3	**546**
Losses		
Property, plant and equipment	(103)	(19)
Intangible assets	(769)	(655)
	(872)	**(674)**
Total	**(869)**	**(128)**

b. Goodwill

Movement in goodwill during the nine-month period of 2014 and in the year 2013 is as follows:

	Thousands of Euros			
	30/09/2014			
	Balance at 31/12/2013	Additions to the consolidated group	Translation differences	Balance 30/09/2014
AAA Ecuador Agacase	474	-	31	505
Hidráulica Santillana, S.A.U.	12,610	-	-	12,610
Avanzadas Soluciones de Acueducto y Alcantarillado, S.A	30	-	2	32
Emissao Engenharia e Construcoes, S.A (note 5)	-	9,440	(467)	8,973
Total	**13,114**	**9,440**	**(434)**	**22,120**

	Thousands of Euros					
	2013					
	Balance at 31/12/2012	Translation differences	Balance 30/09/2013	Additions to the consolidated group	Translation differences	Balance 31/12/13
AAA Ecuador Agacase	578	(83)	495		(21)	474
Hidráulica Santillana, S.A.U.	12,610	-	12,610	-	-	12,610
Avanzadas Soluciones de Acueducto y Alcantarillado, S.A	-	-	-	32	(2)	30
Total	**13,188**	**(83)**	**13,105**	**32**	**(23)**	**13,114**

The Group did not recognise any impairment on its property, plant and equipment, intangible assets or goodwill in the nine-month period ended 30 September 2014 or in the year ended 31 December 2013.

Additions reflect the positive difference between the fair value of the consideration given and the acquisition-date fair value of the assets acquired and the liabilities and contingent liabilities assumed following the acquisition of Emissao Engenharia e Construcoes, S.A. (see note 5).

The consolidated companies represent the group of CGUs at the lowest level at which goodwill is monitored for impairment testing purposes.

The key assumptions employed in determining value in use applied to obtain the recoverable amount when testing goodwill for impairment include the growth rate of revenues and EBITDA, and the weighted average cost of capital (WACC).

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

	WACC revenues	WACC EBITDA
Hidráulica Santillana, S.A.U.	2.11%	2.97%
Emissao Engenharia e Construcoes, S.A	22.71%	32.12%

The Group tests each group of CGUs to which goodwill has been allocated for impairment on an annual basis. Management must use estimates to calculate the recoverable amount of a CGU to which goodwill has been allocated. The recoverable amount is the higher of fair value less costs to sell and value in use. The Group determines the recoverable amount of CGUs based on their value in use. Cash flow discounting methods are used to calculate these values. Discounted cash flow calculations are based on five-year projections in the budgets approved by management. Management considers these projections reliable and can demonstrate its ability based on past experience. The cash flows represent management's best estimate of future market performance. From the fifth year cash flows are extrapolated using individual growth rates for each CGU. The estimates, including the methodology used, could have a significant impact on values and impairment. The weighted average cost of capital (WACC) is 5.80% (7.21% in 2013) for the investment in Hidraúlica Santillana, S.A.U. and 11.63% for Emissao Engenharia Construcoes, S.A. Besides impairment testing, the Group has also performed a sensitivity analysis on the goodwill allocated to these investments, for the purposes of the key assumption. Details of the WACC threshold above which impairment losses would arise are as follows:

INVESTMENT	Increase in WACC (b.p.)
Hidráulica Santillana, S.A.U.	120
Emissao Engenharia e Construcoes, S.A	2,443

The sensitivity analysis for EBITDA assumptions is as follows:

	Decrease in revenues	Increase in costs
Hidráulica Santillana, S.A.U.	10%	33%
Emissao Engenharia e Construcoes, S.A	18%	24%

7. INVESTMENT PROPERTY

Details of investment property and movement at 30 September 2014 and at 31 December 2013 are as follows:

	Thousands of Euros
	TOTAL
Cost at 1 January 2014	**33,065**
Additions	5
Transfers (note 6)	18
Translation differences	23
Cost at 30 September 2014	**33,111**
Accumulated depreciation at 1 January 2014	**(10,317)**
Depreciation	(873)
Transfers	-
Accumulated depreciation at 30 September 2014	**(11,190)**
CARRYING AMOUNT AT 30 SEPTEMBER 2014	**21,921**

	Thousands of Euros
	TOTAL
Cost at 1 January 2013	**33,179**
Disposals	(21)
Transfers	52
Translation differences	(63)
Cost at 30 September 2013	**33,147**
Disposals	(66)
Translation differences	(16)
Cost at 31 December 2013	**33,065**
Accumulated depreciation at 1 January 2013	**(9,129)**
Depreciation	(872)
Transfers	(25)
Accumulated depreciation at 30 September 2013	**(10,026)**
Depreciation	(291)
Accumulated depreciation at 31 December 2013	**(10,317)**
CARRYING AMOUNT AT 30 SEPTEMBER 2013	**23,121**
CARRYING AMOUNT AT 31 DECEMBER 2013	**22,748**

The estimated fair value of investment property at 30 September 2014 is Euros 95,534 thousand (Euros 100,046 thousand at 31 December 2013).

The total carrying amount of the Group's investment property outside Spain at 30 September 2014 is Euros 588 thousand (Euros 564 thousand in September 2013), corresponding to property held by the subsidiary Gestión Integral de Suministros Ltda.

8. INVESTMENTS IN EQUITY-ACCOUNTED ASSOCIATES

Details of investments in associates at 30 September 2014 and 31 December 2013 are as follows:

	Thousands of Euros	
Name	**30/09/2014**	**31/12/2013**
GSS Venture, S.L.	441	419
Acueducto y Alcantarillado Metropolitano de Santa Marta, S.A. E.S.P.	3,385	3,341
Avanzadas Soluciones de Acueducto y Alcantarillado, S.A. E.S.P.	219	167
Closing balance	**4,045**	**3,927**

Movement in investments in associates is as follows:

	Thousands of Euros				
			30/09/2014		
	Balance at 1/01/2014	**Profit/(Loss)**	**Translation differences**	**Other**	**Balance at 30/09/2014**
GSS Venture, S.L.	419	15	-	7	441
Alcantarillado Metropolitano	3,341	(15)	136	(77)	3,385
Acueducto y Alcantarillado SA ESP	167	52	8	(8)	219
Total	**3,927**	**52**	**144**	**(78)**	**4,045**

	Thousands of Euros								
					2013				
	Balance at 1/01/2013	**Profit/(Loss)**	**Translation differences**	**Balance at 30/09/2013**	**Additions to the consolidated group**	**Profit/(Loss)**	**Translation differences**	**Other**	**Balance at 31/12/2013**
GSS Venture, S.L.	422	(40)	-	382	-	(8)	-	45	419
Compañía de Acueducto y Alcantarillado Metropolitano de Santa Marta	3,876	34	(363)	3,547	-	(91)	(106)	(9)	3,341
Avanzadas Soluciones de Acueducto y Alcantarillado SA ESP	-	-	-	-	339	(106)	(34)	(32)	167
Total	**4,298**	**(6)**	**(363)**	**3,929**	**339**	**(205)**	**(140)**	**4**	**3,927**

9. JOINT VENTURES

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

	Thousands of Euros	
	30/09/2014	31/12/2013
Non-current assets	20,815	21,870
Current assets	6,999	7,867
Equity	1,001	1,228
Current liabilities	(28,815)	(30,965)
	-	-
Revenues	8,184	11,066
Supplies	(3,856)	(4,755)
Personnel expenses	(1,528)	(2,071)
Other operating expenses	(1,580)	(2,232)
Depreciation and amortisation	(1,070)	(1,427)
Finance costs	(962)	(1,321)

The amounts above primarily reflect items pertaining to the Aguas de Alcalá temporary joint venture. At 30 September 2014 the Group holds a 50% interest in this temporary joint venture (37.5% at 31 December 2013).

10. FINANCIAL ASSETS

a. Other financial assets

Details of other financial assets are as follows:

	Thousands of Euros			
	30/09/2014		31/12/2013	
	Non-current	Current	Non-current	Current
Equity instruments	3,795	-	263	-
Loans to related companies	1,660	19,039	-	17,378
Loans to third parties	118,591	13,916	101,611	16,779
Deposits and guarantees	13,563	5,042	13,215	1,321
Impairment	(35,071)	(2,722)	(33,143)	(2,722)
Total	**102,538**	**35,275**	**81,946**	**32,756**

Details of loans to related companies are provided in note 18.

Details of loans to third parties are as follows:

	Thousands of Euros			
	30/09/2014			
Type	Year of final maturity	Nominal amount	Non-current	Current
Works carried out for town councils	2040	75,518	51,982	10,100
Disposal of fixed assets	2009	2,722	-	2,722
Regeneration works	2040	484	293	24
Refinancing agreement Triple A Barranquilla (Colombia)	2020	34,308	34,308	-
Solidarity Fund	Various	28,306	28,306	-
Receivables from partners and shareholders	Various	2,235	2,235	-
Other receivables, Amagua	Various	10	10	-
Other receivables, Recaudos y Tributos	Various	937	937	-
Other receivables, Inassa	Various	1,067	-	1,067
Other receivables, AAA Dominicana	Various	342	339	3
Loans to personnel	Various	87	87	-
Other	Various	94	94	-
Total		**146,110**	**118,591**	**13,916**

	Thousands of Euros			
	31/12/2013			
Type	Year of final maturity	Nominal amount	Non-current	Current
Works carried out for town councils	2020	73,692	38,475	14,034
Disposal of fixed assets	2009	2,722	-	2,722
Regeneration works	2040	484	313	23
Refinancing agreement Triple A Barranquilla (Colombia)	2020	28,167	28,167	-
Solidarity Fund	Various	25,190	25,190	-
Receivables from partners and shareholders	Various	2,146	2,146	-
Other receivables, Triple A Barranquilla	Various	6,404	6,404	-
Other receivables, Amagua	Various	14	14	-
Other receivables, Recaudos y Tributos	Various	873	873	-
Loans to personnel	Various	28	28	-
Other	Various	1	1	-
Total		**139,721**	**101,611**	**16,779**

Works carried out for town councils include balances receivable by the Parent from certain councils for work conducted on water distribution and sewer infrastructures in the respective municipalities. Receivables of Euros 6,745 thousand arose in relation to these works in the nine-month period ended 30 September 2014 (Euros 10,410 thousand at 31 December 2013). These balances are generally settled through customer bills, and a total amount of Euros 6,598 thousand was received in the nine-month period ended 30 September 2014 (Euros 8,318 thousand in the year ended 31 December 2013).

Receivables from town and city councils are recognised at amortised cost, considering the period over which each balance is expected to be recovered. Impairment of non-current receivables relates to balances arising under the terms of the respective agreements with these councils that are unrecoverable.

The Solidarity Fund reflects the deficit between the welfare contributions from socio-economic levels 5 and 6 and the commerce and industry sectors and the subsidies allocated to levels 1, 2 and 3 in the Barranquilla District and the towns of Soledad, Galapa, Usiacurí, Puerto Colombia, Tubará and Juan de Acosta. It also reflects receivables from the Solidarity Fund in respect of welfare contributions for Sabanagrande, Sabanalarga, Santo Tomás, Polonuevo and Baraona. The Group will receive these amounts from the district and town authorities. These receivables fall due at various points in time up to 2020 and earn annual interest at market rates.

Receivables from partners and shareholders include Euros 2,235 thousand (Euros 2,146 thousand in 2013) for services provided to the District of Barranquilla, which, through ruling 222 of 12 February 2011, was admitted to a financial restructuring process under the terms of Law 550 of 1999. This amount falls due in October 2015.

The loans to third parties also include receivables under refinancing agreements, reflecting amounts due from users of the public water service with whom refinancing arrangements have been established and collection rescheduled. These receivables earn annual interest at market rates.

b. Deposits and guarantees

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

c. Trade and other receivables

Details of trade and other receivables are as follows:

	Thousands of Euros	
	Current	
	30/09/2014	**31/12/2013**
Trade receivables	314,842	266,116
Other receivables	43,595	35,198
Personnel	298	1,346
Public entities, other	15,304	12,853
Impairment	(89,397)	(84,787)
Total	**284,642**	**230,726**

Trade receivables reflect, mainly the amounts billed in relation to the Group's principal activity. Additionally, they also include Euros 876 thousand receivable from the Aguas de Alcalá temporary joint venture for water treatment services (Euros 735 thousand in 2013); Euros 222 thousand receivable from Canal de Isabel II (Public Entity) (Euros 143 thousand in 2013); and Euros 2,868 thousand receivable from non-consolidated Group companies (Euros 3,708 thousand in 2013).

The contractual relationship between Madrid City Council and Canal de Isabel II dates back to 1972. A new agreement, which was signed on 19 December 2005 and took effect on 1 January 2006, established the terms of the relationship between Canal and Madrid City Council with regard to water supply to the city of Madrid. These agreements determine both the financial aspects of this relationship and those relating to the planning, construction, maintenance and renovation of water use networks and the use of the water supply. The financial aspects of the 2005 agreement stipulated that receivables and payables between Canal and Madrid City Council would be settled by offsetting balances.

Pursuant to the agreement signed between the Community of Madrid, Canal de Isabel II and Madrid City Council on 4 May 2011, relating to the inclusion of the latter in Canal de Isabel II's future management model, this relationship agreement has been automatically extended and now has the same duration as the inclusion agreement, i.e. 50 years.

The Group does not have significant concentrations of credit risk. 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 require a high degree of judgement by management.

The most significant customer is Madrid City Council, which accounts for 1.86% of the Group's total turnover for the nine-month period ending 30 September 2014 (1.97% in the year 2013).

11. OTHER ASSETS

Other assets comprise the following:

Prepayments for seniority awards and long-service bonuses, reflecting the deferred premium paid by the Parent to an insurance company in respect of a risk insurance policy for early settlement of the seniority commitment. These prepayments are taken to income as the premium in question is accrued. Euros 2,630 thousand was recognised in the nine-month period ending 30 September 2014 reflecting the finance charge for restating these balances (Euros 3,394 thousand in the year 2013).

12. CASH AND CASH EQUIVALENTS

Details of cash and cash equivalents are as follows:

	Thousands of Euros	
	30/09/2014	**31/12/2013**
Cash in hand and at banks	108,713	20,076
Current bank deposits	72,025	2,551
Total	**180,738**	**22,627**

Cash in hand and at banks reflects the aggregated cash of each of the companies forming the consolidated Group, with Euros 90,717 thousand corresponding to Canal de Isabel II Gestión (Euros 5,587 thousand at 31 December 2013) and Euros 350 thousand to Inassa (Euros 3,216 thousand at 31 December 2013).

At 30 September 2014, bank deposits include fixed-term cash deposits of Euros 70 millon. The deposits were arranged with Bankia; they matured on 22 October 2014 and earned interest at a rate of 0.70%.

Current bank deposits also reflect Euros 1,219 thousand corresponding to the subsidiary Triple A de Barranquilla (Euros 1,695 thousand at 31 December 2013).

13. EQUITY

Details of equity and movement during the nine-month period ending 30 September 2014 and the year 2013 are shown in the condensed consolidated interim statement of changes in equity.

The Parent was incorporated on 27 June 2012 through the issue of 1,074,032,000 ordinary shares of Euro 1 par value each, which were subscribed and fully paid in by the Public Entity by way of the non-monetary contribution of the activity described in note 3 to the Group's consolidated financial statements at 31 December 2013, prepared under IFRS-EU. These shares have the same voting and profit-sharing rights and can be freely transferred where permitted by law. The shares are not listed on any stock exchange.

On 30 November 2012 the board of directors of the Public Entity, fulfilling the obligation assumed in the Agreements of Inclusion in the Management Model signed with virtually all the local councils in the Community of Madrid, authorised the conveyance of the shares in the Parent corresponding to each local authority, following the established criteria on this matter.

At 30 September 2014 and 31 December 2013 these local councils hold 17.60% of the Parent's share capital.

The transferral of these shares is subject to Laws 3/2008 and 6/2011 and to the terms of the Agreements of Inclusion in the Management Model signed with local councils in the Community of Madrid.

At 30 September 2014 and 31 December 2013 the shareholders with direct interests of at least 10% in the share capital of the Parent are as follows:

Entity	No. of shares	Percentage ownership
Canal de Isabel II (Public Entity)	884,997,643	82.40
Madrid City Council	107,403,200	10.00

a. Share premium

Shares were issued with a share premium of Euro 1 per share, i.e. a total amount of Euros 1,074,032,000. The Public Entity paid in this share premium when it paid in the share capital through the non-monetary contribution of the branch of activity described in note 3 (ii) of the Group's consolidated IFRS-EU financial statements at 31 December 2013. This reserve is freely distributable.

b. Dividends

At an extraordinary general meeting held on 11 December 2013, the shareholders of the Parent agreed to distribute an interim dividend of Euros 145,219,866.76 for 2013, calculated as Euros 0.13521 per share.

This interim dividend was distributed among the shareholders in proportion to their respective percentage interests and was payable from the day after the adoption of this agreement until 25 June 2014 (see note 14 c).

At their annual general meeting held on 9 April 2014, the shareholders of the Parent approved a dividend distribution of Euros 159,674,387, of which Euros 145,219,866.76 corresponds to the above-mentioned interim dividend agreed by the shareholders at the extraordinary general meeting held on 11 December 2013.

14. FINANCIAL LIABILITIES

Details of financial liabilities are as follows:

	Thousands of Euros			
	30/09/2014		31/12/2013	
	Non-current	Current	Non-current	Current
Loans and borrowings	193,166	177,907	183,663	56,859
Payables to Public Entity (note 18)	770,830	168,357	860,946	160,927
Other financial liabilities	131,578	64,177	119,265	87,415
Total	**1,095,574**	**410,441**	**1,163,874**	**305,201**

a. Loans and borrowings

New debt arranged up to 30 September 2014 comprises three loans taken out with Deutsche Bank, BNP and HSBC for Euros 37 million, Euros 30 million and Euros 75 million, respectively, falling due within one year. Details are as follows:

Millions of Euros				
30/09/2014				
COMPANY	BANK	ORIGINAL AMOUNT	MATURITY DATE	ANNUAL INTEREST RATE
CANAL GESTIÓN	Deutsche Bank	37	19 Jun 15	Eur +0.50%
CANAL GESTIÓN	BNP	30	20 Jun 15	(1)
CANAL GESTIÓN	HSBC	75	20 Jun 15	(2)

(1) One-year variable rate loan: Eur+0.40% 1st half and Eur+0.90% 2nd half.

(2) One-year variable rate loan. Eur+0.20% 1st quarter, Eur+0.30% 2nd quarter, Eur+0.45% 3rd quarter and Eur+1.65% 4th quarter.

At 30 September 2014 loans and borrowings include accrued interest payable amounting to Euros 3,459 thousand (Euros 2,091 thousand in December 2013).

Additional details of loans and borrowings in 2013 are provided in note 18 to the Group's consolidated financial statements at 31 December 2013, prepared under IFRS-EU.

b. Payables to the Public Entity

Reflect the Parent's obligation to repay the Euros 922,838 thousand (Euros 1,012,241 thousand at 31 December 2013) financing contracts arranged between the Public Entity and its lender institutions (further information on this "mirror effect" is provided in note 18 a).

c. Other financial liabilities

Other financial liabilities include Euros 22,346 thousand payable by the Parent to the Tagus Water Board for the Picadas Valmayor conduits (Euros 22,346 thousand at 31 December 2013), of which Euros 691 thousand is recognised as current, as well as Euros 22,301 thousand payable to Sociedad Estatal Aguas de la Cuenca del Sur for works carried out in the Guadarrama well field and the second ring (Euros 24,539 thousand in 2013), of which Euros 2,448 thousand has been recognised as current (Euros 2,413 thousand in 2013).

This item also includes security deposits amounting to Euros 53,564 thousand (Euros 39,458 thousand in 2013) in the form of advance payments for water use received from customers to guarantee compliance with the financial terms of the supply contract (advances for water use). These amounts fall due when the corresponding contracts are cancelled. The difference between the amount initially received and the amount reimbursed on maturity is recognised under other liabilities.

This caption also reflects a Euros 16,742 thousand dividend payable by the Parent to certain shareholders at 30 September 2014 (Euros 27,599 thousand in 2013). It also includes a Euros 354 thousand dividend payable by the subsidiaries Triple A de Barranquilla and Amagua to their non-controlling shareholders at 30 September 2014 (Euros 264 thousand in 2013).

This caption recognised in Canal Gestión Lanzarote includes balances payable to the Consortium in respect of initial royalties amounting to Euros 25,107 thousand (Euros 32,600 thousand in 2013). These balances have been recognised at the present value of the amounts payable. Additionally, it includes Euros 32,047 thousand in relation to suppliers of fixed assets, which correspond mainly to the Parent (Euros 39,704 thousand in 2013).

Other financial liabilities also reflect the financing repayable for certain intangible assets held by the subsidiary Triple A de Barranquilla. These borrowings bear annual interest at Colombian market rates.

d. Interest rate risk

Interest rate risk constitutes the impact on profit of a rise in interest rates, which increases the cost of debt. The Parent endeavours to mitigate this risk through drawdowns on fixed-rate loans, which at 30 September 2014 represent 34% of total borrowings (35% at 31 December 2013).

e. Liquidity risk

The Group applies a prudent policy to cover its liquidity risks, based on having sufficient cash and marketable securities as well as sufficient financing through credit facilities to settle market positions. Given the dynamic nature of its underlying business, the Group's Financial-Economic Management aims to be flexible with regard to financing through drawdowns on contracted credit facilities.

The term and repayment schedule of financing obtained is established based on the investment requirements being financed. In 2014 and 2013, the Group has arranged long-term financing to meet its future investment needs.

15. GOVERNMENT GRANTS

Government grants primarily comprise grants awarded to the parent by the European Regional Development Fund (ERDF). Details are provided in note 19 to the Group's consolidated financial statements at 31 December 2013, prepared under IFRS-EU.

Grants received up to 30 September 2014 amount to Euros 8,510 thousand. Details are as follows:

- Euros 505 thousand grant received from the Spanish Energy Diversification and Saving Institute (IDAE) on 30 June 2014.
- Various amounts received in respect of hook-up charges, network extension, technical requirements and repositioning, totalling Euros 8,005 thousand.

Grants recognised in the condensed consolidated interim income statement amount to Euros 10,322 thousand in the nine-month period ending 30 September 2014 (Euros 9,724 thousand in the year 2013).

16. PROVISIONS

Details of provisions are as follows:

	Thousands of Euros			
	30/09/2014		31/12/2013	
	Non-current	Current	Non-current	Current
Provisions for infrastructure	205,210	69,135	163,428	66,170
Provisions for other liabilities	13,333	5,379	20,258	2,696
Provisions for taxes	6,249	5,223	6,407	4,062
Provisions for long-term employee benefits	2,389	-	154	-
Provisions for other employee benefits	-	-	-	193
Total	**227,181**	**79,737**	**190,247**	**73,121**

a. Provisions for infrastructure

This provision covers replacements, for usage periods in excess of one year, which can be requested for items that are essential components of the transferred infrastructure so that the corresponding services can be provided satisfactorily (see note 5).

Details of the items included under this heading are provided in note 21 to the Group's consolidated financial statements at 31 December 2013, prepared under IFRS-EU.

Based on the Parent's estimates, the investment plan for replacement initiatives in the Community of Madrid Network over the concession period totals Euros 4,791 million.

b. Provisions for other liabilities

This provision primarily covers probable or certain liabilities arising from ongoing litigation and outstanding compensation or obligations of an uncertain amount payable to third parties. Based on legal advice received, the liabilities resulting from these lawsuits are not expected to differ significantly from the amounts provided for at 30 September 2014. It is highly probable that these provisions will have to be applied, although both the amount to ultimately be settled and the timing are uncertain and dependent on the outcome of the lawsuits underway.

During the nine-month periods ended 30 September 2014 and 2013, payments of Euros 2,367 thousand and Euros 87 thousand, respectively, were made in connection with the resolution of litigation.

Triple A de Barranquilla is currently involved in litigation for a total amount of Euros 7,909 thousand (Euros 6,224 thousand in 2013). The directors and legal advisors do not expect these matters to give rise to any significant additional liabilities for the Group. At 30 September 2014, the subsidiary has recognised a provision of Euros 3,103 thousand (Euros 2,980 thousand in 2013).

c. Provisions for taxes

This provision primarily relates to the public prices payable by the Group for the private and special use made of land and public thoroughfares above and below ground. Allocations to this provision are made based on the best estimates of the amount accrued each year, calculated using land registers and city by-laws.

d. Provisions for employees

During the nine-month period ended 30 September 2014, the Company recognised a provision of Euros 2,198 thousand, as it deemed highly probable that the matter of unconstitutionality brought by the Spanish Supreme Court in respect of the collective dispute against the Group company Hispanagua, S.A.U. would be upheld. The dispute concerned the 5% reduction in remuneration stipulated in the first additional provision of Law 4/2010 of 29 June 2010 on urgent measures, which amends Law 9/2009 of 23 December 2009 on the 2010 General Budgets of the Regional Government of Madrid to bring it into line with Royal Decree-Law 8/2010 of 20 May 2010 having regard to the State.

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

e. Contingent liabilities, guarantees and other commitments

Details of guarantees deposited and received at 30 September 2014 and 31 December 2013 are as follows:

	Thousands of Euros	
	30/09/2014	**31/12/2013**
Security deposits received	141,443	150,705
Guarantees deposited with public entities	30,784	24,868
Total	**172,227**	**175,573**

The Parent is jointly and severally liable, along with Canal Gestión Lanzarote, S.A.U., for fulfilling the Public Service Management Agreement for the concession to provide water supply, sanitation and recycling services on the islands of Lanzarote and La Graciosa dated 23 May 2013, and for the financial and other obligations arising therefrom.

At 30 September 2014 Euros 15,586 thousand of total guarantees deposited and received pertain to the Latin American subsidiaries (Euros 10,939 thousand at 31 December 2013). Details are as follows:

Inassa: At 30 September 2014 this subsidiary has guarantees amounting to Euros 6,956 thousand (Euros 2,650 thousand at 31 December 2013), namely bank guarantees paid to Banco de Bogotá to secure loans granted to Aguas de Samborondón Amagua, C.E.M. and to the Panama branch of Inassa, and bank guarantees deposited with Helm Bank to secure loans granted to the Metroagua-Incatema consortium.

Triple A de Barranquilla: At 30 September 2014 Triple A has guarantees amounting to Euros 8,630 thousand (Euros 8,289 thousand at 31 December 2013) relating to government contributions to infrastructure works in the town of Soledad and investment plan works in south-western Barranquilla.

The Parent's directors do not expect any significant liabilities to arise from these guarantees.

17. TAXATION

Income tax accrued during the period has been calculated using the annual estimated effective tax rate multiplied by the pre-tax profit for the interim period.

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

All of the foreign companies in the Group formed by Canal de Isabel II Gestión, S.A. and subsidiaries are taxed individually in their respective countries. The standard rate of tax is 30% in Spain, 33% in Colombia, 25% in the Dominican Republic, 25% in Ecuador and 33% in Brazil.

The average effective tax rate during the nine-month period ended 30 September 2014 was 4.33% (5.10% in the same period of the prior year).

On 1 January 1996, Law 43/1995 of 27 December 1995 came into force. Article 32.2 of this law provided for tax relief of 99% on income tax payable on revenues from the provision of certain public services, including water supply, sanitation and recycling. The Parent applies this tax relief as it has been commissioned to provide these services in the Community of Madrid.

18. RELATED PARTY BALANCES AND TRANSACTIONS

a. Related party balances and transactions

The condensed consolidated interim financial statements include transactions carried out with the following related parties: associates and jointly controlled entities, which are accounted for using the equity method; shareholders of the Company and related companies thereof; and key management personnel of the Group and members of the board of directors.

Details of receivables from and payables to related parties are as follows:

	Thousands of Euros			
	30/09/2014		31/12/2013	
	Debtor balance	Creditor balance	Debtor balance	Creditor balance
Group companies				
Canal de Isabel II (Public Entity)	20,913	(941,186)	17,517	(1,024,645)
Aguas de Alcalá, UTE	876	-	735	-
Associates				
Marta, S.A.E.S.P.	1,962	(24)	1,312	-
Avanzadas Soluciones de Acueducto y Alcantarillado S.A.	883	-	1,936	-
GSS Venture, S.L.	-	(468)	-	(516)
Other	23	(11)	460	(82)
Total	**24,657**	**(941,689)**	**21,960**	**(1,025,243)**
	(Note 10)	(Note 14 and 19)	(Note 10)	(Note 14 and 19)

Included in the amount payable to the Public Entity are Euros 922,838 thousand at 30 September 2014 (Euros 1,012,241 thousand at 31 December 2013) which reflects the Parent's obligation to pay the Public Entity the amounts necessary to fulfil its obligations arising on financing contracts as required by the Contract-Programme ("mirror effect").

The origin of this payable is the non-monetary contribution made in 2012, whereby the debt of the contributed activity was transferred from the Public Entity to the Parent. Both parties have 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. Although the Public Entity is still the named party in the financing contracts with the lender institutions, the Parent has assumed all of the obligations originally agreed in these contracts at the corresponding amounts. The maturities and interest rates applicable to the balances payable by the Parent to the Public Entity are those specified in the contracts between the latter and the financial institutions. In the nine-month period ending 30 September 2014 the weighted average interest rate was 2.15% (2.05% period in the year 2013).

At 30 September 2014 details of balances payable by the Public Entity to credit institutions in respect of loans pertaining to the "mirror" transaction are as follows (Expressed in thousands of Euros):

Banking Entity	Original amount	Transaction	Maturity	Annual Interest rate	Current	Non-Current	Total
- BBVA (1)	250,000	Syndicated loan	03-dec-16	Euribor + 0.059%	33,333	50,000	83,333
- B.E.I. (2)	150,000	Loan	01-dec-21	Fixed (3.894%)	14,286	92,857	107,143
- ICO (3)	170,000	Bilateral loan	20-jun-17	Euribor + 0.04%	42,500	85,000	127,500
- ICO - LA CAIXA (4)	130,000	Syndicated loan	25-nov-18	Euribor + 0.7%	0	130,000	130,000
- BARCLAYS (5)	30,000	Bilateral loan	30-sep-15	Euribor + 1.25%	6,000	0	6,000
- NOVACAIXAGALICIA (6)	25,000	Bilateral loan	01-sep-15	Euribor + 1.48%	5,000	0	5,000
- NOVACAIXAGALICIA (7)	10,000	Bilateral loan	30-sep-15	Euribor + 1.75%	2,000	0	2,000
- BANKINTER (8)	10,000	Bilateral loan	30-sep-15	Euribor + 1.25%	2,000	0	2,000
- BBVA (9)	88,000	Syndicated loan	30-sep-15	Euribor + 1.70%	17,600	0	17,600
- BEI (10)	100,000	Loan	15-oct-35	Fixed (3.268%)	0	100,000	100,000
- BEI (11)	200,000	Loan	21-feb-36	Fixed (2.894%)/Rev.	0	200,000	200,000
- SOCIETE GENERALE (12)	20,000	Bilateral loan	30-dec-18	Euribor + 2.00%	2,857	10,000	12,857
- CAJA NAVARRA (13)	10,000	Bilateral loan	30-dec-18	Euribor + 2.45%	1,429	5,000	6,429
- BCO COOPERATIVO (14)	18,000	Bilateral loan	30-dec-18	Euribor + 2.65%	2,571	9,000	11,571
- SABADELL (15)	30,000	Bilateral loan	31-dec-18	Euribor + 2.85%	4,286	15,000	19,286
- BANKINTER (16)	7,000	Bilateral loan	31-dec-18	Euribor + 2.90%	1,000	3,500	4,500
- SANTANDER (17)	22,500	Bilateral loan	01-nov-20	Euribor + 3.00%	2,813	15,469	18,281
- SABADELL (18)	15,000	Bilateral loan	30-nov-20	Euribor + 3.50%	1,875	10,313	12,188
- BANKINTER (19)	25,000	Bilateral loan	30-nov-20	Euribor + 3.50%	3,125	17,188	20,313
-BANESTO (20)	20,000	Bilateral loan	30-nov-20	Euribor + 3,50%	2,500	13,750	16,250
- UNICAJA BANCO (21)	20,000	Bilateral loan	30-nov-20	Euribor + 3.50%	2,500	13,750	16,250
				TOTAL	**147,674**	**770,826**	**918,500**

(1) Syndicated loan arranged by BBVA and jointly extended by Santander, Bankia, Dexia Sabadell Banco Local, Depfa Acs Bank y Helaba .
(2) Fixed-rate loan from the European Investment Bank
(3)) Bilateral loan from the spanish Official Credit Institute
(4) Syndicated loan from the spanish Official Credit Institute and La Caixa
(5) Bilateral loan from Barclays
(6)) Bilateral loan from Novacaixagalicia
(7)) Bilateral loan from Novacaixagalicia
(8) Bilateral loan from Bankinter
(9) Syndicated loan managed by BBVA and extended by Banesto, Santander, La Caixa, Bankia, Dexia Sabadell and the spanish Official Credit Institute
(10) Fixed-rate loan from the European Investment Bank.
(11) Fixed-rate (reviewable after 4 years) bilateral loan from the European Investment Bank.
(12) Bilateral loan from Societé Generale
(13)) Bilateral loan from Caja Navarra
(14)) Bilateral loan from Banco Cooperativo Español
(15) Bilateral loan from Sabadell
(16) Bilateral loan from Bankinter
(17) Bilateral loan from Santander
(18)) Bilateral loan from Sabadell
(19) Bilateral loan from Bankinter
(20)) Bilateral loan from Banesto
(21) Bilateral loan from Unicaja Banco

At 31 December 2013 details of balances payable by the Public Entity to credit institutions in respect of loans pertaining to the “mirror” transaction are as follows (Expressed in thousands of Euros):

Banking Entity	Original amount	Transaction	Maturity	Annual Interest rate	Current	Non-Current	Total
- BBVA (1)	250,000	Syndicated loan	03-dec-16	Euribor + 0.059%	33,333	66,667	100,000
- B.E.I. (2)	150,000	Loan	01-dec-21	Fixed (3.894%)	14,286	100,000	114,286
- ICO (3)	170,000	Bilateral loan	20-jun-17	Euribor + 0.04%	42,500	106,250	148,750
- ICO - LA CAIXA (4)	130,000	Syndicated loan	25-nov-18	Euribor + 0.7%	0	130,000	130,000
- BARCLAYS (5)	30,000	Bilateral loan	30-sep-15	Euribor + 1.25%	6,000	6,000	12,000
- NOVACAIXAGALICIA (6)	25,000	Bilateral loan	01-sep-15	Euribor + 1.48%	5,000	5,000	10,000
- NOVACAIXAGALICIA (7)	10,000	Bilateral loan	30-sep-15	Euribor + 1.75%	2,000	2,000	4,000
- BANKINTER (8)	10,000	Bilateral loan	30-sep-15	Euribor + 1.25%	2,000	2,000	4,000
- BBVA (9)	88,000	Syndicated loan	30-sep-15	Euribor + 1.70%	17,600	17,600	35,200
- BEI (10)	100,000	Loan	15-oct-35	Fixed (3.268%)	0	100,000	100,000
- BEI (11)	200,000	Loan	21-feb-36	Fixed (2.894%)/Rev.	0	200,000	200,000
- SOCIETE GENERALE (12)	20,000	Bilateral loan	30-dec-18	Euribor + 2.00%	2,857	11,429	14,286
- CAJA NAVARRA (13)	10,000	Bilateral loan	30-dec-18	Euribor + 2.45%	1,428	5,714	7,143
- BCO COOPERATIVO (14)	18,000	Bilateral loan	30-dec-18	Euribor + 2.65%	2,572	10,286	12,857
- SABADELL (15)	30,000	Bilateral loan	31-dec-18	Euribor + 2.85%	4,286	17,173	21,429
- BANKINTER (16)	7,000	Bilateral loan	31-dec-18	Euribor + 2.90%	1,000	4,000	5,000
- SANTANDER (17)	22,500	Bilateral loan	01-nov-20	Euribor + 3.00%	2,812	16,875	19,687
- SABADELL (18)	15,000	Bilateral loan	30-nov-20	Euribor + 3.50%	1,875	11,250	13,125
- BANKINTER (19)	25,000	Bilateral loan	30-nov-20	Euribor + 3.50%	3,125	18,750	21,850
-BANESTO (20)	20,000	Bilateral loan	30-nov-20	Euribor + 3,50%	2,500	15,000	17,500
- UNICAJA BANCO (21)	20,000	Bilateral loan	30-nov-20	Euribor + 3.50%	2,500	15,000	17,500
				TOTAL	**147,674**	**860,963**	**1,008,637**

(1) Syndicated loan arranged by BBVA and jointly extended by Santander, Bankia, Dexia Sabadell Banco Local, Depfa Acs Bank y Helaba .

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

(3)) Bilateral loan from the spanish Official Credit Institute

(4) Syndicated loan from the spanish Official Credit Institute and La Caixa

(5) Bilateral loan from Barclays

(6)) Bilateral loan from Novacaixagalicia

(

(7)) Bilateral loan from Novacaixagalicia

(8) Bilateral loan from Bankinter

(9) Syndicated loan managed by BBVA and extended by Banesto, Santander, La Caixa, Bankia, Dexia Sabadell and the spanish Official Credit Institute

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

(11) Fixed-rate (reviewable after 4 years) bilateral loan from the European Investment Bank.

(12) Bilateral loan from Societé Generale

(13)) Bilateral loan from Caja Navarra

(14)) Bilateral loan from Banco Cooperativo Español

(15) Bilateral loan from Sabadell

(16) Bilateral loan from Bankinter

(17) Bilateral loan from Santander

(18)) Bilateral loan from Sabadell

(19) Bilateral loan from Bankinter

(20)) Bilateral loan from Banesto

(21) Bilateral loan from Unicaja Banco

At 30 September 2014 and at 31 December 2013 the difference between the amount payable by the Public Entity to credit institutions and the amount payable by the Parent to the Public Entity for the mirror debt is mainly due to unpaid interest accrued by the Parent with the Public Entity.

At 30 September 2014 and 31 December 2013 the balance payable to the Public Entity also includes Euros 9,586 thousand reflecting the inter-company credit account set up to adjust the difference between the estimated amounts of the assets and liabilities stated in the valuation report and the net worth of the assets and liabilities actually transferred on the contribution date.

At 30 September 2014 the Group also has balances receivable from and payable to Canal de Isabel II (Public Entity) due to tax consolidation, amounting to Euros 1,293 thousand and Euros 6,656 thousand, respectively (see note 17).

At 30 September 2014, other financial assets, trade and other receivables and trade and other payables include Euros 50,698 thousand, Euros 62,001 thousand and Euros 30,332 thousand, respectively, reflecting receivables from and payables to new shareholders of the Parent, specifically certain town councils (Euros 51,683 thousand, Euros 61,163 thousand and Euros 35,303 thousand, respectively, at 31 December 2013). Dividends payable include Euros 16,742 thousand payable to these same shareholders (Euros 27,599 thousand at 31 December 2013).

Transactions between the Group and Canal de Isabel II (Public Entity) in the nine-month period ending 30 September 2014 comprise borrowing costs of Euros 15,852 thousand on the “mirror" transaction (Euros 17,203 thousand in the nine-month period ending 30 September 2013), operating expenses of Euros 6,821 thousand (Euros 7,156 thousand in the nine-month period ending 30 September 2013) and other operating income totalling Euros 228 thousand (Euros 326 thousand in the nine-month period ending 30 September 2013).

Transactions carried out by the Group with GSS Venture amount to Euros 3,980 thousand in the nine-month period ending 30 September 2014 (Euros 3,776 thousand for the nine-month period ending 30 September 2013) and primarily relate to telemarketing activities.

As a result of town councils gaining stakes in its share capital, during the nine-month period ending 30 September 2014 the Parent has carried out transactions with shareholders in the form of services and settlements of royalties and taxes totalling Euros 37,078 thousand and Euros 16,649 thousand, respectively (Euros 33,547 thousand and Euros 17,430 thousand, respectively, in the nine-month period ending 30 September 2013).

b. Information on the members of the board of directors and senior management personnel

Pursuant to the Company's articles of association, during the nine-month period ended 30 September 2014 the members of the board of directors received allowances of Euros 12 thousand for attendance at board meetings (Euros 10 thousand in the same period of 2013). At 30 September 2014 senior management personnel of the Parent had received remuneration of Euros 788 thousand (Euros 780 thousand in the nine-month period ended

30 September 2013). Neither the members of the board of directors nor senior management personnel have received advances or loans, and the Parent has not extended any guarantees on their behalf. The Parent has no pension or life insurance obligations with former or current members of its board of directors. However, the Parent does have pension obligations with its senior management personnel.

19. FINANCIAL INSTRUMENTS AND FAIR VALUE

The carrying amounts of financial instruments, classified by category, are shown below. The Group has no financial instruments carried at fair value at 30 September 2014 and 31 December 2013, and estimates the fair value of its financial instruments carried at cost or amortised cost to be similar to their carrying amount.

	Thousands of Euros		
	30/09/2014		
	Loans and receivables	Debts and payables	Total
Financial assets not measured at fair value			
Loans to related companies (note 10)	20,699	-	20,699
Equity instruments (note 10)	3,795	-	3,795
Loans to third parties (note 10)	94,714	-	94,714
Deposits and guarantees (note 10)	18,605	-	18,605
Trade receivables (note 10)	225,445	-	225,445
Other receivables	43,893	-	43,893
Total financial assets not measured at fair value	**407,151**	**-**	**407,151**
Financial liabilities not measured at fair value			
Payables to the Public Entity (note 14)	-	938,187	938,187
Loans and borrowings (note 14)	-	371,073	371,073
Other financial liabilities (note 14)	-	195,755	195,755
Government grants	-	702,610	702,610
Suppliers	-	32,099	32,099
Suppliers, Related companies (note 18a)	-	2,502	2,502
Other payables	-	124,169	124,169
Sundry payables	-	4,627	4,627
Personnel	-	10,142	10,142
Total financial liabilities not measured at fair value	**-**	**2,381,164**	**2,381,164**

	Thousands of Euros		
	31/12/2013		
	Loans and receivables	Debts and payables	Total
Financial assets not measured at fair value			
Loans to related companies (note 10)	17,378	-	17,378
Equity instruments (note 10)	263	-	263
Loans to third parties (note 10)	82,525	-	82,525
Deposits and guarantees (note 10)	14,536	-	14,536
Trade receivables (note 9)	181,379	-	181,379
Other receivables	36,544	-	36,544
Total financial assets not measured at fair value	**332,625**	**-**	**332,625**
Financial liabilities not measured at fair value			
Payables to the Public Entity (note 14)	-	1,021,873	1,021,873
Loans and borrowings (note 14)	-	240,522	240,522
Other financial liabilities	-	206,680	206,680
Government grants	-	703,997	703,997
Suppliers	-	26,245	26,245
Suppliers, Related companies (note 18a)	-	3,370	3,370
Other payables	-	114,779	114,779
Sundry payables	-	4,877	4,877
Personnel	-	9,325	9,325
Total financial liabilities not measured at fair value	**-**	**2,331,668**	**2,331,668**

20. EMPLOYEE INFORMATION

The average headcount of the Group during the first nine months of 2014 and 2013 is as follows:

	30/09/2014	30/09/2013
Management	69	60
Technicians	1,647	1,387
Administrative staff	2,091	902
Manual workers and auxiliary staff	1,949	1,784
	5,756	**4,133**
Semi-retired personnel	197	233

The average headcount of the equity-accounted investees Metroagua, GSS Venture and ASAA, by professional category, is as follows:

	30/09/2014	30/09/2013
Management	41	33
Technicians	85	70
Administrative staff	102	81
Manual workers and auxiliary staff	311	258
	539	**442**

21. OTHER RELEVANT INFORMATION

The board of directors has approved a euro medium term note programme for a maximum total nominal amount of Euros 1,000 million, with an initial issue of fixed-income marketable securities for a nominal amount of up to Euros 500 million. The programme is subject to approval by the shareholders of Canal de Isabel II Gestión at their general meeting to be held on 3 December 2014.

22. EVENTS AFTER THE REPORTING PERIOD

At its plenary session held on 20 November 2014, Cáceres City Council awarded Canal de Isabel II Gestión, S.A. the comprehensive service contract for water services in Cáceres during a 25-year period commencing 1 January 2015.

On 3 December 2014, the board of directors of the parent Company proposed that an interim dividend of Euros 131,376 thousand be distributed on account of profits for 2014.

DETAILS OF SUBSIDIARIES AT 30 SEPTEMBER 2014 **APPENDIX I**

Company	Registered office	Activity	Auditor	% ownership Direct	Indirect	Total
Canal Extensia, S.A.U.	Santa Engracia 125 - Madrid	Share holding company	KPMG	100.00%	-	100%
Hispanagua, S.A.U.	San Enrique 3 - Madrid	Water-related maintenance, operation, distribution and sanitation services	KPMG	100.00%	-	100%
Canal de Comunicaciones Unidas, S.A.U.	Santa Engracia 125 - Madrid	Public service operation of terrestrial mobile radio-communications in the Madrid area	KPMG	100.00%	-	100%
Hidráulica Santillana, S.A.U.	San Enrique 3 - Madrid	Electricity generation	KPMG	100.00%	-	100%
Canal Gestión Lanzarote, S.A.U.	Ctra. Arrecife-Las Caletas Km.3,5 - Lanzarote	Comprehensive water cycle management	KPMG	100.00%	-	100%
Canal Energía, S.L.	José Abascal 10 - Madrid	Holding company	KPMG	80.00%	20.00%	100.00%
Canal Energía Comercialización, S.L.	José Abascal 10 - Madrid	Sale of electricity	KPMG	-	100.00%	100.00%
Canal Energía Generación, S.L.	José Abascal 10 - Madrid	Generation and transformation of electricity	KPMG	-	100.00%	100.00%
Canal Energía Distribución, S.L.	José Abascal 10 - Madrid	Distribution of electricity	KPMG	-	100.00%	100.00%
Canal Gas Distribución, S.L.	José Abascal 10 - Madrid	Distribution of hydrocarbons	KPMG	-	100.00%	100.00%
Interamericana de Aguas y Servicios S.A. and subsidiaries	Barranquilla (Colombia)	Comprehensive water cycle operator	KPMG	-	81.24%	81.24%
Watco Dominicana, S.A.	Santo Domingo (Dominican Republic)	Sale of IT services	KPMG	-	51.00%	51.00%
Sociedad de Acueducto, Alcantarillado y Aseo de Barranquilla, S.A. E.S.P.(Triple A Barranquilla)	Barranquilla (Colombia)	Comprehensive water cycle	KPMG	-	67.91%	67.91%
Gestión Integral de Suministros Ltda.	Colombia	Supply of goods	KPMG	-	81.24%	81.24%
Recaudos y Tributos, S.A.	Barranquilla (Colombia)	Comprehensive advisory services in the field of tax collection	KPMG	-	80.46%	80.46%
AAA Dominicana	Santo Domingo (Dominican Republic)	Comprehensive water cycle	KPMG	-	52.81%	52.81%
Inforesa	Santo Domingo (Dominican Republic)	Comprehensive water cycle	KPMG	-	42.25%	42.25%
AAA Ecuador Agacase, S.A.	Ecuador	Management of public resources	KPMG	-	81.43%	81.43%
Amagua, CEM	Ecuador	Comprehensive water cycle	KPMG	-	57.00%	57.00%
Amerika Tecnologías de la Información, S.A.S.	Barranquilla (Colombia)	Design, maintenance, development, support and management of information technology projects	KPMG	-	65.74%	65.74%
Soluciones Andinas de Aguas, S.R.L.	Montevideo (Uruguay)	Asset investment and holding	KPMG	-	90.62%	90.62%
Interamericanas de Aguas de Mexico, S.A.	Mexico	Comprehensive water cycle	-	-	79.61%	79.61%
Mexaqua	Mexico	Comprehensive water cycle	-	-	55.73%	55.73%
AAA Venezuela	Venezuela	Comprehensive water cycle	-	-	80.43%	80.43%
Emissao Engenharia e Construcoes, S.A.	Brazil	Water-related maintenance, operation, distribution and sanitation services	-	-	67.96%	67.96%
Fontes da Serra Saneamento de Guapimirim Ltda.	Brazil	Comprehensive water cycle	KPMG	-	66.61%	66.61%
RYT Panama S.A.	Panama	Comprehensive advisory services in relation to local taxes	-	-	80.50%	80.50%
RYT Resultados AND Tecnología S.R.L.	Dominican Republic	Comprehensive advisory services in relation to local taxes	-	-	80.50%	80.50%

Canal de Isabel II gestión

CANAL DE ISABEL II GESTIÓN, S.A. AND ITS SUBSIDIARIES

Authorisation of Condensed consolidated Interim financial statements of Canal de Isabel II Gestión, SA and subsidiaries, for the period of nine month ended 30 September 2014, prepared with International Financial Reporting Standards adopted by the European Union (IFRS-EU) .

Condensed consolidated interim financial statements of Canal Isabel II Gestión, SA and subsidiaries, preceding this writing corresponding to the nine month ended September 30, 2014, prepared in accordance with International Financial Reporting Standards adopted by the European Union (IFRS-EU) have been prepared by the Board of Directors on December 3, 2014.

Signed:

Mr. Salvador Victoria Bolivar **President of Canal de Isabel II Gestión, S.A**	
Mr. José Manuel Serra Peris **Vice-president**	**Mr. David Pérez García** **Board Member**
Mr. Agapito Ramos Cuenca **Board Member**	**Mr. Enrique Ossorio Crespo** **Board Member**
P **Mr. Diego Sanjuanbenito Bonal** **Board Member**	

Mr. Manuel Beltrán Pedreira
Chief Secretary

Santa Engracia, 125. 28003 Madrid
www.canalgestion.es

KPMG Auditores S.L.
Edificio Torre Europa
Paseo de la Castellana, 95
28046 Madrid

Independent Auditor's Report in accordance with International Standards on Auditing

To the Shareholders of
Canal de Isabel II Gestión, S.A.

We have audited the accompanying consolidated financial statements of Canal de Isabel II Gestión, S.A. (the Company) and its subsidiaries (the Group), which comprise the consolidated statement of financial position at 31 December 2013 and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the consolidated financial statements

The Directors are responsible for the preparation and fair presentation of the accompanying consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS-EU), and for such internal control that they determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on the accompanying consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Canal de Isabel II Gestión, S.A. and subsidiaries at 31 December 2013, and their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Other Matter

We draw attention to note 2.a of the accompanying explanatory notes which explains the purpose of these consolidated financial statements, which were prepared voluntarily. Our report has been issued at the Company's request and in the aforementioned context. This matter does not modify our audit opinion.

KPMG Auditores, S.L.

Borja Guinea López

26 September 2014

CONSOLIDATED FINANCIAL STATEMENTS
(prepared in accordance with International Financial Reporting Standards as adopted by the European Union)

31 December 2013

CONTENTS

CONSOLIDATED FINANCIAL STATEMENTS FOR 2013

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AT 31 DECEMBER 2013 AND 2012 AND AT 1 JULY 2012

CONSOLIDATED INCOME STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013 AND THE SIX-MONTH PERIOD ENDED 31 DECEMBER 2012

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2013 AND THE SIX-MONTH PERIOD ENDED 31 DECEMBER 2012

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2013 AND THE SIX-MONTH PERIOD ENDED 31 DECEMBER 2012

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2013 AND THE SIX-MONTH PERIOD ENDED 31 DECEMBER 2012

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 31 DECEMBER 2013

1. NATURE, PRINCIPAL ACTIVITIES AND COMPOSITION OF THE CONSOLIDATED GROUP
2. BASIS OF PRESENTATION
3. SIGNIFICANT ACCOUNTING POLICIES
4. SEGMENT REPORTING
5. PROPERTY, PLANT AND EQUIPMENT
6. INVESTMENT PROPERTY
7. GOODWILL
8. OTHER INTANGIBLE ASSETS
9. LEASES
10. INVESTMENTS IN EQUITY-ACCOUNTED ASSOCIATES
11. JOINT VENTURES
12. FINANCIAL ASSETS
13. INVENTORIES
14. TRADE AND OTHER RECEIVABLES
15. OTHER ASSETS
16. CASH AND CASH EQUIVALENTS
17. EQUITY
18. FINANCIAL DEBT
19. GOVERNMENT GRANTS
20. TRADE AND OTHER PAYABLES
21. PROVISIONS
22. ENVIRONMENTAL INFORMATION
23. OTHER LIABILITIES
24. INCOME AND EXPENSES
25. TAXATION
26. RELATED PARTY BALANCES AND TRANSACTIONS
27. RISK MANAGEMENT AND FAIR VALUE
28. EMPLOYEE INFORMATION
29. AUDIT FEES
30. EVENTS AFTER THE REPORTING PERIOD
31. IMPACT OF FIRST-TIME ADOPTION

APPENDICES

SEGMENT REPORTING 2013	**Appendix I (1)**
SEGMENT REPORTING 2012	**Appendix I (2)**
DETAILS OF SUBSIDIARIES AT 31 DECEMBER 2013	**Appendix II (1)**
DETAILS OF SUBSIDIARIES AT 31 DECEMBER 2012	**Appendix II (2)**
DETAILS OF EQUITY-ACCOUNTED INVESTEES AT 31 DECEMBER 2013	**Appendix III (1)**
DETAILS OF EQUITY-ACCOUNTED INVESTEES AT 31 DECEMBER 2012	**Appendix III (2)**
DETAILS OF JOINT VENTURES AT 31 DECEMBER 2013	**Appendix IV (1)**
DETAILS OF JOINT VENTURES AT 31 DECEMBER 2012	**Appendix IV (2)**
DETAILS OF POSITIONS HELD BY CANAL DE ISABEL II GESTIÓN, S.A. SENIOR MANAGEMENT PERSONNEL IN OTHER COMPANIES – 2013 REPORTING PERIOD	**Appendix V (1)**
DETAILS OF POSITIONS HELD BY CANAL DE ISABEL II GESTIÓN, S.A. SENIOR MANAGEMENT PERSONNEL IN OTHER COMPANIES – 2012 REPORTING PERIOD	**Appendix V (2)**

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AT 31 DECEMBER 2013 AND 2012 AND 1 JULY 2012 (Expressed in thousands of Euros)				
ASSETS	**NOTE**	**2013**	**2012**	**1-7-12**
Property, plant and equipment	5	27,566	29,212	30,363
Investment property	6	22,748	24,050	24,689
Goodwill	7	13,114	13,188	13,226
Other intangible assets	8	4,325,390	4,258,562	4,193,366
Equity-accounted investees	10	3,927	4,298	4,741
Deferred tax assets	25	3,056	2,754	4,060
Other non-current financial assets	12 a	81,946	86,476	74,126
Other non-current assets	15	83,232	59,637	59,828
				-
Total non-current assets		**4,560,979**	**4,478,177**	**4,404,399**
				-
Inventories	13	8,416	11,048	11,478
Current tax assets		21,949	1,242	1,191
Trade and other receivables	14	230,726	228,345	225,829
Other financial assets	12 a	32,756	18,992	12,063
Uncalled share capital		1,450	-	-
Other current assets	15	2,867	1,331	1,063
Cash and cash equivalents	16	22,627	47,257	38,352
Total current assets		**320,791**	**308,215**	**289,976**
Total assets		**4,881,770**	**4,786,392**	**4,694,375**

The accompanying notes form an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AT 31 DECEMBER 2013 AND 2012 AND 1 JULY 2012 (Expressed in thousands of Euros)				
EQUITY AND LIABILITIES	**NOTE**	**2013**	**2012**	**1-7-12**
Capital	17 a	1,074,032	1,074,032	1,074,032
Share premium	17 b	1,074,032	1,074,032	1,074,032
Other reserves	17 c	13,151	-	-
Retained earnings		167,181	103,101	(41,968)
Translation differences	17 d	(9,343)	(2,971)	-
Interim dividend	17 e	(145,220)	(69,511)	-
Equity attributable to equity holders of the Parent		**2,173,833**	**2,178,683**	**2,106,096**
Non-controlling interests	17 f	22,222	23,269	26,250
Total equity		**2,196,055**	**2,201,952**	**2,132,346**
Loans and borrowings, non-current	18	183,663	49,058	48,015
Other non-current financial liabilities	18	119,265	93,002	89,980
Government grants, non-current	19	690,262	668,279	662,719
Payables to Group companies, non-current	18	860,946	1,008,567	986,223
Deferred tax liabilities	25	24,973	26,032	27,144
Non-current provisions	21	190,247	157,972	131,399
Other non-current liabilities	23	45,539	51,127	54,972
Total non-current liabilities		**2,114,895**	**2,054,037**	**2,000,452**
Financial liabilities from issuing bonds and other marketable securities	18	-	15,743	16,459
Loans and borrowings	18	56,859	14,223	67,535
Payables to Group companies	18	160,927	147,656	138,421
Other financial liabilities	18	87,415	88,331	71,367
Government grants, current	19	13,735	12,817	13,525
Trade and other payables	20	175,869	175,475	164,274
Current tax liabilities		1,220	2,751	2,904
Provisions	21	73,121	71,846	85,486
Other current liabilities	23	1,674	1,561	1,606
Total current liabilities		**570,820**	**530,403**	**561,577**
Total equity and liabilities		**4,881,770**	**4,786,392**	**4,694,375**

The accompanying notes form an integral part of the consolidated financial statements.

CONSOLIDATED INCOME STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013 AND THE SIX MONTH PERIOD ENDED 31 DECEMBER 2012 (Expressed in thousands of Euros)	NOTE	2013	2012
Revenues	24 a	1,034,591	544,160
Other income	24 b	36,873	17,278
Non-current self-constructed assets		19,011	10,945
Merchandise, raw materials and consumables used	24 c	(237,211)	(114,222)
Employee benefits expense	24 d	(154,861)	(73,475)
Amortisation and depreciation	24 e	(117,730)	(57,115)
Impairment/(reversals of impairment) on non-current assets		(1,109)	4,118
Other expenses	24 f	(342,949)	(172,543)
Finance income	24 h	11,193	4,819
Finance costs	24 h	(36,016)	(18,564)
Share in profit/(loss) of equity-accounted investees	10	(211)	(262)
Pre-tax profit from continuing operations		**211,581**	**145,139**
Income tax expense	25	(11,696)	(6,389)
Profit for the period from continuing operations		**199,885**	**138,750**
Profit for the period		**199,885**	**138,750**
Profit for the period attributable to equity holders of the Parent		195,627	137,280
Profit for the period attributable to non-controlling interests		4,258	1,470

The accompanying notes form an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2013 AND THE SIX-MONTH PERIOD ENDED 31 DECEMBER 2012 (Expressed in thousands of Euros)	Note	2013	2012
PROFIT FOR THE PERIOD		**199,885**	**138,750**
Items that will be reclassified to profit or loss			
Exchange differences on translation of financial statements of foreign operations		(6,372)	(2,971)
OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX		**(6,372)**	**(2,971)**
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:		**193,513**	**135,779**
Equity holders of the Parent		189,255	134,309
Non-controlling interests		4,258	1,470

The accompanying notes form an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2013 AND THE SIX-MONTH PERIOD ENDED 31 DECEMBER 2012

(Expressed in thousands of Euros)

	EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT								
	Capital	Share premium	Other reserves	Retained earnings	Interim dividend	Total	Translation differences	Non-controlling interests	TOTAL
BALANCE AT 1 JULY 2012	**1,074,032**	**1,074,032**	**-**	**(41,968)**	**-**	**2,106,096**	**-**	**26,250**	**2,132,346**
Profit	-	-	-	137,280	-	137,280	-	1,470	130,750
Other comprehensive income	-	-	-	-	-	-	(2,971)	-	(2,971)
Total other comprehensive income	**-**	**-**	**-**	**137,280**	**-**	**137,280**	**(2,971)**	**1,470**	**135,779**
Dividends (note 17 (e))	-	-	-	-	(69,511)	(69,511)	-	-	(69,511)
Other movements	-	-	-	7,789	-	7,789	-	(4,451)	3,338
BALANCE AT 31 DECEMBER 2012	**1,074,032**	**1,074,032**	**-**	**103,101**	**(69,511)**	**2,181,654**	**(2,971)**	**23,269**	**2,201,952**
Profit	-	-	-	195,627	-	195,627	-	4,258	199,885
Other comprehensive income							(6,372)		(6,372)
Total other comprehensive income	**-**	**-**	**-**	**195,627**	**-**	**195,627**	**(6,372)**	**4,258**	**193,513**
Distribution of profit for the period									-
Reserves	-	-	13,151	(13,151)	-	-	-	-	-
Dividends (note 17)	-	-	-	(118,353)	69,511	(48,842)	-	-	(48,842)
Dividends (note 17 (e))	-	-	-		(145,220)	(145,220)	-	-	(145,220)
Other movements	-	-	-	(43)	-	(43)	-	(5,305)	(5,348)
BALANCE AT 31 DECEMBER 2013	**1,074,032**	**1,074,032**	**13,151**	**167,181**	**(145,220)**	**2,183,176**	**(9,343)**	**22,222**	**2,196,055**

The accompanying notes form an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2013 AND THE SIX-MONTH PERIOD ENDED 31 DECEMBER 2012

(Expressed in thousands of Euros)

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit for the period	**199,885**	**138,750**
Adjustments for:		
Amortisation and depreciation	117,730	57,115
Impairment	12,906	18,685
Change in provisions	124,447	14,771
Grants recognised in the income statement	(12,817)	(6,166)
Proceeds from disposals of fixed assets	41	31
Proceeds from disposals of financial instruments	-	(392)
Finance income	(10,842)	(4,819)
Finance costs	18,841	12,424
Exchange losses	1,924	147
Income tax	11,696	6,389
Changes in working capital, excluding effect of acquisitions and translation differences		
Inventories	3,746	404
Trade and other receivables	(14,617)	(1,669)
Other current assets	124	27
Trade and other payables	(11,485)	(3,231)
Other current liabilities	237	-
Provisions	(90,909)	(49,116)
Cash flows generated by operating activities	350,907	183,350
Interest paid	(19,917)	(15,318)
Interest received	7,221	5,027
Income tax paid	(22,238)	(2,904)
	315,973	**170,155**
Cash flows from operating activities		
Payments for investments in Group companies and associates	(35,180)	(4,676)
Payments for acquisition of intangible assets	(188,750)	(128,854)
Payments for acquisition of property, plant and equipment	(3,284)	(2,073)
Payments for acquisition of investment property	-	(17)
Payments for acquisition of financial assets	(10,410)	(9,959)
Proceeds from sale of intangible assets	685	-
Proceeds from sale of property, plant and equipment	41	-
Proceeds from sale of other financial assets	10,087	4,924
	(226,811)	**(140,655)**
Cash flows used in investing activities		
Proceeds from grants, donations and bequests received	35,894	10,865
Proceeds from loans and borrowings	178,317	11,077
Proceeds from Group companies and associates	-	102,500
Proceeds from other debts	8,778	2,132
Payments for other bonds and other marketable securities	(15,743)	(15,000)
Payments for loans and borrowings	-	(16,542)
Payments to Group companies and associates	(134,350)	(56,454)
Payment of other debts	(6,047)	(1,749)
Dividends paid	(178,717)	(57,277)
Cash flows used in financing activities	(111,868)	(20,448)
Effect of exchange rate fluctuations	**(1,924)**	**(147)**
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(24,630)	8,905
Cash and cash equivalents at beginning of period	**47,257**	**38,352**
Cash and cash equivalents at end of period	22,627	47,257

The accompanying notes form an integral part of the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2013

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

Canal de Isabel II Gestión, S.A. (hereinafter the Parent or the Company) was incorporated pursuant to article 16 clause one of Law 3/2008 of 29 December 2008 (on Tax and Administration Measures), amended by Law 6/2011 of 28 December 2011 (on Tax and Administration Measures), which authorised Canal de Isabel II (hereinafter the Public Entity) to create a corporation to provide water supply, sanitation and other water-related services and works under the terms of Law 17/1984 of 20 December 1984, which regulates water supply and sanitation in the Community of Madrid, and other applicable legislation.

The Parent was incorporated with limited liability under Spanish law on 27 June 2012 in a deed attested by the Madrid notary public Mr. Valerio Pérez de Madrid y Palá, who recorded this deed as entry 1531 in his notarial record book. The Company is the first entry on sheet M-534929 of volume 29,733, page 86, section 8 of the Madrid Mercantile Registry. Its registered office is located at Calle Santa Engracia, 125, Madrid.

According to its articles of association, the Parent's statutory activity consists of the following:

- Comprehensive water cycle management throughout the Madrid region, which involves:

  - Managing the supply and recycling of drinking water.
  - Overseeing the sewer service.
  - Controlling materials disposed of through the sewer system and water-related assets in the public domain.
  - Running the wastewater treatment service.
  - Conducting studies and research, whether technical, financial, legal or administrative, where necessary for the services and activities listed above to be carried out satisfactorily.
  - Carrying out and/or overseeing any work, including civil work, necessary to maintain, replace, upgrade, install or extend the infrastructures used to provide the services listed above.

- Research activities and the provision of advice and assistance in all sectors relating to its statutory activity.
- The sale of electricity and all other activities that relate to or are instrumental or complementary to this business.
- Property development, construction, sale, rental and other associated activities, both in Spain and abroad, as well as the management of urban and land development projects.
- Any other public services or activities that reinforce the services provided by the Company and add value for users.
- Telecommunications-, information- and communications-related activities and services and any similar activities that may arise in the future.
- The acquisition, subscription, holding, 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. This excludes any activity restricted by law to collective investment undertakings or reserved by the Stock Market Law to member brokers and brokerage firms.

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

When commissioned to do so by the corresponding public authority, the Parent may also be involved in the process of collecting government revenue.

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

Under the terms of article 16, clause two, point 4 of Law 3/2008, on 14 June 2012 the Regional Cabinet of the Community of Madrid approved the Contract-Programme between the Public Entity and the Parent. The Contract-Programme, which was signed on 1 July 2012, establishes the mutual obligations and commitments assumed by both parties within the framework of the general financial policy and water policy of the regional authorities of the Community of Madrid, in turn within the scope of Law 17/84 of 20 December 1984, which regulates water supply and sanitation in the Community of Madrid. Its purpose is to establish the conditions necessary to carry out the capitalisation process foreseen in Law 3/2008 and manage the services assigned to the Public Entity by Law 17/1984, which include running (operation, maintenance and upkeep) the Community of Madrid General Network and providing the corresponding water supply, sanitation and recycling services. The agreement has a 50-year term which cannot be extended.

Related information on the consolidated subsidiaries, associates and jointly controlled entities at 31 December 2013 and 2012 is included in Appendices II, III and IV.

As established in article 4 of its articles of association, the Parent began operating on 1 July 2012.

As described in note 3, in 2012 the Public Entity made a non-monetary contribution consisting of the activity, assets and liabilities, and shares and equity holdings in trading companies. Where applicable, the changes resulting from this transaction in 2012 are disclosed in these notes to the consolidated financial statements under “Additions due to non-monetary contribution” for the six-month period ended 31 December 2012.

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

(i) Contract-Programme

The Contract-Programme regulating the relationship between the Public Entity and the Parent in running the comprehensive water service was approved by the Regional Cabinet of the Community of Madrid on 14 June 2012 and came into force on 1 July 2012.

The Regional Cabinet of the Community of Madrid has authorised the transfer of the water supply, sanitation and recycling services previously entrusted to the Public Entity by any permits, to Canal de Isabel II Gestión, S.A. These services include the operation and maintenance of the Community of Madrid General Network and the provision of the supply, sanitation and recycling services relating to this network and, in general, all of the services and activities that were previously carried out by the Public Entity, except those expressly reserved to the Entity under the terms of the Contract-Programme, specifically the capacity to exercise the powers, rights and obligations derived from (i) concessions and authorisations associated with water-related assets in the public domain, (ii) any administrative powers held by the Community of Madrid in relation to the distribution and treatment of water, including the power to impose penalties, (iii) the supply and sanitation services provided under Law 17/1984 and other applicable legislation, (iv) the water-related functions entrusted to it by the Community of Madrid, based on agreements signed with local authorities, and (v) all other water-related functions entrusted to it by the Community of Madrid.

So that it can provide these services, article 16 of Law 3/2008 requires the Community of Madrid and the Public Entity to convey to the Parent any assets in the public domain that make up the Community of Madrid General Network and which are necessary for the Company to conduct the activities and functions entrusted to it. The Contract-Programme also provides for the Parent’s use and management of energy resources currently operated by the Public Entity, as well as any such activities that may be carried out in the future. Moreover, the

Parent is entitled to provide any other services entrusted to the Public Entity by the Community of Madrid, particularly Closed User Group mobile communications services. All of these infrastructures are public property as they are used for public services provided by the Parent and, as such, may not be disposed of or seized and are not subject to any statute of limitations. These assets may only be sold in the event that they are no longer necessary, but with the legal obligation to allocate the gains obtained to investments in the Community of Madrid General Network.

The Contract-Programme has a 50-year duration from 1 July 2012 and cannot be renewed. Once this period has elapsed and the Contract-Programme expires, the Public Entity will be required to compensate the Parent for any investments made to carry out new infrastructure plans and not fully depreciated while the Contract-Programme was in force, taking into account the condition of such infrastructures and the value of the investment made, deducting any technical depreciation under the terms set out in these plans. On expiry of the Contract-Programme, the Parent will be required to return the assets and rights that make up the Community of Madrid General Network, as well as any other goods and installations in the public domain that are necessary to provide the service, to the public authorities in good working order and perfect condition, as required by the progress clause governing the Contract-Programme, ensuring that these assets are still capable of providing the service based on the depreciation schedules of the different constituent items.

Neither the assets that do not form part of the Community of Madrid General Network nor the shares and equity holdings in trading companies previously held by the Public Entity will revert to the Public Entity on completion of the Contract-Programme.

(ii) Changes in the consolidated group

Changes in the consolidated group due to additions to the scope of consolidation at 31 December 2013 are as follows:

Through Canal de Isabel II Gestión, S.A., the Group incorporated Canal Gestión Lanzarote S.A. with Euros 60,000 in 2013. Canal Gestión Lanzarote, S.A.'s principal activity is comprehensive water cycle management.

On 13 September 2013, through the subsidiary Interamericana de Aguas y Servicios, S.A., the Group acquired 40% of Avanzadas Soluciones y Acueducto y Alcantarillado, S.A. E.S.P., a comprehensive water cycle operator domiciled in Riohacha (Colombia). This acquisition cost Euros 339 thousand.

Through the subsidiaries Canal Extensia S.L. and Interamericana de Aguas y Servicios S.A., the Group incorporated Soluciones Andinas de Aguas, S.R.L. in 2013. This company's registered office is located in Montevideo (Uruguay) and its principal activity is asset investment and holding.

Moreover, on 14 November 2013, Soluciones Andinas de Aguas, S.R.L. acquired 75% of Emissao Engenharia e Construcoes, S.A., a company domiciled in Brazil and engaged in waterworks maintenance and operation and water distribution and sanitation activities (see note 10).

Amerika Tecnologías de la Información, S.A.S. was incorporated in Barranquilla (Colombia) in August 2013 as a result of spinning off a branch of activity from Interamericana de Aguas y Servicios S.A. Its principal activity is the design, maintenance, development, support and management of information technology projects.

2. BASIS OF PRESENTATION

These consolidated financial statements have been prepared on the basis of the accounting records of the Company and of the Group companies. The consolidated financial statements for the year ended 31 December 2013 have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS-EU), to present fairly the consolidated equity and consolidated financial position of the

Canal de Isabel II Gestión Group at 31 December 2013, and consolidated results, consolidated cash flows and changes in consolidated equity for the year then ended.

These are the first consolidated financial statements prepared under IFRS-EU, and IFRS 1 "First-time Adoption of International Financial Reporting Standards" therefore applies. The date of first-time adoption is 1 July 2012. These consolidated financial statements have been prepared applying the standards in force at 31 December 2013.

The impact of the first-time adoption of International Financial Reporting Standards is described in note 31.

The Group prepares its consolidated annual accounts in accordance with the applicable financial information reporting framework in Spain (Spanish GAAP).

The consolidated financial statements were authorised for issue by the Board of Directors on 24 September 2014.

a. Purpose of the consolidated financial statements

These consolidated financial statements were prepared voluntarily, and not due to any legal requirement, in the context of the authorisation received from the Audit Chamber of the Community of Madrid to present, for the years following the period ended 31 December 2013, consolidated annual accounts prepared in accordance with the International Financial Reporting Standards adopted by the European Union (IFRS-EU) and to thereby facilitate the transition to the aforementioned financial reporting framework.

b. Functional and presentation currency

The figures disclosed in the consolidated financial statements are expressed in thousands of Euros, the Parent's functional and presentation currency, rounded off to the nearest unit.

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

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

A summary of the items requiring a greater degree of judgement or which are more complex, or where the assumptions and estimates made are significant to the preparation of the consolidated financial statements, is as follows:

- The Group tests its investment property, intangible assets and goodwill for impairment on an annual basis. Management and the Group must use estimates to calculate the recoverable amount, which is generally determined using cash flow discounting methods. Discounted cash flow calculations are based on projections in the budgets approved by management. The cash flows take into consideration past experience and represent the best estimate of future market performance. The key assumptions employed when determining fair value (less costs to sell, where applicable) and value in use include growth rates, the weighted average cost of capital and tax rates. The estimates, including the methodology used, could have a significant impact on values and impairment.

- The Parent recognises a provision on a systematic basis for the replacement of infrastructure transferred by third parties based on the best estimate of the annual replacement investment to be made in this infrastructure over the concession term. For the rest of its infrastructure, located in Latin America, the Group considers that a suitable preventative and corrective maintenance programme eradicates the need for any significant replacements.

- 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 level of judgement by management.

- The consolidated financial statements include an estimate of the water supplied but not yet billed at 31 December each year (approximately one month's supply). Due to the meter-reading procedure, this supply is billed the following year. The amount is estimated based on billed water use for each contract for two comparable preceding periods, following the estimation method set forth in the Canal de Isabel II Water Distribution Service Regulations.

- The Group is subject to regulatory and legal proceedings and inspections by government bodies in various jurisdictions. It recognises a provision for liabilities (see note 21) 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 and in estimating the amount.

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

- The Parent has recognised security deposits placed by customers to guarantee payment for the water they use. These security deposits are recognised at amortised cost considering the average reimbursement period, estimated by the Company based on past experience, which is the best estimate of the amount to be reimbursed in the future (see note 18).

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

d. Determining fair values

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

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

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.

- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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

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

At 31 December 2013 the Canal de Isabel II Gestión Group has no assets or liabilities recognised at fair value.

e. Comparative information

The consolidated statement of financial position, consolidated income statement, consolidated statement of comprehensive income, consolidated statement of cash flows, consolidated statement of changes in equity and the notes thereto for the year ended 31 December 2013 include consolidated comparative figures for the six-month period ended 31 December 2012. The consolidated statement of financial position also includes consolidated comparative figures at 1 July 2012.

f. Accounting standards

(i) Standards issued and effective for annual periods beginning on or after 1 January 2014 which the Group has adopted early

- Amendments to IAS 36 – elimination of the requirement to disclose the recoverable amount of cash generating units (CGUs) having goodwill or intangible assets with a significant indefinite useful life. This standard comes into force at the very latest for annual periods beginning on or after 1 January 2014; the Group has decided to adopt this amendment early.

(ii) The Group expects to adopt the following standards – which had been issued but were not yet in force at 1 January 2013 – as of 1 January 2014 or at a later date (none have been adopted early)

- IFRS 10 Consolidated Financial Statements. Effective for annual periods beginning on or after 1 January 2014.
- IFRS 11 Joint Arrangements. Effective for annual periods beginning on or after 1 January 2014.
- IFRS 12 Disclosure of Interests in Other Entities. Effective for annual periods beginning on or after 1 January 2014.
- IAS 28 Investments in Associates and Joint Ventures. Effective for annual periods beginning on or after 1 January 2014.
- IAS 32 Financial Instruments: Presentation. Amendment to disclosures regarding the offset of financial assets and financial liabilities. Effective for annual periods beginning on or after 1 January 2014.
- Amendment to IAS 39: Novation of derivatives and continuation of hedge accounting. Effective for annual periods beginning on or after 1 January 2014.

Group management considers that application of these standards will not have a significant impact on the consolidated financial statements. The Group will apply these standards to the consolidated financial statements from the date on which each one becomes effective.

g. Going concern

Due to the normal course of operations conducted by the Parent and the investments made, the consolidated financial statements present negative working capital of Euros 250,029 thousand at 31 December 2013 (Euros 222,188 thousand in 2012). However, the Parent's directors have prepared the consolidated financial statements on a going concern basis considering that these circumstances were expected and reflect the nature of the business, taking into account its capacity to generate cash. Law 5/2013 of 23 December 2013, which passed the Madrid Regional Government's General Budgets for 2014, authorised the Parent to obtain long-term borrowings of Euros 148 million, an amount considered sufficient to meet its obligations by the respective maturity dates.

3. SIGNIFICANT ACCOUNTING POLICIES

a. Basis of consolidation

(i) Business combinations

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

The Group applies the acquisition method for business combinations.

The acquisition date is the date on which the Group obtains control of the acquiree.

The consideration transferred in a business combination is calculated as the sum of the acquisition-date fair values of the assets transferred, the liabilities incurred or assumed, the equity instruments issued and any consideration contingent on future events or compliance with certain conditions in exchange for control of the acquiree.

The consideration transferred excludes any payment that does not form part of the exchange for the acquiree. Acquisition costs are recognised as an expense when incurred.

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

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

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

(ii) Jointly controlled operations

As provided for in article 16.2.4.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 Regional Cabinet of the Community 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 Parent.

Pursuant to article 16.2.3 of Law 3/2008 (on Tax and Administration Measures), the Public Entity also transferred the ownership of all assets that do not form part of the Community of Madrid General Network and its shares and equity holdings in trading companies to the Parent.

This valuation and contribution exercise was carried out following the criteria and guarantees stipulated in article 114 of Law 33/2003 of 3 November 2003 (on the Assets of Public Entities), for the purposes foreseen in article 47 of Law 3/2001 of 21 June 2001 (on the Assets of the Community of Madrid).

For the contribution of this activity, the Group availed of the tax neutrality scheme regulated in section VII, chapter VIII of Royal Legislative Decree 4/2004 of 5 March 2004, which approved the Revised Spanish Income Tax Law.

The non-monetary contribution was carried out at the amounts disclosed in the consolidated annual accounts drawn up under the standards applicable for the preparation of consolidated annual accounts, adjusted for adaptation to IFRS-EU at 1 July 2012.

In accordance with Law 3/2008 and the Incorporation Agreement, the Public Entity conveyed all of the rights and obligations that it held as a party to the contracts and agreements arranged with third parties, under the same terms and conditions stipulated in these documents, to the Parent (except for the rights and obligations retained by the Public Entity under the terms of the Contract-Programme regulating the relationships involved in running the comprehensive water service entrusted to the Public Entity and the financing contracts between the Entity and its lenders). The Public Entity also conveyed its position in all ongoing procurement procedures or contracts awarded and all kinds of litigation, contracts, quasi-contracts and legal affairs to the Parent. As required by Law 3/2008, all of the Public Entity's staff necessary to provide the entrusted services have been transferred to the Parent, maintaining the same terms of employment existing at the transfer date. This transfer is considered as a case of "company succession" under applicable Spanish legislation. Similarly, the Parent has assumed all pension commitments previously existing between the Public Entity and its employees, under the terms of the corresponding Pension Plan Specifications and prevailing legislation.

As required by article 47 of Law 3/2001 of 27 June 2001 (on the Assets of the Community of Madrid), the valuation was submitted to the General Directorate of Financial Policy, Treasury and Heritage of the Department of Economy and Finance, which gave its approval.

Additional points: (i) for 90 days from the date of the contribution, the difference between the values estimated for the assets and liabilities following the established measurement criteria (and stated in the valuation report) and the net worth of the assets and liabilities actually transferred on the date of the contribution and commencement of activities by the Company is to be adjusted by establishing a debit/credit between the Public Entity and the Parent; (ii) similarly, given the complexity and diversity of the elements and relationships that make up this activity, the Company and the Public Entity are to adjust the different advances, receipts or payments that could not be settled on the activity transfer date due to their nature, frequency, established payment terms or for any other reason; (iii) if any event that occurred prior to the incorporation of the Company leads to an agreement to release any assets assigned to the Company from the public domain and which, as a result, become part of the assets of the Public Entity, the latter is required to compensate the Company for the loss of the assigned goods, once the formal procedures for releasing assets from the public domain have been completed.

The net assets contributed to the Parent totalled Euros 2,148,064 thousand.

(iii) Non-controlling interests

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

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

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

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

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

(iv) Subsidiaries

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

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

The income, expenses and cash flows of subsidiaries are included in the consolidated financial statements from the date of acquisition, which is when the Group effectively takes control, until the date that control ceases.

Transactions and balances with Group companies and unrealised gains or losses have been eliminated upon consolidation. Nevertheless, unrealised losses have been considered as an indicator of impairment of the assets transferred.

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

The annual accounts or financial statements of the subsidiaries used in the consolidation process have been prepared as of the same date and for the same period as those of the Parent.

(v) Associates

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

Investments in associates are accounted for using the equity method from the date that significant influence commences until the date that significant influence ceases.

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

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

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

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

Losses of an associate attributable to the Group are limited to the extent of its net investment, except where the Group has legal or constructive obligations or when payments have been made on behalf of the associate. For the purpose of recognising impairment losses in associates, net investments are considered as the carrying amount of the investment after applying the equity method plus any other item which in substance forms part of the investment in the associate. The excess of the losses over the equity investment is applied to the remaining items in reverse order of settlement. Subsequent profits attributable to those associates for which impairment losses are limited are recognised to the extent of the previously unrecognised losses.

The accounting policies of associates have been harmonised in terms of timing and measurement, applying the policies described for subsidiaries.

(vi) Impairment

The Group applies the impairment criteria set forth in IAS 39 Financial Instruments: Recognition and Measurement, to determine whether additional impairment losses to those already recognised in the net investment in the associate, or in any other financial asset held as a result of applying the equity method, should be recognised.

Impairment is calculated by comparing the carrying amount of the net investment in the associate with its recoverable amount. The recoverable amount is the higher of value in use and fair value less costs to sell. Value in use is calculated based on the Group's share of the present value of future cash flows expected to be derived from ordinary activities and from the disposal of the asset, or the estimated cash flows expected to be received from the distribution of dividends and the final disposal of the investment.

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

Impairment losses are not allocated to goodwill or other assets implicit in the investment in associates derived from application of the acquisition method. In subsequent years, reversals of impairment losses on investments are recognised in the income statement to the extent of any increase in the recoverable amount. Impairment losses are presented separately from the Group's share of profit or loss of associates.

(vii) Joint ventures

Joint ventures are those in which there is a 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 Group and the other venturers.

Investments in jointly controlled entities are proportionately consolidated from the date joint control is obtained until the date joint control ceases. However, investments that qualify for recognition as non-current assets or disposal groups held for sale at the date joint control is obtained are recognised at fair value less costs to sell.

The Group includes its share of assets, liabilities, income, expenses, other comprehensive income and cash flows of the jointly controlled entity, combined line by line with similar items in its consolidated financial statements, from the date joint control commences.

The measurement criteria initially applied to the assets acquired and liabilities assumed, and to goodwill or negative goodwill, are consistent with those described in the section on business combinations and associates.

Reciprocal transactions, balances, income, expenses and cash flows have been eliminated in proportion to the interest held by the Group in joint ventures.

Unrealised gains and losses from non-monetary contributions or downstream transactions in joint ventures are recognised based on the substance of the transaction. Where the assets are retained by the joint venture and the Group has transferred the significant risks and rewards of ownership, only the portion of the gain or loss that is attributable to the interests of the other venturers is recognised. Unrealised losses are not eliminated if they provide evidence of an impairment loss.

The Group only recognises the portion of gains and losses on transactions in joint ventures that is attributable to the interests of the other venturers. In the event of losses, the Group applies the same recognition criterion as that described in the previous paragraph.

b. Foreign currency transactions, balances and cash flows

(i) Foreign currency transactions, balances and cash flows

Foreign currency transactions have been translated into Euros using the exchange rate prevailing at the transaction date.

Monetary assets and liabilities denominated in foreign currencies have been translated into Euros at the closing rate, while non-monetary assets and liabilities measured at historical cost have been translated at the exchange rate prevailing at the transaction date. Non-monetary assets measured at fair value have been translated into Euros at the exchange rate at the date that the fair value was determined.

In the consolidated statement of cash flows, cash flows from foreign currency transactions have been translated into Euros at the exchange rates at the dates the cash flows occur.

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

Exchange gains and losses arising on the settlement of foreign currency transactions and the translation into Euros of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

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

(ii) Translation of foreign operations

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

- Assets and liabilities, including goodwill and net asset adjustments derived from the acquisition of the operations, are translated at the closing rate at the reporting date;
- Income and expenses are translated at the average exchange rates for the year; and
- All resulting exchange differences are recognised as translation differences in other comprehensive income.

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

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

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

c. Borrowing costs

The Group recognises borrowing costs directly attributable to the purchase, construction or production of qualifying assets as an increase in the value of these assets. Qualifying assets are those which require a substantial period of time before they can be used or sold. To the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalisation is determined as the actual borrowing costs incurred, less any investment income on the temporary investment of those funds.

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

d. Intangible assets

(i) Goodwill

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

Goodwill is not amortised, but is instead tested for impairment on an annual basis or whenever there is an indication that goodwill may be impaired. Goodwill on business combinations is allocated to the cash-generating units (CGUs) or groups of CGUs which are expected to benefit from the synergies of the business combination and the criteria described in section g (impairment) are applied. After initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Internally generated goodwill is not recognised as an asset.

(ii) Internally generated intangible assets

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

Costs associated with development activities are capitalised to the extent that:

- The Group has technical studies that demonstrate the feasibility of the production process.
- The Group has undertaken a commitment to complete production of the asset so as to make it available for sale.
- The asset will generate sufficient future economic benefits.
- The Group has sufficient technical and financial resources to complete development of the asset and has devised budget control and cost accounting systems that enable monitoring of budgetary costs, modifications and the expenditure actually attributable to the different projects.

The cost of internally generated assets is calculated using the same criteria as for determining the production costs of inventories. The production cost is capitalised by allocating the costs attributable to the asset to non-current self-constructed assets in the consolidated income statement.

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

(iii) Administrative concessions

As explained in note 8 the Group operates certain assets through service concession arrangements granted by different public sector entities.

Administrative concessions include the costs incurred in their procurement.

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

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

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

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

(iv) Patents, licences, trademarks and similar rights

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

(v) Computer software

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

(vi) Subsequent costs

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

(vii) Useful life and amortisation rates

The Group 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 net cash inflows.

Intangible assets with indefinite useful lives are not amortised, but are instead tested for impairment on an annual basis or whenever there is an indication that the intangible asset may be impaired.

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

Item	Years of useful life
Concessions	Concession period
Patents, licences, trademarks and similar rights	10
Computer software	5

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

The depreciable amount of intangible assets is measured as the cost of the asset, less any residual value.

The Group 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.

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

(viii) Impairment

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

e. Property, plant and equipment

(i) Initial recognition

Property, plant and equipment are recognised at cost or deemed cost, less accumulated depreciation and any accumulated impairment losses. The cost of self-constructed assets is determined using the same principles as for an acquired asset, while also considering the criteria applicable to the production costs of inventories. The production cost is capitalised by allocating the costs attributable to the asset to non-current self-constructed assets in the consolidated income statement.

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

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

(ii) Depreciation

Property, plant and equipment are depreciated by allocating the depreciable amount of the asset on a systematic basis over its useful life. The depreciable amount is the cost of an asset, less its residual value. The Group determines the depreciation charge separately for each component of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the asset and with a useful life that differs from the remainder of the asset.

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

Item	Depreciation rates	
	Minimum	Maximum
Buildings	1.00%	3.00%
Housing estates and roads	1.00%	12.00%
Reservoirs	1.40%	5.00%
Major conduits	1.40%	3.00%
Treatment plants	5.00%	10.00%
Elevation plants	5.00%	10.00%
Tanks	2.00%	6.00%
Distribution network	2.90%	8.00%
Power stations and high-voltage grids	1.40%	7.60%
Low-voltage power lines	4.00%	8.00%
Sewage plants	3.30%	10.00%
Underground water collection	1.40%	2.50%
Laboratory equipment	5.50%	12.00%
Communications	5.50%	12.00%
Information systems and facilities	7.10%	15.00%
Hand and machine tools	12.50%	30.00%
Furniture and fixtures	5.00%	20.00%
Machinery	5.00%	30.00%
Information technology equipment	12.50%	25.00%
Motor vehicles	5.00%	16.00%

The Group reviews residual values, useful lives and depreciation methods at each financial year end. Changes to initially established criteria are accounted for as a change in accounting estimates.

(iii) Subsequent costs

Subsequent to initial recognition of the asset, only the costs incurred which increase capacity or productivity or which lengthen the useful life of the asset are capitalised. The carrying amount of parts that are replaced is derecognised. Costs of day-to-day servicing are recognised in the consolidated income statement as incurred.

(iv) Impairment

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

f. Investment property

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

Property that is being constructed or developed for future use as investment property is classified as property, plant and equipment under construction until construction or development is complete. Nevertheless, redevelopment work to extend or improve property is classified as investment property.

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

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

Lease income is recognised using the criteria described in section (h) of this note.

g. Impairment of non-financial assets subject to amortisation or depreciation

The Group evaluates whether there are indications of possible impairment losses on non-financial assets subject to amortisation or depreciation to verify whether the carrying amount of these assets exceeds the recoverable amount, which is the higher of the fair value less costs to sell and the value in use.

The Group tests goodwill and intangible assets with indefinite useful lives for impairment at least annually, irrespective of whether there is any indication that the assets may be impaired.

Impairment losses are recognised in the consolidated income statement.

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 cash-generating unit (CGU) to which the asset belongs.

Impairment losses for cash-generating units are allocated first to reduce the carrying amount of goodwill allocated to the unit and then to the other non-current assets of the unit pro rata with their carrying amounts. The carrying amount of each asset may not be reduced below the highest of its fair value less costs to sell, its value in use and zero.

At the end of each reporting period the Group assesses whether there is any indication that an impairment loss recognised in prior periods may no longer exist or may have decreased. Impairment losses on goodwill are not reversible. Impairment losses on other assets are only reversed if there has been a change in the estimates used to calculate the recoverable amount of the asset.

A reversal of an impairment loss is recognised in the consolidated income statement. The increased carrying amount of an asset attributable to a reversal of an impairment loss may not exceed the carrying amount that would have been determined, net of depreciation or amortisation, had no impairment loss been recognised.

A reversal of an impairment loss for a CGU is allocated to the assets of each unit, except goodwill, pro rata with the carrying amounts of those assets. The carrying amount of an asset may not be increased above the lower of its recoverable amount and the carrying amount that would have been disclosed, net of amortisation or depreciation, had no impairment loss been recognised.

After an impairment loss or reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the asset is adjusted in future periods based on its new carrying amount.

h. Leases

(i) Classification of leases

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

Leases that do not transfer to third parties substantially all the risks and rewards incidental to ownership of the assets are classified as operating leases, otherwise they are classified as finance leases.

(ii) Lessor accounting records

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

Operating lease income, net of incentives granted, is recognised in income on a straight-line basis over the lease term, unless another systematic basis is more representative of the time pattern in which the benefits deriving from the leased asset are diminished.

Initial direct costs are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease income.

Contingent rents are recognised as income when it is probable that they will be obtained, which is generally when the conditions agreed in the contract arise.

(iii) Lessee accounting records

Lease payments under an operating lease, net of incentives received, are recognised as an expense on a straight-line basis over the lease term, unless another systematic basis is more representative of the time pattern of the lease's benefit (IAS 17.33).

The Group recognises initial direct costs incurred on operating leases as an expense when incurred.

Contingent rents are recognised as an expense when it is probable that they will be incurred.

i. Financial instruments

(i) Classification of financial instruments

Financial instruments are classified on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the economic substance of the contractual arrangement and the definitions of a financial asset, a financial liability and an equity instrument in IAS 32 "Financial Instruments: Presentation".

The Group recognises financial instruments when it becomes party to the contract or legal transaction, in accordance with the terms set out therein.

Financial instruments are classified into the following categories: financial assets and financial liabilities at fair value through profit or loss, separating those initially designated from those held for trading, loans and receivables, held-to-maturity investments, available-for-sale financial assets and financial assets and liabilities at amortised cost. Financial instruments are classified into different categories based on the nature of the instruments and the Group's intentions on initial recognition.

(ii) Offsetting principles

A financial asset and a financial liability are offset only when the Group currently has the legally enforceable right to offset the recognised amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

(iii) Loans and receivables

Loans and receivables comprise trade and non-trade receivables with fixed or determinable payments that are not quoted in an active market other than those classified in other financial asset categories. These assets are initially recognised at fair value, including transaction costs, and are subsequently measured at amortised cost using the effective interest method.

Nevertheless, financial assets which have no established interest rate, which mature or are expected to be received in the short term, and for which the effect of discounting is immaterial, are measured at their nominal amount.

(iv) Financial assets and financial liabilities carried at cost

Investments in equity instruments whose fair value cannot be reliably measured, and derivative instruments that are linked to and must be settled by delivery of such unquoted equity instruments, are measured at cost. Nonetheless, if the financial assets or liabilities can subsequently be reliably measured on an ongoing basis, they are accounted for at fair value and any gain or loss is recognised in accordance with their classification.

(v) Derecognition of financial assets

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

If, as a result of a transfer, a financial asset is derecognised in its entirety, the new financial asset, financial liability or servicing liability is recognised at fair value.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received, net of transaction costs, including any new asset obtained less any new liability assumed and any cumulative gain or loss deferred in recognised income and expense, is recorded in profit or loss.

If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the consideration received is recognised under liabilities. Transaction costs are recognised in profit and loss using the effective interest method.

(vi) Impairment and uncollectibility of financial assets

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

In the case of financial assets carried at amortised cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The impairment loss is recognised in profit and loss and may be reversed in subsequent periods if the decrease can be objectively related to an event occurring after the impairment has been recognised. The loss can only be reversed to the limit of the amortised cost of the assets had the impairment loss not been recognised.

In the case of financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses cannot be reversed and are therefore recognised directly against the value of the asset and not as an allowance account.

(vii) Financial liabilities

Financial liabilities, including trade and other payables, are initially recognised at fair value less any transaction costs that are directly attributable to the issue of the financial liability. After initial recognition, liabilities classified under this category are measured at amortised cost using the effective interest method.

Nevertheless, financial liabilities which have no established interest rate, which mature or are expected to be settled in the short term, and for which the effect of discounting is immaterial, are measured at their nominal amount.

The Group receives security deposits from customers when contracts are signed to guarantee payment of future supplies. These deposits are recognised as financial liabilities. The difference between the amount received and the amortised cost is classified as an advance from customers and taken to consolidated profit or loss over the average period during which the service is to be rendered.

(viii) Derecognition and modifications of financial liabilities

The Group derecognises all or part of a financial liability when it either discharges the liability by paying the creditor or is legally released from primary responsibility for the liability either by process of law or by the creditor.

j. Inventories

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

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

Estimated product returns relating to sales that customers are entitled to return, net of the tax effect of any reduction in value, are recognised as inventories on consignment when the products are sold.

Trade discounts are recognised as a reduction in the cost of inventories when it is probable that the conditions for discounts to be received will be met. Unallocated discounts are recognised as a decrease on the purchase.

k. Cash and cash equivalents

Cash and cash equivalents include cash on hand and demand deposits in financial institutions.

The Group recognises cash payments and receipts for financial assets and financial liabilities in which turnover is quick on a net basis in the statement of cash flows. Turnover is considered to be quick when the period between the date of acquisition and maturity does not exceed six months. In the statement of cash flows, drawdowns on credit facilities that form an integral part of the Group’s cash management are included as a component of cash and cash equivalents.

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

l. Government grants

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

(i) Capital grants

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

(ii) Operating grants

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

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

m. Employee benefits expense

(I) Details of Group pension plans

Canal de Isabel II Gestión and certain subsidiaries have pension plan and other commitments with personnel as detailed as follows:

Canal de Isabel II Gestión, S.A.:

On 3 November 1990 the Public Entity agreed to set up an External Fund for its current staff, availing itself of the Spanish Pension Plan Regulations Act (Law 8/1987 of 8 June 1987). 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 who entered service prior to 3 November 1990 and 6.5% for those who joined since that date. For the unit holders who entered service 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 who entered service after 3 November 1990, 4.8% is allocated to the Capitalisation Fund and the remaining 1.7% to assure death and disability contingencies.

The Parent recognises the contributions payable to this defined contribution plan when the employee has provided the corresponding services. The contributions payable are recognised as an employee benefits expense (see note 24).

In accordance with article 21.6 of Law 7/2012 of 26 December 2012, in 2013 no contributions were made to the pension plans arranged on behalf of employees. Similarly, in accordance with article 2.3 of Royal Decree-Law 20/2011 of 30 December 2011 (on urgent budget, tax and financial measures to redress the public deficit), in 2012 no contributions were made to the pension plans arranged on behalf of employees. Article 21.6 of the General Budget for the Community of Madrid for 2014 (Law 5/2013 of 23 December 2013) once again establishes that in 2014 no contributions can be made to pension plans or collective insurance policies covering retirement.

On 15 November 2002 the Public Entity externalised the internal fund it had appropriated for its retired personnel through a policy arranged with an insurance company. The insured commitments relate to those beneficiaries who retired before the pension plan was set up on 3 November 1990 and comprise retirement and disability benefits and widows/widowers' and orphans' pensions. These benefits are subject to an estimated revaluation of 2% per year. The following assumptions were employed in the actuarial study used to calculate the insurance premium for the externalisation of the pension plan: technical interest rate of 5.15% until 31 December 2041 and 2.5% as of 1 January 2042, PERM/F 2000P mortality tables and management costs of 0.23% of the premium. Pensions are updated annually based on the increases in state pensions. The premium required to adjust the externalised commitments being paid to retired personnel is calculated annually by independent actuaries using the Projected Unit Credit Method and recognised in the consolidated income statement.

The policy of recognising the provision needed to cover long-service bonuses for serving personnel on a systematic basis has been maintained. As per the collective bargaining agreement in force, an internal fund has been set up to cover long-service bonuses for employees with 25 and/or 35 years' service. Charges are made to this provision on a straight-line basis from 15 and 25 years, respectively, of service in the Parent, based on the year from which the corresponding personnel obligation started to accrue. On 4 January 2011, as a result of the agreement signed with employee representatives on 30 April 2010, an insurance policy for the accrual of early settlements of long-service bonuses was arranged and paid through a single payment of Euros 5,833 thousand. The insurance company guarantees the payment of a deferred endowment to the beneficiary in the event that he or she is still alive. To receive the insured benefit, the insured party must have been in service for 25 and/or 35 years. The assumptions used to define the policy and calculate the initial single premium were a technical interest rate of 4.89% until 4 January 2051 and 2.25% thereafter, the PERM/F-2000P mortality tables and management costs of 0.10% of the premium.

In prior years, under the terms of the collective bargaining agreement in force, a seniority supplement was recognised for each three years' service provided. On 4 January 2011 the Public Entity took out and paid a liability insurance policy for the early settlement of this item, making a single payment of Euros 55,591 thousand. The insurance company undertakes to pay the insured parties a temporary actuarial annuity without reversal until they retire at 65, or until the termination date of their contract in the case of temporary staff. This annuity is subject to an annual growth rate of 1.2%. The first payment, for Euros 836 thousand, was made in September 2013. The assumptions employed to determine the single premium were a technical interest rate of 5.33%, the Perm/F 2000P mortality tables and management costs of 0.45% of the premium.

The Parent recognises the expenses relating to these plans when the obligation arises, based on the actuarial studies conducted to calculate the commitment at each year end. Any actuarial gains or losses are recognised in the consolidated income statement for the period.

Hidráulica Santillana S.A.U. and Hispanagua, S.A.U.:

Pursuant to Royal Decree 1588/1999 of 15 October 1999, which sets forth the legal provisions on the arrangement of company pension plan commitments, these subsidiaries have set up employee pension plans.

The pension plan adopted by the subsidiaries was formally arranged in December 2000 and consists of defined contributions for retirement benefits and defined benefits for death and disability (covered by an insurance contract).

The pension plan takes into account the previous benefits to which the employees were entitled for past service at 1 December 2000, which totalled Euros 154 thousand in the case of Hidráulica Santillana and Euros 2,828 thousand in the case of Hispanagua and were paid into the "FONDPOSTAL Canal de Isabel II, F.P." pension fund in December 2000. This fund is administered by the pension fund management company "Gestión de Previsión y Pensiones, S.A." and has been deposited with the trustee entity BBVA.

Pursuant to Royal Decree 1588/1999 of 15 October 1999, which sets forth the legal provisions on the arrangement of company pension plan commitments, Hispanagua, S.A.U. externalised its commitments to retired personnel through an insurance policy contracted with SCH Seguros in 1999. Contributions totalling Euros 5,672 thousand were paid in full in 1999.

Hispanagua S.A.U. also has an early retirement bonus commitment which was externalised in 2002 through an insurance policy contracted with BBVA Seguros. The contributions, totalling Euros 173 thousand, have been paid in full.

The subsidiary 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 24).

In accordance with article 21.6 of Law 7/2012 of 26 December 2012, in 2013 neither subsidiary made contributions to the pension plans arranged on behalf of employees. Similarly, in accordance with article 2.3 of Royal Decree-Law 20/2011 of 30 December 2011 (on urgent budget, tax and financial measures to redress the public deficit), in 2012 neither subsidiary made contributions to the pension plans arranged on behalf of employees. Article 21.6 of the General Budget for the Community of Madrid for 2014 (Law 5/2013 of 23 December 2013) once again establishes that in 2014 no contributions can be made to pension plans or collective insurance policies covering retirement.

AMAGUA C.E.M.:

The Labour Code of the Republic of Ecuador requires this subsidiary to provide an employer-paid retirement plan ("jubilación patronal") to all employees with at least 25 years' service. Since 2008 this subsidiary has recognised provisions for these benefits based on an actuarial study conducted by an independent third party. According to this study, at 31 December 2013 the present value of the actuarial mathematical provision for employer-paid retirement plans is Euros 71 thousand (Euros 56 thousand in 2012).

CANAL GESTIÓN LANZAROTE, S.A.U.:

The collective bargaining agreement which was applicable to Inalsa (the previous concession holder) was subrogated by Canal Gestión Lanzarote, S.A.U on 1 June 2013. Article 20 of this agreement provides for compensation for "loyal service", awarding workers for long service to the company by granting a compensation payment linked to the number of years' service in the event of an employee's retirement or death while in active service.

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

(II) Defined benefit plans

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

Defined benefit liabilities recognised in the consolidated statement of financial position reflect the present value of defined benefit obligations at the reporting date, minus the fair value at that date of plan assets, minus (plus) any unrecognised actuarial losses (gains) arising after 1 July 2012, minus any past service cost not yet recognised.

(III) Defined contribution plans

The Group recognises the contributions payable to a defined contribution plan in exchange for a service when an employee has rendered service to the Group. The contributions payable are recognised as an employee benefits expense and as a liability after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the end of the period, the Group only recognises that excess as an asset (prepaid expense) to the extent that the prepayments will lead to, for example, a reduction in future payments or a cash refund.

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

n. Provisions

(i) General criteria

Provisions are recognised when the Group has a present obligation (legal, contractual, constructive or tacit) as a result of a past event; it is probable that an outflow of resources embodying future economic benefits will be required to settle the obligation; and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the expenditure required to settle the present obligation at the end of the reporting period, taking into account all risks and uncertainties surrounding the amount to be recognised as a provision and, where the time value of money is material, the financial effect of discounting provided that the expenditure to be made each period can be reliably estimated.

Single obligations are measured using the individual most likely outcome. When the provision involves a large population of identical items, the obligation is estimated by weighting all possible outcomes by their associated probabilities. Where there is a continuous range of possible outcomes, and each point in that range is as likely as any other, the mid-point of the range is used.

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

Where a risk is externalised to a third party by means of a legal or contractual agreement, provision is only made for the part of the risk assumed by the Group.

If it is not probable that an outflow of resources will be required to settle an obligation, the provision is reversed. The provision is reversed against the income statement caption in which the related expense was recognised, and any surplus is accounted for in other income.

o. Revenue recognition

Revenue from the sale of goods or services is measured at the fair value of the consideration received or receivable.

However, the Group includes interest incorporated in trade balances maturing in less than one year that do not have a contractual rate of interest when the effect of not discounting future receipts is not material.

Income is recognised when the Group has rendered the corresponding service, irrespective of the date of collection.

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

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

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

(i) Interest and dividends

Interest is recognised using the effective interest rate method. The effective interest rate is the discount rate that matches the carrying amount of a financial instrument to its estimated cash flows during its expected life, based on the contractual terms and not considering future losses due to credit risk.

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

p. Income tax

On 1 January 1996 Law 43/1995 of 27 December 1995 came into force. Article 32.2 of this law provided for tax relief of 99% on income tax payable on revenues from the provision of certain public services, including water supply, sanitation and recycling. The Parent applies this tax relief as it has been commissioned to provide these services in the Community of Madrid.

The income tax expense or tax income for the period comprises current tax and deferred tax.

Current tax assets or liabilities are measured at the amount expected to be paid to or recovered from the taxation authorities, using the tax rates and tax laws that have been enacted or substantially enacted at the reporting date.

Current and deferred tax are recognised as income or an expense and included in profit or loss for the period, except to the extent that the tax arises from a transaction or event which is recognised, in the same or a different year, directly in equity, or from a business combination.

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

This tax group will comprise the following companies:

- Canal de Isabel II
- Canal de Isabel II Gestión, S.A.
- Canal Extensia, S.A.U.
- Hispanagua, S.A.U.
- Hidráulica Santillana, S.A.U.
- Canal de Comunicaciones Unidas, S.A.U.
- Canal Energía, S.L.
- Canal Energía Generación, S.L.U.
- Canal Energía Distribución, S.L.U.
- Canal Energía Comercialización, S.L.U.
- Canal Gas Distribución, S.L.U.
- Canal Gestión Lanzarote, S.A.U.

(i) Taxable temporary differences

Taxable temporary differences are recognised in all cases except where:

- They arise from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither accounting profit nor taxable income.

- They are associated with investments in subsidiaries and joint ventures for which the Group is able to control the timing of the reversal of the temporary difference and it is not probable that the difference will reverse in the foreseeable future.

(ii) Deductible temporary differences

Deferred tax assets derived from deductible temporary differences are recognised provided that:

- It is probable that sufficient taxable profit will be available against which the deductible temporary difference can be utilised, unless the differences arise from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither accounting profit nor taxable income.

- The temporary differences are associated with investments in subsidiaries and joint ventures and will reverse in the foreseeable future, and taxable profit will be available against which the temporary difference can be utilised.

Tax planning opportunities are only considered when assessing the recoverability of deferred tax assets and if the Group intends to use these opportunities or it is probable that they will be utilised.

(iii) Measurement

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the years when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantially enacted. The tax consequences that would follow from the manner in which the Company expects to recover or settle the carrying amount of its assets or liabilities are also reflected in the measurement of deferred tax assets and liabilities.

The Group reviews the carrying amounts of deferred tax assets at each reporting date to reduce these amounts to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of the deferred tax assets to be utilised.

Deferred tax assets that do not meet the above conditions are not recognised in the consolidated statement of financial position. At the end of each reporting period, the Group reassesses unrecognised deferred tax assets to determine whether they qualify for recognition.

(iv) Classification

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

q. Segment reporting

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

r. Classification of assets and liabilities as current and non-current

The Group classifies assets and liabilities in the consolidated statement of financial position as current and non-current. Current assets and liabilities are determined as follows:

Assets are classified as current when they are expected to be realised or are intended for sale or consumption in the Group’s normal operating cycle, they are held primarily for the purpose of trading, they are expected to be realised within twelve months after the reporting date or are cash or a cash equivalent, unless the assets may not be exchanged or used to settle a liability for at least twelve months after the reporting date.

Liabilities are classified as current when they are expected to be settled in the Group's normal operating cycle, they are held primarily for the purpose of trading, they are due to be settled within twelve months after the reporting date or the Group does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting date.

s. Environmental issues

The Group takes measures to prevent, reduce or repair the damage caused to the environment by its activities.

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

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

4. SEGMENT REPORTING

Canal de Isabel II Gestión management reviews the Group's internal information to assess performance and allocate resources.

The Group analyses the business by geographical segments, which are the different strategic business units.

Information on the Group's different geographical segments is contained in Appendix I.

Canal de Isabel II Gestión and subsidiaries are not highly dependent on any particular customers (see note 27).

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

The Group's segments are "domestic" and "international". Information on each segment is allocated on the basis of the financial statements of the different Group companies, which operate exclusively in their geographical area due to the nature of their activities.

5. PROPERTY, PLANT AND EQUIPMENT

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

	Thousands of Euros				
	2013				
	Land and buildings	Technical installations and other items	Machinery, furniture and fixtures	Under construction and advances	TOTAL
Cost:					
Opening balance at 1 January 2013	**4,272**	**69,068**	**2,851**	**-**	**76,191**
Additions	378	1,938	659	309	3,284
Disposals	(112)	(1,287)	(40)	-	(1,439)
Transfers	(537)	(252)	252	-	(537)
Translation differences	(293)	(1,580)	(212)	(3)	(2,088)
Cost at 31 December 2013	**3,708**	**67,887**	**3,510**	**306**	**75,411**
Accumulated depreciation:					
Opening balance at 1 January 2013	(1,715)	(43,515)	(1,749)	-	(46,979)
Depreciation	(142)	(3,561)	(285)	-	(3,988)
Disposals	112	1,218	31	-	1,361
Transfers	403	211	(211)	-	403
Translation differences	133	1,129	96	-	1,358
Accumulated depreciation at 31 December 2013	**(1,209)**	**(44,518)**	**(2,118)**	**-**	**(47,845)**
CARRYING AMOUNT AT 31 DECEMBER 2013	**2,499**	**23,369**	**1,392**	**306**	**27,566**

	Thousands of Euros			
	2012			
	Land and buildings	Technical installations and other items	Machinery, furniture and fixtures	TOTAL
Cost:				
Opening balance at 1 July 2012	**4,349**	**70,575**	**4,270**	**79,194**
Additions	144	1,095	196	1,435
Disposals	(50)	(1,430)	(1,225)	(2,705)
Translation differences	(171)	(1,172)	(390)	(1,733)
Cost at 31 December 2012	**4,272**	**69,068**	**2,851**	**76,191**
Accumulated depreciation:				
Opening balance at 1 July 2012	**(1,751)**	**(44,048)**	**(3,032)**	**(48,831)**
Depreciation	(82)	(1,777)	(79)	(1,938)
Disposals	50	1,418	1,225	2,693
Translation differences	68	892	137	1,097
Accumulated depreciation at 31 December 2012	**(1,715)**	**(43,515)**	**(1,749)**	**(46,979)**
Carrying amount at 31 December 2012	**2,557**	**25,553**	**1,102**	**29,212**

Details of depreciation for the period, accumulated depreciation and the carrying amount of individually significant items of property, plant and equipment located in Spain at 31 December are as follows:

	Thousands of Euros		
	2013		
Description of the asset	Depreciation	Accumulated depreciation	Carrying amount
Mini-power stations	(1,681)	(32,170)	18,853
Total	**(1,681)**	**(32,170)**	**18,853**

	Thousands of Euros		
	2012		
Description of the asset	Depreciation	Accumulated depreciation	Carrying amount
Mini-power stations	(1,681)	(30,489)	20,534
Total	**(1,681)**	**(30,489)**	**20,534**

At 31 December 2013 there are no individually significant items of property, plant and equipment in Latin America.

a. Fully depreciated assets

Details of the cost of fully depreciated property, plant and equipment in use at 31 December are as follows:

	Thousands of Euros	
	2013	2012
Buildings	434	525
Technical installations and machinery	1,288	1,523
Other installations, equipment and furniture	5,806	5,940
Other property, plant and equipn	3,047	3,074
Total	**10,575**	**11,062**

b. Insurance

The Group has taken out insurance policies to cover the risk of damage to its property, plant and equipment. The coverage of these policies is considered sufficient.

c. Impairment

The Group did not recognise any impairment on its property, plant and equipment in 2013 or the six-month period ended 31 December 2012.

d. Disposals

Disposals of property, plant and equipment in 2013 gave rise to losses of Euros 37 thousand, which have been recognised in the accompanying consolidated income statement (Euros 12 thousand in 2012) (see note 24 g).

6. INVESTMENT PROPERTY

a. General

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

	Thousands of Euros		
	2013		
	Land	Buildings	TOTAL
Cost at 1 January 2013	**7,898**	**25,281**	**33,179**
Disposals	(87)	-	(87)
Transfers	-	52	52
Translation differences	(79)	-	(79)
Cost at 31 December 2013	**7,732**	**25,333**	**33,065**
Accumulated depreciation at 1 January 2013	**-**	**(9,129)**	**(9,129)**
Depreciation	-	(1,163)	(1,163)
Transfers	-	(25)	(25)
Accumulated depreciation at 31 December 2013	**-**	**(10,317)**	**(10,317)**
CARRYING AMOUNT AT 31 DECEMBER 2013	**7,732**	**15,016**	**22,748**

	Thousands of Euros		
	2012		
	Land	Buildings	TOTAL
Cost at 1 July 2012	**7,927**	**25,279**	**33,206**
Additions	-	17	17
Transfers	-	(15)	(15)
Translation differences	(29)	-	(29)
Cost at 31 December 2012	**7,898**	**25,281**	**33,179**
Accumulated depreciation at 1 July 2012	**-**	**(8,517)**	**(8,517)**
Depreciation	-	(612)	(612)
Accumulated depreciation at 31 December 2012	**-**	**(9,129)**	**(9,129)**
Carrying amount at 31 December 2012	**7,898**	**16,152**	**24,050**

Investment property mainly includes sports facilities located at the Islas Filipinas Tercer Depósito area.

On 12 April 2013 the operation of this sports facilities representing a total investment of Euros 14 million, was once again transferred to a third party for a period of five years and five months, in exchange for an annual rental of approximately Euros 4,193 thousand.

The total carrying amount of the Group's investment property outside Spain is Euros 564 thousand (Euros 643 thousand in 2012), corresponding to property held by the subsidiary Grupo Inassa (Gestión Integral de Suministros).

Details of non-income-generating investment property at 31 December are as follows:

	Thousands of Euros		
	2013		
Description	Cost	Accumulated depreciation	Net
Land	7,732	-	7,732
Other assets	2,882	(977)	1,905
Total	**10,614**	**(977)**	**9,637**

	Thousands of Euros		
	2012		
Description	Cost	Accumulated depreciation	Net
Land	7,898	-	7,898
Other assets	2,882	(916)	1,966
Total	**10,780**	**(916)**	**9,864**

b. Income and expenses from investment property

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

	Thousands of Euros	
	2013	2012
Lease income	1,001	718
Operating expenses of income-generating investments	(1,128)	(555)
Operating expenses of non-income-generating investments	(61)	(57)
Total	**(188)**	**106**

c. Insurance

The Group has taken out insurance policies to cover the risk of damage to its investment property. The coverage of these policies is considered sufficient.

d. Fair values

The fair value of investment property at 31 December 2013 and 2012 is as follows:

Item	Thousands of Euros	
	2013	2012
Buildings	100,046	104,773

7. GOODWILL

Movement during 2013 and 2012 is as follows:

	Thousands of Euros			
	2013			
	Balance at 01/01/2013	Additions to the scope of consolidation	Translation differences	Balance at 31/12/2013
AAA Ecuador Agacase	578	-	(104)	474
Hidráulica Santillana, S.A.U.	12,610	-	-	12,610
Avanzadas Soluciones de Acueducto y Alcantarillado, S.A.	-	32	(2)	30
Total	**13,188**	**32**	**(106)**	**13,114**

	Thousands of Euros		
	2012		
	Balance at 01/07/2012	Translation differences	Balance at 31/12/2012
AAA Ecuador Agacase	616	(38)	578
Hidráulica Santillana, S.A.U.	12,610	-	12,610
Total	**13,226**	**(38)**	**13,188**

The lowest level at which goodwill is monitored for impairment testing purposes is the CGU, which is also the individual subsidiary.

The key assumptions employed in determining value in use applied to obtain the recoverable amount when testing goodwill for impairment include the growth rate of revenues and EBITDA, and the weighted average cost of capital (WACC).

The growth rate of revenues and EBITDA used in the projections is as follows:

	CAGR revenues	CAGR EBITDA
Hidráulica Santillana, S.A.U.	0%	(0.98%)
AAA Ecuador Agacase, S.A.	5.2%	10.3%
Avanzadas Soluciones de Acueducto de Alcantarillado, S.A. ESP	11.0%	17.5%

The Group tests each group of CGUs to which goodwill has been allocated for impairment on an annual basis. Management must use estimates to calculate the recoverable amount of a CGU to which goodwill has been allocated. The recoverable amount is the higher of fair value less costs to sell and value in use. The Group determines the recoverable amount of CGUs based on their value in use, and uses cash flow discounting methods to calculate these values. Discounted cash flow calculations are based on five-year projections in the budgets approved by management. The Company has projected cash flows for a period of more than five years, since its projections cover the entire concession periods. Management considers these projections reliable and can demonstrate its ability based on past experience. The cash flows represent management's best estimate of future market performance. From the fifth year cash flows are extrapolated using individual growth rates for each CGU. The periods of time considered in these projections reflect the term of the concessions currently operated by these entities. The estimates, including the methodology used, could have a significant impact on values and impairment. The weighted average cost of capital is (WACC) is 7.21% (7.75% in 2012) for the investment in Hidraúlica Santillana, S.A.U., 13.31% (13.96% in 2012) for AAA Ecuador Agacase, and 9.55% for Avanzadas Soluciones de Acueducto y Alcantarillado, S.A. Besides impairment testing, the Group has also performed a sensitivity analysis on the goodwill allocated to these investments, for the purposes of the key assumption (WACC). Details of the WACC threshold above which impairment losses would arise are as follows:

INVESTMENT	Increase in WACC (b.p.)
Hidráulica Santillana, S.A.U.	83
AAA Ecuador Agacase, S.A.	2,431
Avanzadas Soluciones de Acueducto de Alcantarillado, S.A. ESP	2,241

The sensitivity analysis for EBITDA assumptions is as follows:

	Decrease in income	Increase in costs
Hidráulica Santillana, S.A.U.	6%	12%
AAA Ecuador Agacase, S.A.	7%	8%
Avanzadas Soluciones de Acueducto de Alcantarillado, S.A. ESP	32%	69%

No impairment has been recognised on goodwill in the periods ended 31 December 2013 and 2012.

8. OTHER INTANGIBLE ASSETS

Details of other intangible assets at 31 December and movement during the period are as follows:

	Thousands of Euros						
	2013						
	Development	Concessions	Patents, licences, trademarks and similar rights	Computer software	Concession arrangements, regulated assets	Concession arrangements, regulated assets under development	TOTAL
Cost at 1 January 2013	**649**	**2,887**	**1**	**2,120**	**6,226,122**	**287,282**	**6,519,061**
Additions	93	-	-	352	105,243	84,904	190,592
Capitalised borrowing costs	-	-	-	-	-	351	351
Disposals	(16)	-	(1)	(4)	(12,754)	(17)	(12,792)
Transfers	-	-	-	49	72,951	(72,515)	485
Translation differences	(66)	(340)	-	(204)	(25,949)	(145)	(26,704)
Cost at 31 December 2013	**660**	**2,547**	**-**	**2,313**	**6,365,613**	**299,860**	**6,670,993**
Accumulated amortisation at 1 January 2013	**(287)**	**(2,586)**	**(1)**	**(1,746)**	**(2,255,794)**	**-**	**(2,260,414)**
Amortisation	(7)	(78)	-	(257)	(112,237)	-	(112,579)
Disposals	16	-	1	4	12,082	-	12,103
Transfers	-	-	-	-	(378)	-	(378)
Translation differences	25	318	-	165	15,230	-	15,738
Accumulated amortisation at 31 December 2013	**(253)**	**(2,346)**	**-**	**(1,834)**	**(2,341,097)**	**-**	**(2,345,530)**
Accumulated impairment at 1 January 2013	**-**	**-**	**-**	**-**	**(85)**	**-**	**(85)**
Reversal of impairment losses	-	-	-	-	12	-	12
Accumulated impairment at 31 December 2013	**-**	**-**	**-**	**-**	**(73)**	**-**	**(73)**
Carrying amount at 31 December 2013	**407**	**201**	**-**	**479**	**4,024,443**	**299,860**	**4,325,390**

	Thousands of Euros						
	2012						
	Development	Concessions	Patents, licences, trademarks and similar rights	Computer software	Concession arrangements, regulated assets	Concession arrangements, regulated assets under development	TOTAL
Cost at 1 July 2012	**619**	**3,013**	**1**	**2,081**	**6,038,368**	**360,581**	**6,404,663**
Additions	191	-	-	120	77,363	45,783	123,457
Capitalised borrowing costs	-	-	-	-	-	423	423
Disposals	(90)	-	-	-	(120)	-	(210)
Transfers	-	-	-	-	119,356	(119,341)	15
Translation differences	(71)	(126)	-	(81)	(8,845)	(164)	(9,287)
Cost at 31 December 2012	**649**	**2,887**	**1**	**2,120**	**6,226,122**	**287,282**	**6,519,061**
Accumulated amortisation at 1 July 2012	**(403)**	**(2,661)**	**(1)**	**(1,632)**	**(2,206,600)**	**-**	**(2,211,297)**
Amortisation	-	(39)	-	(178)	(54,348)	-	(54,565)
Disposals	90	-	-	-	45	-	135
Translation differences	26	114	-	64	5,109	-	5,313
Accumulated amortisation at 31 December 2012	**(287)**	**(2,586)**	**(1)**	**(1,746)**	**(2,255,794)**	**-**	**(2,260,414)**
Accumulated impairment at 1 July 2012	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Additions due to non-monetary contribution	-	-	-	-	(126)	-	(126)
Reversal of impairment losses	-	-	-	-	41	-	41
Accumulated impairment at 31 December 2012	**-**	**-**	**-**	**-**	**(85)**	**-**	**(85)**
Carrying amount at 31 December 2012	**362**	**301**	**-**	**374**	**3,970,243**	**287,282**	**4,258,562**

The following additions recognised in 2013 under concession arrangements, regulated assets are of particular note:

The enlargement of the Campo Real wastewater treatment plant and the replacement of the peat bed and biofilter treatments at Valdetorres del Jarama, Valdepiélagos and Talamanca del Jarama by more modern systems with greater treatment capacities.

The enlargement of the sewage pumping station in Pedrezuela to increase its capacity, and the promotion of the sewage pumping station of Moralzarzal. A new spillway has been built in the A-6 outfall of the Casaquemada system between wells P29 and P30 at the connection point with the L municipal sewer which comes from Coslada.

The investments in control and automation at the wastewater treatment plants of Arroyo del Soto, Aranjuez and Fuente el Saz, the installation of an access control system with CCTV surveillance in 68 local telecommunication stations and the incorporation of new monitoring centres in the distribution network and the inclusion of the latter in the general telecontrol system, which will facilitate the measurement of capacity, pressure and the flow direction in the pipes.

The following investments in the supply network are worthy of note: various sections of the back-up project for towns in the southeast region from the San Juan reservoir, the investment recognised includes a pumping station to take water to the drinking water treatment plant at Rozas de Puerto Real; and the investments made to supply the town of El Álamo and in the water distribution system of Guadalix de la Sierra, through the replacement of the present fibre cement pipes with others of ductile cast iron, which improve the water supply and regulate the capacity and pressure, in accordance with the rules for supplying water.

The most significant supply infrastructure work carried out in 2013 includes a new storage tank built in Vallecas to replace the former one, and a pumping station and 9,000 metres of new connection pipelines constructed next to this tank. The work on extending the water storage tank at Colmenar Viejo has been completed, which now has a capacity of 10,000 m3 with a perimeter ring for transporting drinking water.

In the area of supply the following should be highlighted: the building of a 15,000 m3 tank for raw water, which in the future will become the treated water tank in the drinking water area of the Pelayos de la Presa drinking water treatment plant, and the pump at San Martín de Valdeiglesias. A pump has been built next to the Montaña de Aranjuez tank, to take water from the Tagus river to consumption areas through the Getafe-Aranjuez artery to the tank at Getafe. Additionally, wells 17 and 19 have been added to the well field of Guadarrama, after they were fitted out and connected to the electricity supply.

As part of the plan to update the network, the following should be highlighted: renewal of the pipelines in various streets of Madrid, replacing fibre cement, polyethylene and PVC pipes with ductile cast iron ones to improve the water supply, regulate capacity and pressure, reduce incidents in the network and update connections. Various investments have been made to install meters and connections when new contracts are signed.

In 2013, with regard to the construction of production facilities for regenerated water, the following are worthy of note: the tertiary facilities in the south eastern wastewater treatment plant and the regulating reservoirs to store recycled water from the towns of Coslada and Humanes in Madrid. The distribution networks of regenerated water have been increased with the investments and network extensions carried out in Coslada, San Sebastián de los Reyes, Getafe and Villanueva de la Cañada.

Additions to this caption in 2013 notably include the Euros 46,927 thousand charge for the administrative concession governing water supply, sanitation and recycling services on the islands of Lanzarote and La Graciosa.

The main additions to concessions in 2012 were as follows:

Construction of the Robledillo de la Jara and Berzosa de la Sierra wastewater treatment plants and collectors, which form part of the Lozoya River Lower Basin Project, which in turn falls within the second stage of the Community of Madrid Sanitation and Treatment Plan, included in the Sanitation and Treatment Master Plans of all of the municipalities located in the Community of Madrid.

In order to deal with sludge from urban wastewater treatment plants, a landfill site was built in Loeches to ensure the safe storage, for approximately two years, of sludge classed as unsuitable for agriculture.

Extensions have been carried out in the Valmayor drinking water treatment plant, and impurity removal has been improved. These measures were declared urgent and in the public interest by the Regional Cabinet of the Community of Madrid in Decree 98/2005 of 29 September 2005.

Investment in the area of extension, upgrading and improvement of canals and major conduits notably includes the various stages of the project to reinforce the Picadas-Majadahonda arterial conduit.

The most significant supply infrastructures completed in 2012 include the construction of the San Agustín de Guadalix water tank and the Nuevo Baztán tank and lift station.

Projects involving the supply of recycled water for irrigation purposes were carried out in San Fernando de Henares and Miraflores de la Sierra, where water tanks, pumping systems and a distribution network have been built.

The most significant additions outside Spain are sewer network and conduit infrastructures of approximately Euros 17,911 thousand located in Barranquilla District (Colombia) (Euros 12,201 in 2012).

The carrying amount of the Group’s intangible assets located outside of Spain is Euros 126,012 thousand (Euros 133,493 thousand in 2012).

a. Concession arrangements and administrative concessions

Details of the most significant concession arrangements are as follows:

				Thousands of Euros			
				2013			
Concession arrangements, regulated assets	Use	Expiry date	Amortisation period	Cost	Accumulated amortisation	Impairment	Net
In Spain							
Rights to use Madrid City Council sanitation infrastructures	Operations	2036	31	926,000	(236,000)	-	690,000
Rights to use Community of Madrid General Network infrast	Operations	2062	50	4,668,207	(1,919,891)	(73)	2,748,243
Additional investments, rights to use Madrid City Council sanitation infrastructures	Operations	2036	31	37,415	(4,894)	-	32,521
Rights to use Madrid City Council recycling infrastructures	Operations	2061	50	189,000	(9,450)	-	179,550
Rights to use municipal sewer infrastructures	Operations	2062	50	132,474	(8,245)	-	124,229
Rights to use technical installations (Aguas de la Cuenca del	Operations	2039	30	69,780	(9,745)	-	60,035
Rights to use council-owned land in Guadarrama	Operations	2039	30	10,752	(1,762)	-	8,990
Investments to extend and upgrade the Alcalá de Henares cc	Operations	2030	25	12,575	(4,381)	-	8,194
Lanzarote administrative concession	Operations	2043	30	46,927	(912)	-	46,015
In Latin America							
Barranquilla District concession	Operations	2033	20+20	254,301	(137,790)	-	116,511
Rights to contracts, AAA Ecuador	Operations	2032	30	8,654	(1,957)	-	6,697
Rights to contracts, AAA Dominicana	Operations	2015	11	2,367	(2,231)	-	136
Atlántico concession, other towns	Operations	2019	20	3,490	(2,073)	-	1,417
Total				**6,361,942**	**(2,339,331)**	**(73)**	**4,022,538**

				Thousands of Euros			
				2012			
Concession arrangements, regulated assets	Use	Expiry date	Amortisation period	Cost	Accumulated amortisation	Impairment	Net
In Spain							
Rights to use Community of Madrid General Network infrastructures	Operations	2062	50	4,563,887	(1,867,229)	(85)	2,696,573
Rights to use Madrid City Council sanitation infrastructures	Operations	2036	31	926,000	(206,000)	-	720,000
Additional investments, rights to use Madrid City Council sanitation infrastructures	Operations	2036	31	34,359	(3,601)	-	30,758
Rights to use municipal sewer infrastructures	Operations	2062	50	132,285	(5,686)	-	126,599
Rights to use technical installations (Aguas de la Cuenca del Sur)	Operations	2039	30	69,780	(7,959)	-	61,821
Rights to use council-owned land in Guadarrama	Operations	2039	30	10,752	(1,404)	-	9,348
Investments to extend and upgrade the Alcalá de Henares concession	Operations	2030	25	12,564	(3,845)	-	8,719
In Latin America							
Barranquilla District concession	Operations	2033	20+20	258,598	(136,426)	-	122,172
Rights to contracts, AAA Ecuador	Operations	2032	30	6,435	(1,758)	-	4,677
Rights to contracts, AAA Dominicana	Operations	2015	11	2,696	(2,464)	-	232
Atlántico concession, other towns	Operations	2019	20	4,806	(1,445)	-	3,361
Total				**6,022,162**	**(2,237,817)**	**(85)**	**3,784,260**

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

- The Community of Madrid General Network comprises all of the infrastructures used to provide the public services assigned to the Public Entity by the Community of Madrid. Under the terms of Law 3/2008 and in accordance with the terms and conditions of the Contract-Programme, the management of these infrastructures has been entrusted to the Parent. This includes the operation, repair and maintenance of the Network, the provision of the corresponding water supply, sanitation and recycling services, and any other services and activities corresponding to the Public Entity under the mentioned law, except those expressly reserved to the Public Entity by the terms of the Contract-Programme. So that the Parent can manage these infrastructures, article 16 of Law 3/2008 required the Community of Madrid and the Public Entity to provide it with as many public-domain assets making up the Community of Madrid General Network as necessary for it to exercise the activities and duties entrusted to it. The Contract-Programme also provides for the Parent's use and management of energy resources currently operated by the Public Entity, as well as any such activities that may be carried out in the future. Furthermore, the Parent is entitled to provide any other services entrusted to the Public Entity by the Community of Madrid, particularly Closed User Group mobile communications services. All of these infrastructures are public property as they are used for public services provided by the Parent and, as such, may not be disposed of or seized and are not subject to any statute of limitations. These assets may only be sold in the event that they are no longer required, but with the legal obligation to allocate the gains obtained to investments in the Community of Madrid General Network.

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

  On expiry of the Contract-Programme, the Parent is required to return the assets and rights that make up the Network, and any other goods and installations in the public domain that are required to provide the service, to the public authorities in good working order and perfect condition, as required by the progress clause governing the Contract-Programme, ensuring that these assets are still capable of providing the service based on the depreciation schedules of the different constituent items.

  Once this period has elapsed and the Contract-Programme expires, the Public Entity is required to compensate the Parent for any investments made to carry out new infrastructure plans and not depreciated while the Contract-Programme was in force, taking into account the condition of such infrastructures and the value of the investment made, deducting any technical depreciation under the terms set out in these plans.

  In 2013 the Parent charged Euros 93,059 thousand to the provision for infrastructure replacement relating to the Community of Madrid General Network (Euros 46,285 thousand in 2012) (see note 21).

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

- The conveyance of the right to use Madrid City Council treatment infrastructures is regulated by the Agreement for the Management of Sanitation Services, signed between Madrid City Council, the Community of Madrid and Canal de Isabel II on 19 December 2005, which assigned the running of the sanitation services (sewage and treatment), in both technical and commercial terms, as well as wastewater recycling services in the city of Madrid, to Canal. This agreement is valid for 25 years from 1 January 2006, with consideration of Euros 700 million payable for the right to use the treatment and sewage 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 consideration of Euros 226 million 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 Euros 613 million, of which Euros 443 million is considered as investment in replacements. During the period ended 31 December 2013 the Parent charged Euros 16,380 thousand to the provision for replacements (Euros 8,276 thousand in 2012) (see note 21).

Once this agreement has expired, the rights to use the sewage and treatment infrastructure will revert from the Parent to Madrid City Council. At the end of the initial established agreement term, Madrid City Council has agreed to pay the Parent the amount outstanding for the new investments under the terms of this agreement.

Under the terms of the agreement signed between the Community of Madrid, Canal de Isabel II and Madrid City Council on 4 May 2011, relating to the inclusion of the latter in Canal de Isabel II's future management model, the sanitation service agreement which expires on 31 December 2036 must be extended or renewed pursuant to the good faith and loyalty required from both parties by the fifth clause of this inclusion agreement. When this extension is agreed, Madrid City Council will receive financial consideration for the rights of use transferred for the extension period.

The consideration received by the Parent is the right to collect the corresponding tariffs from customers in the city of Madrid for sewage and treatment services rendered, based on their use of these services. Tariffs and any amendments or updates thereto are authorised by the Community of Madrid, in accordance with prevailing legislation.

- The conveyance of the right to use regenerated water distribution and supply infrastructures is regulated by the agreement governing management of treated water recycling, signed between Madrid City Council, the Community 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 prevailing legislation to Canal for a period of 50 years from 1 July 2011. The Parent manages the maintenance and operation of the infrastructure and facilities included within the scope of this agreement. For all effects and purposes the water recycling infrastructure will be included in the Community of Madrid Network and will be managed by the Parent, although ownership of the infrastructure will remain with Madrid City Council. Should the agreement be terminated for any reason, the municipal infrastructure used to render the water recycling service will revert from the Parent to Madrid City Council, in good working condition. The agreement does not include any commitment to perform any maintenance work required with respect to the infrastructure for the transport and supply of regenerated water. Total consideration of Euros 189 million was paid for the right to use these infrastructures. At the end of the initial established agreement term, Madrid City Council has agreed to pay the Parent the amount outstanding for the new investments under the terms of this agreement. As consideration, the Parent was entitled to bill the recycling services it rendered, in accordance with the approved tariffs. Tariffs and any amendments or updates thereto are authorised by the Community of Madrid, in accordance with prevailing legislation. During the period ended 31 December 2013 the Parent charged Euros 1,361 thousand to the provision for replacements (Euros 1,361 thousand in 2012) (see note 21). Under the terms of the agreement signed between the Community of Madrid, Canal de Isabel II and Madrid City Council on 4 May 2011, relating to the inclusion of the latter in Canal de Isabel II's future management model, the regenerated water recycling agreement which expires on 4 May 2061 must be extended or renewed pursuant to the good faith and loyalty required from both parties by the fifth clause of the inclusion agreement.

- The conveyance of rights to use municipal sewer network infrastructure is governed by the respective agreements entered into by the town and city councils, the Community of Madrid and Canal de Isabel II for the provision of sewage services in certain areas. These agreements stipulate that the sewage networks owned by the town and city councils form part of the Community of Madrid Network and are assigned to Canal de Isabel II. The town and city councils have entrusted the management and operation of the sewage services, as well as the corresponding infrastructure and facilities, to the Community of Madrid through the Parent.

  At 31 December 2013, 134 municipalities have signed these sewage agreements. Agreements with the following 30 municipalities have entered into force since 1 July 2012:

		Thousands of Euros	
		2013	2012
Municipality	Term (years)	Gross amount	Gross amount
Ambite sewer system	50	33	33
Cadalso de los Vidrios sewer system	50	177	177
Corpa sewer system	50	36	36
Fresnedillas Oliva sewer system	50	90	90
Fuentidueña Tajo sewer system	50	126	126
Navas del Rey sewer system	50	157	157
Pelayos de la Presa sewer system	50	157	157
Santorcaz sewer system	50	49	49
Valverde Alcalá sewer system	50	29	29
Getafe sewer system	50	10,148	10,148
Chinchón sewer system	50	321	321
Perales de Tajuña sewer system	50	174	174
Santa Mª Alameda sewer system	50	70	70
Velilla San Antonio sewer system	50	700	700
Villamantilla sewer system	50	57	57
Villanueva de Perales sewer system	50	92	92
San Martin Valdeiglesias sewer system	50	491	491
Moraleja en Medio sewer system	50	317	317
Villanueva Pardillo sewer system	50	1,009	1,009
Valdemorillo sewer system	50	673	673
Arroyomolinos sewer system	50	1,367	1,367
Torrelaguna sewer system	50	-	-
Boadilla del Monte sewer system	50	2,683	2,683
Alcobendas sewer system	50	6,756	6,756
San Fernando de Henares sewer system	50	2,483	2,483
San Sebastián de los Reyes sewer system	50	4,995	4,995
Villarejo de Salvanés sewer system	50	444	444
Villaviciosa de Odón sewer system	50	1,604	1,604
Casarrubuelos sewer system	50	189	-
Rascafría sewer system	50	-	-
Total		**35,427**	**35,238**

These agreements do not stipulate any investment commitments, but rather require Canal to conduct diagnostic studies on the current condition of the sewage networks so that master plans for the improvement of these facilities can be drawn up where necessary. The consideration received by the Parent for providing the sewage 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 Community of Madrid, in accordance with prevailing legislation. At the end of the established term of the agreements, the town and city councils have agreed to pay the Parent the amount outstanding for the investments made.

Sewer service agreements were signed with two municipal councils in 2013, totalling Euros 189 thousand (agreements totalling Euros 35,238 thousand were signed in the six-month period ended 31 December 2012). From all such agreements signed since 1 July 2012, Euros 5,482 thousand is outstanding at 31 December 2013 and has been recognised under payables to suppliers of fixed assets (other financial liabilities) (Euros 31,856 thousand in 2012) (see note 18).

Concession arrangements signed in Spain in 2013 notably include the Public Service Management Agreement for the concession to provide water supply, sanitation and recycling services on the islands of Lanzarote and La Graciosa signed between Canal Lanzarote Gestión and the Lanzarote Water Board, in accordance with which the subsidiary is required to make certain committed investments, which, on completion of the term agreed in its bid, are estimated to total Euros 54 million. According to this subsidiary's technical department, the useful life of the facilities is longer than the concession term and a suitable corrective and preventative maintenance programme will eradicate the need for any major investments or replacements.

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

Amagua C.E.M. (Ecuador) provides public drinking water and sewer services through exclusive concessions (under regulated authorisation) granted by the Decentralised Autonomous Governments of the cantons of Samborondón and Daule.

- Amagua's operations in the Samborondón canton are governed by the "Agreement regulating the relationship between the Town of Samborondón and the company Aguas de Samborondón Amagua C.E.M. for the provision of drinking water and sewer services in the urban development area of Samborondón canton", which was signed on 30 November 2001, and the addenda thereto signed on 14 December 2009, for a 50-year period from March 1998 onwards. The service provided by Amagua also falls within the scope of the town charter passed by the Mayor of Samborondón on 28 May 2010.

- Operations in the Daule canton are covered by an agreement signed with the canton authorities on 10 February 2005, a first addendum signed on 22 July 2009 and a second addendum dated 1 August 2012, for a 15-year period from 2005 (until 2020). This service is governed by a town charter passed by the Mayor of Daule on 24 July 2009.

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

Amagua's obligations derived from these agreements do not include any investment commitments, as its operations are limited to the existing infrastructure available for the service, in some cases provided by the municipal authorities themselves, and in others by property development firms. According to this subsidiary's technical department, the useful life of the facilities is longer than the concession term and a suitable corrective and preventative maintenance programme will eradicate the need for any major investments or replacements. Although it is not bound to make any investments, where required for its particular needs, the subsidiary may carry out work on a self-financed basis or in collaboration with other parties.

Triple A de Barranquilla (Colombia) has the following concession contracts:

- Share subscription agreement signed with the District of Barranquilla on 19 October 1993, whereby it received the right to use the assets directly or indirectly involved in the conduit, sewer and sanitation services in this district under a 20-year concession. These assets were previously held by the former state-owned enterprise Empresa Pública Municipal de Barranquilla, S.A.

  On expiry of the 20-year concession term, this subsidiary is required to hand all of the concession assets back to the authorities. While the contract is in force it is required to ensure preventative and corrective maintenance.

  On 19 July 2000 this subsidiary signed a 20-year extension to the concession awarded by the District of Barranquilla, running from 19 October 2013 to 9 October 2033. Once the concession term has elapsed, the District authorities will compensate the subsidiary for any upgrade work not covered by the corrective or preventative maintenance programme at the carrying amounts at which the corresponding investments are recognised in its accounts.

- Concession contract signed on 25 March 1997 covering the provision, operation, organisation and comprehensive management of public residential conduit, sewer and sanitation services within the jurisdiction of the town of Puerto Colombia and its area of influence for a 20-year period. This contract considers that these conduit and sewer services were assumed by the concession holder from 1 April 1997.

- Concession contract signed on 4 December 2001 for a 20-year period, covering the financing, extension, refurbishment and maintenance of infrastructure for conduit and sewer services and complementary activities in the town of Soledad.

  The general obligations assumed by the concession holder under this contract include the operation and administration of the infrastructure received on concession to provide the conduit and sewer services from the date of the corresponding initiation certificate, and the operation and maintenance of this infrastructure under the terms provided in the contract.

  Through a conveyance certificate signed on 19 December 2001, Soledad town authorities handed the assets involved in the conduit and sewer services over to Triple A de Barranquilla. These assets include the "Municipal Conduit Treatment Plant" and "Metropolitan Conduit Treatment Plant".

  As the infrastructure of these treatment plants must be returned to the Soledad town authorities in working condition, the subsidiary needs to begin securing the financial resources necessary to carry out work to upgrade the treatment plants by 2020 so that it can hand them over to Soledad town authorities on the date specified in the concession contract. Under prevailing accounting legislation, and on the grounds that it is required to return the infrastructure in a usable condition and working order under the terms of the contracts, the subsidiary has considered this work as a replacement and major repair and therefore recognised the corresponding provision during the year ended 31 December 2013 with a charge of Euros 671 thousand to the consolidated income statement (Euros 721 thousand in 2012) (see note 21).

- Concession contract signed on 18 October 2002 for a 20-year period, covering the conduits and sewer infrastructure services and complementary activities in the town of Galapa. This agreement includes the obligation to provide drinking water in bulk to guarantee the efficient provision of the conduit and sewer services within the town boundaries of Galapa. Ownership of part of the bulk drinking water pipe has also been conveyed to the subsidiary. Operations under this contract commenced on 1 November 2002.

- Operation/investment contract arranged between Triple A de Barranquilla, Acueducto Regional Costero S.A. E.S.P. and Arcos S.A. E.S.P. for a 16-year period. This contract was signed on 13 October 2006 but began in May 2008 because it was subject to the completion of certain work by the Barranquilla District authorities.

  The purpose of this operation/investment contract is to regulate the obligations, rights and activities for the management, financing, operation, refurbishment, design, expansion, replacement and maintenance of the infrastructure of the residential public water conduit service and complementary activities in the towns of Juan de Acosta, Tubará, Usiacurí and Piojó.

- Sabanalarga operations contract. The operation of public residential water conduit and sewer services in the town of Sabanalarga (Atlántico Department) was conveyed in Contract 001-2002, signed on 24 June 2004.

  Through this agreement, the recipient acquired all the transferor's rights and obligations in relation to this contract, in return for consideration of Colombian Pesos 300 million.

  The recipient is required to hand over all of the component assets of the Sabanalarga water conduit and sewer service infrastructure to the transferor on expiry of this agreement in 2022.

- Baranoa and Polonuevo operations contract. On 7 June 2005 Aguas del Norte S.A. E.S.P. transferred operation/investment contract 1/2003, which regulates the administration, management, financing, refurbishment, expansion, replacement, maintenance, design and operation of the infrastructure making up the public residential water conduit and sewer services in the urban areas of Baranoa and Polonuevo, including rural estates and areas (Atlántico Department), as well as complementary activities. This contract has a term of 20 years starting on 1 December 2003.

Through this agreement, the subsidiary acquired all of Aguas del Norte S.A. E.S.P.'s rights and obligations in relation to this contract, in return for consideration of Colombian Pesos 650 million.

- Sabanagrande and Santo Tomás operation/investment contract. On 18 March 2005 the subsidiary signed an operation/investment contract with ASOSASA, E.S.P. for the management, financing, operation, refurbishment, expansion, replacement and maintenance of the infrastructure making up the residential public water conduit and sewer service within the town boundaries of Sabanagrande and Santo Tomás (Atlántico Department), as well as complementary activities. This contract has a 19-year term.

As established in these agreements, the Colombian government is responsible for any major investments necessary in water conduit and basic sanitation infrastructures.

Pursuant to prevailing legislation, tariffs and any amendments or updates thereto are authorised by the pertinent government authority.

b. Concession arrangements, regulated assets under development and intangible assets under development

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

		Thousands of Euros	
Description	**Term**	**2013**	**2012**
Community of Madrid General Netwo	50	292,230	271,479
Total		**292,230**	**271,479**

c. Disposals

Disposals of intangible assets in 2013 gave rise to gains of Euros 650 thousand (a gain of Euros 16 thousand on intangible assets in 2012) and a loss of Euros 654 thousand, which have been recognised in the accompanying consolidated income statement (a loss of Euros 43 thousand on intangible assets in 2012) (see note 24).

d. Impairment

The Group did not recognise any impairment on its intangible assets in the year ended 31 December 2013 or the six-month period ended 31 December 2012.

e. Insurance

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

f. Revertible intangible assets

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

g. Investment commitments

At 31 December 2013 the Parent's budgets for the coming year include investment commitments amounting to Euros 228 million. Replacements account for approximately Euros 65-70 million of this balance (Euros 230 million and Euros 66 million, respectively, in 2012).

Under the terms of the Agreement for the Management of Sanitation Services entered into by Madrid City Council, the Community of Madrid and Canal de Isabel II, the Parent is contractually bound to carry out any work necessary to maintain the wastewater treatment infrastructure, as well as to comply with the annual new work schedule and upgrade existing infrastructure. These investments are expected to total Euros 613 million by the end of the agreement term, of which Euros 158 million reflects treatment and Euros 455 million relates to sewers. At 31 December 2013, investments totalling Euros 97 million have been completed (Euros 81 million up to 2012).

At 31 December 2013 the Latin American subsidiaries do not have any major investment commitments in their budgets for the coming year.

h. Significant items

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

	Thousands of Euros	
	2013	2012
	Carrying amount	Carrying amount
Canals and general conduits	932,266	938,886
Distribution network	642,300	633,258
Wastewater treatment plant	339,831	324,040
Tanks	207,675	212,433
Land	198,953	198,471
General buildings	142,927	143,023
Drinking water treatment plant	120,221	125,053
Low-voltage transformation and distribution	76,642	71,422
Recycling networks	54,991	46,776
Underground water collection	20,081	19,774

There are no individually significant assets in Latin America at 31 December 2013 or at 31 December 2012.

i. Fully amortised assets

The cost of fully amortised intangible assets at 31 December 2013 and 2012 is as follows:

	Thousands of Euros	
	2013	2012
Development	253	287
Trademarks	-	1
Concessions and concession arrangements, regulated assets	355,441	319,647
Total	**355,694**	**319,935**

9. LEASES

a. OPERATING LEASES (LESSEE)

The Group has rights to use certain assets, primarily properties, through operating lease contracts.

The most significant lease contracts relate to the following buildings:

- Floors 3 and 4 and several garage parking spaces in an office building. The contract has a term of four years from 1 March 2013, and the annual rent amounts to Euros 807 thousand.

- Office building. The contract has a term of one year, automatically renewable for additional one-year periods, and the annual rent amounts to Euros 521 thousand.

The remaining lease contracts have a term of between one and five years. Most are renewable upon expiry under market conditions, by agreement of the parties.

Lease expenditure totalled Euros 11,678 thousand in 2013 (Euros 5,126 thousand in 2012).

None of the lease contracts in which the Group is the lessee contain contingent rents.

Future minimum payments under non-cancellable operating leases are as follows (in thousands of Euros):

	Thousands of Euros	
	2013	**2012**
Less than one year	4,567	3,631
One to five years	16,074	20,331
Over five years	4,506	5,034
Total	**25,147**	**28,996**

b. OPERATING LEASES (LESSOR)

The Group has leased out various items and infrastructure; specifically, facilities and land where cable installations are authorised, as well as antennas and other facilities leased to telecommunications operators. Most of these contracts have a term of one year. Lease income from this type of contract totalled Euros 1,679 thousand in 2013 (Euros 1,233 thousand in 2012).

The Group has given out exploitation rights on the Islas Filipinas Tercer Depósito area. This contract has a term of five years and five months from 16 April 2013, and generated annual lease income of Euros 727 thousand in 2013 (Euros 525 thousand in 2012).

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

	Thousands of Euros	
	2013	**2012**
Less than five years	7.848	7.849
Over five years	2.457	3.970
Total	**10.305**	**11.819**

10. INVESTMENTS IN EQUITY-ACCOUNTED ASSOCIATES

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

Movement in investments in associates is as follows:

	Thousands of Euros					
	2013					
	Balance at 01/01/2013	Additions to the scope of consolidation	Profit/(loss)	Translation differences	Other	Balance at 31/12/2013
GSS Venture, S.L.	422	-	(48)	-	45	419
Compañía de Acueducto y Alcantarillado Metropolitano de Santa Marta	3,876	-	(57)	(469)	(9)	3,341
Avanzadas Soluciones de Acueducto y Alcantarillado SA ESP	-	339	(106)	(34)	(32)	167
Total	**4,298**	**339**	**(211)**	**(503)**	**4**	**3,927**

	Thousands of Euros			
	2012			
	Balance at 01/07/2012	Profit/(loss)	Translation differences	Balance at 31/12/2012
GSS Venture, S.L.	512	(90)	-	422
Compañía de Acueducto y Alcanta	4,229	(172)	(181)	3,876
Total	**4,741**	**(262)**	**(181)**	**4,298**

11. JOINT VENTURES

Information on temporary joint ventures is presented in Appendix IV.

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

	2013		
	Thousands of Euros		
	Aguas de Alcalá TJV	Other	Total
Non-current assets	21,870	-	21,870
Current assets	6,630	**1,237**	7,867
Equity	1,091	137	1,228
Current liabilities	(29,591)	**(1,374)**	(30,965)
Revenues	10,668	**398**	11,066
Supplies	(4,755)	-	(4,755)
Personnel expenses	(2,071)	-	(2,071)
Other operating expenses	(2,224)	(8)	(2,232)
Amortisation and depreciation	(1,427)	-	(1,427)
Finance costs	(1,321)	-	(1,321)

	2012		
	Thousands of Euros		
	Aguas de Alcalá TJV	Other	Total
Non-current assets	23,284	-	23,284
Current assets	**5,656**	1,337	6,993
Equity	277	135	412
Current liabilities	**(29,217)**	(1,472)	(30,689)
Revenues	5,992	250	6,242
Supplies	(1,858)	-	(1,858)
Personnel expenses	**(1,035)**	-	(1,035)
Other operating expenses	(1,461)	(89)	(1,550)
Amortisation and depreciation	**(712)**	-	(712)
Finance costs	(704)	-	(704)

12. FINANCIAL ASSETS

Details of other investments are as follows:

a. Loans to Group companies and associates

Details of loans to Group companies are provided in note 26.

	Thousands of Euros			
	2013		2012	
	Non-current	Current	Non-current	Current
Equity instruments	263	-	323	-
Loans to Group companies and associates	-	17,378	-	4,676
Loans to third parties	101,611	16,779	109,512	15,551
Deposits and guarantees	13,215	1,321	14,653	1,487
Impairment	(33,143)	(2,722)	(38,012)	(2,722)
Total	**81,946**	**32,756**	**86,476**	**18,992**

b. Loans to third parties

Details of loans to third parties are as follows:

	Thousands of Euros			
	2013			
Type	Year of final maturity	Nominal amount	Non-current	Current
Works carried out for town councils	2020	73,692	38,475	14,034
Disposal of fixed assets	2009	2,722	-	2,722
Regeneration works	2040	484	313	23
Refinancing agreement Triple A Barranquilla (Colombia)	2020	28,167	28,167	-
Solidarity Fund	Various	25,190	25,190	-
Receivables from partners and shareholders	Various	2,146	2,146	-
Other receivables, Triple A Barranquilla	Various	6,404	6,404	-
Other receivables, Amagua	Various	14	14	-
Other receivables, levies and taxes	Various	873	873	-
Loans to personnel	Various	28	28	-
Other	Various	1	1	-
Total		**139,721**	**101,611**	**16,779**

	Thousands of Euros			
	2012			
Type	Year of final maturity	Nominal amount	Non-current	Current
Works carried out for town councils	2019	71,960	39,091	12,810
Disposal of fixed assets	2009	2,722	-	2,722
Regeneration works	2040	326	307	19
Refinancing agreement Triple A Barranquilla (Colombia)	2020	33,835	33,835	-
Solidarity Fund	Various	26,533	26,533	-
Receivables from partners and shareholders	Various	2,445	2,445	-
Other receivables, Triple A Barranquilla	Various	6,685	6,685	
Loans to personnel	Various	60	60	
Other	Various	562	556	
Total		**145,128**	**109,512**	**15,551**

Works carried out for town councils include balances receivable by the Parent from certain councils for work conducted on water distribution and sewer infrastructures in the respective municipalities. Receivables of Euros 10,410 thousand arose in relation to these works in 2013 (Euros 3,017 thousand in 2012). These balances are generally settled through customer bills, and a total amount of Euros 8,318 thousand was received in 2013 (Euros 4,171 thousand in 2012). Current receivables include amounts due from Alcalá de Henares town authorities for treatment services provided in previous years.

Receivables from town and city councils are recognised at amortised cost, considering the period over which each balance is expected to be recovered. The impairment presented in the non-current column reflects unrecoverable receivables from these councils under the terms of the corresponding agreements.

The Solidarity Fund reflects the deficit between the welfare contributions from socio-economic levels 5 and 6 and the commerce and industry sectors and the subsidies allocated to levels 1, 2 and 3 in the Barranquilla District and the towns of Soledad, Galapa, Usiacurí, Puerto Colombia, Tubará and Juan de Acosta. It also reflects receivables from the Solidarity Fund in respect of welfare contributions for Sabanagrande, Sabanalarga, Santo Tomás, Polonuevo and Baraona. The Group will receive these amounts from the district and town authorities. These receivables fall due at various points in time up to 2020 and earn annual interest at market rates.

Receivables from partners and shareholders include Euros 2,146 thousand (Euros 2,445 thousand in 2012) for services provided to the District of Barranquilla, which, through ruling 222 of 12 February 2011, was admitted to a financial restructuring process under the terms of Law 550 of 1999. This amount falls due in October 2015.

Loans to third parties include receivables under refinancing agreements, reflecting amounts due from users of the public water service with whom refinancing arrangements have been established and collection rescheduled. These receivables earn annual interest at market rates.

c. Deposits and guarantees

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

d. Impairment

The balance listed under impairment relates to the sale of Canal's interest in the share capital of Global Sales Solutions Line, S.L. for Euros 4,234 thousand in 2007, at which time the Euros 2,722 thousand balance outstanding was recognised under other current financial assets in the consolidated statement of financial position. Provision has been made for this entire balance as payment was not settled on the agreed date and reasonable doubts exist as to its recovery. Impairment classified as non-current relates primarily to refinancing agreements and the solidarity fund in connection with the subsidiary Triple A de Barranquilla.

Movement in impairment is as follows:

	Thousands of Euros
	2013
Balance at 1 January	**(40,734)**
Surpluses	76
Transfers	544
Translation differences	4,249
Balance at 31 December 2013	**(35,865)**

	Thousands of Euros
	2012
Balance at 1 July	**(45,636)**
Charges	(4,175)
Surpluses	8,422
Transfers	(891)
Translation differences	1,546
Balance at 31 December 2012	**(40,734)**

13. INVENTORIES

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

	Thousands of Euros	
	2013	2012
Production and distribution business		
Goods for resale	49	58
Works materials	1,455	2,094
Chemical reagents	3,709	5,519
Other supplies	3,203	3,377
Total	**8,416**	**11,048**

14. TRADE AND OTHER RECEIVABLES

Details are as follows:

	Thousands of Euros	
	Current	
	2013	**2012**
Trade receivables	266,116	268,841
Other receivables	35,198	39,241
Personnel	1,346	2,031
Public entities, other	12,853	10,857
Impairment	(84,787)	(92,625)
Total	**230,726**	**228,345**

Trade receivables reflect Euros 735 thousand receivable from the Aguas de Alcalá temporary joint venture for water treatment services, Euros 143 thousand receivable from Canal de Isabel II (Public Entity) and Euros 3,698 thousand receivable from non-consolidated Group companies. This item also includes amounts billed in relation to the Group's principal activity.

The contractual relationship between Madrid City Council and Canal de Isabel II dates back to 1972. A new agreement, which was signed on 19 December 2005 and took effect on 1 January 2006, established the terms of the relationship between Canal and Madrid City Council with regard to water supply to the city of Madrid. These agreements determine both the financial aspects of this relationship and those relating to the planning, construction, maintenance and renovation of water use networks and the use of the water supply. The financial aspects of the 2005 agreement stipulated that receivables and payables between Canal and Madrid City Council would be settled by offsetting balances.

Pursuant to the agreement signed between the Community of Madrid, Canal de Isabel II and Madrid City Council on 4 May 2011, relating to the inclusion of the latter in Canal de Isabel II's future management model, this relationship agreement has been automatically extended and now has the same duration as the inclusion agreement, i.e. 50 years.

Movement in impairment is as follows:

	Thousands of Euros	
	2013	**2012**
Balance at 1 January	**(92,625)**	**(78,488)**
Charges	(20,617)	(19,633)
Applications	16,160	2,865
Surpluses	9,102	707
Transfers	(544)	891
Translation differences	3,737	1,033
Balance at 31 December	**(84,787)**	**(92,625)**

In 2013 the Parent recognised losses of Euros 41 thousand on bad trade debts (Euros 27 thousand in 2012).

15. OTHER ASSETS

Details of other assets at 31 December are as follows:

	Thousands of Euros			
	2013		2012	
	Non-current	Current	Non-current	Current
Prepayments	60,586	2,867	59,456	1,331
Other	22,646	-	**181**	-
Total	**83,232**	**2,867**	**59,637**	**1,331**

Details of prepayments are as follows:

	Thousands of Euros			
	2013		2012	
	Non-current	Current	Non-current	Current
Prepayments for seniority awards	57,729	1,618	56,514	-
Prepayments for long-service bonuses	2,857	273	2,942	242
Prepayments	-	976	-	1,089
Total	**60,586**	**2,867**	**59,456**	**1,331**

Prepayments for seniority awards reflect the deferred premium paid by the Parent to an insurance company in respect of a risk insurance policy for early settlement of the seniority commitment (see note 3 (m)). These prepayments are taken to income as the commitment in question is incurred. Euros 3,394 thousand was recognised in 2013 reflecting the effect of the finance charge for restating these balances (Euros 1,555 thousand in 2012).

Prepayments for long-service bonuses reflect the deferred commitment paid by the Parent to an insurance company in respect of an insurance policy for early settlement of long-service bonuses (see note 3 (m)). These prepayments are taken to income as the premium in question is incurred. The Parent recognised Euros 192 thousand in 2013 reflecting the effect of the finance charge for restating these balances.

The majority of current prepayments are early payments of taxes for 2014.

"Other" reflects the acquisition cost of Emissao Engenharia e Construcoes, S.A., which the Group purchased for Euros 22 million. This investee has not been consolidated as sufficient information was not available at 31 December 2013 to determine the fair value of the assets acquired and liabilities assumed, and nor, therefore, the goodwill on consolidation. The effective percentage ownership is 72.47%.

16. CASH AND CASH EQUIVALENTS

Details of cash and cash equivalents are as follows:

	Thousands of Euros	
	2013	2012
Cash in hand and at banks	20,076	41,805
Current bank deposits	2,551	5,452
Total	**22,627**	**47,257**

Cash in hand and at banks reflects the aggregated cash of each of the companies forming the consolidated Group, with Euros 5,587 thousand corresponding to Canal de Isabel II Gestión (Euros 22,340 thousand in 2012) and Euros 3,216 thousand to Inassa (Euros 16,145 thousand in 2012).

Euros 1,695 thousand of the balance under current bank deposits pertains to Triple A de Barranquilla (Euros 4,965 thousand in 2012, of which Euros 349 thousand was held in restricted, interest-bearing accounts allocated for the redemption of non-convertible bonds) (see note 18).

The exceptions stated in the previous paragraph notwithstanding, the full cash balance is available for use in Group activities.

17. EQUITY

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

a. Capital

The Parent was incorporated on 27 June 2012 through the issue of 1,074,032,000 ordinary shares of Euro 1 par value each, which were subscribed and fully paid in by the Public Entity by way of the non-monetary contribution of the activity described in note 3. These shares have the same voting and profit-sharing rights and can be freely transferred where permitted by law. None of the Parent's shares are listed on any stock exchange.

On 30 November 2012 the board of directors of the Public Entity, fulfilling the obligation assumed in the Agreements of Inclusion in the Management Model signed with virtually all the local councils in the Community of Madrid, authorised the conveyance of the shares in the Parent corresponding to each local authority, following the established criteria on this matter.

At 31 December 2013 and 2012 these local councils hold 17.60% of the Parent's share capital.

The transferral of these shares is subject to Laws 3/2008 and 6/2011 and to the terms of the Agreements of Inclusion in the Management Model signed with local councils in the Community of Madrid.

The shareholders with direct interests of at least 10% in the share capital of the Parent are as follows:

Entity	No. of shares	Percentage ownership
Canal de Isabel II (Public Entity)	884,997,643	82.40
Madrid City Council	107,403,200	10.00

b. Share premium

The shares were issued with a share premium of Euro 1 per share, i.e. a total amount of Euros 1,074,032,000. The Public Entity paid in this share premium when it paid in the share capital through the non-monetary contribution described in note 3. This reserve is freely distributable.

c. Legal reserve

Article 274 of the Spanish Companies Act requires companies to transfer 10% of profits for the period to this reserve until it reaches an amount equal to 20% of share capital.

The legal reserve is not distributable to shareholders and if it is used to offset losses, in the event that no other reserves are available, it must be replenished with future profits.

At 31 December 2013, the Parent has appropriated Euros 13,151 thousand to this reserve (which had not yet been constituted at 31 December 2012). This amount is recognised under other reserves.

d. Translation differences

Details of translation differences are as follows:

	Thousands of Euros	
Company	**2013**	**2012**
Sociedad Interamericana de Aguas y Servicios, S.A.	(8,731)	(2,803)
Sociedad de Acueducto, Alcantarillado y Aseo de Barranquilla, S.A. E.E.P.	200	154
Recaudos y Tributos, S.A.	(225)	(58)
AAA Dominicana, S.A.	(382)	(193)
AAA Ecuador Agacase, S.A.	(215)	(63)
Watco Dominicana, S.A.	(16)	(8)
Amerika	(2)	-
Soluciones Andinas	28	-
Total	**(9,343)**	**(2,971)**

e. Distribution of profit

Profit recognised directly in equity cannot be distributed, either directly or indirectly.

The distribution of profit of the Parent for the year ended 31 December 2012, approved by the shareholders at their annual general meeting held on 26 June 2013, is as follows:

	Euros
Basis of allocation	
Profit for the period	131,504,185
	131,504,185
Distribution	
Legal reserve	13,150,418
Interim dividend	69,511,351
Dividends	48,842,416
Total	**131,504,185**

At an extraordinary general meeting held on 11 December 2013, the shareholders of the Parent agreed to distribute an interim dividend of Euros 145,219,866.76 for 2013, calculated as Euros 0.13521 per share.

It was agreed that this interim dividend will be distributed among the shareholders in proportion to their respective percentage interests and will be payable from the day after the adoption of this agreement until 25 June 2014 to every shareholder who notifies the Parent in writing of their wish to receive the payment of all or part of the amount to which they are entitled. If any shareholder fails to request payment of this dividend entitlement from the Parent by 25 June 2014, the Parent is required to pay the amounts due to the shareholder or shareholders in question within the two (2) following business days. It was also stated for the record that the conditions set forth in articles 273 to 277 of the Spanish Companies Act are to be observed in this distribution.

These amounts to be distributed do not exceed the Parent's profits for the reporting period, after deducting the estimated income tax payable on these profits, as required by article 277 of the Revised Spanish Companies Act.

The provisional accounting statement which was prepared in accordance with statutory requirements demonstrating that sufficient cash was available for distribution of the aforementioned dividend is as follows:

	Euros
Forecast distributable profit for 2013:	
Projected profit after income tax to 31.12.2013	193,626,467
Less, provision required for legal reserve	(19,362,647)
Estimated distributable profit for 2013	174,263,820
Interim dividend	145,219,867
Forecast cash flow for the period from 11 December 2013 to 11 December 2014:	
Cash flow at 11 December 2013	137,159,249
Projected receipts	1,108,050,663
Projected payments including interim dividends	(1,211,024,548)
Projected cash flow at 11 December 2014	**34,185,364**

The proposed distribution of the Parent's profit for 2013 submitted to the shareholders and which was approved at their annual general meeting was as follows:

	Euros
Basis of allocation	
Profit for the period	199,592,983.85
Distribution	
Legal reserve	19,959,298.39
Voluntary reserve	19,959,298.39
Interim dividend	145,219,866.76
Supplementary dividend	14,454,520.31
Total	199,592,983.85

f. Non-controlling interests

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

	Thousands of Euros	
	2013	**2012**
Company		
Sociedad Interamericana de Aguas y Servicios, S.A.	10,652	11,937
Watco Dominicana, S.A.	64	82
Sociedad de Acueducto, Alcantarillado y Aseo de Barranquilla, S.A. E.E.P.	8,138	7,850
Recaudos y Tributos, S.A.	322	296
AAA Dominicana, S.A.	1,962	2,153
AAA Ecuador Agacase, S.A.	1,106	951
Amerika	20	-
Soluciones Andinas	(42)	-
Total	**22,222**	**23,269**

Movement in non-controlling interests is as follows:

	Thousands of Euros	
	2013	**2012**
Balance at 1 January	**23,269**	**26,250**
Share of profit	4,258	1,470
Change in translation differences	(2,714)	(1,253)
Dividends	(2,591)	(3,198)
Balance at 31 December	**22,222**	**23,269**

g. Capital management

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

To maintain and adjust the capital structure, the Group can adjust the amount of dividends payable to shareholders and can reimburse capital.

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

Ratios in 2013 and 2012 are calculated as follows:

	Thousands of Euros	
	2013	**2012**
Loans and borrowings current and non current (note 18)	240,522	63,281
Payables to Group companies current and non current (note 18)	1,021,873	1,156,223
Less: Cash and cash equivalents	(22,627)	(47,257)
Net debt	**1,239,768**	**1,172,247**
Equity	**2,196,055**	**2,201,952**
Adjusted debt to equity ratio at 31 December	**0.56**	**0.53**

18. FINANCIAL DEBT

Details of financial liabilities are as follows:

	Thousands of Euros			
	2013		**2012**	
	Non-current	**Current**	**Non-current**	**Current**
Loans and borrowings	183,663	56,859	49,058	14,223
Payables to Group companies (note 26)	860,946	160,927	1,008,567	147,656
Other financial liabilities	119,265	87,415	93,002	88,331
Financial liabilities from issuing bonds and other marketable securities	-	-	-	15,743
Total	**1,163,874**	**305,201**	**1,150,627**	**265,953**

At 31 December 2013 current loans and borrowings include interest accrued of Euros 2,091 thousand (Euros 1,015 thousand in 2012).

Additionally, at 31 December 2013, loans and borrowings are reflected net of arrangement costs which amount to Euros 1,062 thousand.

a. Loans and borrowings

This line item includes the bank loans and borrowings detailed below:

Thousands of Euros							
2013							
COMPANY	ORIGINAL AMOUNT	TYPE	MATURITY	ANNUAL INTEREST RATE	CURRENT	NON-CURRENT	TOTAL
CANAL GESTIÓN [1]	EUR 134,400	Syndicated	28-dic-20	Euribor+4.35%	-	134,400	134,400
INASSA SUBGROUP							
Inassa (Colombia)	USD 15.4 million	Ordinary	Several	(between 2.9 and 3.3) and DTF+(between 2.4	10,280	903	11,183
Inassa (Panama branch)	USD 2 million	Ordinary	Several	LIBOR+(between 2.8 and 4)	635	544	1,179
Triple A de Barranquilla	OP 220,700 millio	Ordinary	Several	DTF+(between 1.8 and 5.5%)	16,328	48,814	65,142
GIS	COP 155 million	Cash	Several	DTF+7.44%	58	-	58
AAA Ecuador	USD 1.494 million	Commercial	Several	Between 3% and 10.5%	440	64	504
R&T	COP 1.100 million	Cash	31-dic-13	DTF+(between 2.61 and 3.37%)	414	-	414
				Total	28,155	184,725	212,880

[1] Syndicated loan managed by Banco Santander and extended by BBVA, Banco Popular, Banco Sabadell, Caixabank and Bankinter. The Parent, Canal de Isabel II Gestión, S.A., undertakes to comply with a net financial debt/EBITDA ratio for this loan. At 31 December 2013 the Parent complies with this ratio.

Thousands of Euros							
2012							
COMPANY	ORIGINAL AMOUNT	TYPE	MATURITY	ANNUAL INTEREST RATE	CURRENT	NON-CURRENT	TOTAL
CANAL EXTENSIA	EUR 1 million	Ordinary	10-mar-13	Euribor + 3.75%	987	-	987
INASSA SUBGROUP							
Inassa (Panama branch)	USD 2 million	Ordinary	Several	LIBOR(180)+(between 2.8 and 4)	1,129	104	1,233
Triple A de Barranquilla	COP 97,500 millior	Ordinary	Several	DTF+(between 4.5% y 5.50%)	10,302	48,852	59,154
GIS	COP 155 million	Cash	Several	DTF + 6.77%	67	-	67
AAA Ecuador	USD 2,108 million	Commercial	Several	Between 3% and 11.23%	509	102	611
R&T	COP 500 million	Cash	31-dic-13	DTF + 2.9%	214	-	214
				Total	13,208	49,058	62,266

Details of the Parent's credit facilities and drawdowns at 31 December 2013 are as follows:

	Thousands of Euros	
	2013	
Entity	Credit limit	Amount drawn
B. Cooperativo	6,000	5,890
Bankia	10,000	8,722
Santander	26,000	5,201
Caixa Geral	7,000	6,800
Total	**49,000**	**26,613**

b. Payables to Group companies

Payables to Group companies reflect the Parent's obligation to repay the Euros 1,012,241 financing contracts arranged between the Public Entity and its lender institutions (further information on this "mirror effect" is provided in note 2).

c. Other financial liabilities

Other financial liabilities include Euros 22,346 thousand payable by the Parent to the Tagus Water Board for the Picadas Valmayor conduits (Euros 23,036 thousand in 2012), of which Euros 691 thousand is recognised as current. Euros 24,539 thousand is payable to Sociedad Estatal Aguas de la Cuenca del Sur for works carried out in the Guadarrama well field and the second ring (Euros 26,944 thousand in 2012), of which Euros 2,413 thousand has been recognised as current.

This item also includes guarantees and deposits received by Euros 39,458 thousand (Euros 32,922 thousand en 2012) in the form of advance payments for water use received from customers to guarantee compliance with the financial terms of the supply contract (advances for water use). These amounts fall due when the corresponding contracts are cancelled. The difference between the amount initially received and the amount reimbursed on maturity is recognised under other liabilities.

This caption also reflects a Euros 27,599 thousand dividend payable by the Parent to certain shareholders at 31 December 2013 (Euros 12,234 thousand in 2012) (see note 18). It also includes a Euros 264 thousand dividend payable by the subsidiary Triple A de Barranquilla to its non-controlling shareholders at 31 December 2013 (Euros 284 thousand in 2012).

Lastly, other financial liabilities also include the financing repayable for certain intangible assets held by the subsidiary Triple A de Barranquilla. These borrowings bear annual interest at Colombian market rates.

d. Financial liabilities from issuing bonds and other marketable securities

Non-convertible marketable bonds, which were settled in May 2013, were issued by the subsidiary Triple A de Barranquilla, S.A. E.S.P.

19. GOVERNMENT GRANTS

Movement in grants in the year ended 31 December 2013 and the six-month period ended 31 December 2012 is as follows:

	Thousands of Euros	
	2013	2012
Balance at 1 January	681,096	676,244
Grants received during the year	35,938	10,865
Amounts transferred to the income statement	**(12,817)**	**(6,166)**
Translation differences	(55)	153
Derecognition of grants	(165)	-
Balance at 31 December	**703,997**	**681,096**

This item primarily comprises the following grants held by the Parent:

Cohesion Fund contributions to the "Basin Clean-ups and Extension of Madrid Treatment Plants" projects, totalling Euros 22,816 thousand. This Cohesion Fund assistance was approved by the Commission of European Communities on 13 October 1997.

The Cohesion Fund contributions to the "Tagus Basin Clean-up 2001, Group III" project, totalling Euros 14,215 thousand. This grant was approved by the Commission of European Communities on 18 December 2001.

The Cohesion Fund contribution to the "Tagus Basin Clean-up 2001, Group II" project, totalling Euros 51,102 thousand. This grant was approved by the Commission of European Communities on 26 March 2002.

The Cohesion Fund contribution to the "Tagus Basin Clean-up 2002" project, totalling Euros 12,338 thousand.

The contribution from the European Regional Development Fund under the remit of 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 Euros 58,017 thousand.

The contributions from the European Regional Development Fund's CAM 2007-2013 Operational Programme amounting to Euros 862 thousand, aimed at ongoing research and innovation or energy efficiency and savings projects. The ERDF's CAM 2007-2013 Operational Programme was approved on 14 December 2007.

Cohesion Fund contributions of Euros 28,386 thousand 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.

Cohesion Fund contributions to the "Clean-up and treatment of the La Reguera river basin" project, totalling Euros 14,611 thousand. This Cohesion Fund assistance was approved by the Commission of European Communities on 19 November 2003.

The Spanish Energy Diversification and Saving Institute (IDAE) has financed five projects through the Community of Madrid, contributing Euros 2,739 thousand to the first project, Euros 164 thousand to the second (reimbursed in full in 2013), Euros 831 thousand to the third, Euros 51 thousand to the fourth (repaid in full), and Euros 265 thousand to the fifth project. The financing received for the first, third and fifth projects has not yet been fully repaid.

The value of Euros 90,018 thousand attributed to facilities assigned to the Parent by various town councils.

The remainder of the balance under grants reflects third-party financing for works, namely amounts received from new water utility customers for hook-up rights and pipeline adaptation and extension.

Details of grants received in 2013 and 2012 are as follows:

Thousands of Euros			
2013			
Grantor	Amount	Purpose	Grant date
Cohesion Funds	3,994	Sanitation works	2013
IDAE funds	715	Energy saving	Several
Third-party financing	31,229	Supply works	Several
Total	35,938		

Thousands of Euros			
2012			
Grantor	Amount	Purpose	Grant date
Third parties	10,865	Supply works	Several
Total	**10,865**		

Details of amounts taken to income are as follows:

	Thousands of Euros	
	2013	2012
Capital grants	161	46
Cohesion Funds and ERDF	2,833	1,376
Rights conveyed by town councils	142	99
Third-party financing	9,599	4,603
Other	82	42
Total	**12,817**	**6,166**

20. TRADE AND OTHER PAYABLES

a. Details of trade and other payables

Details of trade and other payables are as follows:

	Thousands of Euros	
	2013	2012
	Current	Current
Related parties		
Suppliers, Group companies and associates (note 26)	3,370	1,438
Unrelated parties		
Suppliers	26,245	25,766
Payables	114,779	117,213
Personnel	9,325	9,152
Public entities, other	17,273	16,233
Advances from customers	4,877	5,673
Subtotal	**175,869**	**175,475**
Current tax liabilities	1,220	2,751
Total	**177,089**	**178,226**

b. Late Payments to Suppliers. "Reporting Requirement", Third Additional Provision of Law 15/2010 of 5 July 2010

Details of late payments to suppliers are as follows:

Payments made and outstanding at the reporting date				
	Thousands of Euros			
	2013		2012	
	Amount	%	Amount	%
Within maximum legal period (*)	275,643	88.7	82,853	52.67
Other	35,124	11.3	74,459	47.33
Total payments for the period	**310,767**	**100**	**157,312**	**100**
Weighted average late payment days	68.31		29.91	
Late payments exceeding the maximum legal period at the reporting date	**1,646**		**3,035**	

(*) Pursuant to Law 15/2010 of 5 July 2010, which introduced measures to combat late payment in commercial transactions, the maximum legal payment period was 40 days in 2012. The above figures are for trade payables and do not include balances payable to suppliers of fixed assets.

21. PROVISIONS

Details of provisions are as follows:

	Thousands of Euros			
	2013		2012	
	Non-current	Current	Non-current	Current
Provisions for infrastructure	163,428	66,170	131,673	65,020
Provisions for other liabilities	20,258	2,696	19,990	2,761
Provisions for taxes	6,407	4,062	6,175	3,874
Provisions for long-term employee benefits under defined benefit plans	154	-	134	-
Provisions for other employee benefits	-	193	-	191
Total	**190,247**	**73,121**	**157,972**	**71,846**

Movement in provisions in 2013 and 2012 is as follows:

	Thousands of Euros				
	Provisions for infrastructure	Provisions for other liabilities	Provisions for taxes	Provisions for employees	TOTAL
Opening balance at 1 January 2013	**196,693**	**22,751**	**10,049**	**325**	**229,818**
Charges	111,471	6,340	5,871	628	124,310
Provision adjustments	1,621	-	-	-	1,621
Applications	(80,055)	(5,509)	(3,687)	(593)	(89,844)
Provision surplus	-	(38)	(1,435)	-	(1,473)
Translation differences	(132)	(590)	(329)	(13)	(1,064)
Balance at 31 December 2013	**229,598**	**22,954**	**10,469**	**347**	**263,368**

	Thousands of Euros				
	Provisions for infrastructure	Provisions for other liabilities	Provisions for taxes	Provisions for employees	TOTAL
Opening balance at 1 July 2012	**178,197**	**27,192**	**11,042**	**454**	**216,885**
Charges	56,643	1,958	4,156	382	63,139
Provision adjustments	1,196	-	-	-	1,196
Applications	(39,336)	(5,677)	(3,612)	(492)	(49,117)
Provision surplus	-	(516)	(1,437)	-	(1,953)
Translation differences	(7)	(206)	(100)	(19)	(332)
Balance at 31 December 2012	**196,693**	**22,751**	**10,049**	**325**	**229,818**

a. Provisions for infrastructure

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				
	Provision for the Community of Madrid Network	Provision for the Madrid City Council sanitation agreement	Provision for the Madrid City Council recycling agreement	Provision for town of Soledad	Total
Opening balance at 1 January 2013	**181,967**	**12,650**	**1,361**	**715**	**196,693**
Charges	93,059	16,380	1,361	671	111,471
Provision adjustments	1,621	-	-	-	1,621
Applications	(65,634)	(14,405)	(16)	-	(80,055)
Translation differences	-	-	-	(132)	(132)
Balance at 31 December 2013	**211,013**	**14,625**	**2,706**	**1,254**	**229,598**

	Thousands of Euros				
	Provision for the Community of Madrid Network	Provision for the Madrid City Council sanitation agreement	Provision for the Madrid City Council recycling agreement	Provision for town of Soledad	Total
Balance at 1 July 2012	151,316	26,881	-	-	178,197
Charges	46,285	8,276	1,361	721	56,643
Provision adjustments	1,055	141	-	-	1,196
Applications	(16,688)	(22,648)	-	-	(39,336)
Translation differences	-	-	-	(7)	(7)
Balance at 31 December 2012	**181,968**	**12,650**	**1,361**	**714**	**196,693**

Based on the Parent's estimates, the investment plan for replacement initiatives in the Community of Madrid Network over the concession period totals Euros 4,791 million.

b. Provisions for other liabilities

This provision primarily covers probable or certain liabilities arising from ongoing litigation and outstanding compensation or obligations of an uncertain amount payable to third parties. Based on legal advice received, the liabilities resulting from these lawsuits are not expected to differ significantly from the amounts provided for at 31 December 2013 and 2012. It is highly probable that these provisions will have to be applied, although both the amount to ultimately be settled and the timing are uncertain and dependent on the outcome of the lawsuits underway.

Triple A de Barranquilla is currently involved in litigation for a total amount of Euros 6,224 thousand (Euros 5,785 thousand in 2012). The directors and legal advisors do not expect these matters to give rise to any significant additional liabilities for the Group. At 31 December 2013, the subsidiary has recognised a provision of Euros 2,980 thousand (Euros 2,659 thousand in 2012).

c. Provisions for taxes

This provision primarily relates to the levies payable by the Group for the private and special use made of land and public thoroughfares above and below ground. Allocations to this provision are made based on the best estimates of the amount accrued each year, calculated using land registers and city by-laws.

d. Provision for employees

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

e. Contingent liabilities, guarantees and other commitments

Details of guarantees given and received at 31 December 2013 are as follows:

	Thousands of Euros	
	2013	**2012**
Guarantees received	150.705	137.119
Guarantees given to public entities	24.868	8.806
Total	**175.573**	**145.925**

The Parent is jointly and severally liable, along with Canal Gestión Lanzarote, S.A.U., for fulfilling the Public Service Management Agreement for the concession to provide water supply, sanitation and recycling services on the islands of Lanzarote and La Graciosa dated 23 May 2013, and for the financial and other obligations arising therefrom.

Euros 10,939 thousand of total guarantees deposited and received pertain to the Latin American subsidiaries (Euros 12,862 thousand in 2012). Details are as follows:

Inassa: This subsidiary has guarantees amounting to Euros 2,650 thousand (Euros 2,726 thousand in 2012), namely bank guarantees paid to Banco de Bogotá to secure loans granted to Aguas de Samborondón Amagua, C.E.M. and to the Panama branch of Inassa, and bank guarantees deposited with Helm Bank to secure loans granted to the Metroagua-Incatema consortium.

Triple A de Barranquilla: Triple A has guarantees amounting to Euros 8,289 thousand (Euros 10,136 thousand in 2012) relating to government contributions to infrastructure works in the town of Soledad and investment plan works in south-western Barranquilla.

The Parent's directors do not expect any significant liabilities to arise from these guarantees.

22. ENVIRONMENTAL INFORMATION

Details of the assets classified under concessions and used to minimise the Group's impact on the environment are as follows:

	Thousands of Euros		
	2013		
Description	**Cost**	**Accumulated amortisation**	**Net**
- Treatment plant facilities and buildings	540,066	(184,995)	355,071
- Sewer network	57,734	(11,535)	46,199
- Recycling network	61,120	(6,128)	54,992
Total	**658,920**	**(202,658)**	**456,262**

	Thousands of Euros		
	2012		
Description	**Cost**	**Accumulated amortisation**	**Net**
- Treatment plant facilities and buildings	514,632	(178,910)	335,722
- Sewer network	51,205	(8,957)	42,248
- Recycling network	52,291	(5,514)	46,777
Total	**618,128**	**(193,381)**	**424,747**

Details of environmental investments made by the Group are as follows:

	Thousands of Euros	
	2013	2012
Description		
- Water treatment	25,434	13,443
- Sewer system	6,529	5,000
- Recycling	8,829	1,397
Total	**40,792**	**19,840**

Details of environmental costs incurred by the Group are as follows:

	Thousands of Euros	
	2013	2012
Description		
- Water treatment	120,777	59,193
- Sewer system	87,622	34,345
- Recycling	4,547	3,590
- Other (green areas, environmental costs, etc.)	3,178	2,603
Total	**216,124**	**99,731**

Parent management integrates all its activities through an Environmental Management System, which has been duly certified in accordance with the UNE-EN-ISO-14001:2004 environmental management standard. The second follow-up audit for this certificate was carried out in 2013.

The Group has pursued the following lines of action in Latin America:

- Triple A de Barranquilla

– CDM Project (Clean Development Mechanism) - Los Pocitos biogas.

– Integrated Solid Waste Management Programme (ISWMP).

– Waste Management Programme.

- Amagua C.E.M. Sewer system:

– Rinconada del Lago sewer system: construction of sewage networks (wastewater) and the corresponding treatment plant. This project will eradicate the need to use septic tanks (subsoil contamination). The system has been designed to serve a total of 52 households.

– Expansion of the capacity of the Los Arcos wastewater treatment facility from 800 to 2,400 m3/day. This infrastructure will cover growth in the Los Arcos commercial sector (residential, commercial, cultural, etc.). The environmental permit is also included (paperwork currently underway).

– Environmental permit for 50 wastewater treatment plants issued by the competent environmental body, the Council of the Province of Del Guayas.

At 31 December 2013 and 2012, the Group considers that no significant contingencies exist concerning possible litigation, indemnities or other items connected with the environment and, accordingly, no provision has been made in this regard. The Group has insurance policies that reasonably assure the coverage of any possible contingency that could arise from its environmental activities. In addition to its public liability cover, since June 2010 the Parent, as the affected operator, has held an insurance policy to cover the potential risks deriving from the entry into force of Law 26/2007 on environmental responsibility and Royal Decree 2090/2008, which implements that Law. This policy was arranged for the maximum financial guarantee stipulated in the Law, i.e. Euros 20 million.

23. OTHER LIABILITIES

Other current and non-current liabilities include the following:

	Thousands of Euros			
	2013		2012	
	Non-current	Current	Non-current	Current
Advances for water use	45,539	1,522	51,127	1,561
Rental for Islas Filipinas 3º Deposito Area	-	152	-	-
Total	**45,539**	**1,674**	**51,127**	**1,561**

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 by the Parent.

24. INCOME AND EXPENSES

a. Revenues

Revenues include the operation of infrastructure to provide water supply, sanitation and recycling services. Details are as follows:

	Thousands of Euros					
	Domestic		Latin America		TOTAL	
	2013	2012	2013	2012	2013	2012
Revenue from the rendering of infrastructure operating services	839,738	445,183	154,163	80,781	993,901	525,964
Revenue from the rendering of services	5,496	6,038	26,290	10,645	31,786	16,683
Revenue from the sale of electricity	8,276	1,280	-	-	8,276	1,280
Revenue from the sale of goods and merchandise	28	23	600	210	628	233
Total	**853,538**	**452,524**	**181,053**	**91,636**	**1,034,591**	**544,160**

All of the domestic revenues have been earned in Euros. Sales in Latin America have been made in Colombian Pesos, Dominican Pesos and US Dollars.

b. Other income

Non-trading income is primarily income from energy sales and other income derived from the lease of certain properties.

c. Merchandise, raw materials and consumables used, by detailed nature and geographical area

Details are as follows:

	Thousands of Euros			
	Domestic		Latin America	
	2013	2012	2013	2012
Electricity used	50,285	21,918	12,152	6,098
Raw materials used	1,013	402	2,423	1,204
Merchandise used	27,489	15,661	15,865	10,268
Change in inventories	2,136	(675)	138	(2,206)
Total supplies consumed	80,923	37,306	30,578	15,364
Subcontracted work	89,210	47,462	36,500	14,090
Total	**170,133**	**84,768**	**67,078**	**29,454**

d. Employee benefits expense

Details of personnel expenses are as follows:

	Thousands of Euros	
	2013	2012
Salaries and wages	115,906	53,914
Employee benefits expense	38,955	19,561
Social Security payable by the Company	32,234	16,078
Contributions to defined contribution plans (repaid)	(47)	(123)
Long-service bonuses	264	132
Other employee benefits expenses	6,504	3,474
Total	**154,861**	**73,475**

e. Amortisation, depreciation and impairment of non-financial assets

Details of amortisation and depreciation are as follows:

	Thousands of Euros	
	2013	2012
Amortisation of intangible assets (note 8)	112,579	54,565
Depreciation of property, plant and equipment and investment property (notes 5 and 6)	5,151	2,550
Total amortisation and depreciation	**117,730**	**57,115**
Impairment of intangible assets (note 8)	(12)	(41)
Total impairment	**(12)**	**(41)**

f. Other expenses

Details of other expenses are as follows:

	Thousands of Euros	
	2013	**2012**
Research expenditure	658	373
Operating lease expenses	29,529	13,920
Repairs and maintenance	85,903	38,089
Independent professional services	21,558	10,161
Transportation	1,117	627
Insurance premiums	5,129	2,511
Advertising and publicity	6,201	4,662
Utilities	22,839	10,481
Taxes	30,464	16,975
Impairment losses and uncollectibility of trade and other receivables	121,513	73,643
Other expenses	18,038	1,101
Total	**342,949**	**172,543**

g. Gains/losses on disposal of fixed assets

Details of gains and losses on the disposal of fixed assets are as follows:

	Thousands of Euros	
	2013	2012
Gains		
Intangible assets (note 8)	650	16
	650	16
Losses		
Property, plant and equipment (note 5)	(37)	(12)
Intangible assets (note 8)	(654)	(43)
	(691)	(55)
Total	**(41)**	**(39)**

h. Finance income and costs

Details of finance income and costs are as follows:

	Thousands of Euros	
	2013	2012
Finance income from held-to-maturity investments	10,842	4,177
Other finance income	351	642
Total finance income	**11,193**	**4,819**
Finance costs on other payables	(7,412)	(4,674)
Finance costs related to provisions	(1,621)	(1,196)
Other finance costs	(25,059)	(12,548)
Exchange losses	(1,924)	(146)
Total finance costs	**(36,016)**	**(18,564)**

25. TAXATION

On 25 July 2012 the Parent wrote to the Spanish taxation authorities to inform them of its intention – as stated in note 1 – to avail of the tax neutrality scheme regulated in section VII, chapter VIII of Royal Legislative Decree 4/2004 of 5 March 2004, which approved the Revised Spanish Income Tax Law, in relation to the contribution of activities.

All of the companies in the Group formed by Canal de Isabel II Gestión, S.A. and subsidiaries are taxed individually in their respective countries. The standard rate of tax is 30% in Spain, 33% in Colombia, 25% in the Dominican Republic and 25% in Ecuador.

As mentioned in note 3 (p), on 1 January 1996 Law 43/1995 of 27 December 1995 came into force. Article 32.2 of this law provided for tax relief of 99% on income tax payable on revenues from the provision of certain public services, including water supply, sanitation and recycling. The Parent applies this tax relief as it has been commissioned to provide these services in the Community of Madrid.

As stated in note 3 (p), the Company is subject to general taxation and is therefore required to file annual income tax returns.

Details of deferred tax assets and liabilities at 31 December 2013 and 2012, by type of asset and liability, are as follows:

	Thousands of Euros					
	Assets		Liabilities		Net	
	2013	2012	2013	2012	2013	2012
Concessions	-	-	(12,123)	(12,699)	(12,123)	(12,699)
Accelerated amort./deprec.	-	-	(1,224)	(1,934)	(1,224)	(1,934)
Tax loss carryforwards	56	56	-	-	56	56
Provisions	985	1,656	-	-	985	1,656
Amortisation and depreciation	310	-	-	-	310	-
Other	1,705	1,042	(11,626)	(11,399)	(9,921)	(10,357)
Net assets and liabilities	**3,056**	**2,754**	**(24,973)**	**(26,032)**	**(21,917)**	**(23,278)**

At 31 December details of deferred tax assets and liabilities that are expected to be realised or reversed in periods exceeding 12 months are as follows:

	Thousands of Euros	
	2013	2012
Assets		
Amortisation and depreciation	310	-
Liabilities		
Concessions	(11,513)	(12,089)
Other	(11,250)	(13,258)
Total	**(22,453)**	**(25,347)**

Details of the income tax expense are as follows:

	Thousands of Euros	
	2013	2012
Current tax	12,832	6,583
Deferred tax	(1,361)	(194)
Adjustment in the final return for prior years	225	-
Total	**11,696**	**6,389**

The relationship between the tax expense and accounting profit for the period is as follows:

	Thousands of Euros	
	2013	2012
Income and expenses for the period	**211,581**	**145,139**
Tax at 30%	63,474	43,542
Charge to non-deductible provisions	408	1,656
Other non-deductible expenses	10,211	5,921
Accelerated amortisation and depreciation	(492)	(978)
Application of non-deductible provisions	(84)	-
Grants	(23)	(1,028)
Other non-deductible expenses	116	(18)
Other adjustments	67	(17)
Consolidation adjustments	611	611
Deductions and credits for the period	(62,592)	(43,300)
Consolidated income tax expense	**11,696**	**6,389**

The effective average tax rate in 2013 is 5.52% (4.64% in 2012).

Movement in deferred tax assets and liabilities in 2013 and the six-month period of 2012 is as follows:

	Thousands of Euros				
	2013				
	Net balance at 1 January	Income statement	Net	Deferred tax assets	Deferred tax liabilities
Concessions	(12,699)	576	(12,123)	-	(12,123)
Accelerated amort./deprec.	(1,934)	710	(1,224)	-	(1,224)
Tax loss carryforwards	56	-	56	56	-
Provisions	1,656	(671)	985	985	-
Amortisation and depreciation	-	310	310	310	-
Other	(10,357)	436	(9,921)	1,705	(11,626)
Net assets and liabilities	**(23,278)**	**1,361**	**(21,917)**	**3,056**	**(24,973)**

	Thousands of Euros				
	2012				
	Net balance at 1 July	Income statement	Net	Deferred tax assets	Deferred tax liabilities
Concessions	(11,257)	(1,442)	(12,699)	-	(12,699)
Accelerated amort./deprec.	-	(1,934)	(1,934)	-	(1,934)
Tax loss carryforwards	-	56	56	56	-
Provisions	-	1,656	1,656	1,656	-
Amortisation and depreciation	-	-	-	-	-
Other	106	(10,463)	(10,357)	1,042	(11,399)
Net assets and liabilities	**(11,151)**	**(12,127)**	**(23,278)**	**2,754**	**(26,032)**

The Group has no available tax deductions at 31 December 2013.

At 31 December 2012 the Latin American subsidiaries had tax loss carryforwards totalling Euros 224 thousand available for offset.

The Group has the following main applicable taxes open to inspection by the Spanish taxation authorities:

Tax	Years open to inspection
Income tax	2009 and subsequent years
Value added tax	2010 and subsequent years
Personal income tax	2010 and subsequent years
Social securities	2010 and subsequent years
Non residents	2010 and subsequent years

26. RELATED PARTY BALANCES AND TRANSACTIONS

a. Related party balances and transactions

The consolidated financial statements include transactions carried out with the following related parties: associates and jointly controlled entities, which are accounted for using the equity method; shareholders of the Company, and related companies and their shareholders; and key management personnel of the Group and members of the board of directors.

Details of receivables from and payables to related parties are as follows:

	Thousands of Euros			
	2013		2012	
	Receivable	Payable	Receivable	Payable
Group companies				
Canal de Isabel II (Public Entity)	17,517	(1,024,645)	5,008	(1,156,972)
Aguas de Alcalá TJV	735	-	732	-
Associates				
Acueducto y Alcantarillado Metropolitano de Santa Marta, S.A.E.S.P.	1,312	-	1,293	-
Avanzadas Soluciones de Acueducto y Alcantarillado, S.A	1,936	-	-	-
GSS Venture, S.L.	-	(516)	-	(689)
Other	460	(82)	-	-
Total	**21,960**	**(1,025,243)**	**7,033**	**(1,157,661)**
	(Notes 12 and 14)	Notes 18 and 2	tes 12 and 14)	(Notes 18 and 20)

There are Euros 1,012,241 thousand payable to the Public Entity (Euros 1,146,637 thousand in 2012) which reflect the Parent's obligation to pay the Public Entity the amounts necessary to fulfil its obligations arising on financing contracts as required by the Contract-Programme ("mirror effect"). The origin of this payable is the non-monetary contribution made in 2012, as described in note 3, whereby the debt of the contributed activity was transferred from the Public Entity to the Parent. Both parties have 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. Although the Public Entity is still the named party in the financing contracts with the lender institutions, the Parent has assumed all of the obligations originally agreed in these contracts at the corresponding amounts. The maturities and interest rates applicable to the balances payable by the Parent to the Public Entity are those specified in the contracts between the latter and the financial institutions (see note 18). In 2013 the weighted average interest rate was 2.05% (2.10% in 2012).

At 31 December 2013 and 2012 the balance payable to the Public Entity also includes Euros 9,586 thousand reflecting the inter-company credit account set up to adjust the difference between the estimated amounts of the assets and liabilities stated in the valuation report and the net worth of the assets and liabilities actually transferred on the contribution date (see note 3).

At 31 December 2013, other financial assets, other assets and trade and other receivables include Euros 51,683 thousand, Euros 61,163 thousand and Euros 35,303 thousand, respectively, receivable from new shareholders of the Parent, specifically certain town councils (Euros 53,151 thousand, Euros 65,441 thousand and Euros 34,733 thousand, respectively, in 2012). Dividends payable include Euros 27,599 thousand payable to these same shareholders (Euros 12,234 thousand in 2012) (see note 18).

Transactions between the Group and Canal de Isabel II (Public Entity) at December 2013 comprise borrowing costs of Euros 22,801 thousand on the "mirror" transaction (Euros 11,381 thousand in 2012), operating expenses of Euros 15,848 thousand (Euros 10,644 thousand in 2012) and other operating income totalling Euros 326 thousand (Euros 220 thousand in 2012).

Transactions carried out by the Group with GSS Venture amount to Euros 4,949 thousand (Euros 1,750 thousand in 2012) and primarily relate to telemarketing activities.

As a result of town councils gaining stakes in its share capital, at 31 December 2013 the Parent has carried out transactions with shareholders in the form of services and tax settlements totalling Euros 44,027 thousand and Euros 31,337 thousand, respectively (Euros 31,037 thousand and Euros 12,948 thousand, respectively, in 2012).

b. Information on the members of the board of directors and senior management personnel

Pursuant to the articles of association, in 2013, the members of the Company's board of directors have received allowances for attendance at the Board of Directors meetings for a total of Euros 16.2 thousand (no allowances were given for the six month period ended 31 December 2012). In 2013 senior management of the Parent received total remuneration of Euros 889 thousand (Euros 492 thousand for the six months period ended in 2012). Neither the members of the board of directors nor senior management personnel have received advances or loans, and the Parent has not extended any guarantees on their behalf. The Parent has no pension or life insurance obligations with former or current members of its board of directors. However, the Parent does have pension obligations with its senior management personnel (see note 3 (s)).

c. Interests and positions held by members of the board of directors and senior management personnel in other companies.

For the purposes of preparing this information, companies engaged in activities related to the comprehensive water cycle are considered to have identical or complementary activities to that of the Company.

The board members, senior management personnel and their related parties have declared that they do not hold any shares in companies with an identical, similar or complementary activity to that of the Company.

The positions held and duties performed by the Parent's directors and senior management personnel and their related parties in other companies engaged in activities that are identical, similar or complementary to that of the Company are presented in Appendix V.

27. RISK MANAGEMENT AND FAIR VALUE

27.1 Financial risk factors

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

The Group's activities are exposed to various financial risks: market risk (including currency risk, fair value interest rate risk and price risk), credit risk, liquidity risk, and cash flow interest rate risk. The Group's global risk management programme focuses on uncertainty in the financial markets and aims to minimise the potential adverse effects on the Group's profits.

Risks are managed by the Group's Central Treasury Department in accordance with policies approved by the board of directors. This department identifies, evaluates and mitigates financial risks in close collaboration with the Group's operational units.

(a) Currency risk

The risk arising from exchange rate volatility is not considered to be significant and primarily relates to fluctuations in the Colombian and Dominican Peso reflected in the valuation of assets and liabilities located in Colombia and the Dominican Republic. This risk is managed using resources denominated in the corresponding foreign currencies.

Details of the Group's exposure to currency risk at 31 December 2013 and 2012 are provided in the following tables, which show the carrying amount of the Group's financial assets and financial liabilities denominated in foreign currencies:

	Thousands of Euros				
	2013				
	Colombian Pesos	Dominican Pesos	US Dollars (Ecuador)	Uruguayan Pesos	Total
ASSETS					
Equity instruments	154	-	-	-	154
Loans to third parties	32,570	-	14	-	32,584
Other financial assets	4	40	-	-	44
Total non-current financial assets	**32,728**	**40**	**14**	**-**	**32,782**
Trade and other receivables	54,364	4,130	1,284	5	59,783
Total current financial assets	**54,364**	**4,130**	**1,284**	**5**	**59,783**
Total financial assets	**87,092**	**4,170**	**1,298**	**5**	**92,565**
LIABILITIES					
Loans and borrowings	50,261	-	64	-	50,325
Other financial liabilities	10,826	-	2,051	-	12,877
Total non-current liabilities	**61,087**	**-**	**2,115**	**-**	**63,202**
Financial liabilities from issuing bonds and other marketable securities	29,403	-	441	-	29,844
Loans and borrowings	166	20	-	-	186
Other financial liabilities	311	720	414	5,801	7,246
Trade and other payables	25,905	821	1,550	-	28,276
Total current liabilities	**55,785**	**1,561**	**2,405**	**5,801**	**65,552**
Total financial liabilities	**116,872**	**1,561**	**4,520**	**5,801**	**128,754**
Gross balance sheet exposure	**(29,780)**	**2,609**	**(3,222)**	**(5,796)**	**(36,189)**

	Thousands of Euros			
	2012			
	Colombian Pesos	Dominican Pesos	US Dollars (Ecuador)	Total
ASSETS				
Equity instruments	200	-	-	200
Loans to third parties	34,899	-		43	34,942
Other financial assets	4	31	-	35
Total non-current financial assets	**35,103**	**31**	**43**	**35,177**
Trade and other receivables	49,751	3,785	1,285	54,821
Total current financial assets	**49,751**	**3,785**	**1,285**	**54,821**
Total financial assets	**84,854**	**3,816**	**1,328**	**89,998**
LIABILITIES				
Loans and borrowings	48,956	-	102	49,058
Other financial liabilities	12,296	22	2,429	14,747
Total non-current financial liabilities	**61,252**	**22**	**2,531**	**63,805**
Bonds and other marketable securities	15,743	-	-	15,743
Loans and borrowings	12,722	-	512	13,234
Other financial liabilities	452	480	157	1,089
Trade and other payables	26,110	999	1,337	28,446
Total current financial liabilities	**55,027**	**1,479**	**2,006**	**58,512**
Total financial liabilities	**116,279**	**1,501**	**4,537**	**122,317**
Gross balance sheet exposure	**(31,425)**	**2,315**	**(3,209)**	**(32,319)**

(b) Price risk

The Group is not exposed to price risk through its equity securities, since the investments it holds, classified as "financial liabilities from issuing bonds and other marketable securities" in the consolidated statement of financial position, are not quoted on official markets.

(c) Credit risk

The Group is not significantly exposed to credit risk. Valuation allowances for bad debts, 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 by management.

The most significant customer is Madrid City Council, which generates 1.97% of the Group's total revenues (2.79% in 2012).

The following tables show an ageing analysis of financial assets that are past-due but not impaired at 31 December 2013 and 2012.

	Thousands of Euros	
	2013	**2012**
0-30 days	19,343	15,367
31-60 days	9,994	8,660
61-90 days	14,572	12,512
91-180 days	31,835	36,364
181-360 days	15,636	23,488
More than 361 days	75,595	112,045
Total	**166,975**	**208,436**

(d) Cash flow interest rate risk

Interest rate risk is the impact on profit of a rise in interest rates, which increases the cost of borrowings. The Parent endeavours to mitigate this risk through drawdowns on fixed-rate loans, which at 31 December 2013 represent 35% of total borrowings (37% in 2012).

The interest rate on variable-rate net debt is pegged to the Euribor in Spain and the DTF in Colombia. At 31 December 2013 the estimated sensitivity of the finance costs included in the net finance cost for the year to changes in interest rates, and the structure of net debt, are as follows:

	Increase in interest rate	Impact on net finance cost
Euribor	± 10 b.p.	686
DTF	± 10 b.p.	71

Details at 31 December 2012 are as follows:

	Increase in interest rate	Impact on net finance cost
Euribor	± 10 b.p.	681
DTF	± 10 b.p.	59

(e) Liquidity risk

The Group applies a prudent policy to cover its liquidity risks, based on having cash and sufficient financing through credit facilities. Given the dynamic nature of its underlying business, the 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 financing requirements. In 2013 and 2012 the Group arranged long-term financing to meet its future investment requirements.

Details of the Group's exposure to liquidity risk at 31 December 2013 and 2012 are provided in the following tables, which show an analysis of financial liabilities by maturity date.

	Thousands of Euros					
	2013					
	2014	2015	2016	2017	2018	Subsequent years
Loans and borrowings	56,859	15,997	39,270	37,125	33,533	57,738
Other financial liabilities	87,415	25,176	13,366	13,406	5,136	62,181
Group companies and associates	160,927	152,419	150,836	127,253	106,003	324,435
Suppliers	26,245	-	-	-	-	-
Suppliers, Group companies and associates	3,370	-	-	-	-	-
Other payables	114,779	-	-	-	-	-
Advances from customers	4,877	-	-	-	-	-
Personnel	9,325	-	-	-	-	-
Total	**463,797**	**193,592**	**203,472**	**177,784**	**144,672**	**444,354**

	Thousands of Euros					
	2012					
	2013	2014	2015	2016	2017	Subsequent years
Financial liabilities from issuing bonds and other marketable securities	15,743	-	-	-	-	-
Loans and borrowings	14,223	12,116	11,746	10,095	7,095	8,006
Other financial liabilities	88,331	9,757	6,577	6,619	7,278	62,771
Group companies and associates	147,656	147,622	152,419	150,836	127,253	430,437
Suppliers	25,766	-	-	-	-	-
Suppliers, Group companies and associates	1,438	-	-	-	-	-
Other payables	117,213	-	-	-	-	-
Advances from customers	5,673	-	-	-	-	-
Personnel	9,152	-	-	-	-	-
Total	**425,195**	**169,495**	**170,742**	**167,550**	**141,626**	**501,214**

27.2 Financial instruments and fair value

The carrying amounts of financial instruments, classified by category, are shown below. The Group has no financial instruments carried at fair value at 31 December 2013 and 2012, and estimates the fair value of its financial instruments carried at cost or amortised cost to be similar to their carrying amount.

	Thousands of Euros		
		2013	
	Loans and receivables	Debts and payables	Total
Financial assets not measured at fair value			
Loans to Group companies (note 26)	17,378	-	17,378
Equity instruments	154	-	154
Loans to third parties (note 12)	82,634	-	82,634
Deposits and guarantees	14,536	-	14,536
Trade receivables (note 14)	181,329	-	181,329
Other receivables	37,994	-	37,994
Total financial assets not measured at fair value	**334,025**	**-**	**334,025**
Financial liabilities not measured at fair value			
Group companies and associates (note 26)	-	1,021,873	1,021,873
Loans and borrowings (note 18)	-	240,522	240,522
Other financial liabilities	-	206,680	206,680
Government grants (note 19)	-	703,997	703,997
Suppliers (note 20)	-	26,245	26,245
Suppliers, Group companies and associates (note 26)	-	3,370	3,370
Other payables (note 20)	-	114,779	114,779
Sundry payables	-	4,877	4,877
Personnel	-	9,325	9,325
Total financial liabilities not measured at fair value	**-**	**2,331,668**	**2,331,668**

	Thousands of Euros		
		2012	
	Loans and receivables	Debts and payables	Total
Financial assets not measured at fair value			
Loans to Group companies (note 26)	4,676	-	4,676
Equity instruments	200	-	200
Loans to third parties (note 12)	84,452	-	84,452
Deposits and guarantees	16,140	-	16,140
Trade receivables (note 14)	176,216	-	176,216
Other receivables	41,272	-	41,272
Total financial assets not measured at fair value	**322,956**	-	**322,956**
Financial liabilities not measured at fair value			
Group companies and associates (note 26)	-	1,156,223	1,156,223
Loans and borrowings (note 18)	-	63,281	63,281
Financial liabilities from issuing bonds and other marketable securities	-	15,743	15,743
Other financial liabilities	-	181,333	181,333
Government grants (note 19)		681,096	681,096
Suppliers (note 20)	-	25,766	25,766
Suppliers, Group companies and associates (note 26)	-	1,438	1,438
Other payables (note 20)	-	117,213	117,213
Sundry payables	-	5,673	5,673
Personnel	-	9,152	9,152
Total financial liabilities not measured at fair value	-	2,256,918	2,256,918

(i) Net losses and gains by category of financial asset and financial liability

Details of losses on financial assets are as follows:

	Thousands of Euros	
	Loans and receivables	
	2013	2012
Finance income from refinancing agreements	3,123	2,025
Finance income at amortised cost	1,143	609
Operating costs relating to the change in amortised cost	(1,143)	(601)
Finance income at amortised cost – other receivables	16	8
Net gains/(losses) in profit and loss	**3,139**	**2,041**

Finance income at amortised cost mainly derives from the revaluation of non-current receivables from certain town councils in relation to works carried out on the water distribution infrastructure, financed through add-ons to the tariff, and operating expenses, as well as the proportional distribution of the difference between the nominal amount and amortised cost based on the terms of the agreements in place.

Details of losses on financial liabilities are as follows:

	Thousands of Euros	
	2013	2012
Finance costs at amortised cost	(1,522)	(775)
Interest on loans from Group companies	(23,537)	(11,773)
Interest on loans from third parties	(7,412)	(4,674)
NET LOSSES IN PROFIT AND LOSS	**(32,471)**	**(17,222)**

Finance costs at amortised cost are those derived from the revaluation of advances received for the use of water during the year and revenues from the rendering of services, and 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.

28. EMPLOYEE INFORMATION

The average headcount, distributed by category, is as follows:

	2013	2012
Management	96	89
Technicians	1,494	1,365
Administrative staff	1,643	906
Workers and porters	910	1,563
	4,143	**3,923**
Semi-retired personnel	210	212

The average headcount of the equity-accounted investees Metroagua, GSS Venture and ASAA, by professional category, is as follows:

	2013	2012
Management	42	34
Technicians	97	76
Administrative staff	106	64
Workers and porters	296	258
	541	**432**

At the 2013 and 2012 reporting dates, the distribution by gender of personnel, members of the board of directors and senior management is as follows:

	2013		2012	
	Female	Male	Female	Male
Board members	1	9	1	9
Management	39	57	33	56
Technicians	579	935	493	887
Administrative staff	596	1,040	589	308
Workers and porters	22	878	36	1,516
	1,237	**2,919**	**1,152**	**2,776**
Semi-retired personr	41	167	37	184

The year-end distribution by gender of personnel, members of the board of directors and senior management of the equity-accounted investees Metroagua, GSS Venture and ASAA is as follows:

	2013		2012	
	Female	Male	Female	Male
Board members	-	1	-	1
Management	18	23	16	17
Technicians	48	49	31	45
Administrative staff	49	57	44	20
Workers and porters	245	51	217	41
	360	**181**	**308**	**124**

The average number of Group employees in Spain with a disability rating of 33% or higher, distributed by category, is as follows (for the year ended 31 December 2013 and the six-month period ended 31 December 2012):

	2013	2012
Management	-	-
Technicians	3	3
Administrative staff	13	17
Workers and porters	22	15
	38	35

29. AUDIT FEES

KPMG Auditores, S.L., the auditors of the consolidated financial statements of the Group, have accrued the following fees for professional services during the periods ended 31 December 2013 and 2012:

	Thousands of Euros	
	2013	2012
Audit services	364	420
Other audit-related services	57	9
	421	429

Other KPMG Europe, LLP group companies have accrued the following fees for professional services during the periods ended 31 December 2013 and 2012:

	Thousands of Euros	
	2013	2012
Tax advisory services	18	27
Other advisory services	-	56
	18	83

Other affiliates of KPMG International have invoiced the Group the following fees and expenses for professional services during the periods ended 31 December 2013 and 2012:

	Thousands of Euros	
	2013	2012
Audit services	98	147
Other services	32	9
	130	156

The amounts detailed in the above tables include the total fees for services rendered in 2013 and 2012, irrespective of the date of invoice.

30. EVENTS AFTER THE REPORTING PERIOD

On 10 January 2014, the Parent and Aqualia Gestión Integral de Agua, S.A. purchased Valoriza Gestión, S.A.'s 25% stake in the Aguas de Alcalá temporary joint venture for Euros 8,500 thousand, split equally between the two acquirers. The Parent now holds a 50% stake in this temporary joint venture as a result.

On 14 July 2014 the Department of Economy and Finance of the Community of Madrid (Consejería de Economía y Hacienda de la Comunidad de Madrid) authorised the Company to enter a long-term financial transaction with the objective of refinancing partially the debt entailing the issuance of bonds in Comisión Nacional del Mercado de Valores (Spanish Regulator) ranging from Euros 300 million to Euros 500 million over a term of up to seven years.

31. IMPACT OF FIRST-TIME ADOPTION

As mentioned in note 2, these are the first consolidated financial statements prepared under International Financial Reporting Standards as adopted by the European Union, and IFRS 1 "First-time Adoption of International Financial Reporting Standards" has therefore been applied.

The accounting policies specified in note 3 were applied in preparing the accompanying consolidated financial statements for the year ended 31 December 2013, the comparative figures for the six-month period ended 31 December 2012 and the opening balance sheet at 1 July 2012 (the date of the Group's transition to IFRS).

In preparing these first financial statements, the Group adjusted the amounts disclosed in its consolidated financial statements under Spanish GAAP. The impact of the transition on the consolidated statement of financial position and the consolidated income statement for the aforementioned years is explained in the following tables and notes:

		Thousands of Euros		
		01/07/2012		
Assets	Ref	Spanish GAAP	Transition	IFRS-EU
Property, plant and equipment		30.363	-	30.363
Investment property		24.689	-	24.689
Goodwill		13.226	-	13.226
Other intangible assets	a	4.208.106	(14.740)	4.193.366
Equity-accounted investees		4.741	-	4.741
Deferred tax assets	d	3.934	126	4.060
Other non-current financial assets	d	74.126	-	74.126
Other non-current assets	d	85.727	(25.899)	59.828
Total non-current assets		**4.444.912**	**(40.513)**	**4.404.399**
Inventories	c	11.478	-	11.478
Current tax assets		1.191	-	1.191
Trade and other receivables		225.829	-	225.829
Other financial assets		12.063	-	12.063
Uncalled share capital		-	-	-
Other current assets	: and (	2.519	(1.456)	1.063
Cash and cash equivalents		38.352	-	38.352
Total current assets		**291.432**	**(1.456)**	**289.976**
Total assets		**4.736.344**	**(41.969)**	**4.694.375**
Equity				
Capital		1.074.032	-	1.074.032
Share premium		1.074.032	-	1.074.032
Other reserves		-	-	-
Retained earnings	and (	-	(41.968)	(41.968)
Equity attributable to equity holders of the Parent		**2.148.064**	**(41.968)**	**2.106.096**
Grants, donations and bequests received	b	674.221	(674.221)	-
Non-controlling interests		26.250		26.250
Total equity		**2.848.535**	**(716.189)**	**2.132.346**
Loans and borrowings, non-current		48.015	-	48.015
Other non-current financial liabilities		89.980	-	89.980
Government grants, non-current	b	-	662.719	662.719
Payables to Group companies, non-current		986.223	-	986.223
Deferred tax liabilities	b	29.167	(2.023)	27.144
Non-current provisions		131.399	-	131.399
Other non-current liabilities		54.972	-	54.972
Total non-current liabilities		**1.339.756**	**660.696**	**2.000.452**
Financial liabilities from issuing bonds and other marketable securities		16.459	-	16.459
Loans and borrowings		67.535	-	67.535
Payables to Group companies		138.421	-	138.421
Other financial liabilities		71.367	-	71.367
Government grants, current	b	1	13.524	13.525
Trade and other payables		164.274	-	164.274
Current tax liabilities		2.904	-	2.904
Provisions		85.486	-	85.486
Other current liabilities		1.606	-	1.606
Total current liabilities		**548.053**	**13.524**	**561.577**
Total equity and liabilities		**4.736.344**	**(41.969)**	**4.694.375**

		Thousands of Euros		
		31/12/2012		
Assets	Ref	Spanish GAAP	Transition	IFRS-EU
Property, plant and equipment		29,212	-	29,212
Investment property		24,050	-	24,050
Goodwill		13,188	-	13,188
Other intangible assets	a	4,279,295	(20,733)	4,258,562
Equity-accounted investees		4,298	-	4,298
Deferred tax assets	d	2,632	122	2,754
Other non-current financial assets	d	86,476	-	86,476
Other non-current assets	d	78,534	(18,897)	59,637
Total non-current assets		**4,517,685**	**(39,508)**	**4,478,177**
Inventories	c	12,473	(1,425)	11,048
Current tax assets		1,242	-	1,242
Trade and other receivables		228,345	-	228,345
Other financial assets		18,992	-	18,992
Uncalled share capital		-	-	-
Other current assets	: and (	1,068	263	1,331
Cash and cash equivalents		47,257	-	47,257
Total current assets		**309,377**	**(1,162)**	**308,215**
Total assets		**4,827,062**	**(40,670)**	**4,786,392**
Equity				
Capital		1,074,032	-	1,074,032
Share premium		1,074,032	-	1,074,032
Retained earnings	and (	143,771	(40,670)	103,101
Translation differences		(2,971)	-	(2,971)
Interim dividend		(69,511)	-	(69,511)
Equity attributable to equity holders of the Parent		**2,219,353**	**(40,670)**	**2,178,683**
Grants, donations and bequests received	**b**	678,848	**(678,848)**	**-**
Non-controlling interests		23,269	-	23,269
Total equity		**2,921,470**	**(719,518)**	**2,201,952**
Loans and borrowings, non-current		49,058	-	49,058
Other non-current financial liabilities		93,002	-	93,002
Government grants, non-current	b	-	668,279	668,279
Payables to Group companies, non-current		1,008,567	-	1,008,567
Deferred tax liabilities	b	28,280	(2,248)	26,032
Non-current provisions		157,972	-	157,972
Other non-current liabilities		51,127	-	51,127
Total non-current liabilities		**1,388,006**	**666,031**	**2,054,037**
Financial liabilities from issuing bonds and other marketable securities		15,743	-	15,743
Loans and borrowings		14,223	-	14,223
Payables to Group companies		147,656	-	147,656
Other financial liabilities		88,331	-	88,331
Government grants, current	b	-	12,817	12,817
Trade and other payables		175,475	-	175,475
Current tax liabilities		2,751	-	2,751
Provisions		71,846	-	71,846
Other current liabilities		1,561	-	1,561
Total current liabilities		**517,586**	**12,817**	**530,403**
Total equity and liabilities		**4,827,062**	**(40,670)**	**4,786,392**

		Thousands of Euros		
		31/12/2013		
Assets	Ref	Spanish GAAP	Transition	IFRS-EU
Property, plant and equipment		27,566	-	27,566
Investment property		22,748	-	22,748
Goodwill		13,114	-	13,114
Other intangible assets	a	4,359,753	(34,363)	4,325,390
Equity-accounted investees		3,927	-	3,927
Deferred tax assets	d	2,890	166	3,056
Other non-current financial assets	d	81,946		81,946
Other non-current assets	d	103,272	(20,040)	83,232
Total non-current assets		**4,615,216**	**(54,237)**	**4,560,979**
Inventories	c	9,686	(1,270)	8,416
Current tax assets		21,949	-	21,949
Trade and other receivables		230,726	-	230,726
Other financial assets		32,756	-	32,756
Uncalled share capital		1,450	-	1,450
Other current assets	: and (	2,740	127	2,867
Cash and cash equivalents		22,627	-	22,627
Total current assets		**321,934**	**(1,143)**	**320,791**
Total assets		**4,937,150**	**(55,380)**	**4,881,770**
Equity				
Capital		1,074,032	-	1,074,032
Share premium		1,074,032	-	1,074,032
Other reserves		13,151	-	13,151
Retained earnings	and (	222,561	(55,380)	167,181
Translation differences		(9,343)	-	(9,343)
Interim dividend		(145,220)	-	(145,220)
Equity attributable to equity holders of the Parent		**2,229,213**	**(55,380)**	**2,173,833**
Grants, donations and bequests received	b	701,713	(701,713)	-
Non-controlling interests		22,222		22,222
Total equity		**2,953,148**	**(757,093)**	**2,196,055**
Loans and borrowings, non-current		183,663	-	183,663
Other non-current financial liabilities		119,265	-	119,265
Government grants, non-current	b	-	690,262	690,262
Payables to Group companies, non-current		860,946	-	860,946
Deferred tax liabilities	b	27,257	(2,284)	24,973
Non-current provisions		190,247	-	190,247
Other non-current liabilities		45,539	-	45,539
Total non-current liabilities		1,426,917	687,978	2,114,895
Financial liabilities from issuing bonds and other marketable securities		-	-	-
Loans and borrowings		56,859	-	56,859
Payables to Group companies		160,927	-	160,927
Other financial liabilities		87,415	-	87,415
Government grants, current	b	-	13,735	13,735
Trade and other payables		175,869	-	175,869
Current tax liabilities		1,220	-	1,220
Provisions		73,121	-	73,121
Other current liabilities		1,674	-	1,674
Total current liabilities		**557,085**	**13,735**	**570,820**
Total equity and liabilities		**4,937,150**	**(55,380)**	**4,881,770**

		Thousands of Euros		
		31/12/2012		
	Ref	Spanish GAAP	Transition	IFRS-EU
Revenues		544,160	-	544,160
Other income		17,278	-	17,278
Non-current self-constructed assets		10,945	-	10,945
Merchandise, raw materials and consumables used		(114,222)	-	(114,222)
Employee benefits expense		(73,475)	-	(73,475)
Amortisation and depreciation		(57,115)	-	(57,115)
Impairment/(reversals of impairment) on non-current assets		4,118	-	4,118
Other expenses	d	(179,839)	7,296	(172,543)
Finance income		4,819	-	4,819
Finance costs	a	(12,570)	(5,994)	(18,564)
Share in profit/(loss) of equity-accounted investees		(262)	-	(262)
		-		
Pre-tax profit from continuing operations		143,837	1,302	145,139
Income tax expense		(6,385)	(4)	(6,389)
Profit for the period from continuing operations		137,452	1,298	138,750
Profit for the period		137,452	1,298	138,750
Profit for the period attributable to equity holders of the Parent		135,982	1,298	137,280
Profit for the period attributable to non-controlling interests		1,470	-	1,470

		Thousands of Euros		
		31/12/2013		
	Ref	Spanish GAAP	Transition	IFRS-EU
Revenues		1,034,591	-	1,034,591
Other income		36,873	-	36,873
Non-current self-constructed assets		19,011	-	19,011
Merchandise, raw materials and consumables used		(237,211)	-	(237,211)
Employee benefits expense		(154,861)	-	(154,861)
Amortisation and depreciation		(117,730)	-	(117,730)
Impairment/(reversals of impairment) on non-current assets		(1,109)	-	(1,109)
Other expenses	d	(341,825)	(1,124)	(342,949)
Finance income		11,193	-	11,193
Finance costs	a	(22,386)	(13,630)	(36,016)
Share in profit/(loss) of equity-accounted investees		(211)	-	(211)
Pre-tax profit from continuing operations		**226,335**	**(14,754)**	**211,581**
Income tax expense		(11,740)	44	(11,696)
Profit for the period from continuing operations		**214,595**	**(14,710)**	**199,885**
Profit for the period		**214,595**	**(14,710)**	**199,885**
Profit for the period attributable to equity holders of the Parent		210,337	(14,710)	**195,627**
Profit for the period attributable to non-controlling interests		4,258	-	4,258

Consolidated statements of cash flows for the year ended 31 December 2013 and the six-month period ended 31 December 2012

The transition adjustments made to the consolidated statements of cash flows for the year ended 31 December 2013 and the six-month period ended 31 December 2012 reflect the reclassification of adjustments to profit for the period under operating activities due to the recognition of the finance charge on fixed assets and recognition of the interest on supplementary instalments.

The variation in total cash flows generated by operating activities under Spanish GAAP and under IFRS-EU therefore amounts to Euros 211 thousand for the year ended 31 December 2013 and Euros 262 thousand for the six-month period ended 31 December 2012.

Reconciliation

a. Capitalisation of the finance charge

Under Spanish GAAP, finance costs associated with concession arrangements accounted for using the intangible asset model are taken to the income statement throughout the entire concession period, in proportion with the revenues deriving from the concession. The Group has recognised the finance charge associated with expenses paid and pending recognition in the income statement during the concession term under other intangible assets. Under IFRS-EU finance costs are recognised in the income statement for the year at amortised cost.

b. Government grants

Under Spanish GAAP government grants are recognised in equity, net of the deferred tax effect. Under IFRS-EU the Group has recognised such grants as liabilities.

c. Advances to suppliers

Under Spanish GAAP advances to suppliers of inventories are recognised in inventories, whereas under IFRS-EU they are accounted for in other assets.

d. Supplementary instalments

The impact of the difference between the nominal amount of supplementary instalments and their amortised cost, which the Group recognised in other assets (prepayments) under Spanish GAAP, has been adjusted in equity.

APPENDICES

CANAL DE ISABEL II GESTIÓN, S.A. AND SUBSIDIARIES

APPENDIX I (1)

SEGMENT REPORTING AT 31 DECEMBER 2013

(Expressed in thousands of Euros)

	SEGMENTS		
	Domestic	International	TOTAL
Revenues	853,538	181,053	1,034,591
- Services to external customers	853,538	180,394	1,033,932
- Inter-segment services	-	659	659
Pre-tax profit of the segments	145,562	66,019	211,581
Finance income	6,263	4,930	11,193
Finance costs	(29,680)	(6,336)	(36,016)
Amortisation and depreciation	(100,508)	(17,222)	(117,730)
Share in profit/(loss) of equity-accounted investees	(211)	-	(211)
Losses, impairment and changes in provisions	(1,109)	-	(1,109)
Income tax expense	(4,680)	(7,016)	(11,696)
Segment assets	4,692,494	189,276	4,881,770
Segment liabilities	2,523,615	162,100	2,685,715
Net cash flows from (used in)	(18,732)	(3,974)	(22,706)
- Operating activities	260,678	55,295	315,973
- Investing activities	(187,119)	(39,692)	(226,811)
- Financing activities	(92,291)	(19,577)	(111,868)
Acquisitions of non-current assets during the period	173,170	21,581	194,751

This appendix forms an integral part of note 4 to the consolidated financial statements, in conjunction with which it should be read.

CANAL DE ISABEL II GESTIÓN, S.A. AND SUBSIDIARIES

APPENDIX I (2)

SEGMENT REPORTING AT 31 December 2012

(Expressed in thousands of Euros)

	SEGMENTS		
	Domestic	International	TOTAL
Revenues	452,524	91,636	544,160
- Services to external customers	452,524	91,210	543,734
- Inter-segment services	-	426	426
Pre-tax profit of the segments	136,919	8,220	145,139
Finance income	2,984	1,835	4,819
Finance costs	(14,230)	(4,334)	(18,564)
Amortisation and depreciation	(48,586)	(8,529)	(57,115)
Share in profit/(loss) of equity-accounted investees	(262)	-	(262)
Losses, impairment and changes in provisions	4,118	-	4,118
Income tax expense	(1,757)	(4,608)	(6,365)
Segment assets	4,600,427	185,965	4,786,392
Segment liabilities	2,440,886	143,554	2,584,440
Net cash flows from (used in)	7,527	1,525	9,052
- Operating activities	141,253	28,902	170,155
- Investing activities	(116,969)	(23,686)	(140,655)
- Financing activities	(16,757)	(3,691)	(20,448)
Acquisitions of non-current assets during the period	123,108	7,819	130,927

This appendix forms an integral part of note 4 to the consolidated financial statements, in conjunction with which it should be read.

DETAILS OF SUBSIDIARIES AT 31 DECEMBER 2013 **APPENDIX II (1)**

Company	Registered office	Activity	Auditor	% ownership Direct	Indirect	Total
Canal Extensia, S.A.U.	Santa Engracia 125 - Madrid	Share-holding company	KPMG	100.00%	-	100.00%
Hispanagua, S.A.U.	San Enrique 3 - Madrid	Water-related maintenance, operation, distribution and sanitation services	KPMG	100.00%	-	100.00%
Canal de Comunicaciones Unidas, S.A.U.	Santa Engracia 125 - Madrid	Public service operation of terrestrial mobile radio-communications in the Madrid area	KPMG	100.00%	-	100.00%
Hidráulica Santillana, S.A.U.	San Enrique 3 - Madrid	Production of electricity	KPMG	100.00%	-	100.00%
Canal Gestión Lanzarote, S.A.U.	Ctra. Arrecife-Las Caletas Km.3,5 - Lanzarote	Comprehensive water cycle management	KPMG	100.00%	-	100.00%
Canal Energía, S.L.	José Abascal 10 - Madrid	Holding company	KPMG	80.00%	20.00%	100.00%
Canal Energía Comercialización, S.L.	José Abascal 10 - Madrid	Sale of electricity	KPMG	-	100.00%	100.00%
Canal Energía Generación, S.L.	José Abascal 10 - Madrid	Production and transformation of electricity	KPMG	-	100.00%	100.00%
Canal Energía Distribución, S.L.	José Abascal 10 - Madrid	Distribution of electricity	KPMG	-	100.00%	100.00%
Canal Gas Distribución, S.L.	José Abascal 10 - Madrid	Distribution of hydrocarbons	KPMG	-	100.00%	100.00%
Interamericana de Aguas y Servicios, S.A. and subsidiaries	Barranquilla (Colombia)	Comprehensive water cycle operator	KPMG	-	81.24%	81.24%
Watco Dominicana, S.A.	Santo Domingo (Dominican Republic)	Sale of IT services	KPMG	-	51.00%	51.00%
Sociedad de Acueducto, Alcantarillado y Aseo de Barranquilla, S.A. E.S.P.	Barranquilla (Colombia)	Comprehensive water cycle	KPMG	-	67.91%	67.91%
Gestión Integral de Suministros Ltda.	Colombia	Supply of goods	KPMG	-	81.24%	81.24%
Recaudos y Tributos, S.A.	Barranquilla (Colombia)	Comprehensive advisory services in the field of tax collection	KPMG	-	80.46%	80.46%
AAA Dominicana	Santo Domingo (Dominican Republic)	Comprehensive water cycle	KPMG	-	52.81%	52.81%
Inforesa	Santo Domingo (Dominican Republic)	Comprehensive water cycle	KPMG	-	42.25%	42.25%
AAA Ecuador Agacase, S.A.	Ecuador	Management of public resources	KPMG	-	81.43%	81.43%
Amagua, CEM	Ecuador	Comprehensive water cycle	KPMG	-	57.00%	57.00%
Amerika Tecnologías de la Información, S.A.S.	Barranquilla (Colombia)	Design, maintenance, development, support and management of information technology projects	KPMG	-	70.00%	70.00%
Soluciones Andinas de Aguas, S.R.L.	Montevideo (Uruguay)	Asset investment and holding	KPMG	-	90.62%	90.62%
Interamericanas de Aguas de México, S.A.	Mexico	Comprehensive water cycle	-	-	79.61%	79.61%
Mexaqua	Mexico	Comprehensive water cycle	-	-	55.73%	55.73%
AAA Venezuela	Venezuela	Comprehensive water cycle	-	-	80.43%	80.43%
Emissao Engenharia e Construcoes, S.A.	Brazil	Water-related maintenance, operation, distribution and sanitation services	-	-	72.47%	72.47%

This appendix forms an integral part of the notes to the consolidated financial statements, in conjunction with which it should be read.

DETAILS OF SUBSIDIARIES AT 31 DECEMBER 2012				APPENDIX II (2)		
				% ownership		
Company	Registered office	Activity	Auditor	Direct	Indirect	Total
Canal Extensia, S.A.U.	Santa Engracia 125 - Madrid	Share-holding company	KPMG	100.00%	-	100.00%
Hispanagua, S.A.U.	San Enrique 3 - Madrid	Water-related maintenance, operation, distribution and sanitation services	KPMG	100.00%	-	100.00%
Canal de Comunicaciones Unidas, S.A.U.	Santa Engracia 125 - Madrid	Public service operation of terrestrial mobile radio-communications in the Madrid area	KPMG	100.00%	-	100.00%
Hidráulica Santillana, S.A.U.	San Enrique 3 - Madrid	Production of electricity	KPMG	100.00%	-	100.00%
Canal Energía, S.L.	José Abascal 10 - Madrid	Holding company	KPMG	80.00%	20.00%	100.00%
Canal Energía Comercialización, S.L.	José Abascal 10 - Madrid	Sale of electricity	KPMG	-	100.00%	100.00%
Canal Energía Generación, S.L.	José Abascal 10 - Madrid	Production and transformation of electricity	KPMG	-	100.00%	100.00%
Canal Energía Distribución, S.L.	José Abascal 10 - Madrid	Distribution of electricity	KPMG	-	100.00%	100.00%
Canal Gas Distribución, S.L.	José Abascal 10 - Madrid	Distribution of hydrocarbons	KPMG	-	100.00%	100.00%
Interamericana de Aguas y Servicios, S.A. and subsidiaries	Barranquilla (Colombia)	Comprehensive water cycle operator	KPMG	-	81.24%	81.24%
Watco Dominicana, S.A.	Santo Domingo (Dominican Republic)	Sale of IT services	KPMG	-	51.00%	51.00%
Sociedad de Acueducto, Alcantarillado y Aseo de Barranquilla, S.A. E.S.P.	Barranquilla (Colombia)	Comprehensive water cycle	KPMG	-	67.91%	67.91%
Gestión Integral de Suministros Ltda.	Colombia	Supply of goods	KPMG	-	67.91%	67.91%
Recaudos y Tributos, S.A.	Barranquilla (Colombia)	Comprehensive advisory services in the field of tax collection	KPMG	-	80.46%	80.46%
AAA Dominicana	Santo Domingo (Dominican Republic)	Comprehensive water cycle	KPMG	-	52.81%	52.81%
Inforesa	Santo Domingo (Dominican Republic)	Comprehensive water cycle	KPMG	-	42.25%	42.25%
AAA Ecuador Agacase, S.A.	Ecuador	Management of public resources	KPMG	-	81.43%	81.43%
Amagua, CEM	Ecuador	Comprehensive water cycle	KPMG	-	57.00%	57.00%
Interamericanas de Aguas de México, S.A.	Mexico	Comprehensive water cycle	KPMG	-	79.61%	79.61%
Mexaqua	Mexico	Comprehensive water cycle	KPMG	-	55.73%	55.73%
AAA Venezuela	Venezuela	Comprehensive water cycle	KPMG	-	80.43%	80.43%

The subsidiary Inforesa has not been consolidated as the effect of its inclusion in these consolidated financial statements would be immaterial.

Figures translated at the reporting-date exchange rate.

This appendix forms an integral part of the notes to the consolidated financial statements, in conjunction with which it should be read.

DETAILS OF EQUITY-ACCOUNTED INVESTEES AT 31 DECEMBER 2013 — **APPENDIX III (1)**

Company	Registered office	Activity	Auditor	% ownership Direct	% ownership Indirect	% ownership Total	Capital	Reserves	Other equity	Profit/(loss)	Total capital and reserves	Total equity
GSS Venture, S.L.	c/ Guzmán el Bueno, 133 (Madrid)	Communications and telemarketing services	Mazars Auditores SLP	0.25	-	0.25	60	1,948	(139)	(192)	1,677	1,677
Acueducto y Alcantarillado Metropolitano de Santa Marta, S.A. E.S.P.	Santa Marta (Colombia)	Comprehensive water cycle operator	KPMG	-	0.2913	0.2913	12,612	978	(4,101)	(147)	9,342	9,342
Avanzadas Soluciones de Acueducto y Alcantarillado, S.A. E.S.P.	Riohacha (Colombia)	Comprehensive water cycle operator	KPMG	-	0.325	0.325	753	185	(274)	(248)	415	415

DETAILS OF EQUITY-ACCOUNTED INVESTEES AT 31 DECEMBER 2012 — **APPENDIX III (2)**

Company	Registered office	Activity	Auditor	% ownership Direct	% ownership Indirect	% ownership Total	Capital	Reserves	Other equity	Profit/(loss)	Total capital and reserves	Total equity
GSS Venture, S.L.	c/ Guzmán el Bueno, 133 (Madrid)	Communications and telemarketing services	-	0.25	-	0.25	60	1,948	-	(319)	1,689	1,689
Acueducto y Alcantarillado Metropolitano de Santa Marta, S.A. E.S.P.	Santa Marta (Colombia)	Comprehensive water cycle operator	KPMG	-	0.2913	0.2913	14,365	942	(4,052)	(447)	10,808	10,808

This appendix forms an integral part of note 10 to the consolidated financial statements, in conjunction with which it should be read.

DETAILS OF JOINT VENTURES AT 31 DECEMBER 2013 — **APPENDIX IV (1)**

Name	Registered office	Activity	Type	Direct	Indirect	Total	Net sales
				% ownership			Thousands of Euros
Jointly controlled operations							
Aguas de Alcalá TJV	C/ Federico Salmún, 13 - Madrid	Management of water supply and sanitation for the city of Alcalá de Henares		37.50%	-	37.50%	10,668
Z.V. Mejost	C/ García Plata de Osma, 1 - Cáceres	Works on distribution and sanitation facilities		-	100.00%	100.00%	-
Unión Temporal de Sociedades A.A. Santa Marta	Santa Marta (Colombia)	Water cycle advisory services		-	44.45%	44.45%	836
							11,504

DETAILS OF JOINT VENTURES AT 31 DECEMBER 2012 — **APPENDIX IV (2)**

Name	Registered office	Activity	Type	Direct	Indirect	Total	Net sales
				% ownership			Thousands of Euros
Jointly controlled operations							
Aguas de Alcalá TJV	C/ Federico Salmún, 13 - Madrid	Management of water supply and sanitation for the city of Alcalá de Henares		37.50%	-	37.50%	11,338
Z.V. Mejost	C/ García Plata de Osma, 1 - Cáceres	Works on distribution and sanitation facilities		-	100.00%	100.00%	-
PR. Huesca	C/ Madre Rafols, 215 - Zaragoza	Dam maintenance		-	40.00%	40.00%	26
Unión Temporal de Sociedades A.A. Santa Marta	Santa Marta (Colombia)	Water cycle advisory services		-	44.45%	44.45%	918
							12,282

This appendix forms an integral part of note 11 to the consolidated financial statements, in conjunction with which it should be read.

DETAILS OF POSITIONS HELD BY CANAL DE ISABEL II GESTIÓN, S.A. SENIOR MANAGEMENT PERSONNEL IN OTHER COMPANIES – 2013 REPORTING PERIOD		APPENDIX V (1)
Senior management personnel	Company	Position and duties
Mr. Adrián Martín López de las Huertas	Canal de Isabel II Gestión, S.A.	Managing Director, member of the Board of Directors and Chairman of the Steering Committee of CYII Gestión
	Canal Extensia, S.A.U.	Chairman and CEO
	Hispanagua, S.A.U.	Chairman and CEO
	Hidráulica Santillana, S.A.U.	Chairman and CEO
	Canal de Comunicaciones Unidas, S.A.U.	Chairman and CEO
	Canal Energía, S.L.	Chairman and CEO
	Canal Energía Generación, S.L.U.	Sole Director
	Canal Energía Distribución, S.L.U.	Sole Director
	Canal Energía Comercialización, S.L.U.	Sole Director
	Canal Gas Distribución, S.L.U.	Sole Director
	Canal Gestión Lanzarote, S.A.U.	Sole Director
	Aguas de Alcalá TJV	Member of the Management Committee, representing Canal de Isabel II Gestión, S.A.
	Canal de Isabel II Charitable Foundation	Ex officio board member
	Canal de Isabel II Sports Club	Chairman of the Governing Board
	Madrid Town Planning Committee	Board member
	Nuevo Arpegio, Áreas de Promoción Empresarial, S.A.I	Member of the Board of Directors
	AGA (Spanish association of water service management firms)	Representative of Canal de Isabel II
	National Water Council	Board member
	Tagus Water Board	Representative of CAM on the steering committee
	Alberche Board of Operations	Board member
Ms. María Fernanda Richmond	Canal de Isabel II Gestión, S.A.	General Manager, Economy and Finance
	Canal Extensia, S.A.U.	Board member
	Hispanagua, S.A.U.	Board member
	Hidráulica Santillana, S.A.U.	Board member
	Canal de Comunicaciones Unidas, S.A.U.	Board member
	Canal Energía, S.L.	Board member
	Aguas de Alcalá TJV	Representing Canal de Isabel II Gestión, S.A.
	Interamericana de Aguas y Servicios, S.A. (INASSA)	Board member
	Amagua	Board member
	Emissao Engenharia e Construcoes, S.A.	Board member
	GSS Venture, S.L.	Board member
Mr. Fernando de Cevallos Aguaron	Canal de Isabel II Gestión, S.A.	Secretary to the Board of Directors and Director of the Technical General Secretariat
	Canal Extensia, S.A.U.	Board member
	Hispanagua, S.A.U.	Board member
	Canal Energía, S.L.	Board member
Mr. Juan Ignacio Zubizarreta Pariente	Canal de Isabel II Gestión, S.A.	Sales Director
	Canal de Comunicaciones Unidas, S.A.U.	Board member
	GSS Venture, S.L.	Board member
Ms. M. Carmen del Río Ganuza	Canal de Isabel II Gestión, S.A.	Director of Human Resources and Quality
	Canal de Isabel II Sports Club	Board member
Ms. Nuria San Román Navarro	Canal de Isabel II Gestión, S.A.	Sub-Director, Communications and Public Relations
	Canal de Isabel II Sports Club	Board member
Ms. Belén Benito Martínez	Canal de Isabel II Gestión, S.A.	Sub-Director, Engineering and Construction
Mr. Luis Miguel Garrido Martínez	Canal de Isabel II Gestión, S.A.	Director, Safety
Mr. Jesús Díez de Ulzurrum	Canal de Isabel II Gestión, S.A.	Director, Sanitation

This appendix forms an integral part of note 26 to the consolidated financial statements, in conjunction with which it should be read.

DETAILS OF POSITIONS HELD BY CANAL DE ISABEL II GESTIÓN, S.A. SENIOR MANAGEMENT PERSONNEL IN OTHER COMPANIES – 2012 REPORTING PERIOD		APPENDIX V (2)
Senior management personnel	Company	Position and duties
Mr. Adrián Martín López de las Huertas	Canal de Isabel II Gestión, S.A.	Managing Director, member of the Board of Directors and Chairman of the Steering Committee of CYII Gestión
	Canal Extensia, S.A.U.	Chairman and CEO
	Hispanagua, S.A.U.	Chairman and CEO
	Hidráulica Santillana, S.A.U.	Chairman and CEO
	Canal de Comunicaciones Unidas, S.A.U.	Chairman and CEO
	Canal Energía, S.L.	Chairman and CEO
	Canal Energía Generación, S.L.U.	Sole Director
	Canal Energía Distribución, S.L.U.	Sole Director
	Canal Energía Comercialización, S.L.U.	Sole Director
	Canal Gas Distribución, S.L.U.	Sole Director
	Aguas de Alcalá TJV	Member of the Management Committee, representing CYII
	Canal de Isabel II Charitable Foundation	Ex officio board member
	Canal de Isabel II Sports Club	Chairman of the Governing Board
	Madrid Town Planning Committee	Board member
	Nuevo Arpegio, Áreas de Promoción Empresarial, S.A.I	Member of the Board of Directors
	A.G.A.	Representative of Canal de Isabel II
	National Water Council	Board member
	Tagus Water Board	Representative of CAM on the steering committee
	Alberche Board of Operations	Board member
Ms. María Fernanda Richmond	Canal de Isabel II Gestión, S.A.	General Manager, Economy and Finance
	Canal Extensia, S.A.U.	Board member
	Hispanagua, S.A.U.	Board member
	Hidráulica Santillana, S.A.U.	Board member
	Canal de Comunicaciones Unidas, S.A.U.	Board member
	Canal Energía, S.L.	Board member
	Aguas de Alcalá TJV	Representing CYII
	Interamericana de Aguas y Servicios, S.A. (INASSA)	Board member
	Amagua	Board member
	AAA Dominicana, S.A.	Board member
	GSS Venture, S.L.	Board member
Mr. Fernando de Cevallos Aguaron	Canal de Isabel II Gestión, S.A.	Secretary to the Board of Directors and Director of the Technical General Secretariat
	Canal Extensia, S.A.U.	Board member
	Hispanagua, S.A.U.	Board member
	Canal Energía, S.L.	Board member
Mr. Juan Ignacio Zubizarreta Pariente	Canal de Isabel II Gestión, S.A.	Sales Director
	Canal de Comunicaciones Unidas, S.A.U.	Board member
	GSS Venture, S.L.	Board member
Ms. M. Carmen del Río Ganuza	Canal de Isabel II Gestión, S.A.	Director of Human Resources and Quality
	Canal de Isabel II Sports Club	Board member
Ms. Nuria San Román Navarro	Canal de Isabel II Gestión, S.A.	Sub-Director, Communications and Public Relations
	Canal de Isabel II Sports Club	Board member
Ms. Belén Benito Martínez	Canal de Isabel II Gestión, S.A.	Sub-Director, Engineering and Construction
Mr. Luis Miguel Garrido Martínez	Canal de Isabel II Gestión, S.A.	Director, Safety
Mr. Jesús Díez de Ulzurrum	Canal de Isabel II Gestión, S.A.	Director, Sanitation

This appendix forms an integral part of note 26 to the consolidated financial statements, in conjunction with which it should be read.

Canal de Isabel II Gestión, S.A. and Subsidiaries: Consolidated Annual Accounts and Consolidated Directors' Report

2013

(With Auditors' Report Thereon)

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

Canal de Isabel II gestión

F161

KPMG Auditores S.L.
Edificio Torre Europa
Paseo de la Castellana, 95
28046 Madrid

Auditors' Report on the Consolidated Annual Accounts

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

To the Shareholders of
Canal de Isabel II Gestión, S.A.

We have audited the consolidated annual accounts of Canal de Isabel II Gestión, S.A. (the "Company") and subsidiaries (the "Group"), which comprise the consolidated balance sheet at 31 December 2013, the consolidated income statement, the consolidated statement of changes in equity, the consolidated statement of cash flows for the year then ended and the notes thereto. The Company's Directors are responsible for the preparation of the consolidated annual accounts in accordance with the financial information reporting framework applicable to the Group (specified in note 2 to the accompanying consolidated annual accounts) and, in particular, with the accounting principles and criteria set forth therein. Our responsibility is to express an opinion on the consolidated annual accounts taken as a whole, based on our audit, which was conducted in accordance with prevailing legislation regulating the audit of accounts in Spain, which requires examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated annual accounts and evaluating whether their overall presentation, the accounting principles and criteria used and the accounting estimates made comply with the applicable legislation governing financial information.

In our opinion, the accompanying consolidated annual accounts for 2013 present fairly, in all material respects, the consolidated equity and consolidated financial position of Canal de Isabel II Gestión, S.A. and subsidiaries at 31 December 2013, and the consolidated results of their operations and consolidated cash flows for the year then ended, in accordance with the applicable financial information reporting framework and, in particular, with the accounting principles and criteria set forth therein.

The accompanying consolidated directors' report for 2013 contains such explanations as the Directors of Canal de Isabel II Gestión, S.A. consider relevant to the situation of the Group, the evolution of its business and other matters, and is not an integral part of the consolidated annual accounts. We have verified that the accounting information contained therein is consistent with that disclosed in the consolidated annual accounts for 2013. Our work as auditors is limited to the verification of the consolidated directors' report within the scope described in this paragraph and does not include a review of information other than that obtained from the accounting records of Canal de Isabel II Gestión, S.A. and subsidiaries.

KPMG Auditores, S.L.

(Signed on original in Spanish.)

Borja Guinea López
7 March 2014

Canal de Isabel II Gestión, S.A. and Subsidiaries: Consolidated Annual Accounts and Consolidated Directors’ Report

2013

Canal de Isabel II gestión

CONTENTS

CONSOLIDATED ANNUAL ACCOUNTS 2013

CONSOLIDATED BALANCE SHEET AT 31 DECEMBER 2013 AND 2012

CONSOLIDATED INCOME STATEMENT AT 31 DECEMBER 2013 AND FOR THE SIX-MONTH PERIOD ENDED 31 DECEMBER 2012

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY FOR THEYEAR ENDED 31 DECEMBER 2013 AND THE SIX-MONTH PERIOD ENDED 31 DECEMBER 2012

CONSOLIDATED STATEMENT OF CASH FLOWS AT 31 DECEMBER 2013 AND FOR THE SIX-MONTH PERIOD ENDED 31 DECEMBER 2012

NOTES TO THE CONSOLIDATED ANNUAL ACCOUNTS 2013

1. NATURE, PRINCIPAL ACTIVITIES AND COMPOSITION OF THE CONSOLIDATED GROUP 1
2. BASIS OF PRESENTATION 3
3. NON-MONETARY CONTRIBUTION AND CONTRACT-PROGRAMME 6
4. DISTRIBUTION OF PROFIT 10
5. SIGNIFICANT ACCOUNTING POLICIES 13
6. GOODWILL OF CONSOLIDATED COMPANIES 34
7. JOINT VENTURES 35
8. INTANGIBLE ASSETS 37
9. PROPERTY, PLANT AND EQUIPMENT 51
10. INVESTMENT PROPERTY 54
11. RISK MANAGEMENT POLICY 56
12. BUSINESS COMBINATIONS 57
13. CLASSIFICATION OF FINANCIAL ASSETS BY CATEGORY AND EQUITY-ACCOUNTED INVESTEES 58
14. INVESTMENTS AND TRADE RECEIVABLES 63
15. INVENTORIES 69
16. PREPAYMENTS 70
17. CASH AND CASH EQUIVALENTS 71
18. EQUITY 71
19. GRANTS, DONATIONS AND BEQUESTS RECEIVED 75
20. NON-CONTROLLING INTERESTS 77
21. PROVISIONS AND CONTINGENT LIABILITIES 77
22. FINANCIAL LIABILITIES BY CATEGORY 81
23. PAYABLES AND TRADE PAYABLES 84
24. LATE PAYMENTS TO SUPPLIERS. “REPORTING REQUIREMENT”, THIRD ADDITIONAL PROVISION OF LAW 15/2010 OF 5 JULY 2010 89

25.	ACCRUALS	89
26.	TAXATION	90
27.	ENVIRONMENTAL INFORMATION	97
28.	RELATED PARTY BALANCES AND TRANSACTIONS	99
29.	INCOME AND EXPENSES	101
30.	EMPLOYEE INFORMATION	103
31.	AUDIT FEES	104
32.	EVENTS AFTER THE REPORTING PERIOD	105
33.	SEGMENT REPORTING	105

APPENDICES

Appendix I (1)	DETAILS OF GROUP COMPANIES AT 31 DECEMBER 2013
Appendix I (2)	DETAILS OF GROUP COMPANIES AT 31 DECEMBER 2012
Appendix II	DETAILS OF ASSOCIATES AT 31 DECEMBER 2013 AND 2012
Appendix III (1)	DETAILS OF JOINT VENTURES AT 31 DECEMBER 2013
Appendix III (2)	DETAILS OF JOINT VENTURES AT 31 DECEMBER 2012
Appendix IV	DETAILS OF POSITIONS HELD IN OTHER COMPANIES BY DIRECTORS WITH SPEAKING AND VOTING RIGHTS IN 2013 AND 2012
Appendix V (1)	DETAILS OF POSITIONS HELD BY SENIOR MANAGEMENT PERSONNEL IN OTHER COMPANIES IN 2013
Appendix V (2)	DETAILS OF POSITIONS HELD BY SENIOR MANAGEMENT PERSONNEL IN OTHER COMPANIES IN 2012
Appendix VI (1)	SEGMENT REPORTING AT 31 DECEMBER 2013
Appendix VI (2)	SEGMENT REPORTING AT 31 DECEMBER 2012

CONSOLIDATED DIRECTORS' REPORT FOR 2013

CONSOLIDATED ANNUAL ACCOUNTS 2013

CONSOLIDATED BALANCE SHEET AT 31 DECEMBER 2013 AND 2012
(Expressed in thousands of Euros) (Free translation from the original version in Spanish. In the event of discrepancy, the original Spanish-language version prevails.)

ASSETS	NOTES	2013	2012
A) NON-CURRENT ASSETS		**4,615,216**	**4,517,685**
I. Intangible assets	8	**4,359,753**	**4,279,295**
Development		407	362
Concessions		201	301
Computer software		479	374
Concession arrangements, regulated assets		4,024,443	3,970,243
Concession arrangements, capitalisation		34,363	20,733
Concession arrangements, regulated assets under construction		299,860	287,282
II. Property, plant and equipment	9	**27,566**	**29,212**
Land and buildings		2,499	2,557
Technical installations and other items		23,369	25,553
Machinery, furniture and fixtures		1,392	1,102
Under construction and advances		306	-
III. Investment property	10	**22,748**	**24,050**
Land		7,732	7,898
Buildings		15,016	16,152
IV. Non-current investments in Group companies and associates		**26,573**	**4,479**
Equity instruments	12	22,646	181
Equity-accounted investees	13(a)	3,927	4,298
V. Non-current investments	13 (a) and 14(a)	**81,946**	**86,476**
Equity instruments		154	200
Loans to third parties		68,577	71,623
Other financial assets		13,215	14,653
VI. Deferred tax assets	26	**2,890**	**2,632**
VII. Prepayments for non-current assets	16	**80,626**	**78,353**
VIII. Goodwill of consolidated companies	6	**13,114**	**13,188**
B) CURRENT ASSETS		**321,934**	**309,377**
II. Inventories	15	**9,686**	**12,473**
Goods for resale		49	58
Raw materials and other supplies		8,367	10,990
Advances to suppliers		1,270	1,425
III. Trade and other receivables	14(b)	**254,125**	**229,587**
Trade receivables		176,747	173,859
Trade receivables from Group companies and associates		4,582	2,357
Other receivables		35,198	39,241

Personnel		1,346	2,031
Current tax assets	26	21,949	1,242
Public entities, other	26	12,853	10,857
Uncalled share capital		1,450	-
IV. Current investments in Group companies and associates	13 (a)	**17,378**	**4,676**
Loans to companies		17,378	4,676
V. Current investments	13 (a) and 14(a)	**14,108**	**12,891**
Loans to companies		14,057	12,829
Other financial assets		51	62
VI. Prepayments for current assets	16	**4,010**	**2,493**
VII. Cash and cash equivalents	17	**22,627**	**47,257**
TOTAL ASSETS (A + B)		**4.937.150**	**4,827,062**

The accompanying notes form an integral part of the consolidated annual accounts for the year ended 31 December 2013.

CONSOLIDATED BALANCE SHEET AT 31 DECEMBER 2013 AND 2012
(Expressed in thousands of Euros) (Free translation from the original version in Spanish. In the event of discrepancy, the original Spanish-language version prevails.)

EQUITY AND LIABILITIES	NOTES	2013	2012
A) EQUITY		**2,953,148**	**2,921,470**
A-1) Capital and reserves	18	**2,238,556**	**2,222,324**
I. Capital		**1,074,032**	**1,074,032**
II. Share premium		**1,074,032**	**1,074,032**
III. Reserves and prior years' profit and loss		**14,637**	**(234)**
Other reserves		14,637	(234)
IV. Reserves in consolidated companies		**10,738**	**8,023**
VIII. Profit for the year attributable to the Parent		**210,337**	**135,982**
Consolidated profit and loss		214,595	137,452
(Profit and loss attributable to non-controlling interests)		(4,258)	(1,470)
IX. (Interim dividend)	4	**(145,220)**	**(69,511)**
A-2) Valuation adjustments	18 (d)	**(9,343)**	**(2,971)**
I. Translation differences, consolidated companies		**(9,621)**	**(2,776)**
II. Translation differences, equity-accounted investees		**278**	**(195)**
A-3) Grants, donations and bequests received	19	**701,713**	**678,848**
Grants, donations and bequests received		701,713	678,848
A-4) Non-controlling interests	20	**22,222**	**23,269**
B) NON-CURRENT LIABILITIES		**1,426,917**	**1,388,006**
I. Non-current provisions	21	**190,247**	**157,972**
Long-term employee benefits		154	134
Provisions for infrastructure		163,428	131,673
Other provisions		26,665	26,165
II. Non-current payables	23 (a)	**302,928**	**142,060**
Loans and borrowings		183,663	49,058
Other financial liabilities		119,265	93,002
III. Group companies and associates, non-current	22 and 28	**860,946**	**1,008,567**
Group companies and associates, non-current		860,946	1,008,567
IV. Deferred tax liabilities	26	**27,257**	**28,280**
V. Non-current accruals	25	**45,539**	**51,127**
C) CURRENT LIABILITIES		**557,085**	**517,586**
II. Current provisions	21	**73,121**	**71,846**
Provisions for infrastructure		66,170	65,020
Other provisions		6,951	6,826
III. Current payables	23 (a)	**144,274**	**118,297**
Bonds and other marketable securities		-	15,743

Loans and borrowings		56,859	14,223
Other financial liabilities		87,415	88.331
IV. Group companies and associates, current	22 and 28	**160,927**	**147.656**
Group companies and associates, current		160,927	147.656
V. Trade and other payables	23 (b)	**177,089**	**178.226**
Suppliers		26,245	25.766
Suppliers, Group companies and associates	28	3,370	1.438
Other payables		114,779	117.213
Salaries payable		9,325	9.152
Current tax liabilities		1,220	2.751
Public entities, other		17,273	16.233
Advances from customers		4,877	5.673
VI. Current accruals	25	**1,674**	**1.561**
TOTAL EQUITY AND LIABILITIES (A+B+C)		**4.937.150**	**4,827,062**

The accompanying notes form an integral part of the consolidated annual accounts for the year ended 31 December 2013.

CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2013 AND THE SIX-MONTH PERIOD ENDED 31 DECEMBER 2012 (EXPRESSED IN THOUSANDS OF EUROS) (Free translation from the original version in Spanish. In the event of discrepancy, the original Spanish-language version prevails.)	NOTES	2013	2012
A) CONTINUING OPERATIONS			
1. Revenues	29 (a)	**1,034,591**	**544,160**
Sales		8,904	1,513
Services rendered		1,025,687	542,647
2. Self-constructed assets		**19,011**	**10,945**
3. Supplies		**(237,211)**	**(114,222)**
Electricity used	29 (b)	(62,437)	(28,016)
Raw materials and consumables used	29 (b)	(48,753)	(24,680)
Subcontracted work	29 (b)	(125,710)	(61,552)
Impairment of merchandise, raw materials and other supplies	15	(311)	26
4. Other operating income		**23,376**	**10,464**
Non-trading and other operating income	29 (e)	23,298	10,219
Operating grants taken to income	19	78	245
5. Personnel expenses	29 (c)	**(154,861)**	**(73,475)**
Salaries and wages		(115,906)	(53,914)
Employee benefits expense		(38,955)	(19,561)
6. Other operating expenses		**(343,298)**	**(181,792)**
External services		(153,959)	(80,095)
Taxes		(30,464)	(8,095)
Fees		(17,851)	(8,881)
Losses, impairment and changes in trade provisions	14	(11,515)	(18,953)
Charge to provision for infrastructure	21 (c)	(111,471)	(56,643)
Other operating expenses		(18,038)	(9,125)
7. Amortisation and depreciation	8, 9 and 10	**(117,730)**	**(57,115)**
8. Non-financial and other capital grants	19	**12,817**	**6,166**
9. Provision surpluses	21	**1,473**	**1,953**
10. Impairment and gains/(losses) on disposal of fixed assets		**(29)**	**2**
Impairment and losses	8	12	41
Losses on disposal and other	29 (d)	(41)	(39)
11. Other gains		**680**	**648**
A.1) RESULTS FROM OPERATING ACTIVITIES (1+2+3+4+5+6+7+8+9+10+11+12+13)		**238.819**	**147,734**
12. Finance income		**11,193**	**4,819**
Marketable securities and other financial instruments		10,842	4,396
Capitalised borrowing costs	8	351	423
13. Finance costs		**(20,462)**	**(12,424)**

Group companies and associates	22 and 28	**(9,907)**	(5,779)
Other	22	(7,412)	(4,674)
Provision adjustments	21	(1,621)	(1,196)
Other finance costs	22	(1,522)	(775)
14. Exchange losses		**(1,924)**	**(146)**
15. Impairment and gains/(losses) on disposal of financial instruments		**(1,080)**	**4,116**
Impairment and losses	14 (a)	(1,080)	4,247
Gains/(losses) on disposal and other		-	(131)
A.2) NET FINANCE COST (14+15+16+17+18)		**(12.273)**	**(3,635)**
16. Share in losses of equity-accounted investees	13 (b)	**(211)**	**(262)**
A.3) PROFIT BEFORE INCOME TAX (A.1+A.2+19+20+21)		**226.335**	**143,837**
22. Income tax	26	**(11,740)**	**(6,385)**
A.4) PROFIT FROM CONTINUING OPERATIONS (A.3+22)		**214.595**	**137,452**
A.5) CONSOLIDATED PROFIT FOR THE YEAR (A.4+23)		**214.595**	**137,452**
Profit attributable to the Parent		210,337	135,982
Profit attributable to non-controlling interests	18 and 20	4,258	1,470

The accompanying notes form an integral part of the consolidated annual accounts for the year ended 31 December 2013.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2013 AND THE SIX-MONTH PERIOD ENDED 31 DECEMBER 2012 (Expressed in thousands of Euros) (Free translation from the original version in Spanish. In the event of discrepancy, the original Spanish-language version prevails.)	Notes	2013	2012
A) Consolidated Statement of Recognised Income and Expense			
CONSOLIDATED PROFIT FOR THE YEAR		**214,595**	**137,452**
Income and expense recognised directly in equity			
I. Grants, donations and bequests received	19	35,774	10,865
II. Translation differences	18	(6,372)	(2,971)
III. Tax effect		(107)	(33)
TOTAL INCOME AND EXPENSE RECOGNISED DIRECTLY IN CONSOLIDATED EQUITY		**29,295**	**7,861**
Amounts transferred to the consolidated income statement			
IV. Grants, donations and bequests received	19	(12,817)	(6,166)
V. Translation differences	19	(48)	(65)
VI. Tax effect		63	26
TOTAL AMOUNTS TRANSFERRED TO THE CONSOLIDATED INCOME STATEMENT		**(12,802)**	**(6,205)**
TOTAL CONSOLIDATED RECOGNISED INCOME AND EXPENSE		231,088	**139,108**
Total income and expense attributable to the Parent		226,830	137,638
Total income and expense attributable to non-controlling interests		4,258	1,470

The accompanying notes form an integral part of the consolidated annual accounts for the year ended 31 December 2013.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2013 AND THE SIX-MONTH PERIOD ENDED 31 DECEMBER 2012
(Expressed in thousands of Euros)
(Free translation from the original version in Spanish. In the event of discrepancy, the original Spanish-language version prevails.)

B) Consolidated Statement of Total Changes in Equity

	Capital	Share premium	Parent reserves	Reserves in consolidated companies	Profit for the year attributable to the Parent	Interim dividend	Translation differences	Grants, donations and bequests received	Non-controlling interests	TOTAL
A. BALANCE AT 1 JULY 2012	**1,074,032**	**1,074,032**	-	-	-	-	-	**674,221**	**26,250**	**2,848,535**
I. Consolidated recognised income and expense	-	-	-	-	135,982	-	(2,971)	4,627	1,470	139,108
II. Distribution of dividends	-	-	-	-	-	(69,511)	-	-	-	(69,511)
III. Other changes in equity	-	-	(234)	8,023	-	-	-	-	(4,451)	3,338
E. BALANCE AT 31 DECEMBER 2012	**1,074,032**	**1,074,032**	**(234)**	**8,023**	**135,982**	**(69,511)**	**(2,971)**	**678,848**	**23,269**	**2,921,470**
A. BALANCE AT 1 JANUARY 2013	**1,074,032**	**1,074,032**	**(234)**	**8,023**	**135,982**	**(69,511)**	**(2,971)**	**678,848**	**23,269**	**2,921,470**
I. Consolidated recognised income and expense	-	-	-	-	210,337	-	(6,372)	22,865	4,258	231,088
II. Transactions with shareholders or owners										
Reserves	-	-	12,882	4,747	(17,629)	-	-	-	-	-
Dividends	-	-	-	-	(48,842)	-	-	-	-	(48,842)
Other movements	-	-	-	-	(69,511)	69,511	-	-	-	-
III. Other changes in equity	-	-	(11)	(32)	-	-	-	-	-	(43)
IV. Other transactions with shareholders or owners	-	-	2,000	(2,000)	-	(145,220)	-	-	(5,305)	(150,525)
E. BALANCE AT 31 DECEMBER 2013	1,074,032	1,074,032	14,637	10,738	210,337	(145,220)	(9,343)	701,713	22,222	2,953,148

The accompanying notes form an integral part of the consolidated annual accounts for the year ended 31 december 2013.

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2013 AND THE SIX-MONTH PERIOD ENDED 31 DECEMBER 2012

(Expressed in thousands of Euros)

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

	2013	2012
A) CASH FLOWS FROM OPERATING ACTIVITIES		
1. Profit for the period before tax	**226,335**	**143,837**
2. Adjustments for:	**239,475**	**85,378**
a) Amortisation and depreciation (+)	117,730	57,115
b) Impairment (+/-)	12,906	18,685
c) Change in provisions (+/-)	124,447	14,771
d) Grants recognised in the income statement (-)	(12,755)	(6,418)
e) Proceeds from disposals of fixed assets (-)	(12,817)	(6,166)
f) Proceeds from disposals of fixed assets (+/-)	41	31
g) Proceeds from disposals of financial instruments (+/-)	-	(392)
h) Finance income (-)	(10,842)	(4,819)
i) Finance costs (+)	18,841	12,424
j) Exchange losses (+/-)	1,924	147
k) Other income and expenses (+/-)	-	-
3. Changes in operating assets and liabilities	**(114,903)**	**(44,395)**
a) Inventories (+/-)	2,476	(1,021)
b) Trade and other receivables (+/-)	(15,346)	8,946
c) Other current assets (+/-)	124	27
d) Trade and other payables (+/-)	(11,485)	(3,231)
e) Other current liabilities (+/-)	237	-
f) Provisions (+/-)	(90,909)	(49,116)
g) Other non-current assets and liabilities (+/-)	-	-
4. Other cash flows used in operating activities	**(34,934)**	**(13,195)**
a) Interest paid (-)	(19,917)	(15,318)
c) Interest received (+)	7,221	5,027
d) Income tax received (paid) (-/+)	(22,238)	(2,904)
5. Cash flows from operating activities	**315,973**	**171,625**
B) CASH FLOWS FROM INVESTING ACTIVITIES		
6. Payments for investments (-)	**(237,624)**	**(145,579)**

a) Group companies and associates	(35,180)	(4,676)
b) Intangible assets	(188,750)	(128,854)
c) Property, plant and equipment	(3,284)	(2,073)
d) Investment property	-	(17)
e) Other assets	(10,410)	(9,959)
7. Proceeds from sale of investments (+)	**10,813**	**4,924**
a) Intangible assets	685	-
b) Property, plant and equipment	41	-
c) Other financial assets	10,087	4,924
8. Cash flows used in investing activities	**(226,811)**	**(140,655)**
C) CASH FLOWS FROM FINANCING ACTIVITIES		
9. Proceeds from and payments for equity instruments	**35,894**	**9,395**
e) Grants, donations and bequests received (+)	35,894	10,865
g) Increase (+) or decrease (-) in non-controlling interests	-	(1,470)
10. Proceeds from and payments for financial liability instruments	**30,955**	**25,964**
a) Issue	187,095	115,709
2. Loans and borrowings (+)	178,317	11,077
3. Group companies and associates (+)	-	102,500
4. Other payables (+)	8,778	2,132
b) Redemption and repayment of	(156,140)	(89,745)
1. Bonds and other marketable securities (-)	(15,743)	(15,000)
2. Loans and borrowings (-)	-	(16,542)
3. Group companies and associates (-)	(134,350)	(56,454)
4. Other payables (-)	(6,047)	(1,749)
11. Dividends and interest on other equity instruments paid	**(178,717)**	**(57,277)**
a) Dividends (-)	(178,717)	(57,277)
12. Cash flows used in financing activities	**(111,868)**	**(21,918)**
D) Effect of exchange rate fluctuations	**(1,924)**	**(147)**
E) NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS	**(24,630)**	**8,905**
Cash and cash equivalents at beginning of period	47,257	38,352
Cash and cash equivalents at end of period	22,627	47,257

The accompanying notes form an integral part of the consolidated annual accounts for the year ended 31 December 2013.

NOTES TO THE CONSOLIDATED ANNUAL ACCOUNTS 2013

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

Canal de Isabel II Gestión, S.A. (hereinafter the Parent or the Company) was incorporated pursuant to article 16 clause one of Law 3/2008 of 29 December 2008 (on Tax and Administration Measures), amended by Law 6/2011 of 28 December 2011 (on Tax and Administration Measures), which authorised Canal de Isabel II (hereinafter the Public Entity) to create a corporation to provide water supply, sanitation and other water-related services and works under the terms of Law 17/1984 of 20 December 1984, which regulates water supply and sanitation in the Community of Madrid, and other applicable legislation.

The Parent was incorporated with limited liability under Spanish law on 27 June 2012 in a deed attested by the Madrid notary public Valerio Pérez de Madrid y Palá, who recorded this deed as entry 1531 in his notarial record book. The Company is the first entry on sheet M-534929 of volume 29,733, page 86, section 8 of the Madrid Mercantile Registry. Its registered offices are located at Calle Santa Engracia, 125, Madrid.

According to its articles of association, the Parent's statutory activity consists of the following:

- Comprehensive water cycle management throughout the Madrid region, which involves:
    - Managing the supply and recycling of drinking water
    - Overseeing the sewer service
    - Controlling materials disposed of through the sewer system and water-related assets in the public domain
    - Running the wastewater treatment service
    - Conducting studies and research, whether technical, financial, legal or administrative, where necessary for the services and activities listed above to be carried out satisfactorily
    - Carrying out and/or overseeing any work, including civil work, necessary to maintain, replace, upgrade, install or extend the infrastructures used to provide the services listed above.
- Research activities and the provision of advice and assistance in all sectors relating to its statutory activity.
- The sale of electricity and all other activities that relate to or are instrumental or complementary to this business.
- Property development, construction, sale, rental and other associated activities, both in Spain and abroad, as well as the management of urban and land development projects.
- Any other public services or activities that reinforce the services provided by the Company and add value for users.
- Telecommunications-, information- and communications-related activities and services and any similar activities that may arise in the future.
- The acquisition, subscription, holding, 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. This excludes any activity restricted by law to collective investment undertakings or reserved by the Stock Market Law to member brokers and brokerage firms.

The Parent's principal activity is comprehensive water cycle management throughout the Madrid region.

When commissioned to do so by the corresponding public authority, the Parent may also be involved in the process of collecting government revenue.

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

Under the terms of article 16, clause two, point 4 of Law 3/2008, on 14 June 2012 the Regional Cabinet of the Community of Madrid approved the Contract-Programme between the Public Entity and the Parent. The Contract-Programme, which was signed on 1 July 2012, establishes the mutual obligations and commitments assumed by both parties within the framework of the general financial policy and water policy of the regional authorities of the Community of Madrid, in turn within the scope of Law 17/84 of 20 December 1984, which regulates water supply and sanitation in the Community of Madrid. Its purpose is to establish the conditions necessary to carry out the capitalisation process foreseen in Law 3/2008 and manage the services assigned to the Public Entity by Law 17/1984, which include running (operation, maintenance and upkeep) the Community of Madrid General Network and providing the corresponding water supply, sanitation and recycling services. The agreement has a 50-year term which cannot be extended.

As established in article 4 of its articles of association, the Parent began operating on 1 July 2012.

Changes in the consolidated group due to additions to the scope of consolidation at 31 December 2013 are as follows:

Through Canal de Isabel II Gestión, S.A., the Group incorporated Canal Gestión Lanzarote S.A. for Euros 60,000 in 2013. Canal Gestión Lanzarote, S.A.'s principal activity is comprehensive water cycle management.

Through Interamericana de Aguas y Servicios, S.A., the Group acquired 40% of Avanzadas Soluciones y Acueducto y Alcantarillado, S.A. E.S.P. a comprehensive water cycle operator domiciled in Riohacha (Colombia), on 13 September 2013. This shareholding cost Euros 339 thousand.

Amerika Tecnologías de la Información, S.A.S. was incorporated in Barranquilla (Colombia) in August 2013 as a result of spinning off a branch of activity from Interamericana de Aguas y Servicios S.A. Its principal activity is the design, maintenance, development, support and management of information technology projects.

Through Canal Extensia S.L. e Interamericana de Aguas y Servicios S.A., the Group incorporated Soluciones Andinas de Aguas, S.R.L. in 2013. This company's registered office is located in Montevideo (Uruguay) and its principal activity is asset investment and holding.

Moreover, on 14 November 2013, Soluciones Andinas de Aguas, S.R.L. acquired 75% of Emissao Engenharia e Construcoes, S.A., a company domiciled in Brazil and engaged in waterworks maintenance and operation and water distribution and sanitation activities (see note 12).

Canal de Isabel II Gestión, S.A. is the parent of a group of subsidiaries (see Appendix I).

The Group also holds interests in associates (see Appendix III) and participates in joint ventures along with other venturers (see note 7). Information on temporary joint ventures is presented in Appendix III.

On 26 February 2014 the directors authorised for issue the individual annual accounts of Canal de Isabel II Gestión, S.A. for the year ended 31 December 2013, which show profit of Euros 199,593 thousand and equity of Euros 2,915,590 thousand (Euros 131,504 thousand and Euros 2,887,100 thousand, respectively, in 2012). The annual accounts will be filed at the Madrid Mercantile Registry..

As described in note 3, in 2012 the Public Entity made a non-monetary contribution consisting of the activity, assets and liabilities, and shares and equity holdings in trading companies. Where applicable, the changes resulting from this transaction in 2012 are disclosed in these notes to the annual accounts under "Additions due to non-monetary contribution" for the six-month period ended 31 December 2012.

2. BASIS OF PRESENTATION

a. Fair presentation

The accompanying consolidated annual accounts for 2013 have been prepared on the basis of the accounting records of Canal de Isabel II Gestión, S.A. and its subsidiaries, associates and joint ventures (the Group). The consolidated annual accounts for 2013 have been prepared in accordance with prevailing legislation, the Spanish General Chart of Accounts, the standards for the preparation of consolidated annual accounts, and Ministry of Economy and Finance Order EHA/3362/2010 of 23 December 2010, which approved the standards adapting the Spanish General Chart of Accounts for public infrastructure concession holders, to present fairly the equity and financial position at 31 December 2013 and results of operations, changes in equity, and cash flows for the year then ended.

The directors consider that the consolidated annual accounts for the six-month period ended 31 December 2013, authorised for issue on 26 February 2014, will be approved with no changes by the shareholders at their annual general meeting. All Group subsidiaries close their financial year on 31 December.

b. Comparative information

The consolidated balance sheet, consolidated income statement, consolidated statement of changes in equity, consolidated statement of cash flows and the notes thereto for 2013 include comparative figures for the six-month period ended 31 December 2012, which formed part of the consolidated annual accounts approved by shareholders at the annual general meeting held on 26 June 2013.

(i) Reclassification of comparative figures for the previous year

Certain amounts for 2012 have been reclassified in the accompanying annual accounts to make them comparable with those for the current year and facilitate comparison. The most significant reclassification has been as follows:

	Thousands of Euros	
	Debit	Credit
Concession arrangements, regulated assets	-	(5.670)
Other payables	-	(8.964)
Group companies and other payables	14.634	-

c. Functional and presentation currency

The figures disclosed in the consolidated annual accounts are expressed in thousands of Euros, the Group's functional and presentation currency, rounded off to the nearest thousand.

d. Critical issues regarding the valuation and estimation of relevant uncertainties and judgements used when applying accounting principles

(i) Relevant accounting estimates and assumptions

Relevant accounting estimates and judgements and other estimates and assumptions have to be made when applying the Company's accounting principles to prepare the consolidated annual accounts. A summary of the items requiring a greater degree of judgement or which are more complex, or where the assumptions and estimates made are significant to the preparation of the consolidated annual accounts, is as follows:

The Group tests its investment property, intangible assets and goodwill for impairment on an annual basis. Management and the Group must use estimates to calculate the recoverable amount, which is generally determined using cash flow discounting methods. Discounted cash flow calculations are based projections in the budgets approved by management. The cash flows take into consideration past experience and represent the best estimate of future market performance. The key assumptions employed when determining fair value (less costs to sell, where applicable) and value in use include growth rates, the weighted average cost of capital and tax rates. The estimates, including the methodology used, could have a significant impact on values and impairment.

The Parent recognises a provision on a systematic basis for the replacement of infrastructure transferred by third parties based on the best estimate of the annual replacement investment to be made in this infrastructure over the concession term. For the rest of its infrastructure, located in Latin America, the Group considers that a suitable preventative and corrective maintenance programme eradicates the need for any significant replacements.

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

The consolidated annual accounts for each year include an estimate of the water supplied but not yet billed at 31 December each year (approximately one month's supply). Due to the meter-reading procedure, this supply is billed the following year. The amount is estimated based on billed water use for each contract for two comparable preceding periods, following the estimation method set forth in the Canal de Isabel II Water Distribution Service Regulations.

The Group is subject to regulatory and legal proceedings and inspections by government bodies in various jurisdictions. It recognises a provision for liabilities (see note 21) 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 Group has receivables from certain town and city councils due to work carried out on the water distribution infrastructure. These receivables are recognised at amortised cost considering recovery periods estimated by management based on past experience, representing the best estimate of the balance to be recovered in the future (see note 14 (a)).

The Parent has recognised security deposits placed by customers to guarantee payment for the water they use. These security deposits are recognised at amortised cost considering the average reimbursement period, estimated by the Company based on past experience, which is the best estimate of the amount to be reimbursed in the future (see note 22 (a)).

(ii) Changes in accounting estimates

Although estimates are calculated based on the best information available at 31 December 2012, future events may require changes to these estimates in subsequent years. Any effect on the consolidated annual accounts of adjustments to be made in subsequent years would be recognised prospectively.

e. Going concern

Due to the activities conducted by the Parent and the investments made, the consolidated annual accounts present negative working capital of Euros 235,151 thousand at 31 December 2013 (Euros 204,915 thousand in 2012). However, the Parent's directors have prepared the consolidated annual accounts on a going concern basis considering that these circumstances were expected and reflect the nature of the business, taking into account its capacity to generate cash. Law 5/2013 of 23 December 2012, which passed the Madrid Regional Government's General Budgets for 2014, authorised Canal de Isabel II to obtain long-term borrowings of Euros 148 million, an amount considered sufficient to meet its obligations by the respective maturity dates.

3. NON-MONETARY CONTRIBUTION AND CONTRACT-PROGRAMME

a. Non-monetary contribution

As provided for in article 16.2.4.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 Regional Cabinet of the Community 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 Parent.

Pursuant to article 16.2.3 of Law 3/2008 (on Tax and Administration Measures), the Public Entity also transferred the ownership of all assets that do not form part of the Community of Madrid General Network and its shares and equity holdings in trading companies to the Parent.

This valuation and contribution exercise was carried out following the criteria and guarantees stipulated in article 114 of Law 33/2003 of 3 November 2003 (on the Assets of Public Entities), for the purposes foreseen in article 47 of Law 3/2001 of 21 June 2001 (on the Assets of the Community of Madrid).

For the contribution of this activity, the Group availed of the tax neutrality scheme regulated in section VII, chapter VIII of Royal Legislative Decree 4/2004 of 5 March 2004, which approved the Revised Spanish Income Tax Law.

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 approved by Royal Decree 1514/2007 of 16 November 2007, which was partially amended by Royal Decree 1159/2010 of 17 September 2010 and Ministry of Economy and Finance Order EHA/3362/2010 of 23 December 2010.

In accordance with Law 3/2008 and the Incorporation Agreement, the Public Entity conveyed all of the rights and obligations that it held as a party to the contracts and agreements arranged with third parties, under the same terms and conditions stipulated in these documents, to the Parent (except for the rights and obligations retained by the Public Entity under the terms of the Contract-Programme regulating the relationships involved in running the comprehensive water service entrusted to the Public Entity and the financing contracts between the Entity and its lenders). The Public Entity also conveyed its position in all ongoing procurement procedures or contracts awarded and all kinds of litigation, contracts, quasi-contracts and legal affairs to the Parent. As required by Law 3/2008, all of the Public Entity's staff necessary to provide the entrusted services have been transferred to the Parent, maintaining the same terms of employment existing at the transfer date. This transfer is considered as a case of "company succession" under applicable Spanish legislation. Similarly, the Parent has assumed all pension commitments previously existing between the Public Entity and its employees, under the terms of the corresponding Pension Plan Specifications and prevailing legislation.

As required by article 47 of Law 3/2001 of 27 June 2001 (on the Assets of the Community of Madrid), the valuation was submitted to General Directorate of Financial Policy, Treasury and Heritage of the Department of Economy and Finance, which gave its approval. The valuation report includes a description of the criteria followed to allocate values to the activity and its components.

The amounts stated in the valuation report, in thousands of Euros, are as follows:

Assets	Thousands of Euros 2012
A) Non-current assets	**4,284,518**
I. Intangible assets	4,020,400
II. Investment property	25,203
III. Non-current investments in Group companies and associates	117,016
1. Equity instruments	115,226
2. Loans to companies	1,79
IV. Non-current investments	40,808
V. Prepayments for non-current assets	81,091
B) Current assets	**293,122**
I. Inventories	7,682
II. Trade and other receivables	228,885
III. Current investments in Group companies and associates	175
IV. Current investments	12,005
V. Prepayments for current assets	1,609
VI. Cash and cash equivalents	42,766
TOTAL ASSETS (A + B)	**4,577,640**

Equity and Liabilities	Thousands of Euros 2012
A) Equity	**2,809,044**
A-1) Capital and reserves	2,148,064
Share capital	1,074,032
Share premium	1,074,032
A-2) Grants, donations and bequests received	660,98
B) Non-current liabilities	**1,271,636**
I. Non-current provisions	92,125
II. Non-current payables	88,323
III. Group companies and associates, non-current	1,040,404
IV. Deferred tax liabilities	2,024
V. Non-current accruals	48,76
C) Current liabilities	**496,96**
I. Current provisions	81,057
II. Current payables	150,226
III. Group companies and associates, current	127,214
IV. Trade and other payables	135,916
V. Current accruals	2,547
TOTAL EQUITY AND LIABILITIES (A+B+C)	**4,577,640**

Additional points: (i) for 90 days from the date of the contribution, the difference between the values estimated for the assets and liabilities following the established measurement criteria (and stated in the valuation report) and the net worth of the assets and liabilities actually transferred on the date of the contribution and commencement of activities by the Company is to be adjusted by establishing a debit/credit between the Public Entity and the Parent; (ii) similarly, given the complexity and diversity of the elements and relationships that make up this activity, the Company and the Public Entity are to adjust the different advances, receipts or payments that could not be settled on the activity transfer date due to their nature, frequency, established payment terms or for any other reason; (iii) if any event that occurred prior to the incorporation of the Company leads to an agreement to release any assets assigned to the Company from the public domain and which, as a result, become part of the assets of the Public Entity, the latter is required to compensate the Company for the loss of the assigned goods, once the formal procedures for releasing assets from the public domain have been completed.

The following assets and liabilities made up the activity transferred in this non-monetary contribution on 1 July 2012:

Assets	Thousands of Euros
A) Non-current assets	**4,364,082**
I. Intangible assets (note 8)	4,074,343
II. Investment property (note 10)	24,017
III. Non-current investments in Group companies and associates	144,779
1. Equity instruments	142,936
2. Loans to companies	1,843
IV. Non-current investments	37,018
V. Prepayments for non-current assets	83,925
B) Current assets	**206,096**
I. Inventories	8,141
II. Trade and other receivables	178,835
III. Current investments in Group companies and associates	175
IV. Current investments	11,991
V. Prepayments for current assets	1,742
VI. Cash and cash equivalents	5,212
TOTAL ASSETS (A+B)	**4,570,178**

Equity and Liabilities	Thousands of Euros
A) Equity	**2,820,614**
A-1) Capital and reserves	2,148,064
Share capital	1,074,032
Share premium	1,074,032
A-2) Grants, donations and bequests received (note 18)	672,550
B) Non-current liabilities	**1,262,618**
I. Non-current provisions (note 20)	126,740
II. Non-current payables	73,977
III. Group companies and associates, non-current	986,223
IV. Deferred tax liabilities	13,275
V. Non-current accruals	62,403
C) Current liabilities	**486,946**
I. Current provisions (note 20)	82,937
II. Current payables	117,776
III. Group companies and associates, current	145,152
IV. Trade and other payables	139,047
V. Current accruals	2,034
TOTAL EQUITY AND LIABILITIES (A+B+C)	**4,570,178**

The net assets contributed to the Parent total Euros 2,148,064 thousand (see note 18).

b. Contract-Programme

The Contract-Programme regulating the relationship between the Public Entity and the Parent in running the comprehensive water service was approved by the Regional Cabinet on 14 June 2012 and came into force on 1 July 2012.

The Regional Cabinet of the Community of Madrid has authorised the transfer of the water supply, sanitation and recycling services previously entrusted to the Public Entity by any permits, to Canal de Isabel II Gestión, S.A. These services include the operation and maintenance of the Community of Madrid General Network and the provision of the supply, sanitation and recycling services relating to this network and, in general, all of the services and activities that were previously carried out by the Public Entity, except those expressly reserved to the Entity under the terms of the Contract-Programme, specifically the capacity to exercise the powers, rights and obligations derived from (i) concessions and authorisations associated with water-related assets in the public domain, (ii) any administrative powers held by the Community of Madrid in relation to the distribution and treatment of water, including the power to impose penalties, (iii) the supply and sanitation services provided under Law 17/1984 and other applicable legislation, (iv) the water-related functions entrusted to it by the Community of Madrid, based on agreements signed with local authorities, and (v) all other water-related functions entrusted to it by the Community of Madrid.

So that it can provide these services, article 16 of Law 3/2008 requires the Community of Madrid and the Public Entity to convey to the Parent any assets in the public domain that make up the Community of Madrid General Network and which are necessary for the Company to conduct the activities and functions entrusted to it. The Contract-Programme also provides for the Parent's use and management of energy resources currently operated by the Public Entity, as well as any such activities that may be carried out in the future. Moreover, the Parent is entitled to provide any other services entrusted to the Public Entity by the Community of Madrid, particularly Closed User Group mobile communications services. All of these infrastructures are public property as they are used for public services provided by the Parent. As such, they may not be disposed of or seized and are not subject to any statute of limitations. These assets may only be sold in the event that they are no longer required, but with the legal obligation to allocate the gains obtained to investments in the Community of Madrid General Network.

The Contract-Programme has a 50-year duration from 1 July 2012 and cannot be renewed. Once this period has elapsed and the Contract-Programme expires, the Public Entity is required to compensate the Parent for any investments made to carry out new infrastructure plans and not depreciated while the Contract-Programme was in force, taking into account the condition of such infrastructures and the value of the investment made, deducting any technical depreciation under the terms set out in these plans. On expiry of the Contract-Programme, the Parent is required to return the assets and rights that make up the Community of Madrid General Network, and any other goods and installations in the public domain that are required to provide the service, to the public authorities in good working order and perfect condition, as required by the progress clause governing the Contract-Programme, ensuring that these assets are still capable of providing the service based on the depreciation schedules of the different constituent items.

Neither the assets that do not form part of the Community of Madrid General Network nor the shares and equity holdings in trading companies previously held by the Public Entity will revert on completion of the Contract-Programme.

4. DISTRIBUTION OF PROFIT

The distribution of profit of the Parent for the year ended 31 December 2012, approved by the shareholders at their annual general meeting held on 26 June 2013, is as follows:

	Euros
Basis of allocation	
Profit for the year	131,504,185.25
	131,504,185.25
Distribution	
Legal reserve	13,150,418.53
Interim dividend	69,511,351.04
Dividends	48,842,415.68
TOTAL	**131,504,185.25**

At an extraordinary general meeting held on 11 December 2013, the shareholders of the Parent agreed to distribute an interim dividend of Euros 145,219,866.76 for 2013, calculated as Euros 0.13521 per share.

It was agreed that this interim dividend will be distributed among the shareholders in proportion to their respective percentage interests and will be payable from the day after the adoption of this agreement until 25 June 2014 to every shareholder who notifies the Parent in writing of their wish to receive the payment of all or part of the amount to which they are entitled (see note 23 (a)). If any shareholder fails to request payment of this dividend entitlement from the Parent by 25 June 2014, the Parent is required to pay the amounts due to the shareholder or shareholders in question within the two (2) following business days. It was also stated for the record that the conditions set forth in articles 273 to 277 of the Spanish Companies Act are to be observed in this distribution.

These amounts to be distributed do not exceed profit for the reporting period, after deducting the estimated income tax payable on these profits, as required by article 277 of the Revised Spanish Companies Act.

The provisional accounting statement prepared in accordance with statutory requirements demonstrating that sufficient cash was available for distribution of the aforementioned dividend is as follows:

	Euros
Forecast distributable profit for *2013:*	
Projected profit after income tax to 31.12.2013	193,626,467
Less, provision required for legal reserve	(19,362,647)
Estimated distributable profit for 2013	174,263,820
Interim dividend	145,219,867
Forecast cash flow for the period from 11 December 2013 to 11December 2014:	
Cash flow at 11 December 2013	137,159,249
Projected collections	1,108,050,663
Projected payments including interim dividends	(1,211,024,548)
PROJECTED CASH FLOW AT 11 DECEMBER 2014	**34,185,364**

The proposed distribution of the Parent's profit for 2013 to be submitted to the shareholders for approval at their annual general meeting is as follows:

	Euros
Basis of allocation	
Profit for the period	199,592,983.85
Distribution	
Legal reserve	19,959,298.39
Voluntary reserve	19,959,298.39
Interim dividend	145,219,866.76
Dividends	14,454,520.31
TOTAL	**199,592,983.85**

At 31 December non-distributable reserves are as follows:

	Thousands of Euros	
	2013	2012
Non-distributable reserves	-	-
Legal reserve	13,151	-
TOTAL	**13.151**	**-**

Profit recognised directly in equity cannot be distributed, either directly or indirectly.

5. SIGNIFICANT ACCOUNTING POLICIES

a. Subsidiaries

Subsidiaries are entities, including special purpose entities, over which the Parent, either directly or indirectly through subsidiaries, exercises control as defined in article 42 of the Spanish Code of Commerce. Control is the power to govern the financial and operating policies of an entity so as to obtain economic benefits from its activities. In assessing control potential voting rights held by the Group or other entities that are exercisable or convertible at the end of each reporting period are considered.

Solely for the purpose of presentation and disclosure, companies controlled, by any means, by one or more individuals or legal entities in conjunction, or which are solely managed in accordance with statutory clauses or agreements, are considered Group companies. Subsidiaries are fully consolidated. Details of the subsidiaries making up the consolidated Group are provided in Appendix I.

The income, expenses and cash flows of subsidiaries are included in the consolidated annual accounts from the date of acquisition, which is when the Group takes control, until the date that control ceases.

Transactions and balances with subsidiaries and unrealised gains or losses have been eliminated upon consolidation. Nevertheless, unrealised losses have been considered as an indicator of impairment of the assets transferred.

The subsidiary Hispanagua, S.A.U., which is engaged in the construction and maintenance of infrastructures, sells inventories to other Group companies, which class these items as property, plant and equipment. This reclassification from inventories to property, plant and equipment within the Group is recognised under self-constructed assets in the consolidated income statement.

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

The annual accounts or financial statements of the subsidiaries used in the consolidation process have been prepared as of the same date and for the same period as those of the Parent.

b. Goodwill of consolidated companies

Goodwill on consolidation arising from business combinations carried out subsequent to the transition date reflects the excess of the cost of the business combination over the acquisition-date value of the assets acquired and the liabilities and contingent liabilities assumed from the acquired business.

The cost of a business combination is calculated as the sum of the acquisition-date fair values of the assets transferred, the liabilities incurred or assumed, the equity instruments issued and any consideration contingent on future events or compliance with certain conditions in exchange for control of the acquiree.

The cost of a business combination excludes any payments that do not form part of the consideration given in exchange for the acquiree. Acquisition costs are recognised as an expense when incurred. At the acquisition date, the assets acquired and liabilities and contingent liabilities assumed (identifiable net assets) of the acquiree are recognised at fair value provided that this can be measured reliably.

Goodwill on consolidation is not amortised, but is instead tested for impairment on an annual basis or whenever there is an indication that goodwill may be impaired. Goodwill on business combinations is allocated to the cash-generating units (CGUs) or groups of CGUs that are expected to benefit from the synergies of the business combination and the criteria described in section (l) (impairment) are applied. After initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Goodwill on consolidation is not amortised but is tested for impairment annually or more frequently where events or circumstances indicate that an asset may be impaired. Goodwill on business combinations is allocated to the cash-generating units (CGUs) or groups of CGUs that are expected to benefit from the synergies of the business combination and the criteria described in section (l) (impairment) are applied. After initial recognition, goodwill on consolidation is measured at cost less any accumulated impairment losses.

The goodwill shown in note 6 relates to transactions carried out prior to 2008 and the acquisition of Avanzadas Soluciones de Acueducto y Alcantarillado, S.A. E.S.P. (ASAA) in October 2013, and has recognised in accordance with the accounting policies and criteria prevailing at the time of acquisition.

c. Non-controlling interests

Non-controlling interests in subsidiaries are recognised at the acquisition date at the proportional part of the fair value of the identifiable net assets. Non-controlling interests in subsidiaries acquired prior to the transition date were recognised at the percentage of interest in equity at the date of first consolidation. Non-controlling interests are disclosed in consolidated equity separately from equity attributable to equity holders of the Parent. Non-controlling interests' share in profit or loss for the year is also disclosed separately in the consolidated income statement.

The profit or loss for the year and changes in equity of the subsidiaries attributable to the Group and non-controlling interests after consolidation adjustments and eliminations are determined in accordance with the percentage ownership at year end, without considering the possible exercise or conversion of potential voting rights and after discounting the effect of dividends, agreed or not, on cumulative preference shares classified in equity accounts.

Profit and loss and income and expenses recognised in the equity of subsidiaries are allocated to equity attributable to the Parent and to non-controlling interests in proportion to their investment, even if this results in a balance receivable from non-controlling interests. Agreements entered into between the Group and non-controlling interests are recognised as a separate transaction.

d. Associates

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

Investments in associates are accounted for using the equity method from the date that significant influence commences until the date that significant influence ceases. However, associates that qualify for classification at the acquisition date as non-current assets or disposal groups held for sale are recognised at fair value less costs to sell.

Details of equity-accounted investees are included in note 13 (b).

Investments in associates are initially recognised at cost, which is equivalent to the value of the Group's share of the fair value of the assets acquired, less the liabilities assumed, determined as described in the section on business combinations, plus goodwill, calculated as the excess of the above amount over the cost of the investment in the individual annual accounts. Cost includes or excludes the fair value of any consideration payable or receivable, respectively, conditional on future events or compliance with certain terms.

Any shortfall between the cost of the investment in the individual annual accounts and the value of the Group's share of the fair value of the assets acquired, less the liabilities assumed, is not included in the carrying amount of the investment but rather is recognised as income under negative goodwill on consolidation of equity-accounted investees in the consolidated income statement. However, before recognising this income, the Group evaluates the cost of the investment, the assets acquired and the liabilities assumed, and reduces the value of any intangible asset identified in the associate whose valuation cannot be calculated by reference to an active market and of any contingent consideration received.

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

The Group's share of the profit or loss of an associate and changes in equity is calculated to the extent of the Group's interest in the associate at year end and does not reflect the possible exercise or conversion of potential voting rights.

The profit or loss of an associate for the year attributable to the Group is recognised after consideration of the effect of dividends, agreed or not, relating to cumulative preference shares classified under equity.

Losses of an associate attributable to the Group are limited to the extent of its net investment, except where the Group has legal or constructive obligations or when payments have been made on behalf of the associate. For the purpose of recognising losses in associates, net investments are considered as the carrying amount of the investment after applying the equity method plus any other item which in substance forms part of the investment in the associate. Subsequent profits attributable to those associates for which impairment losses are limited are recognised to the extent of the previously unrecognised losses.

Unrealised gains and losses on transactions between the Group and associates are only recognised when they relate to interests of other unrelated investors, except in the case of unrealised losses evidencing the impairment of the transferred asset.

The accounting policies of associates have been harmonised in terms of timing and measurement, applying the policies described for subsidiaries.

(i) Impairment

The Group applies the impairment criteria detailed in the financial instruments section of this note to determine whether additional impairment losses to those already recognised in the net investment in the associate, or in any other financial asset held as a result of applying the equity method, should be recognised.

Impairment is calculated by comparing the carrying amount of the net investment in the associate with its recoverable amount. The recoverable amount is the higher of value in use and fair value less costs to sell.

Value in use is calculated based on the Group's share of the present value of future cash flows expected to be derived from ordinary activities and from the disposal of the asset, or the estimated cash flows expected to be received from the distribution of dividends and the final disposal of the investment.

Impairment losses are not allocated to goodwill or other assets implicit in the investment in associates derived from application of the purchase method. In subsequent years, reversals of impairment losses on investments are recognised in the income statement to the extent of any increase in the recoverable amount.

e. Joint ventures

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 Group and the remaining venturers.

The Group's joint ventures are treated as interests in jointly controlled entities and jointly controlled operations and assets.

Information relating to jointly controlled operations, referred to as temporary joint ventures, is presented in Appendix III.

Investments in jointly controlled entities are proportionately consolidated from the date joint control is obtained until the date joint control ceases. However, investments that qualify for recognition as non-current assets or disposal groups held for sale at the date joint control is obtained are recognised at fair value less costs to sell.

The measurement criteria initially applied to the assets acquired and liabilities assumed, and to goodwill or negative goodwill, are consistent with those described in the section on business combinations and associates.

The Group recognises assets controlled and liabilities incurred in respect of jointly controlled operations, as well as the proportional part of jointly controlled assets and liabilities and of expenses incurred and income earned from the sale of goods or services by the joint venture. The statement of changes in equity and the statement of cash flows also include the proportional part corresponding to the Group by virtue of the agreements reached.

Reciprocal transactions, balances, income, expenses and cash flows have been eliminated in proportion to the interest held by the Group in joint ventures. All dividends have been eliminated.

Unrealised gains and losses from non-monetary contributions or downstream transactions in joint ventures are recognised based on the substance of the transaction. Where the assets are retained by the joint venture and the Group has transferred the significant risks and rewards of ownership, only the portion of the gain or loss that is attributable to the interests of the other venturers is recognised. Unrealised losses are not eliminated if they provide evidence of an impairment loss.

The Group only recognises the portion of gains and losses on transactions in joint ventures that is attributable to the interests of the other venturers. In the event of losses, the Group applies the same recognition criterion as that described in the previous paragraph.

The Group has made the necessary measurement and timing harmonisation adjustments to incorporate its joint ventures in the consolidated annual accounts.

f. Foreign currency transactions, balances and cash flows

(i) Foreign currency transactions, balances and cash flows

Foreign currency transactions have been translated into Euros using the exchange rate prevailing at the transaction date.

Monetary assets and liabilities denominated in foreign currencies have been translated into Euros at the closing rate, while non-monetary assets and liabilities measured at historical cost have been translated at the exchange rate prevailing at the transaction date. Non-monetary assets measured at fair value have been translated into Euros at the exchange rate at the date that the fair value was determined.

In the consolidated statement of cash flows, cash flows from foreign currency transactions have been translated into Euros at the exchange rates at the dates the cash flows occur.

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

Exchange gains and losses arising on the settlement of foreign currency transactions and the translation into Euros of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

(ii) Translation of foreign operations

Foreign operations whose functional currency is not the currency of a hyperinflationary economy have been translated into Euros as follows:

- Assets and liabilities, including goodwill and net asset adjustments derived from the acquisition of the operations, including comparatives, are translated at the closing rate at the reporting date;
- Income and expenses are translated at the average exchange rates for the year; and
- All resulting exchange differences are recognised as translation differences in consolidated equity.

These criteria are also applicable to the translation of the financial statements of equity-accounted investees, with translation differences attributable to the Group recognised in consolidated equity.

In the consolidated statement of cash flows, cash flows from foreign currency transactions have been translated into Euros using the average exchange rates in the period for all the flows that occur during that period.

Translation differences recognised in consolidated equity are accounted for in the consolidated income statement using the criteria described in the sections on subsidiaries, associates and joint ventures. Translation differences on the reduction of the Group's interest in a subsidiary, equity-accounted investee or joint venture are recognised in the consolidated income statement using the criteria described for income and expenses recognised in consolidated equity.

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

g. Capitalised borrowing costs

Borrowing costs related to specific financing that are directly attributable to the acquisition or construction of intangible assets, investment property and inventories that will not be available for use or capable of operating for more than one year are included in the cost of the asset. To the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalisation is determined as the actual borrowing costs incurred. Capitalised borrowing costs are recognised in the consolidated income statement under capitalised borrowing costs.

h. Intangible assets

Intangible assets are measured at cost of acquisition and carried at cost, less any accumulated amortisation and impairment.

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

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

(i) Research and development

Expenditure on research and development is recognised as an expense when it is incurred.

The Group capitalises research and development expenses incurred by specific projects for each activity that meets the following conditions:

- Costs are clearly allocated, assigned and timed for each project.
- There is evidence of the project's technical success and economic-commercial feasibility.

(ii) Concessions and operating rights

As explained in note 8 the Group operates certain assets through service concession arrangements granted by different public sector entities.

Administrative concessions include the costs incurred in their procurement.

In the acquisition of the Inassa subgroup by Canal Extensia, S.A., the Euros 67,323 thousand difference between the acquisition-date values and the underlying book values was recognised on the acquisition date, based on market valuations carried out by third parties, as an increase in the value of the administrative concession for the operation of the water supply network in the Barranquilla District (Colombia).

Ministry of Economy and Finance Order EHA/3362/2010 requires the use of the recognition and measurement standards described in section (j) of this note, "Assets under concessions".

(iii) Patents, licences, trademarks and similar rights

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

(iv) Computer software

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

(v) Subsequent costs

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

(vi) Useful life and amortisation rates

The Group assesses whether the useful life of each intangible asset acquired is finite or indefinite. An intangible asset is regarded by the Group as having an indefinite useful life when there is no foreseeable limit to the period over which the asset will generate net cash inflows.

Intangible assets with indefinite useful lives are not amortised, but are instead tested for impairment on an annual basis or whenever there is an indication that the intangible asset may be impaired.

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

Type of asset	Years of useful life
Concessions	Concession term
Patents, licences, trademarks and similar rights	10
Computer software	5

Development expenditure is amortised on a straight-line basis over a period of five years from the date on which the project is completed. The depreciable amount of intangible assets is measured as the cost of the asset, less any residual value.

The Group 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.

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

(vii) Impairment losses

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

i. Property, plant and equipment

(i) Initial recognition

Property, plant and equipment are measured at cost of acquisition. Non-trading income obtained during the trial and start-up period of an asset is recognised as a reduction in the cost incurred. Property, plant and equipment are carried at cost less any accumulated depreciation and impairment.

The property, plant and equipment of the Inassa subgroup are recognised at cost of acquisition or production, including adjustments for inflation and valuation of assets carried out until 28 February 2002 (the date on which Canal Extensia, S.A. acquired the Inassa subgroup) under legislation applicable to the Latin American subsidiaries, as this is considered similar to the market value of the assets at the date of acquisition. Pursuant to local legislation, the effects of adjustments for inflation and the revaluation of assets have not been included since that date.

Self-constructed assets are recognised at the accumulated cost resulting from including external costs in the internal costs determined based on own consumption of warehouse materials, and are included in the consolidated income statement under self-constructed assets.

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

Property, plant and equipment are carried at cost less any accumulated depreciation and impairment. The cost of an item of property, plant and equipment includes the estimated costs of dismantling or removal and restoration of the site on which it is located, provided that the obligation is incurred as a consequence of having used the item and for purposes other than production.

(i) Depreciation

Property, plant and equipment are depreciated by allocating the depreciable amount of the asset on a systematic basis over its useful life. The depreciable amount is the cost of an asset, less its residual value. The Group determines the depreciation charge separately for each component of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the asset and with a useful life that differs from the remainder of the asset.

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

Type of asset	Depreciation rate	
	Minimum	Maximum
Buildings	1.00%	3.00%
Housing estates and roads	1.00%	12.00%
Reservoirs	1.40%	5.00%
Major conduits	1.40%	3.00%
Treatment plants	5.00%	10.00%
Elevation plants	5.00%	10.00%
Tanks	2.00%	6.00%
Distribution network	2.90%	8.00%
Power stations and high-voltage grids	1.40%	7.60%
Low-voltage power lines	4.00%	8.00%
Sewage plants	3.30%	10.00%
Underground water collection	1.40%	2.50%
Laboratory equipment	5.50%	12.00%
Communications	5.50%	12.00%
Information systems and facilities	7.10%	15.00%
Equipment and tools	12.50%	30.00%
Furniture and fixtures	5.00%	20.00%
Machinery	5.00%	30.00%
Information technology equipment	12.50%	25.00%
Motor vehicles	5.00%	16.00%

The Group reviews residual values, useful lives and depreciation methods at each financial year end. Changes to initially established criteria are accounted for as a change in accounting estimates.

(ii) Subsequent costs

Subsequent to initial recognition of the asset, only the costs incurred which increase capacity or productivity or which lengthen the useful life of the asset are capitalised. The carrying amount of parts that are replaced is derecognised. Servicing costs are therefore recognised in the consolidated income statement as incurred.

(iii) Impairment

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

j. Assets under concessions

The Group 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 adapting the Spanish General Chart of Accounts for public infrastructure concession holders.

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

The Group 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 measurement standard applicable to intangible assets.

If the concession is remunerated, the right of use is recognised at the present value of the consideration paid or payable, without taking into account any contingent payments associated with the transaction. Consideration is understood to exist and to reflect the fair value of the aforementioned right when the concession of the infrastructure is included within the terms of a tender whereby the concession holder undertakes to make an investment or to convey another type of consideration and in exchange is entitled to operate either the pre-existing infrastructure only or the aforementioned infrastructure together with the new infrastructure built.

If the Group receives the right of access to the infrastructure for the purpose of rendering the operating service free of charge or for consideration of less than the fair value of the right, the right of use is recognised using the criteria applicable to grants, donations and bequests described in section (r).

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

Borrowing costs accrued during the construction or upgrade period are capitalised under intangible assets. If the infrastructure is acquired from third parties, the borrowing costs are capitalised using the criteria set out in section (g). In both cases, the "capitalised borrowing costs" caption in the consolidated income statement, which forms part of the net finance income or cost for the period, is used to recognise the capitalisation.

If the infrastructure comprises items that may be used separately and the dates on which they will be ready for use differ between items, the Group considers this circumstance and stops capitalising the borrowing costs corresponding to the proportional part of the intangible asset that should be grouped with items that are already in working condition.

If the remuneration is in the form of an intangible asset, the Group capitalises the borrowing costs accrued when the infrastructure enters operation provided that:

- They are separately identifiable and can be measured reliably.
- Reasonable evidence exists and it is probable that future revenues will enable the Group to recover the amount capitalised.

The Group considers there to be reasonable evidence that these costs will be recovered through tariffs charged in future years when this circumstance is considered in the Economic-Financial Plan and the following two conditions are met:

- It is possible that the Group will obtain future revenues of an amount at least equal to the capitalised borrowing costs by including these as permitted costs for the purpose of calculating the tariff.

- There is evidence that previously incurred costs can be recovered through future revenues.

For the purpose of determining the borrowing costs to be included in the intangible asset, the following amounts are determined based on the indicators in the Economic-Financial Plan:

- Total forecast revenues for the concession term and the amount corresponding to each period.

- Total forecast borrowing costs to be incurred during the concession term and the amount corresponding to each period.

The Group determines the proportion of total forecast revenues represented by operating revenues for each period. This proportion is applied to the total borrowing costs forecast for the concession term to determine the amount to be recognised as borrowing costs for each reporting period. If the revenues generated during a period exceed the forecast, the proportion for the period is determined based on actual revenues as a proportion of total forecast revenues, which generally gives rise to an adjustment in the amount recognised for the prior period.

Any positive difference between forecast borrowing costs and the amount determined as described in the preceding paragraph is reflected under assets and taken to profit and loss as borrowing costs for the period from the period in which this difference is negative and for the same amount.

If the borrowing costs incurred during a year differ from the amount stated in the Economic-Financial Plan, the difference is treated as an increase or decrease in the borrowing costs to be taken to profit and loss for the period.

If revenue forecasts are amended, the effects of the change are recognised without adjusting the borrowing costs already taken to profit and loss in prior periods, applying the criteria described in the preceding paragraphs for the period remaining until the end of the concession term, taking into account that the capitalised amount pending recognition in profit and loss should form part of the total forecast borrowing costs to be incurred over the remainder of the concession term.

These capitalised borrowing costs are recognised in the consolidated balance sheet as intangible assets under "Concession arrangements, capitalisation".

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

Maintenance work is recognised as an expense when incurred. Replacements, major repairs and any other work necessary before the infrastructure can be returned require the systematic recognition of a provision. However, as this obligation is similar to an obligation to decommission the asset, it is recognised as such.

Work undertaken to improve or increase the capacity of assets should be considered as new concessions. However, if, based on the terms of the agreement, the Company does not consider that such work will be compensated by the possibility of obtaining higher revenues from the date on which it is carried out, it recognises a provision for decommissioning or withdrawal based on its best estimate of the present value of the amount required to settle the obligation associated with this work. The balancing entry for this provision is an increase in the cost of acquisition of the 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 the section on leases. When all the risks and rewards of ownership of the asset are substantially transferred, the transaction is recognised as a finance lease. Assets acquired or constructed for subsequent sale in the ordinary course of business are recognised as inventories.

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

k. Investment property

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

Property that is being constructed or developed for future use as investment property is classified as property, plant and equipment under development until construction or development is complete. Nevertheless, redevelopment work to extend or improve property is classified as investment property.

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

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

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

l. Impairment of non-financial assets subject to amortisation or depreciation

The Group evaluates whether there are indications of possible impairment losses on non-financial assets subject to amortisation or depreciation to verify whether the carrying amount of these assets exceeds the recoverable amount, which is the higher of the fair value less costs to sell and the value in use.

The Group tests goodwill and intangible assets with indefinite useful lives for impairment at least annually, irrespective of whether there is any indication that the assets may be impaired.

Where the Group has reasonable doubts as to the technical success or financial and commercial feasibility of in-progress research and development projects, the amounts recognised in the consolidated balance sheet are taken directly to the consolidated income statement under losses on the disposal of intangible assets and may not be reversed.

Impairment losses are recognised in the consolidated income statement.

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 cash-generating unit (CGU) to which the asset belongs.

Impairment losses for cash-generating units are allocated first to reduce the carrying amount of goodwill allocated to the unit and then to the other non-current assets of the unit pro rata with their carrying amounts. The carrying amount of each asset may not be reduced below the highest of its fair value less costs to sell, its value in use and zero.

At the end of each reporting period the Group assesses whether there is any indication that an impairment loss recognised in prior periods may no longer exist or may have decreased. Impairment losses on goodwill are not reversible. Impairment losses on other assets are only reversed if there has been a change in the estimates used to calculate the recoverable amount of the asset.

A reversal of an impairment loss is recognised in the consolidated income statement. The increased carrying amount of an asset attributable to a reversal of an impairment loss may not exceed the carrying amount that would have been determined, net of depreciation or amortisation, had no impairment loss been recognised.

After an impairment loss or reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the asset is adjusted in future periods based on its new carrying amount.

However, if the specific circumstances of the assets indicate an irreversible loss, this is recognised directly in losses on the disposal of fixed assets in the consolidated income statement.

m. Leases

(i) Lessor accounting records

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

Leases that do not transfer to third parties substantially all the risks and rewards incidental to ownership of the assets are classified as operating leases, otherwise they are classified as finance leases.

(ii) Operating leases

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

Operating lease income, net of incentives granted, is recognised in income on a straight-line basis over the lease term, unless another systematic basis is more representative of the time pattern in which the benefits deriving from the leased asset are diminished.

Initial direct costs are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease income.

Contingent rents are recognised as income when it is probable that they will be obtained, which is generally when the conditions agreed in the contract arise.

n. Financial instruments

(i) Classification and separation of financial instruments

Financial instruments are classified on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the economic substance of the contractual arrangement and the definitions of a financial asset, a financial liability and an equity instrument.

The Group classifies financial instruments into different categories based on the nature of the instruments and its intentions on initial recognition.

(ii) Offsetting principles

A financial asset and a financial liability are offset only when the Group currently has the legally enforceable right to offset the recognised amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

(iii) Loans and receivables

Loans and receivables comprise trade and non-trade receivables with fixed or determinable payments that are not quoted in an active market other than those classified in other financial asset categories. These assets are initially recognised at fair value, including transaction costs, and are subsequently measured at amortised cost using the effective interest method.

Nevertheless, financial assets which have no established interest rate, which mature or are expected to be received in the short term, and for which the effect of discounting is immaterial, are measured at their nominal amount.

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

(iv) Derecognition of financial assets

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

If, as a result of a transfer, a financial asset is derecognised in its entirety, the new financial asset, financial liability or servicing liability is recognised at fair value.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received, net of transaction costs, including any new asset obtained less any new liability assumed and any cumulative gain or loss deferred in recognised income and expense, is recorded in profit or loss.

If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the consideration received is recognised under liabilities. Transaction costs are recognised in profit and loss using the effective interest method.

(v) Impairment of financial assets

A financial asset or a group of financial assets is impaired and impairment losses are incurred if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset and the event or events have an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The Group recognises impairment of loans and receivables and debt instruments when estimated future cash flows are reduced or delayed due to debtor insolvency.

(vi) Impairment of financial assets carried at amortised cost

In the case of financial assets carried at amortised cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate.

The impairment losses are recognised in profit and loss and may be reversed in subsequent periods if the decrease can be objectively related to an event occurring after the impairment has been recognised. The loss can only be reversed to the limit of the amortised cost of the assets had the impairment loss not been recognised.

(vii) Interest and dividends

Interest is recognised using the effective interest method.

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

(viii) Financial liabilities

Financial liabilities, including trade and other payables, are initially recognised at fair value less any transaction costs that are directly attributable to the issue of the financial liability. After initial recognition, liabilities classified under this category are measured at amortised cost using the effective interest method.

Nevertheless, financial liabilities which have no established interest rate, which mature or are expected to be settled in the short term, and for which the effect of discounting is immaterial, are measured at their nominal amount.

The Group receives security deposits from customers when contracts are signed to guarantee payment of future supplies. These deposits are recognised as financial liabilities. The difference between the amount received and the amortised cost is classified as an advance from customers and taken to consolidated profit or loss over the average estimated period during which the service is to be rendered.

(ix) Derecognition and modifications of financial liabilities

The Group derecognises all or part of a financial liability when it either discharges the liability by paying the creditor or is legally released from primary responsibility for the liability either by process of law or by the creditor.

o. Inventories

Inventories are measured at average cost of purchase. The cost of purchase comprises the amount invoiced by the seller, after deduction of any discounts, rebates or other similar items, such as interest incorporated into the nominal amount, plus any additional costs incurred to bring the goods to a consumable or saleable condition and other costs directly attributable to the acquisition, as well as borrowing costs (see note 5 (g)) and indirect taxes not recoverable from the Spanish taxation authorities.

Trade discounts are recognised as a reduction in the cost of inventories when it is probable that the conditions for discounts to be received will be met. Unallocated discounts are recognised as a decrease on the purchase.

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

When the cost of inventories exceeds net realisable value, materials are written down to net realisable value, which is understood to be their replacement cost.

The previously recognised write-down is reversed against profit and loss when the circumstances that previously caused inventories to be written down no longer exist or when there is clear evidence of an increase in net realisable value because of changed economic circumstances. The reversal of the valuation adjustment is limited to the lower of the cost and the revised net realisable value of the inventories.

Write-downs to net realisable value recognised or reversed on inventories are classified under changes in inventories of supplies.

p. Cash and cash equivalents

Cash and cash equivalents include cash on hand and demand deposits in financial institutions.

The Group recognises cash payments and receipts for financial assets and financial liabilities in which turnover is quick on a net basis in the statement of cash flows. Turnover is considered to be quick when the period between the date of acquisition and maturity does not exceed six months. In the statement of cash flows, drawdowns on credit facilities that form an integral part of the Group's cash management are included as a component of cash and cash equivalents.

q. Equity

The share capital is represented by ordinary shares. The cost of incorporating the Parent has been recognised directly in equity by reducing reserves (see note 18).

r. Grants, donations and bequests received

Any grants, donations and bequests received are recorded in recognised income and expense when 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 Group considers that the conditions of capital grants from European Funds have been met when these grants are actually received.

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

In accordance with the provisions of the Spanish General Chart of Accounts adapted for water supply and sanitation sector businesses, grants also include the amounts received by the Group from new water users for hook-up rights and pipeline adaptation and extension work. As per Decree 2922/1975 of 31 December 1975, which enacted the Regulations for water services and distribution, any work carried out by the Parent to be able to supply water is the Parent's property.

Grants are allocated to profit and loss for the year in proportion with the depreciation for the year of the assets they are used to finance and are recognised in the consolidated income statement under non-financial and other capital grants.

Grants awarded to finance specific costs are recognised as income when the financed costs are accrued.

s. Defined contributions, defined benefits and other long-term employee benefits

Canal de Isabel II Gestión and certain subsidiaries have pension plan and other commitments with personnel.

Canal de Isabel II Gestión, S.A.:

On 3 November 1990 the Public Entity agreed to set up an External Fund for its current staff, availing itself of the Spanish Pension Plan Regulations Act (Law 8/1987 of 8 June 1987). 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 who entered service prior to 3 November 1990 and 6.5% for those who joined since that date. For the unit holders who entered service 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 who entered service after 3 November 1990, 4.8% is allocated to the Capitalisation Fund and the remaining 1.7% to assure death and disability contingencies.

The Parent recognises the contributions payable to this defined contribution plan when the employee has provided the corresponding services. The contributions payable are recognised as an employee benefits expense (see note 29 (c)).

In accordance with article 2 clause three of Royal Decree-Law 20/2011 of 30 December 2011 (on urgent budget, tax and financial measures to redress the public deficit), in 2012 no contributions were made to the pension plans arranged on behalf of employees. Similarly, article 22 of the General State Budget for 2013 (Law 17/2012 of 27 December 2012) once again establishes that in 2013 no contributions can be made to pension plans or collective insurance policies covering retirement.

On 15 November 2002 the Public Entity externalised the internal fund it had appropriated for its retired personnel through a policy arranged with an insurance company. The insured commitments relate to those beneficiaries who retired before the pension plan was set up on 3 November 1990 and comprise retirement and disability benefits and widows/widowers' and orphans' pensions. These benefits are subject to an estimated revaluation of 2% per year. The following assumptions were employed in the actuarial study used to calculate the insurance premium for the externalisation of the pension plan: technical interest rate of 5.15% until 31 December 2041 and 2.5% as of 1 January 2042, PERM/F 2000P mortality tables and management costs of 0.23% of the premium. Pensions are updated annually based on the increases in state pensions. The premium required to adjust the externalised commitments being paid to retired personnel is calculated annually by independent actuaries using the Projected Unit Credit Method and recognised in the consolidated income statement.

Every year independent actuarial studies are used to adjust the policy through which the commitments assumed in the collective bargaining agreement – whereby employees opting for early retirement on turning sixty will receive 50% of their last twelve monthly payments – were externalised on 15 November 2002. In the event that an employee does not eventually retire at sixty, the insurance company repays the premium settled at the date on which the plan was externalised. The assumptions employed are the same as those detailed above with respect to retired personnel. This policy has been cancelled in 2012 because the Company no longer has any employees to whom any such commitments apply.

However, the policy of recognising the provision needed to cover long-service bonuses for serving personnel on a systematic basis has been maintained. As per the collective bargaining agreement in force, an internal fund has been set up to cover long-service bonuses for employees with 25 or 35 years' service. Charges are made to this provision on a straight-line basis from 15 and 25 years, respectively, of service in the Parent, based on the year from which the corresponding personnel obligation started to accrue. On 4 January 2011, as a result of the agreement signed with employee representatives on 30 April 2010, an insurance policy for the accrual of early settlements of long-service bonuses was arranged and paid through a single payment of Euros 5,833 thousand. The insurance company guarantees the payment of a deferred endowment to the beneficiary in the event that he or she is still alive. To receive the insured benefit, the insured party must have been in service for 25 or 35 years. The assumptions used to define the policy and calculate the initial single premium were a technical interest rate of 4.89% until 4 January 2051 and 2.25% thereafter, the PERM/F-2000P mortality tables and management costs of 0.10% of the premium.

In prior years, under the terms of the collective bargaining agreement in force, a seniority supplement was recognised for each three years' service provided. On 4 January 2011 the Public Entity took out and paid a liability insurance policy for the early settlement of this item, making a single payment of Euros 55,591 thousand. The insurance company undertakes to pay the insured parties a temporary actuarial annuity without reversal until they retire at 65, or until the termination date of their contract in the case of temporary staff. This annuity is subject to an annual growth rate of 1.2% and is payable as of September 2013. The assumptions employed to determine the single premium were a technical interest rate of 5.33%, the Perm/F 2000P mortality tables and management costs of 0.45% of the premium.

The Parent recognises the expenses relating to these plans when the obligation arises, based on the actuarial studies conducted to calculate the commitment at each year end. Any actuarial gains or losses are recognised in the income statement for the period.

Hidráulica Santillana S.A.U. and Hispanagua, S.A.U:

Pursuant to Royal Decree 1588/1999 of 15 October 1999, which sets forth the legal provisions on the arrangement of company pension plan commitments, these subsidiaries have set up employee pension plans.

The pension plan adopted by the subsidiaries was formally arranged in December 2000 and consists of defined contributions for retirement benefits and defined benefits for death and disability (covered by an insurance contract).

The pension plan takes into account the previous benefits to which the employees were entitled for past service at 1 December 2000, which totalled Euros 154 thousand in the case of Hidráulica Santillana and Euros 2,828 thousand in the case of Hispanagua and were paid into the "FONDPOSTAL Canal de Isabel II, F.P." pension fund in December 2000. This fund is administered by the pension fund management company "Gestión de Previsión y Pensiones, S.A." and has been deposited with the trustee entity BBVA.

Pursuant to Royal Decree 1588/1999 of 15 October 1999, which sets forth the legal provisions on the arrangement of company pension plan commitments, Hispanagua, S.A.U. externalised its commitments to retired personnel through an insurance policy contracted with SCH Seguros in 1999. Contributions totalling Euros 5,672 thousand were paid in full in 1999.

Similarly, Hispanagua S.A.U. has an early retirement bonus commitment which was externalised in 2002 through an insurance policy contracted with BBVA Seguros. The contributions, totalling Euros 173 thousand, have been paid in full.

The subsidiary 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 28 (c)).

In accordance with article 21.6 of Royal Decree-Law 7/2012 of 26 December 2012, in 2013 neither subsidiary made contributions to the pension plans arranged on behalf of employees. Similarly, in accordance with article 2.3 of Royal Decree-Law 20/2011 of 30 December 2011 (on urgent budget, tax and financial measures to redress the public deficit), in 2012 neither subsidiary made contributions to the pension plans arranged on behalf of employees. Article 21.6 of the General Budget for the Community of Madrid for 2014 (Law 5/2013 of 23 December 2013) once again establishes that in 2014 no contributions can be made to pension plans or collective insurance policies covering retirement.

AMAGUA C.E.M:

The Labour Code of the Republic of Ecuador requires this subsidiary to provide an employer-paid retirement plan ("jubilación patronal") to all employees with at least 25 years' service. Since 2008 Amagua has recognised provisions for these benefits based on an actuarial study conducted by an independent third party. According to this study, at 31 December 2013 the present value of the actuarial mathematical provision for employer-paid retirement plans is approximately Euros 71 thousand (Euros 56 thousand in 2012).

CANAL GESTIÓN LANZAROTE, S.A.U:

Article 20 of the collective bargaining agreement previously applicable to Inalsa provided for compensation for "loyal service", awarding workers for long service to the company by granting a compensation payment linked to the number of years' service in the event of a producer's retirement or death while in active service.

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

In accordance with prevailing legislation on the matter, on 25 April 2005, Inalsa outsourced its commitments with personnel by taking out a group life insurance policy with Winterthur Vida, Sociedad Anónima de Seguros y Reaseguros Sobre la Vida, in which Inalsa is the policyholder (policy number 82-18.514, amounting to Euros 2,041 thousand at 31 May 2013) and assumes the corresponding obligations.

t. Provisions

(i) General criteria

Provisions are recognised when the Group has a present obligation (legal, contractual, constructive or tacit) as a result of a past event; it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the expenditure required to settle the present obligation at the end of the reporting period, taking into account all risks and uncertainties surrounding the amount to be recognised as a provision and, where the time value of money is material, the financial effect of discounting provided that the expenditure to be made each period can be reliably estimated.

Single obligations are measured using the individual most likely outcome. When the provision involves a large population of identical items, the obligation is estimated by weighting all possible outcomes by their associated probabilities. Where there is a continuous range of possible outcomes, and each point in that range is as likely as any other, the mid-point of the range is used.

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

The tax effect and gains on the expected disposal of assets are not taken into account in measuring a provision.

Where a risk is externalised to a third party by means of a legal or contractual agreement, provision is only made for the part of the risk assumed by the Group.

If it is not probable that an outflow of resources will be required to settle an obligation, the provision is reversed.

u. Revenue from the sale of goods

Revenue from the sale of goods is measured at the fair value of the consideration received or receivable.

However, the Group includes interest incorporated in trade balances maturing in less than one year that do not have a contractual rate of interest when the effect of not discounting future receipts is not material.

Income is recognised when the Group has rendered the corresponding service, irrespective of the date of collection.

v. Rendering of services

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

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

Revenue from the sale of goods or services is measured at the fair value of the consideration received or receivable.

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.

w. Income tax

On 1 January 1996 Law 43/1995 of 27 December 1995 came into force. Article 32.2 of this law provided for tax relief of 99% on income tax payable on revenues from the provision of certain public services, including water supply, sanitation and recycling. The Parent applies this tax relief as it has been commissioned to provide these services in the Community of Madrid.

The income tax expense or tax income for the period comprises current tax and deferred tax.

Current tax assets or liabilities are measured at the amount expected to be paid to or recovered from the taxation authorities, using the tax rates and tax laws that have been enacted or substantially enacted at the reporting date.

Current and deferred tax are recognised as income or an expense and included in profit or loss for the period, except to the extent that the tax arises from a transaction or event which is recognised, in the same or a different year, directly in equity, or from a business combination.

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

This tax group will comprise the following companies:

- Canal de Isabel II Gestión, S.A.
- Canal Extensia, S.A.U.
- Hispanagua S.A.U.
- Hidráulica Santillana S.A.U.
- Canal de Comunicaciones Unidas S.A.U.
- Canal Energía, S.L.
- Canal Energía Generación, S.L.U.
- Canal Energía Distribución, S.L.U.
- Canal Energía Comercialización, S.L.U.
- Canal Gas Distribución, S.L.U.
- Canal Gestión Lanzarote, S.A.U.

(i) Taxable temporary differences

Taxable temporary differences are recognised in all cases except where they arise from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither accounting profit nor taxable income.

(ii) Deductible temporary differences

Deductible temporary differences are recognised provided that it is probable that sufficient taxable income will be available against which the deductible temporary difference can be utilised, unless the differences arise from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither accounting profit nor taxable income.

Tax planning opportunities are only considered when assessing the recoverability of deferred tax assets and if the Group intends to use these opportunities or it is probable that they will be utilised.

(iii) Measurement

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the years when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantially enacted. The tax consequences that would follow from the manner in which the Company expects to recover or settle the carrying amount of its assets or liabilities are also reflected in the measurement of deferred tax assets and liabilities.

(iv) Classification

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

x. Classification of assets and liabilities as current and non-current

The Group classifies assets and liabilities in the consolidated balance sheet as current and non-current. Current assets and liabilities are determined as follows:

- Assets are classified as current when they are expected to be realised or are intended for sale or consumption in the Group's normal operating cycle, they are held primarily for the purpose of trading, they are expected to be realised within twelve months after the reporting date or are cash or a cash equivalent, unless the assets may not be exchanged or used to settle a liability for at least twelve months after the reporting date.

- Liabilities are classified as current when they are expected to be settled in the Group's normal operating cycle, they are held primarily for the purpose of trading, they are due to be settled within twelve months after the reporting date or the Group does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting date.

- Financial liabilities are classified as current when they are due to be settled within twelve months after the reporting date, even if the original term was for a period longer than twelve months, and an agreement to refinance or to reschedule payments on a long-term basis is completed after the reporting date and before the annual accounts are authorised for issue.

y. Environmental issues

The Group takes measures to prevent, reduce or repair the damage caused to the environment by its activities.

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

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

z. Transactions with non-consolidated Group companies and other related parties

Transactions with non-consolidated Group companies and other related parties, except those related to 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 recognised in line with the underlying economic substance of the transaction.

6. GOODWILL OF CONSOLIDATED COMPANIES

Movement during 2013 and 2012 is as follows:

	2013			
	Thousands of Euros			
	Balance at 01/01/2013	Additions to the scope of consolidation	Translation differences	Balance at 31/12/2013
AAA Ecuador Agacase	578	-	(104)	474
Hidráulica Santillana, S.A.U.	12,610	-	-	12,610
Avanzadas Soluciones de Acueducto y Alcantarillado, S.A	-	32	(2)	30
TOTAL	**13,188**	**32**	**(106)**	**13,114**

	2012		
	Thousands of Euros		
	Balance at 01/07/2012	Translation differences	Balance at 31/12/2012
AAA Ecuador Agacase	616	(38)	578
Hidráulica Santillana, S.A.U.	12,610	-	12,610
TOTAL	**13,226**	**(38)**	**13,188**

The key assumptions employed when determining value in use applied to obtain the recoverable amount when testing goodwill for impairment include growth rates, the weighted average cost of capital and tax rates. Cash flows beyond this five-year period are extrapolated using a growth rate that does not exceed the medium- to long-term average growth rate for the business in which these companies operate.

The periods of time considered in these projections reflect the term of the concessions currently operated by these entities. The weighted average cost of capital is 7.21% (7.75% in 2012) for Hidráulica Santillana, S.A.U., 13.31% (13.96% in 2012) for AAA Ecuador Agacase and 9.55% for the investment in Avanzadas Soluciones de Acueducto y Alcantarillado, S.A.

For these investments to be impaired, the weighted average cost of capital would have to increase by the following amounts of basis points:

INVESTMENT	Increase in WACC (b.p.)
Hidráulica Santillana, S.A.U.	83
AAA Ecuador Agacase, S.A.	2,431
Avanzadas Soluciones de Acueducto de Alcantarillado, S.A. ESP	2,241

7. JOINT VENTURES

Information on temporary joint ventures is presented in Appendix III.

Details of balance sheet and income statement items relating to the different temporary joint ventures, which are consolidated in proportion to the Group's percentage ownership, are included below:

	2013		
	Thousands of Euros		
	Aguas de Alcalá TJV	Other	Total
Non-current assets	21,870	-	21,870
Current assets	6,630	1,237	7,867
Equity	1,091	137	1,228
Current liabilities	(29,591)	(1,374)	(30,965)
Revenues	10,668	398	11,066
Supplies	(4,755)	-	(4,755)
Personnel expenses	(2,071)	-	(2,071)
Other operating expenses	(2,224)	(8)	(2,232)
Amortisation and depreciation	(1,427)	-	(1,427)
Finance costs	(1,321)	-	(1,321)

	2012		
	Thousands of Euros		
	Aguas de Alcalá TJV	Other	Total
Non-current assets	23,284	-	23,284
Current assets	5,656	1,337	6,993
Equity	277	135	412
Current liabilities	(29,217)	(1,472)	(30,689)
Revenues	5,992	250	6,242
Supplies	(1,858)	-	(1,858)
Personnel expenses	(1,035)	-	(1,035)
Other operating expenses	(1,461)	(89)	(1,550)
Amortisation and depreciation	(712)	-	(712)
Finance costs	(704)	-	(704)

8. INTANGIBLE ASSETS

Details of intangible assets and movement in 2013 and 2012 are as follows:

	Thousands of Euros							
	2013							
	Development	Concessions	Patents, licences, trademarks and similar rights	Computer software	Concession arrangements, regulated assets	Concession arrangements, regulated assets under construction	Concession arrangements, capitalisation	TOTAL
Cost at 1 January 2013	**649**	**2,887**	**1**	**2,120**	**6,226,122**	**287,282**	**20,733**	**6,539,794**
Additions	93	-	-	352	105,243	84,904	-	190,592
Capitalised borrowing costs	-	-	-	-	-	351	13,630	13,981
Disposals	(16)	-	(1)	(4)	(12,754)	(17)	-	(12,792)
Transfers	-	-	-	49	72,951	(72,515)	-	485
Translation differences	(66)	(340)	-	(204)	(25,949)	(145)	-	(26,704)
Cost at 31 December 2013	**660**	**2,547**	**-**	**2,313**	**6,365,613**	**299,860**	**34,363**	**6,705,356**
Accumulated amortisation at 1 January 2013	**(287)**	**(2,586)**	**(1)**	**(1,746)**	**(2,255,794)**	**-**	**-**	**(2,260,414)**
Amortisation	(7)	(78)	-	(257)	(112,237)	-	-	(112,579)
Disposals	16	-	1	4	12,082	-	-	12,103
Transfers	-	-	-	-	(378)	-	-	(378)
Translation differences	25	318	-	165	15,230	-	-	15,738
Accumulated amortisation at 31 December 2013	**(253)**	**(2,346)**	**-**	**(1,834)**	**(2,341,097)**	**-**	**-**	**(2,345,530)**
Accumulated impairment at 1 January 2013	**-**	**-**	**-**	**-**	**(85)**	**-**	**-**	**(85)**
Reversal of impairment losses	-	-	-	-	12	-	-	12
Accumulated impairment at 31 December 2013	**-**	**-**	**-**	**-**	**(73)**	**-**	**-**	**(73)**
CARRYING AMOUNT AT 31 DECEMBER 2013	**407**	**201**	**-**	**479**	**4,024,443**	**299,860**	**34,363**	**4,359,753**

	Thousands of Euros							
	2012							
	Development	Concessions	Patents, licences, trademarks and similar rights	Computer software	Concession arrangements, regulated assets	Concession arrangements, regulated assets under construction	Concession arrangements, capitalisation	TOTAL
Cost at 1 July 2012	-	-	-	-	-	-	-	-
Additions due to non-monetary contribution	619	3,013	1	2,081	6,038,368	360,581	14,739	6,419,402
Additions	191	-	-	120	77,363	45,783	-	123,457
Capitalised borrowing costs	-	-	-	-	-	423	5,994	6,417
Disposals	(90)	-	-	-	(120)	-	-	(210)
Transfers	-	-	-	-	119,356	(119,341)	-	15
Translation differences	(71)	(126)	-	(81)	(8,845)	(164)	-	(9,287)
Cost at 31 December 2012	**649**	**2,887**	**1**	**2,120**	**6,226,122**	**287,282**	**20,733**	**6,539,794**
Accumulated amortisation at 1 July 2012	-	-	-	-	-	-	-	-
Accumulated amortisation at 1 July 2012	(403)	(2,661)	(1)	(1,632)	(2,206,600)	-	-	(2,211,297)
Additions due to non-monetary contribution	-	(39)	-	(178)	(54,348)	-	-	(54,565)
Amortisation	90	-	-	-	45	-	-	135
Disposals	26	114	-	64	5,109	-	-	5,313
Accumulated amortisation at 31 December 2012	**(287)**	**(2,586)**	**(1)**	**(1,746)**	**(2,255,794)**	-	-	**(2,260,414)**
Accumulated impairment at 1 July 2012	-	-	-	-	-	-	-	-
Additions due to non-monetary contribution	-	-	-	-	(126)	-	-	(126)
Reversal of impairment losses	-	-	-	-	41	-	-	41
Accumulated impairment at 31 December 2012	-	-	-	-	**(85)**	-	-	**(85)**
CARRYING AMOUNT AT 31 DECEMBER 2012	**362**	**301**	-	**374**	**3,970,243**	**287,282**	**20,733**	**4,279,295**

Among the additions recognised in 2013 under concession arrangement, regulated assets the following are of particular note:

The enlargement of the Campo Real wastewater treatment plant and the replacement of the peat bed and biofilter treatments at Valdetorres del Jarama, Valdepiélagos and Talamanca del Jarama with more modern systems with greater treatment capacities.

The enlargement of the sewage pumping station in Pedrezuela to increase its capacity and the promotion of the sewage pumping station of Moralzarzal. A new spillway has been built in the A-6 outfall of the Casaquemada system between wells P29 and P30 at the connection point with the L municipal sewer which comes from Coslada.

The investments in control and automation at the wastewater treatment plants of Arroyo del Soto, Aranjuez and Fuente el Saz, the installation of an access control system with CCTV surveillance in 68 local telecommunication stations and the incorporation of new monitoring centres in the distribution network and the inclusion of the latter in the general telecontrol system which will facilitate the measurement of capacity, pressure and the flow direction in the pipes.

The following investments in the supply network are worthy of note: various sections of the back-up project for towns in the southeast region from the San Juan reservoir, the investment recognised includes a pumping station to take water to the drinking water treatment plant at Rozas de Puerto Real. The investments made in the supply of the town of El Álamo and the water distribution system of Guadalix de la Sierra, through the replacement of the present fibre cement pipes with others of ductile cast iron which improve the water supply, regulate the capacity and pressure, in accordance with the rules for supplying water.

With regard to the most significant supply infrastructure work carried out in 2013: a new storage tank has been built in Vallecas, on the existing one, and next to this tank a pumping station and 9,000 metres of new connection pipelines. The work on extending the water storage tank at Colmenar Viejo has been completed, with a capacity of 10,000 m3 with a perimeter ring for transporting drinking water.

In the area of supply the following should be highlighted: the building of a 15,000 m3 tank for raw water, which in the future will become the treated water tank in the drinking water area of the Pelayos de la Presa drinking water treatment plant, as well as the pump at San Martín de Valdeiglesias. A pump has been built next to the tank of la Montaña de Aranjuez, to take water from the Tajo river to consumption areas through the Getafe-Aranjuez artery to the tank at Getafe. Additionally, wells 17 and 19 have been added to the well field of Guadarrama, after they were fitted out and connected to the electricity supply.

As part of the plan to update the network, the following should be highlighted: renewal of the pipelines in various streets of Madrid, replacing fibre cement, polyethylene and PVC pipes with ductile cast iron ones to improve the water supply, regulate capacity and pressure, reduce incidents in the network and update connections. Various investments have been made to install meters and connections when new contracts are signed.

In 2013, with regard to the construction of production facilities for reclaimed water the following are worthy of note: the third in the south eastern wastewater treatment plant and the regulating reservoirs to store reused water from the towns of Coslada and Humanes in Madrid. The distribution networks of regenerated water have been increased with the investments and network extensions carried out in Coslada, San Sebastián de los Reyes, Getafe and Villanueva de la Cañada.

Additions in this caption in 2013 notably include the Euros 46,927 thousand charge for the administrative concession governing water supply, sanitation and recycling services on the islands of Lanzarote and La Graciosa.

The main additions to concessions in 2012 were as follows:

Construction of the Robledillo de la Jara and Berzosa de la Sierra wastewater treatment plants and collectors, which form part of the Lozoya River Lower Basin Project, which in turn falls within the second stage of the Community of Madrid Sanitation and Treatment Plan, included in the Sanitation and Treatment Master Plans of all of the municipalities located in the Community of Madrid.

To deal with sludge from urban wastewater treatment plants, a landfill site was built in Loeches to ensure the safe storage, for approximately two years, of sludge classed as unsuitable for agriculture.

Extensions have been carried out in the Valmayor drinking water treatment plant, and impurity removal improved. These measures were declared urgent and in the public interest by the Community of Madrid Regional Cabinet in Decree 98/2005 of 29 September 2005.

Investment in the area of extension, upgrading and improvement of canals and major conduits notably includes the various stages of the project to reinforce the Picadas-Majadahonda arterial conduit.

The most significant supply infrastructures completed in 2012 include the construction of the San Agustín de Guadalix water tank and the Nuevo Baztán tank and lift station.

Projects involving the supply of recycled water for irrigation purposes have been carried out in San Fernando de Henares and Miraflores de la Sierra, where water tanks, pumping systems and a distribution network have been built.

The most significant additions in Latin America are sewer network and conduit infrastructures of approximately Euros 12,201 thousand located in Barranquilla District (Colombia).

The total carrying amount of the Group's intangible assets located outside of Spain is Euros 126,012 thousand (Euros 133,493 thousand in 2012).

a. Concession Arrangements and Administrative Concessions

Details of the most significant concession arrangements are as follows:

				Thousands of Euros			
				2013			
Concession arrangements, regulated assets	**Use**	**Expiry date**	**Amortisation period**	**Cost**	**Accumulated amortisation**	**Impairment**	**Net**
In Spain							
Rights to use Madrid City Council sanitation infrastructures	Operations	2036	31	926,000	(236,000)	-	690,000
Rights to use Community of Madrid General Network infrastructures	Operations	2062	50	4,668,207	(1,919,891)	(73)	2,748,243
Additional investments, rights to use Madrid City Council sanitation infrastructures	Operations	2036	31	37,415	(4,894)	-	32,521
Rights to use Madrid City Council recycling infrastructures	Operations	2061	50	189,000	(9,450)	-	179,550
Rights to use municipal sewer infrastructures	Operations	2062	50	132,474	(8,245)	-	124,229
Rights to use technical installations (Aguas de las Cuencas del Sur)	Operations	2039	30	69,780	(9,745)	-	60,035
Rights to use council-owned land in Guadarrama	Operations	2039	30	10,752	(1,762)	-	8,990
Investments to extend and upgrade the Alcalá de Henares concession	Operations	2030	25	12,575	(4,381)	-	8,194
Lanzarote administrative concession	Operations	2043	30	46,927	(912)	-	46,015
In Latin America							
Barranquilla District concession	Operations	2033	20+20	254,301	(137,790)	-	116,511
Rights to contracts, AAA Ecuador	Operations	2032	30	8,654	(1,957)	-	6,697
Rights to contracts, AAA Dominicana	Operations	2015	11	2,367	(2,231)	-	136
Atlántico concession, other towns	Operations	2019	20	3,490	(2,073)	-	1,417
			TOTAL	**6,361,942**	**(2,339,331)**	**(73)**	**4,022,538**

				Thousands of Euros			
				2012			
Concession arrangements, regulated assets	**Use**	**Expiry date**	**Amortisation period**	**Cost**	**Accumulated amortisation**	**Impairment**	**Net**
In Spain							
Rights to use Community of Madrid General Network infrastructures	Operations	2062	50	4,563,887	(1,867,229)	(85)	2,696,573
Rights to use Madrid City Council sanitation infrastructures	Operations	2036	31	926,000	(206,000)	-	720,000
Additional investments, rights to use Madrid City Council sanitation infrastructures	Operations	2036	31	34,359	(3,601)	-	30,758
Rights to use Madrid City Council recycling infrastructures	Operations	2061	50	189,000	(5,670)	-	183,330
Rights to use municipal sewer infrastructures	Operations	2062	50	132,285	(5,686)	-	126,599
Rights to use technical installations (Aguas de las Cuencas del Sur)	Operations	2039	30	69,780	(7,959)	-	61,821
Rights to use council-owned land in Guadarrama	Operations	2039	30	10,752	(1,404)	-	9,348
Investments to extend and upgrade the Alcalá de Henares concession	Operations	2030	25	12,564	(3,845)	-	8,719
In Latin America							
Barranquilla District concession	Operations	2033	20+20	258,598	(136,426)	-	122,172
Rights to contracts, AAA Ecuador	Operations	2032	30	6,435	(1,758)	-	4,677
Rights to contracts, AAA Dominicana	Operations	2015	11	2,696	(2,464)	-	232
Atlántico concession, other towns	Operations	2019	20	4,806	(1,445)	-	3,361
			TOTAL	**6,211,162**	**(2,243,487)**	**(85)**	**3,967,590**

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

- The Community of Madrid General Network comprises all of the infrastructures used to provide the public services assigned to the Public Entity by the Community of Madrid. Under the terms of Law 3/2008 and in accordance with the terms and conditions of the Contract-Programme, the management of these infrastructures has been entrusted to the Parent. This includes the operation, repair and maintenance of the Network, the provision of the corresponding water supply, sanitation and recycling services, and any other services and activities corresponding to the Public Entity under the mentioned law, except those expressly reserved to the Public Entity by the terms of the Contract-Programme. So that the Parent can manage these infrastructures, article 16 of Law 3/2008 required the Community of Madrid and the Public Entity to provide it with as many public-domain assets making up the Community of Madrid General Network as necessary for it to exercise the activities and duties entrusted to it. The Contract-Programme also provides for the Parent's use and management of energy resources currently operated by the Public Entity, as well as any such activities that may be carried out in the future. Furthermore, the Parent is entitled to provide any other services entrusted to the Public Entity by the Community of Madrid, particularly Closed User Group mobile communications services. All of these infrastructures are public property as they are used for public services provided by the Parent and, as such, may not be disposed of or seized and are not subject to any statute of limitations. These assets may only be sold in the event that they are no longer required, but with the legal obligation to allocate the gains obtained to investments in the Community of Madrid General Network.

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

On expiry of the Contract-Programme, the Parent is required to return the assets and rights that make up the Network, and any other goods and installations in the public domain that are required to provide the service, to the public authorities in good working order and perfect condition, as required by the progress clause governing the Contract-Programme, ensuring that these assets are still capable of providing the service based on the depreciation schedules of the different constituent items.

Once this period has elapsed and the Contract-Programme expires, the Public Entity is required to compensate the Parent for any investments made to carry out new infrastructure plans and not depreciated while the Contract-Programme was in force, taking into account the condition of such infrastructures and the value of the investment made, deducting any technical depreciation under the terms set out in these plans.

In 2013 the Parent charged Euros 93,059 thousand to the provision for infrastructure replacement relating to the Community of Madrid General Network (Euros 46,285 thousand in 2012) (see note 21 (c)).

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

- The conveyance of the right to use Madrid City Council treatment infrastructures is regulated by the Agreement for the Management of Sanitation Services, signed between Madrid City Council, the Community of Madrid and Canal de Isabel II on 19 December 2005, which assigned the running of the sanitation services (sewage and treatment), in both technical and commercial terms, as well as wastewater recycling services in the city of Madrid, to Canal. This agreement is valid for 25 years from 1 January 2006, and consideration of Euros 700 million is payable for the right to use the treatment and sewage 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 consideration of Euros 226 million 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 Euros 613 million, of which Euros 443 million is considered as investment in replacements. During the period ended 31 December 2012 the Parent charged Euros 16,380 thousand to the provision for replacements (Euros 8,276 thousand in 2012) (see note 21 (c)).

  Once this agreement has expired, the rights to use the sewage and treatment infrastructure will revert from the Parent to the City Council. At the end of the initial established agreement term, the City Council has agreed to pay the Parent the amount outstanding for the new investments under the terms of this agreement.

Under the terms of the agreement signed between the Community of Madrid, Canal de Isabel II and Madrid City Council on 4 May 2011, relating to the inclusion of the latter in Canal de Isabel II's future management model, the sanitation service agreement which expires on 31 December 2036 must be extended or renewed pursuant to the good faith and loyalty required from both parties by the fifth clause of this inclusion agreement. When this extension is agreed, Madrid City Council will receive financial consideration for the rights of use transferred for the extension period.

The consideration received by the Parent is the right to collect the corresponding tariffs from customers in the city of Madrid for sewage and treatment services rendered, based on their use of these services. Tariffs and any amendments or updates thereto are authorised by the government authority, in accordance with prevailing legislation.

- 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 Autonomous Community 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 prevailing legislation to Canal for a period of 50 years from 1 July 2011. The Parent manages the maintenance and operation of the infrastructure and facilities included within the scope of this agreement. For all effects and purposes the water recycling infrastructure will be included in the Madrid Community network and will be managed by the Parent, although ownership of the infrastructure will remain with Madrid City Council. Should the agreement be terminated for any reason, the municipal infrastructure used to render the water recycling service will revert from the Parent to Madrid City Council, in good working condition. The agreement does not include any commitment to perform any maintenance work required with respect to the infrastructure for the transport and supply of reclaimed water.

- Total consideration of Euros 189 million was paid for the right to use these infrastructures. At the end of the initial established agreement term, the City Council has agreed to pay the Parent the amount outstanding for the new investments under the terms of this agreement. As consideration, the Parent was entitled to bill the recycling services it rendered, in accordance with the approved tariffs. Tariffs and any amendments or updates thereto are authorised by the government authority, in accordance with prevailing legislation. During the period ended 31 December 2013 the Parent charged Euros 1,361 thousand to the provision for replacements (Euros 1,361 thousand in 2012) (see note 21 (c)).

  Under the terms of the agreement signed between the Community of Madrid, Canal de Isabel II and Madrid City Council on 4 May 2011, relating to the inclusion of the latter in Canal de Isabel II's future management model, the reclaimed water recycling agreement which expires on 4 May 2061 must be extended or renewed pursuant to the good faith and loyalty required from both parties by the fifth clause of the inclusion agreement.

  The conveyance of rights to use municipal sewer network infrastructure is governed by the respective agreements entered into by town and city councils, the Community of Madrid and Canal de Isabel II for the provision of sewage services in certain areas. These agreements stipulate that the sewage networks owned by the town and city councils form part of the Madrid Community network and are assigned to Canal de Isabel II. The town and city councils have entrusted the management and operation of the sewage services, as well as the corresponding infrastructure and facilities, to the Community of Madrid through the Parent.

At 31 December 2013, 134 municipalities have signed these sewage agreements. Agreements with the following 30 municipalities have entered into force since 1 July 2012:

		Thousands of Euros	
		2013	2012
Municipality	**Term (years)**	**Cost**	**Cost**
Ambite sewer system	50	33	33
Cadalso de los Vidrios sewer system	50	177	177
Corpa sewer system	50	36	36
Fresnedillas Oliva sewer system	50	90	90
Fuentidueña Tajo sewer system	50	126	126
Navas del Rey sewer system	50	157	157
Pelayos de la Presa sewer system	50	157	157
Santorcaz sewer system	50	49	49
Valverde Alcalá sewer system	50	29	29
Getafe sewer system	50	10,148	10,148
Chinchón sewer system	50	321	321
Perales de Tajuña sewer system	50	174	174
Santa Mª Alameda sewer system	50	70	70
Velilla San Antonio sewer system	50	700	700
Villamantilla sewer system	50	57	57
Villanueva de Perales sewer system	50	92	92
San Martin Valdeiglesias sewer system	50	491	491
Moraleja en medio sewer system	50	317	317
Villanueva Pardillo sewer system	50	1,009	1,009
Valdemorillo sewer system	50	673	673
Arroyomolinos sewer system	50	1,367	1,367
Torrelaguna sewer system	50	-	-
Boadilla del Monte sewer system	50	2,683	2,683
Alcobendas sewer system	50	6,756	6,756
San Fernando de Henares sewer system	50	2,483	2,483
San Sebastián de los Reyes sewer system	50	4,995	4,995
Villarejo de Salvanés sewer system	50	444	444
Villaviciosa de Odón sewer system	50	1,604	1,604
Casarrubuelos sewer system	50	189	-
Rascafría sewer system	50	-	-
TOTAL		**35,427**	**35,238**

These agreements do not stipulate any investment commitments, but rather require Canal to conduct diagnostic studies on the current condition of the sewage networks so that master plans for the improvement of these installations can be drawn up where necessary. The consideration received by the Parent for providing the sewage 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 pertinent government authority in accordance with prevailing legislation. At the end of the established term of the agreements, the city councils have agreed to pay the Parent the amount outstanding for the investments made.

Sewer service agreements have been signed with two municipal councils in 2013, totalling Euros 189 thousand (agreements totalling Euros 35,238 thousand were signed in the six-month period ended 31 December 2012). From all such agreements signed since 1 July 2012, Euros 5,482 thousand is outstanding at 31 December 2013 and has been recognised under payables to suppliers of fixed assets (Euros 31,856 thousand in 2012) (see note 23 (a)).

Concession arrangements signed in Spain in 2013 notably include the Public Service Management Agreement for the concession to provide water supply, sanitation and recycling services on the islands of Lanzarote and Graciosa signed between Canal Lanzarote Gestión and the Lanzarote Water Board, in accordance with which the subsidiary is required to make certain committed investments, which, on completion of the term agreed in its bid, are estimated to total Euros 54 million. According to this subsidiary's technical department, the useful life of the installations is longer than the concession term and a suitable corrective and preventative maintenance programme will eradicate the need for any major investments or replacements.

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

Amagua C.E.M. (Ecuador) provides public drinking water and sewer services through exclusive concessions (under regulated authorisation) granted by the Decentralised Autonomous Governments of the cantons of Samborondón and Daule.

- Amagua's operations in the Samborondón canton are governed by the "Agreement regulating the relationship between the Town of Samborondón and the company Aguas de Samborondón Amagua C.E.M for the provision of drinking water and sewer services in the urban development area of Samborondón canton", which was signed on 30 November 2001, and the addenda thereto signed on 14 December 2009, for a 50-year period from March 1998 onwards. The service provided by Amagua also falls within the scope of the town charter passed by the Mayor of Samborondón on 28 May 2010.

- Operations in the Daule canton are covered by an agreement signed with the canton authorities on 10 February 2005, a first addendum signed on 22 July 2009 and a second addendum dated 1 August 2012, for a 15-year period from 2005 (until 2020). This service is governed by a town charter passed by the Mayor of Daule on 24 July 2009.

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

Amagua's obligations derived from these agreements do not include any investment commitments, as its operations are limited to the existing infrastructure available for the service, in some cases provided by the municipal authorities themselves, and in others by property development firms. According to this subsidiary's technical department, the useful life of the installations is longer than the concession term and a suitable corrective and preventative maintenance programme will eradicate the need for any major investments or replacements. Although it is not bound to make any investments, where required for its particular needs, the subsidiary may carry out work on a self-financed basis or in collaboration with other parties.

Triple A de Barranquilla (Colombia) has the following concession contracts:

- Share subscription agreement signed with the District of Barranquilla on 19 October 1993, whereby it received the right to use the assets directly or indirectly involved in the conduit, sewer and sanitation services in this district under a 20-year concession. These assets were previously held by the former state-owned enterprise Empresa Pública Municipal de Barranquilla, S.A.

  On expiry of the 20-year contract term, this subsidiary is required to hand all of the concession assets back to the authorities. While the contract is in force it is required to ensure preventative and corrective maintenance.

  On 19 July 2000 this subsidiary signed a twenty-year extension to the concession awarded by the District of Barranquilla, running from 19 October 2013 to 9 October 2033. Once the concession term has elapsed, the District authorities will compensate the subsidiary for any upgrade work not covered by the corrective or preventative maintenance programme at the carrying amounts at which the corresponding investments are recognised in its accounts.

- Concession contract signed on 25 March 1997 covering the provision, operation, organisation and comprehensive management of public residential conduit, sewer and sanitation services within the jurisdiction of the town of Puerto Colombia and its area of influence for a 20-year period. This contract considers that these conduit and sewer services were assumed by the concession holder from 1 April 1997.

- Concession contract signed on 4 December 2001 for a 20-year period, covering the financing, extension, refurbishment and maintenance of conduit and sewer services and complementary activities in the town of Soledad.

  The general obligations assumed by the concession holder under this contract include the operation and administration of the infrastructure received on concession to provide the conduit and sewer services from the date of the corresponding initiation certificate, and the operation and maintenance of this structure under the terms provided in the contract.

  Through a conveyance certificate signed on 19 December 2001, Soledad town authorities handed the assets involved in the conduit and sewer services over to Triple A de Barranquilla. These assets include the "Municipal Conduit Treatment Plant" and "Metropolitan Conduit Treatment Plant".

  As the infrastructure of these treatment plants must be returned to the Soledad town authorities in working condition, the subsidiary needs to begin securing the financial resources necessary to carry out work to upgrade the treatment plants by 2020 so that it can hand them over to Soledad town authorities on the date specified in the concession contract. Under prevailing accounting legislation, and on the grounds that it is required to return the infrastructure in a usable condition and working order under the terms of the contracts, the subsidiary has considered this work as a replacement and major repair and has therefore recognised the corresponding provision during the year ended 31 December 2012 with a charge of Euros 671 thousand to the consolidated income statement (Euros 721 thousand in 2012) (see note 21 (c)).

- Concession contract signed on 18 October 2002 for a 20-year period, covering the conduits and sewer infrastructure services and complementary activities in the town of Galapa. This agreement includes the obligation to provide drinking water in bulk to guarantee the efficient provision of the conduit and sewer services within the town boundaries of Galapa. Ownership of part of the bulk drinking water pipe has also been conveyed to the subsidiary. Operations under this contract commenced on 1 November 2002.

- Operation/investment contract arrangement between Triple A de Barranquilla, Acueducto Regional Costero S.A. E.S.P. and Arcos S.A. E.S.P. for a 16-year period. This contract was signed on 13 October 2006 but began in May 2008 because it was subject to the completion of certain work by the Barranquilla District authorities.

The purpose of this operation/investment contract is to regulate the obligations, rights and activities for the management, financing, operation, refurbishment, design, expansion, replacement and maintenance of the infrastructure of the residential public water conduit service and complementary activities in the towns of Juan de Acosta, Tubará, Usiacuri and Piojó.

Thousands of Euros

Sabanalarga operations contract. The operation of public residential water conduit and sewer services in the town of Sabanalarga (Atlántico Department) was conveyed in Contract 001-2002, signed on 24 June 2004.

Through this agreement, the recipient acquired all the transferor's rights and obligations in relation to this contract, in return for consideration of Colombian Pesos 300 million.

The recipient is required to hand over all of the component assets of the Sabanalarga water conduit and sewer service infrastructure to the transferor on expiry of this agreement in 2022.

- Baranoa and Polonuevo operations contract. On 7 June 2005 Aguas del Norte S.A. E.S.P. transferred operation/investment contract 1/2003, which regulates the administration, management, financing, refurbishment, expansion, replacement, maintenance, design and operation of the infrastructure making up the public residential water conduit and sewer services in the urban areas of Baranoa and Polonuevo, including rural estates and areas (Atlántico Department), as well as complementary activities. This contract has a term of twenty years starting on 1 December 2003.

  Through this agreement, the subsidiary acquired all of Aguas del Norte S.A. E.S.P.'s rights and obligations in relation to this contract, in return for consideration of Colombian Pesos 650 million.

- Sabanagrande and Santo Tomás operation/investment contract. On 18 March 2005 the subsidiary signed an operation/investment contract with ASOSASA, E.S.P. for the management, financing, operation, refurbishment, expansion, replacement and maintenance of the infrastructure making up the residential public water conduit and sewer service within the town boundaries of Sabanagrande and Santo Tomás (Atlántico Department), as well as complementary activities. This contract has a 19-year term.

As established in these agreements, the Colombian government is responsible for any major investments necessary in water conduit and basic sanitation infrastructures.

Pursuant to prevailing legislation, tariffs and any amendments or updates thereto are authorised by the pertinent government authority.

b. Concession arrangements, regulated assets under construction and intangible assets under construction

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

Description	Term	2013	2012
Community of Madrid General Network	50	292,230	271,479
		292,230	**271,479**

c. Capitalised borrowing costs

In 2013 the Group has capitalised borrowing costs amounting to Euros 351 thousand (Euros 423 thousand in 2012) under "concession arrangements, regulated assets under construction". These costs were incurred for certain investment projects relating to supply and sanitation works financed using loans from the European Investment Bank.

Moreover, the Parent has recognised borrowing costs of Euros 33,488 thousand (Euros 20,733 thousand in 2012) in relation to the financing of sanitation and recycling agreements entered into with Madrid City Council and included under "concession arrangement, capitalised borrowing costs", in accordance with the standards adapting the Spanish General Chart of Accounts for public infrastructure concession holders (see note 5 (g)).

Borrowing costs of Euros 33,488 thousand have been capitalised in 2013 (Euros 20,733 thousand in 2012) in relation to the financing of sanitation and recycling agreements entered into with Madrid City Council and included under "Concession arrangements, capitalisation", in accordance with the standards adapting the Spanish General Chart of Accounts for public infrastructure concession holders (see note 5 (g)).

The subsidiary Canal Gestión Lanzarote has capitalised borrowing costs of Euros 875 thousand derived from the financing for its administrative concession.

d. Disposals

Disposals of intangible assets in 2013 gave rise to gains of Euros 650 thousand and a loss of Euros 654 thousand, which have been recognised in the accompanying consolidated income statement (Euros 16 thousand and Euros 43 thousand,. respectively, in 2012) (see note 29 (d)).

e. Impairment

The Group has not recognised any impairment on its intangible assets in the year ended 31 December 2013 or the six-month period ended 31 December 2012.

f. Insurance

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

g. Revertible intangible assets

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

h. Investment commitments

At 31 December 2013 the Parent's budgets for the coming year include investment commitments amounting to Euros 228 million. Replacements account for approximately Euros 65-70 million of this balance (Euros 230 million and Euros 66 million, respectively, in 2012).

Under the terms of the Agreement for the Management of Sanitation Services entered into by Madrid City Council, the Community of Madrid and Canal de Isabel II, the Parent is contractually bound to carry out any work necessary to maintain the wastewater treatment infrastructure, as well as to comply with the annual new work schedule and upgrade existing infrastructure. These investments are expected to total Euros 613 million by the end of the agreement term, of which Euros 158 million reflects treatment and Euros 455 million relates to sewers. At 31 December 2013, investments totalling Euros 97 million have been completed (Euros 81 million by 2012) (see note 21 (c)).

At 31 December 2013 the Latin American subsidiaries do not have any major investment commitments in their budgets for the coming year

i. Individually significant items

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

	Thousands of Euros	
	2013	**2012**
	Carrying amount	**Carrying amount**
Canals and general conduits	932,266	938,886
Distribution network	642,300	633,258
Wastewater treatment plant	339,831	324,040
Tanks	207,675	212,433
Land	198,953	198,471
General buildings	142,927	143,023
Drinking water treatment plant	120,221	125,053
Low-voltage transformation and distribution	76,642	71,422
Recycling networks	54,991	46,776
Underground water collection	20,081	19,774
Total	**2,735,887**	**2,713,136**

There are no individually significant assets in Latin America at 31 December 2013 or at 31 December 2012.

j. Fully amortised assets

The cost of fully amortised intangible assets at 31 December 2013 and 2012 is as follows:

	Thousands of Euros	
	2013	**2012**
Development	253	287
Trademarks	-	1
Computer software	794	835
Concessions and concession arrangements, regulated assets	355,441	319,647
TOTAL	**356,488**	**320,770**

9. PROPERTY, PLANT AND EQUIPMENT

Details of property, plant and equipment and movement are as follows:

	Thousands of Euros				
	2013				
	Land and buildings	**Technical installations and other items**	**Machinery, furniture and fixtures**	**Under construction and advances**	**TOTAL**
Cost:					
Opening balance at 1 January 2013	**4,272**	**69,068**	**2,851**	**-**	**76,191**
Additions	378	1,938	659	309	3.284
Disposals	(112)	(1,287)	(40)	-	(1.439)
Transfers	(537)	(252)	252	-	(537)
Translation differences	(293)	(1,580)	(212)	(3)	(2.088)
Cost at 31 December 2013	**3,708**	**67,887**	**3,510**	**306**	**75,411**
Accumulated depreciation:					
Opening balance at 1 January 2013	**(1,715)**	**(43,515)**	**(1,749)**	**-**	**(46,979)**
Depreciation	(142)	(3,561)	(285)	-	(3.988)
Disposals	112	1,218	31	-	1.361
Transfers	403	211	(211)	-	403
Translation differences	133	1,129	96	-	1.358
Accumulated depreciation at 31 December 2013	(1,209)	(44,518)	(2,118)	-	(47,845)
CARRYING AMOUNT AT 31 DECEMBER 2013	**2,499**	**23,369**	**1,392**	**306**	**27,566**

	Thousands of Euros			
	2012			
	Land and buildings	Technical installations and other items	Machinery, furniture and fixtures	TOTAL
Cost:				
Opening balance at 1 July 2012	-	-	-	-
Additions due to non-monetary contribution	4,349	70,575	4,270	79,194
Additions	144	1,095	196	1,435
Disposals	(50)	(1,430)	(1,225)	(2,705)
Translation differences	(171)	(1,172)	(390)	(1,733)
Cost at 31 December 2012	**4,272**	**69,068**	**2,851**	**76,191**
Accumulated depreciation:				
Opening balance at 1 July 2012	-	-	-	-
Additions due to non-monetary contribution	(1,751)	(44,048)	(3,032)	(48,831)
Depreciation	(82)	(1,777)	(79)	(1,938)
Disposals	50	1,418	1,225	2,693
Translation differences	68	892	137	1,097
Accumulated depreciation at 31 December 2012	**(1,715)**	**(43,515)**	**(1,749)**	**(46,979)**
CARRYING AMOUNT AT 31 DECEMBER 2012	**2,557**	**25,553**	**1,102**	**29,212**

Details of depreciation for the year, accumulated depreciation and the carrying amount of individually significant items of property, plant and equipment located in Spain at 31 December are as follows:

	Thousands of Euros		
	2013		
Description of the asset	Depreciation	Accumulated depreciation	Carrying amount
Mini-power stations	(1,681)	(32,170)	18,853
	(1,681)	**(32,170)**	**18,853**

	Thousands of Euros		
	2012		
Description of the asset	Depreciation	Accumulated depreciation	Carrying amount
Mini-power stations	(1,681)	(30,489)	20,534
	(1,681)	**(30,489)**	**20,534**

At 31 December 2013 there are no individually significant items of property, plant and equipment in Latin America.

a. Fully depreciated assets

Details of the cost of fully depreciated property, plant and equipment in use at 31 December are as follows:

	Thousands of Euros	
	2013	2012
Buildings	434	525
Technical installations and machinery	1,288	1,523
Other installations, equipment and furniture	5,806	5,940
Other property, plant and equipment	3,047	3,074
	10,575	**11,062**

b. Insurance

The Group has taken out insurance policies to cover the risk of damage to its property, plant and equipment. The coverage of these policies is considered sufficient.

c. Impairment

The Group has not recognised any impairment on its property, plant and equipment in 2013 and 2012.

d. Disposals

Disposals of property, plant and equipment in 2013 gave rise to losses of Euros 37 thousand, which have been recognised in the accompanying consolidated income statement (Euros 12 thousand in 2012) (see note 29 (d)).

10. INVESTMENT PROPERTY

a. General

Details of investment property and movement during the period ended 31 December are as follows:

	Thousands of Euros		
	2013		
	Land	Buildings	TOTAL
Cost at 1 January 2013	**7,898**	**25,281**	**33,179**
Disposals	(87)	-	(87)
Transfers	-	52	52
Translation differences	(79)	-	(79)
Cost at 31 December 2013	**7,732**	**25,333**	**33,065**
Accumulated depreciation at 1 January 2013	**-**	**(9,129)**	**(9,129)**
Depreciation	-	(1,163)	(1,163)
Transfers	-	(25)	(25)
Accumulated depreciation at 31 December 2013	**-**	**(10,317)**	**(10,317)**
CARRYING AMOUNT AT 31 DECEMBER 2013	**7,732**	**15,016**	**22,748**

	Thousands of Euros		
	2012		
	Land	Buildings	TOTAL
Cost at 1 July 2012	**-**	**-**	**-**
Additions due to non-monetary contribution	7,927	25,279	33,206
Additions	-	17	17
Transfers	-	(15)	(15)
Translation differences	(29)	-	(29)
Cost at 31 December 2012	**7,898**	**25,281**	**33,179**
Accumulated depreciation at 1 July 2012	**-**	**-**	**-**
Additions due to non-monetary contribution	-	(8,517)	(8,517)
Depreciation	-	(612)	(612)
Accumulated depreciation at 31 December 2012	**-**	**(9,129)**	**(9,129)**
CARRYING AMOUNT AT 31 DECEMBER 2012	**7,898**	**16,152**	**24,050**

Investment property mainly includes sports facilities located in the Islas Filipinas tank three and several other heritage assets.

On 12 April 2013 the operation of the sports installations located in the third depot of Islas Filipinas, representing a total investment of Euros 14 million, was once again transferred to a third party for a period of five years and five months, in exchange for an annual charge of approximately Euros 4,193 thousand.

The total carrying amount of the Group's investment property outside Spain is Euros 564 thousand (Euros 643 thousand in 2012). This property is held by the subsidiary Triple A de Barranquilla (Gestión Integral de Suministros).

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

	Thousands of Euros		
	2013		
Description	Cost	Accumulated depreciation	Net
Land	7,732	-	7,732
Heritage assets	2,882	(977)	1,905
	10,614	**(977)**	**9,637**

	Thousands of Euros		
	2012		
Description	Cost	Accumulated depreciation	Net
Land	7,898	-	7,898
Heritage assets	2,882	(916)	1,966
	10,780	**(916)**	**9,864**

b. Income and expenses from investment property

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

	Thousands of Euros	
	2013	**2012**
Lease income	1,001	718
Operating expenses of income-generating investments	(1,128)	(555)
Operating expenses of non-income-generating investments	(61)	(57)
	(188)	**106**

a. Insurance

The Group has taken out insurance policies to cover the risk of damage to its investment property. The coverage of these policies is considered sufficient.

11. RISK MANAGEMENT POLICY

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

a. Credit risk

The Group has no significant concentrations of credit risk other than those mentioned in note 13 (b). Valuation allowances for bad debts, 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 by management.

Details of financial assets exposed to credit risk are provided in note 13 (a).

b. Interest rate risk

Interest rate risk constitutes the impact on profit of a rise in interest rates, which increases the cost of borrowings. The Parent endeavours to mitigate this risk through drawdowns on fixed-rate loans, which at 31 December 2013 represent 35% of total borrowings (37% in 2012).

The interest rate on variable-rate net debt is pegged to the Euribor in Spain and the DTF in Colombia. At 31 December 2013 and 2012 the estimated sensitivity of the finance costs included in the net finance cost for the year to changes in interest rates, and the structure of net debt, are as follows:

	Increase in interest rate	Impact on finance costs
Euribor	± 10 b.p.	686
DTF	± 10 b.p.	71

	Increase in interest rate	Impact on finance costs
Euribor	± 10 b.p.	681
DTF	± 10 b.p.	59

c. Liquidity risk

The Group applies a prudent policy to cover its liquidity risks, based on having cash and sufficient financing through credit facilities. Given the dynamic nature of its underlying business, the Finance Department aims to be flexible with regard to financing through drawdowns on contracted credit facilities.

The term and repayment schedule of financing obtained is established based on the type of financing requirements. In 2013 and 2012 the Group has arranged long-term financing to meet its future investment requirements.

Details of financial assets and financial liabilities by contractual maturity date are provided in notes 13 and 22.

d. Currency risk

The risk arising from exchange rate volatility is not considered to be significant and primarily relates to fluctuations in the Colombian and Dominican Peso reflected in the valuation of assets and liabilities located in Colombia and the Dominican Republic. This risk is managed using resources denominated in the corresponding foreign currencies.

12. BUSINESS COMBINATIONS

Emissao Engenharia e Construcoes, S.A.

The Group has recognised this investment at its cost of acquisition, Euros 22 million, in the consolidated annual accounts at 31 December 2013. This investment has not been consolidated because insufficient information is available to determine the fair values of the assets and liabilities acquired, and, therefore goodwill on consolidation, at 31 December 2013. The Group's effective percentage ownership is 72.47%.

13. CLASSIFICATION OF FINANCIAL ASSETS BY CATEGORY AND EQUITY-ACCOUNTED INVESTEES

a. Classification of financial assets by category

	Thousands of Euros			
	2013		2012	
	Non-current	Current	Non-current	Current
	At amortised cost	At amortised cost	At amortised cost	At amortised cost
	Carrying amount	Carrying amount	Carrying amount	Carrying amount
Investments in Group companies and associates				
Other financial assets (note 28)	-	17,378	-	4,676
Financial Assets				
Equity instruments				
Unquoted	154	-	200	-
Loans				
Other	68,577	14,057	71,623	12,829
Deposits and guarantees	13,215	50	14,653	56
Other financial assets	-	1	-	6
	81,946	**14,108**	**86,476**	**12,891**
Trade and other receivables				
Trade receivables	-	181,329	-	176,216
Other receivables		37,994	-	41,272
	-	**219,323**	**-**	**217,448**
TOTAL FINANCIAL ASSETS	**81,946**	**250,809**	**86,476**	**235,055**

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

The only gains and losses on financial assets are finance income due to measuring receivables at amortised cost (see note 14 (a) (ii)), the impairment described in note 13 (a) (iii) and (b) and finance income earned on refinancing agreements (see note 14 (a) (ii)).

Details of financial assets denominated in foreign currencies are as follows:

	Thousands of Euros				
	2013				
	Colombian Pesos	**Dominican Pesos**	**US Dollars (Ecuador)**	Uruguayan Pesos	Total
Loans and receivables:					
Equity instruments	154	-	-	-	154
Loans to third parties	32,570	-	14	-	32,584
Other financial assets	4	40	-	-	44
Total non-current financial assets	**32,728**	**40**	**14**	**-**	**32,782**
Trade and other receivables:					
Trade receivables – current	26,490	2,947	1,237	5	30,679
Trade receivables from Group companies and associates – current	3,698	-	-	-	3,698
Other receivables	24,103	-	23	-	24,126
Personnel	73	1,183	24		1,280
Total current financial assets	**54,364**	**4,130**	**1,284**	**5**	**59,783**
TOTAL CURRENT FINANCIAL ASSETS	**87,092**	**4,170**	**1,298**	**5**	**92,565**

	Thousands of Euros			
	2012			
	Colombian Pesos	**Dominican Pesos**	**US Dollars (Ecuador)**	Total
Loans and receivables:				
Equity instruments	200	-	-	200
Loans to third parties	34,899	-	43	34,942
Other financial assets	4	31	-	35
Total non-current financial assets	**35,103**	**31**	**43**	**35,177**
Trade and other receivables:				
Trade receivables – current	26,423	2,265	1,133	29,821
Trade receivables from Group companies and associates – current	1,293	-	-	1,293
Other receivables	21,643	-	117	21,760
Personnel	392	1,520	35	1,947
Total current financial assets	**49,751**	**3,785**	**1,285**	**54,821**
TOTAL CURRENT FINANCIAL ASSETS	**84,854**	**3,816**	**1,328**	**89,998**

The classification of financial assets by maturity is as follows:

	Thousands of Euros					
	2013					
	2014	2015	2016	2017	Subsequent years	TOTAL
Non-current investments in Group companies and associates	**17,378**	**-**	**-**	**-**	**-**	**17,378**
Other financial assets	17,378	-	-	-	-	17,378
Investments	**14,108**	**16,240**	**14,593**	**12,359**	**38,738**	**96,038**
Loans to third parties	14,057	13,331	11,948	9,714	33,568	82,618
Deposits and guarantees	50	2,755	2,645	2,645	5,170	13,265
Other financial liabilities	1	154	-	-	-	155
Trade and other receivables	**219,323**	**10**	**6**	**-**	**-**	**219,339**
Trade receivables	176,747	-	-	-	-	176,747
Trade receivables, equity-accounted investees	4,582	-	-	-	-	4,582
Other receivables	35,198	-	-	-	-	35,198
Uncalled share capital	1,450	-	-	-	-	1,466
Personnel	1,346	10	6	-	-	1,346
TOTAL	**250,809**	**16,250**	**14,599**	**12,359**	**38,738**	**332,755**

	Thousands of Euros					
	2012					
	2013	2014	2015	2016	Subsequent years	TOTAL
Non-current investments in Group companies and associates	**4,676**	**-**	**-**	**-**	**-**	**4,676**
Other financial assets	4,676	-	-	-	-	4,676
Investments	**12,891**	**10,663**	**13,643**	**13,336**	**48,834**	**99,367**
Loans to third parties	12,829	7,928	11,205	10,898	41,592	84,452
Deposits and guarantees	56	2,735	2,438	2,438	7,242	14,909
Other financial liabilities	6	-	-	-	-	6
Trade and other receivables	**217,488**	**-**	**-**	**-**	**-**	**217,488**
Trade receivables	173,859	-	-	-	-	173,859
Trade receivables, equity-accounted investees	2,357	-	-	-	-	2,357
Other receivables	39,241	-	-	-	-	39,241
Personnel	2,031	-	-	-	-	2,031
TOTAL	**235,055**	**10,663**	**13,643**	**13,336**	**48,834**	**321,531**

b. Equity-accounted investees

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

	Thousands of Euros	
	2013	2012
Equity-accounted investees	**3,927**	**4,298**
Investments in equity-accounted companies	**3,927**	4,298

Details of movement in equity-accounted investees by company at 31 December 2013 and 2012 are as follows:

	Thousands of Euros					
	2013					
	Balance at 1/01/2012	Additions to the scope of consolidation	**Profit/(loss)**	**Translation differences**	Other	**Balance at** 31/12/2013
GSS Venture, S.L.	422	-	(48)	-	45	419
Compañía de Acueducto y Alcantarillado Metropolitano de Santa Marta	3,876	-	(57)	(469)	(9)	3,341
Avanzadas Soluciones de Acueducto y Alcantarillado SA ESP	-	339	(106)	(34)	(32)	167
	4,298	**339**	**(211)**	**(503)**	**4**	**3,927**

	Thousands of Euros			
	2012			
	Balance at 1/07/2012	**Profit/(loss)**	**Translation differences**	**Balance at** 31/12/2012
GSS Venture, S.L.	512	(90)	-	422
Compañía de Acueducto y Alcantarillado Metropolitano de Santa Marta	4,229	(172)	(181)	3,876
	4,741	**(262)**	**(181)**	**4,298**

14. INVESTMENTS AND TRADE RECEIVABLES

a. Investments

Details of investments are as follows:

	Thousands of Euros			
	2013		2012	
	Non-current	**Current**	**Non-current**	**Current**
Unrelated parties				
Equity instruments	263	-	323	-
Loans to third parties	38,789	16,779	39,091	15,551
Refinancing agreements	53,357	-	60,368	-
Deposits and guarantees	13,215	50	14,653	56
Other financial assets	9,465	1	10,053	6
	115,089	**16,830**	**124,488**	**15,613**
Impairment	(33,143)	(2,722)	(38,012)	(2,722)
TOTAL	**81,946**	**14,108**	**86,476**	**12,891**

(i) Other information on investments

The main characteristics of receivables from third parties, refinancing agreements and other financial assets are as follows:

		Thousands of Euros		
			2013	
Type	**Year of final maturity**	**Nominal amount**	**Non-current**	**Current**
Unrelated parties				
Works carried out for town councils	2020	73,692	38,475	14,034
Disposal of fixed assets	2009	2,722	-	2,722
Regeneration works	2040	484	313	23
Refinancing agreement Triple A Barranquilla (Colombia)	2020	28,167	28,167	-
"Fondo de Solidaridad" (Colombia)	Various years	25,190	25,190	-
Receivables from partners and shareholders	Various years	2,146	2,146	-
Other receivables from Triple A Barranquilla (Colombia)	Various years	6,404	6,404	-
Other receivables, Amagua	Various years	14	14	-
Other receivables, levies and taxes	Various years	873	873	-
Loans to personnel	Various years	28	28	-
Other	Various years	1	1	-
		139,721	**101,611**	**16,779**

		Thousands of Euros		
			2012	
Type	**Year of final maturity**	**Nominal amount**	**Non-current**	**Current**
Unrelated parties				
Works carried out for town councils	2019	71,960	39,091	12,810
Disposal of fixed assets	2009	2,722	-	2,722
Regeneration works	2040	326	307	19
Refinancing agreement Triple A Barranquilla (Colombia)	2020	33,835	33,835	-
"Fondo de Solidaridad" (Colombia)	Various years	26,533	26,533	-
Receivables from partners and shareholders	Various years	2,445	2,445	-
Other receivables from Triple A Barranquilla (Colombia)	Various years	6,685	6,685	-
Loans to personnel	Various years	60	60	-
Other	Various years	562	556	6
		145,128	**109,512**	**15,557**

Works carried out for town councils include balances receivable by the Parent from certain councils for work conducted on water distribution and sewer infrastructures in the respective municipalities Receivables of Euros 10,410 thousand arose in relation to these works in 2013 (Euros 3,017 thousand in 2012). These balances are generally settled through customer bills, and a total amount of Euros 8,318 thousand was received in 2013 (Euros 4,171 thousand in 2012). Current receivables include amounts due from Alcalá de Henares town authorities for treatment services provided in previous years.

As is mentioned in note 5 (n), these receivables from town and city councils are recognised at amortised cost, considering the period over which each balance is expected to be recovered. Any difference between the discounted balance and the amount actually received is recognised under prepayments (see note 16). The impairment presented in the non-current column reflects unrecoverable receivables from these councils under the terms of the corresponding agreements.

Refinancing agreements reflect amounts due from users of the public water service with whom refinancing arrangements have been established and collection rescheduled. These receivables earn annual interest at market rates.

The balance under "Fondo de Solidaridad (Colombia)" reflects the deficit between the welfare contributions from socio-economic levels 5 and 6 in the commerce and industry sectors and the subsidies allocated to levels 1, 2 and 3 in the Barranquilla District and the towns of Soledad, Galapa, Usiacurí, Puerto Colombia, Tubará and Juan de Acosta. Welfare contributions are also made for Sabanagrande, Sabanalarga, Santo Tomás, Polonuevo and Baraona. The Group will receive these amounts from the district and town authorities. These receivables fall due at various points in time up to 2020 and earn annual interest at market rates.

Receivables from partners and shareholders include Euros 2,146 thousand (Euros 2,445 thousand in 2012) for services provided to the District of Barranquilla, which, through ruling 222 of 12 February 2011, was admitted to a financial restructuring process under the terms of Law 550 of 1999. This amount falls due in October 2015.

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

The balance listed under impairment relates to the sale of Canal's interest in the share capital of Global Sales Solutions Line, S.L. for Euros 4,234 thousand in 2007, at which time the Euros 2,722 thousand receivable was recognised under current investments in the consolidated balance sheet. Provision has been made for this entire balance as payment was not settled on the agreed date and reasonable doubts exist as to its recovery. The impairment recognised under non-current receivables relates to refinancing agreements and welfare contributions to the Colombian "Fondo de Solidaridad" by the subsidiary Triple A de Barranquilla.

(ii) Net losses and gains by category of financial asset

Net losses and gains by category of financial asset are as follows:

	Thousands of Euros	
	Loans and receivables	
	2013	**2012**
Finance income from refinancing agreements	3,123	2,025
Finance income at amortised cost	1,143	609
Operating costs relating to the change in amortised cost	(1,143)	(601)
Finance income at amortised cost – other receivables	16	8
NET GAINS IN PROFIT AND LOSS	**3,139**	**2,041**

Finance income mainly derives from the revaluation of non-current receivables from certain town councils in relation to works carried out on the water distribution infrastructure, financed through add-ons to the tariff and operating expenses, as well as the proportional distribution of the difference between the nominal amount and amortised cost based on the terms of the agreements in place.

(iii) Impairment

Movement in impairment is as follows:

	Thousands of Euros
	2013
Balance at 1 January 2013	(40,734)
Surpluses	76
Transfers	544
Translation differences	4,249
BALANCE AT 31 DECEMBER 2013	**(35,865)**

	Thousands of Euros
	2012
Non-monetary contribution	(45,636)
Charges	(4,175)
Surpluses	8,422
Transfers	(891)
Translation differences	1,546
BALANCE AT 31 DECEMBER 2012	**(40,734)**

Moreover, in 2013 the Parent has recognised losses on receivables from unrelated parties amounting to Euros 1,033 thousand.

b. Trade and other receivables

Details of trade and other receivables are as follows:

	Thousands of Euros	
	Current	
	2013	2012
Related parties (note 27)		
Other receivables	4,582	2,565
Impairment	-	(208)
	4,582	2,357
Unrelated parties		
Trade receivables	253,305	257,477
Other receivables	43,427	48,040
Personnel	1,346	2,031
Taxation authorities, income tax (note 25)	21,949	1,242
Public entities, other (note 25)	12,853	10,857
Uncalled share capital	1,450	-
	334,330	319,647
Impairment	(84,787)	(92,417)
	249,543	227,230
TOTAL	**254,125**	**229,587**

Other receivables from related parties reflect Euros 735 thousand receivable from the Aguas de Alcalá temporary joint venture for water treatment services, Euros 143 thousand receivable from Canal de Isabel II (Public Entity) and Euros 3,698 thousand receivable from non-consolidated Group companies.

Trade receivables from unrelated parties are balances receivable from customers for amounts billed in relation to the Group's principal activity.

The contractual relationship between Madrid City Council and Canal de Isabel II dates back to 1972. A new agreement, which was signed on 19 December 2005 and took effect on 1 January 2006, established the terms of the relationship between Canal and the City Council with regard to water supply to the city of Madrid. These agreements determine both the financial aspects of this relationship and those relating to the planning, construction, maintenance and renovation of water use networks and the use of the water supply. The financial aspects of the 2005 agreement stipulated that receivables and payables between Canal and the City Council would be settled by offsetting balances.

Pursuant to the agreement signed between the Community of Madrid, Canal de Isabel II and Madrid City Council on 4 May 2011, relating to the inclusion of the latter in Canal de Isabel II's future management model, this relationship agreement has been automatically extended and now has the same duration as the inclusion agreement, i.e. 50 years.

Movement in impairment is as follows:

	Thousands of Euros	
	2013	**2012**
Balance at 1 January	**(92,625)**	-
Non-monetary contribution	-	(78,488)
Charges	(20,617)	(19,633)
Applications	16,119	2,865
Surpluses	9,143	707
Transfers	(544)	891
Translation differences	3,737	1,033
BALANCE AT 31 DECEMBER	**(84,787)**	**(92,625)**

In 2013 the Parent recognised losses of Euros 41 thousand on bad trade debts for which no provision had been made (Euros 27 thousand in 2012).

15. INVENTORIES

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

	Thousands of Euros	
	2013	**2012**
Production and distribution business		
Goods for resale	376	535
Works materials	1,740	2,138
Chemical reagents	3,709	5,520
Other supplies	3,301	3,254
Advances	1,270	1,425
Impairment	(710)	(399)
TOTAL	**9,686**	**12,473**

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

Impairment losses of Euros 311 thousand have been recognised in 2013 (reversal of Euros 26 thousand in 2012).

The Group has taken out insurance policies to cover the risk of damage to its inventories. The coverage of these policies is considered reasonable.

16. PREPAYMENTS

Details of prepayments are as follows:

	Thousands of Euros			
	2013		2012	
	Non-current	Current	Non-current	Current
Other prepayments	-	976	-	1,089
Prepayments for loans, supplementary instalment (note 13 (a))	20,040	1,143	18,897	1,162
Prepayments for long-service bonus	2,857	273	2,942	242
Prepayments for seniority awards	57,729	1,618	56,514	-
	80,626	**4,010**	**78,353**	**2,493**

The majority of current prepayments are early payments of taxes for 2014.

"Prepayments for loans, supplementary instalment" reflects the difference between the nominal amount and amortised cost of the supplementary instalment receivable from certain city councils in relation to the Master Plans to finance work carried out by the Parent for these city councils (see note 14 (a)).

Prepayments for long-service bonuses reflect the deferred premium paid by the Parent to an insurance company in respect of an insurance policy for the accrual of early settlements of long-service bonuses (see note 5 (s)). These prepayments are taken to income as the premium in question is accrued. The Parent has recognised Euros 192 thousand in 2013 reflecting the finance charge for restating these balances.

Prepayments for seniority awards reflect the deferred premium paid by the Parent to an insurance company in respect of a risk insurance policy for early settlement of the seniority commitment (see note 5 (s)). These prepayments are taken to income as the premium in question is accrued. Euros 3,394 thousand has been recognised in 2013 reflecting the finance charge for restating these balances (Euros 1,555 thousand in 2012).

17. CASH AND CASH EQUIVALENTS

Details of cash and cash equivalents are as follows:

	Thousands of Euros	
	2013	**2012**
Cash in hand and at banks	20,076	41,805
Current bank deposits	2,551	5,452
	22,627	**47,257**

Cash in hand and at banks reflects the aggregated cash of each of the companies forming the consolidated Group, with Euros 5,587 thousand corresponding to Canal de Isabel II Gestión (Euros 22,340 thousand in 2012) and Euros 3,216 thousand to Inassa (Euros 16,145 thousand in 2012).

Cash in hand and at banks reflects the aggregated cash of each of the companies forming the consolidated Group, with Euros 5,587 thousand (Euros 22,340 thousand in 2012) corresponding to Canal de Isabel II Gestión and Euros 3,216 thousand (Euros 16,145 thousand in 2012) to Inassa. Euros 1,695 thousand of the balance under current bank deposits pertains to Triple A de Barranquilla (Euros 4,965 thousand in 2012, of which Euros 349 thousand was held in restricted, interest-bearing accounts allocated for the redemption of non-convertible bonds) (see note 23 (a)).

The exceptions stated in the previous paragraph notwithstanding, the full cash balance is available for use in Group activities.

18. EQUITY

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

a. Capital

The Parent was incorporated on 27 June 2012 through the issue of 1,074,032,000 ordinary shares of Euro 1 par value each, which were subscribed and fully paid in by the Public Entity by way of the non-monetary contribution of the activity described in note 3. These shares have the same voting and profit-sharing rights and can be freely transferred where permitted by law. None of the Parent's shares are listed on any stock exchange.

On 30 November 2012 the board of directors of the Public Entity, fulfilling the obligation assumed in the Agreements of Inclusion in the Management Model signed with virtually all the local councils in the Community of Madrid, authorised the conveyance of the shares in the Parent corresponding to each local authority, following the established criteria on this matter. At 31 December 2013 and 2012 these local councils hold 17.60% of the Parent's share capital.

The transferral of these shares is subject to Laws 3/2008 and 6/2011 and to the terms of the Agreements of Inclusion in the Management Model signed with local councils in the Community of Madrid.

The shareholders with direct interests of at least 10% in the share capital of the Parent are as follows:

Entity	No. of shares	Percentage ownership
Canal de Isabel II (Public Entity)	884,997,643	82.40
Madrid City Council	107,403,200	10.00

b. Share premium

The shares were issued with a share premium of Euro 1 per share, i.e. a total amount of Euros 1,074,032,000. The Public Entity paid in this share premium when it paid in the share capital through the non-monetary contribution described in note 3. This reserve is freely distributable.

c. Reserves

Details of reserves and results, and movement during the period, are shown in the consolidated statement of changes in equity.

(i) Legal reserve

Article 274 of the Spanish Companies Act requires companies to transfer 10% of profits for the period to this reserve until it reaches an amount equal to 20% of share capital. The Company's legal reserve will be appropriated using the profit for 2012.

The legal reserve is not distributable to shareholders and if it is used to offset losses, in the event that no other reserves are available, it must be replenished with future profits

At 31 December 2013, the Parent has appropriated Euros 13,151 thousand to this reserve (which had not yet been constituted at 31 December 2012).

(ii) Other Parent reserves

At 31 December 2013 and 2012 this reserve reflects the effect of the costs incurred to incorporate Canal de Isabel II Gestión, S.A.

(iii) Reserves in consolidated companies

Details of reserves in consolidated companies at the 2013 reporting date are as follows:

	Thousands of Euros	
Company	**2013**	**2012**
Canal de Isabel II Gestión S.A.		
Hidráulica Santillana S.A.	6,267	8,023
Hispanagua S.A.	915	-
Canal Extensia S.A	1,968	-
Interamericana de Aguas y Servicios S.A.	(1,182)	-
Sociedad de Acueducto, Alcantarillado y Aseo de Barranquilla, S.A.E.E.P.	2,138	-
Recaudos y Tributos S.A.	(89)	-
AAA Dominicana, S.A.	141	-
AAA Ecuador Agacase, S.A.	239	-
Watco Dominicana, S.A.	(2)	-
Canal de Comunicaciones, S.A.	621	-
Subgrupo Canal Energía	(17)	-
Canal Gestión Lanzarote, S.A.	1	-
Reserves in fully consolidated companies	**11,000**	**8,023**
GSS Venture, S.L.	(90)	-
Metroagua, S.A.	(140)	-
Avanzadas Soluciones de Acueducto y Alcantarillado S.A.	(32)	-
Reserves in equity-accounted investees	**(262)**	**-**
TOTAL	**10,738**	**8,023**

d. Translation differences

Details of translation differences are as follows:

	Thousands of Euros	
Company	**2013**	**2012**
Sociedad Interamericana de Aguas y Servicios, S.A.	(8,731)	(2,803)
Sociedad de Acueducto, Alcantarillado y Aseo de Barranquilla, S.A. E.E.P.	200	154
Recaudos y Tributos, S.A.	(225)	(58)
AAA Dominicana, S.A.	(382)	(193)
AAA Ecuador Agacase, S.A.	(215)	(63)
Watco Dominicana, S.A.	(16)	(8)
Amerika	(2)	-
Soluciones Andinas	28	-
TOTAL	**(9,343)**	**(2,971)**

e. Profit for the year attributable to the Parent

The contribution of each consolidated Group company to consolidated profit, indicating the portion attributable to non-controlling interests, is as follows:

	Thousands of Euros			
	2013		2012	
Company	**Consolidated profit/(loss)**	**Profit/(loss) attributable to non-controlling interests**	**Consolidated profit/(loss)**	**Profit/(loss) attributable to non-controlling interests**
Canal de Isabel II Gestión, S.A.	197,062	-	131,235	-
Hidráulica Santillana, S.A.	3,061	-	244	-
Hispanagua, S.A.	1,793	-	915	-
Subgrupo Canal Energía	(7)	-	(17)	-
Canal de Comunicaciones Unidas, S.A.	1,196	-	621	-
Canal Extensia, S.A.	2,890	-	1,968	-
Watco Dominicana, S.A.	(22)	(11)	(4)	(2)
Interamericana de Aguas y Servicios, S.A.	821	154	(1,455)	(273)
Sociedad de Acueducto, Alcantarillado y Aseo de Barranquilla, S.A. E.E.P.	9.687	3,760	3,759	1,491
Recaudos y Tributos, S.A.	340	67	(110)	(22)
AAA Dominicana, S.A.	9	4	266	126
AAA Ecuador Agacase, S.A.	713	314	422	182
Amerika	29	9	-	-
Soluciones Andinas	(90)	(8)	-	-
Lanzarote	(2,676)		-	-
Fully consolidated companies	**214,806**	**4,289**	**137,714**	**1,502**
GSS Venture, S.L.	(48)	-	(90)	-
Metroagua, S.A.	(57)	(11)	(172)	(32)
Avanzadas Soluciones de Acueducto y Alcantarillado S.A.	(106)	(20)	-	-
Equity-accounted investees	**(211)**	**(31)**	**(262)**	**(32)**
TOTAL	**214,595**	**4,258**	**137,452**	**1,470**

19. GRANTS, DONATIONS AND BEQUESTS RECEIVED

Movement in 2013 and 2012 in non-refundable grants, donations and bequests received is as follows:

	Thousands of Euros	
	2013	2012
Balance at 1 January	**678,848**	-
Additions due to non-monetary contribution	-	674,221
Grants received during the year	35,938	10,865
Amounts transferred to the income statement	(12,817)	(6,166)
Translation differences	(47)	(65)
Tax effect	(44)	(7)
Derecognition of grants	(165)	-
BALANCE AT 31 DECEMBER	**701,713**	**678,848**

This item primarily comprises the following grants held by the Parent at 31 December 2013:

The Euros 22,816 thousand Cohesion Fund contribution to the set of projects entitled "Basin Clean-ups and Extension of Madrid Treatment Plants", of which Euros 8,053 thousand is pending release to profit and loss (Euros 8,219 thousand in 2012). This Cohesion Fund assistance was approved by the Commission of European Communities on 13 October 1997.

The Euros 14,215 thousand Cohesion Fund contribution to the project for the "Tajo Basin Clean-up 2001, Group III", of which Euros 9,808 thousand is pending release to profit and loss (Euros 10,010 thousand in 2012). This grant was approved by the Commission of European Communities on 18 December 2001.

The Cohesion Fund contribution to the "Tajo Basin Clean-up 2001, Group II" project, totalling Euros 51,102 thousand. This grant, of which Euros 30,106 thousand is pending release to profit and loss, was approved by the Commission of European Communities on 26 March 2002 (Euros 30,542 thousand in 2012).

The Euros 12,338 thousand Cohesion Fund contribution to the project for the "Tajo Basin Clean-up 2002", of which Euros 7,455 thousand is pending release to profit and loss (Euros 7,609 thousand in 2012).

The contribution from the European Regional Development Fund under the remit of 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 Euros 58,017 thousand. This funding was granted on 7 March 2001. Euros 40,209 thousand of the total balance has yet to be taken to income (Euros 41,038 thousand in 2012).

The contributions from the European Regional Development Fund's CAM 2007-2013 Operational Programme amounting to Euros 862 thousand, aimed at ongoing research and innovation or energy efficiency and savings projects; the funds received have yet to be taken to profit and loss. The ERDF's CAM 2007-2013 Operational Programme was approved on 14 December 2007.

Cohesion Fund contributions of Euros 28,386 thousand 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. Euros 24,841 thousand is pending transfer to the income statement (Euros 21,359 thousand in 2012).

Cohesion Fund contributions to the "Clean-up and treatment of the La Reguera river basin" project, totalling Euros 14,611 thousand. This assistance from the Cohesion Fund was approved by decision of the Commission on 19 November 2003. As this project is co-financed by a subsidy of Euros 5,935 thousand, the total grant amount is Euros 20,546 thousand, of which Euros 17,115 thousand is still to be taken to income (Euros 17,468 thousand in 2012).

The Spanish Energy Diversification and Saving Institute (IDAE) has financed four projects through the Community of Madrid, contributing Euros 2,739 thousand to the first project, Euros 164 thousand to a second project, which is pending release to profit and loss, Euros 831 thousand to a third project, Euros 51 thousand to a fourth, which is currently underway and Euros 265 thousand to a fifth project. The first, third and fifth projects are being transferred to profit and loss, with a total of Euros 3,178 thousand yet to be released (Euros 2,585 thousand in 2012).

The value of Euros 90,018 thousand attributed to installations assigned to the Company by various town councils. At 31 December 2013, Euros 6,937 thousand is pending transfer to the income statement (Euros 7,078 thousand in 2012).

Third-party financing, namely amounts received from new water utility customers for hook-up rights and pipeline adaptation and extension totalling Euros 792,711 thousand. At 31 December 2013, Euros 553,615 thousand is pending transfer to the income statement (Euros 531,985 thousand in 2012).

Details of grants received in 2013 are as follows:

		Thousands of Euros		
		2013		
Grantor		Amount	Purpose	Grant date
Cohesion Funds		3,994	Sanitation works	2013
IDEA funds		715	Energy saving	Several dates
Third-party financing		31,229	Supply works	Several dates
	TOTAL	35,938		

		Thousands of Euros		
		2012		
Grantor		Amount	Purpose	Grant date
Third-party financing		10,865	Supply works	Several dates
	TOTAL	10,865		

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

	Thousands of Euros	
	2013	**2012**
Capital grants	161	46
Cohesion Funds and ERDF	2,833	1,376
Rights conveyed by town councils	142	99
Third-party financing	9,599	4,603
Other	82	42
	12,817	**6,166**

20. NON-CONTROLLING INTERESTS

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

	Thousands of Euros	
	2013	**2012**
Company		
Sociedad Interamericana de Aguas y Servicios, S.A.	10,652	11,937
Watco Dominicana, S.A.	64	82
Sociedad de Acueducto, Alcantarillado y Aseo de Barranquilla, S.A. E.E.P.	8,138	7,850
Recaudos y Tributos, S.A.	322	296
AAA Dominicana, S.A.	1,962	2,153
AAA Ecuador Agacase, S.A.	1,106	951
Amerika	20	-
Soluciones Andinas	(42)	-
TOTAL	**22,222**	**23,269**

Movement in non-controlling interests is as follows:

	Thousands of Euros	
	2013	**2012**
Balance at 1 January	**23,269**	-
Additions due to non-monetary contribution	-	26,250
Share of profit	4,258	1,470
Change in translation differences	(2,714)	(1,253)
Dividends	(2,591)	(3,198)
BALANCE AT 31 DECEMBER	**22,222**	**23,269**

21. PROVISIONS AND CONTINGENT LIABILITIES

Details of provisions are as follows:

	Thousands of Euros			
	2013		2012	
	Non-current	**Current**	**Non-current**	**Current**
Provisions for long-term employee benefits under defined benefit plans	154	-	134	-
Provisions for other employee benefits	-	193	-	191
Provisions for taxes	6,407	4,062	6,175	3,874
Provisions for infrastructure	163,428	66,170	131,673	65,020
Provisions for other liabilities	20,258	2,696	19,990	2,761
TOTAL	**190,247**	**73,121**	**157,972**	**71,846**

Movement in the different provision accounts is as follows:

	Thousands of Euros				
	Provisions for taxes	Provision for long-service bonuses	Provisions for other liabilities	Provisions for infrastructure	TOTAL
AT 31 JANUARY 2013	**10,049**	**325**	**22,751**	**196,693**	**229,818**
Charges	5,871	628	6,340	111,471	124,310
Provision adjustments	-	-	-	1,621	1,621
Applications	(3,687)	(593)	(5,509)	(80,055)	(89,844)
Provision surplus	(1,435)	-	(38)	-	(1,473)
Translation differences	(329)	(13)	(590)	(132)	(1,064)
AT 31 DECEMBER 2013	**10,469**	**347**	**22,954**	**229,598**	**263,368**

	Thousands of Euros				
	Provisions for taxes	Provision for long-service bonuses	Provisions for other liabilities	Provisions for infrastructure	TOTAL
Additions due to non-monetary contribution	11,042	454	27,193	178,197	216,886
Charges	4,156	382	1,957	56,643	63,138
Provision adjustments	-	-	-	1,196	1,196
Applications	(3,612)	(492)	(5,677)	(39,336)	(49,117)
Provision surplus	(1,437)	-	(516)	-	(1,953)
Translation differences	(100)	(19)	(206)	(7)	(332)
AT 31 DECEMBER 2012	**10,049**	**325**	**22,751**	**196,693**	**229,818**

a. Provisions for taxes

This provision primarily relates to the public prices payable by the Group for the private and special use made of land and public thoroughfares. Allocations to this provision are made based on the best estimates of the amount accrued each year, calculated using land registers and city by-laws.

b. Provisions for 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 at 31 December 2013 and 2012. The provision is estimated using the individual most likely outcome.

c. Provisions for infrastructure

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				
	2013				
	Provision for the Community of Madrid network	**Provision for the Madrid City Council sanitation agreement**	**Provision for the Madrid City Council recycling agreement**	**Soledad provision**	**Total**
Opening balance at 1 January 2013	**181,967**	**12,650**	**1,361**	**715**	**196,693**
Charges	93,059	16,380	1,361	671	111.471
Provision adjustments	1,621	-	-	-	1,621
Applications	(65,634)	(14,405)	**(16)**	-	(80.055)
Translation differences	-	-	-	(132)	(132)
BALANCE AT 31 DECEMBER 2013	**211,013**	**14,625**	**2,706**	**1,254**	**229,598**

	Thousands of Euros				
	2012				
	Provision for the Community of Madrid network	**Provision for the Madrid City Council sanitation agreement**	**Provision for the Madrid City Council recycling agreement**	**Soledad provision**	**Total**
Additions due to non-monetary contribution	151,315	26,881	-	-	178,196
Charges	46,285	8,276	1,361	721	56.643
Provision adjustments	1,055	141	-	-	1,196
Applications	(16,688)	(22,648)	-	-	(39.336)
Translation differences	-	-	-	(6)	(6)
BALANCE AT 31 DECEMBER 2012	**181,967**	**12,650**	**1,361**	**715**	**196,693**

Based on the Parent's estimates, the investment plan for replacement initiatives in the Community of Madrid network over the next 50 years totals Euros 4,791 million.

d. Contingent liabilities, guarantees and other commitments

Details of guarantees deposited and received at 31 December 2013 are as follows:

	Thousands of Euros	
	2013	2012
Guarantee deposits received	150,705	137,119
Guarantees deposited with public entities	24,868	8,806
TOTAL	**175,573**	**145,925**

The Parent is jointly and severally liable, along with Canal Gestión Lanzarote, S.A.U., for fulfilling the Public Service Management Agreement for the concession to provide water supply, sanitation and recycling services on the islands of Lanzarote and Graciosa dated 23 May 2013. and the financial and other obligations arising therefrom.

Euros 10,939 thousand of total guarantees deposited and received pertain to the Latin American subsidiaries (Euros 12,862 thousand in 2012). Details are as follows:

- **Inassa:** This subgroup has guarantees amounting to Euros 2,650 thousand (Euros 2,726 thousand in 2012), namely bank guarantees paid to Banco de Bogotá to support loans granted to Aguas de Samborondón Amagua, CEM and bank guarantees deposited with Helm Bank to secure loans granted to the Metroagua-Incatema consortium.

- **Triple A de Barranquilla:** Triple A has guarantees amounting to Euros 8.289 thousand (Euros 10,136 thousand in 2012) relating to government contributions to infrastructure works in the town of Soledad and investment plan works in south-western Barranquilla.

Triple A de Barranquilla is currently involved in litigation for a total amount of Euros 6,224 thousand (Euros 5,785 thousand in 2012). The directors and legal advisors do not expect these matters to give rise to any significant liabilities for the Group. At 31 December 2013, the subsidiary has recognised a provision of Euros 2,980 thousand (Euros 2,659 thousand in 2012).

Group management does not expect any significant liabilities to arise from these guarantees.

22. FINANCIAL LIABILITIES BY CATEGORY

a. Classification of financial liabilities by category

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

	Thousands of Euros			
	2013		2012	
	At amortised cost or cost		At amortised cost or cost	
	Carrying amount		Carrying amount	
	Non-current	Current	Non-current	Current
Debts and payables				
Group companies and associates (note 28)	860,946	160,927	1,008,567	147,656
	860,946	160,927	**1,008,567**	**147,656**
Loans and borrowings (note 23 (a))				
Fixed rate	24	152	-	320
Variable rate	183,639	56,707	49,058	13,903
	183,663	**56,859**	**49,058**	**14,223**
Bonds and other marketable securities (note 22 (a))				
Variable rate	-	-	-	15,743
	-	**-**	**-**	**15,743**
Other financial liabilities (note 23 (a))				
Other financial liabilities	119,265	87,415	93,002	88,331
	119,265	**87,415**	**93,002**	**88,331**
Trade and other payables (note 23 (b))				
Suppliers		26,245	-	25,766
Suppliers, Group companies and associates		3,370	-	1,438
Other payables		114,779	-	117,213
Sundry payables		4,877	-	5,673
Personnel		9,325	-	9,152
		158,596		**159,242**
	1,163,874	**463,797**	**1,150,627**	**425,195**

Payables to Group companies reflect the Parent's obligation to repay the Euros 1,012,241 financing contracts arranged between the Public Entity and its lender institutions (further information on this "mirror effect" is provided in note 28).The carrying amounts of these items do not differ from their fair values.

The only gains and losses on financial liabilities are due to measuring advances for water use at amortised cost, as well as finance costs on loans and borrowings and payables to Group companies (see point (i) of this note).

(i) Net losses and gains by financial liability category

Net losses and gains by financial liability category are as follows:

	Thousands of Euros	
	2013	2012
	Debts and payables	
Finance costs at amortised cost	(1,522)	(775)
Change in fair value of revenue from services rendered	1,522	775
Interest on loans from Group companies	(22,662)	(11,373)
Interest on loans from third parties	(7,412)	(4,674)
NET GAINS IN PROFIT AND LOSS	**(30,074)**	**16,047**

Finance costs at amortised cost are those derived from the updating of advances received for the use of water during the year. Similarly, revenues from the rendering of services reflect the proportional distribution of the difference between the nominal amount and amortised cost based on the average estimated years over which the services will be provided (see notes 23 (a) and 25).

(i) Amounts denominated in foreign currencies

Details of financial liabilities denominated in foreign currencies are as follows:

	Thousands of Euros				
	2013				
	Colombian Pesos	Dominican Pesos	US Dollars (Ecuador)	Uruguayan Pesos	TOTAL
Non-current payables	**61,087**	**-**	**2,115**	**-**	**63,202**
Loans and borrowings	50,261	-	64	-	50,325
Other financial liabilities	10,826	-	2,051	-	12,877
Total non-current liabilities	**61,087**	**-**	**2,115**	**-**	**63,202**
Current payables	**29,880**	**740**	**855**	**5,801**	**37,276**
Bonds and other marketable securities	29,403	-	441	-	29,844
Loans and borrowings	166	20	-	-	186
Other financial liabilities	311	720	414	5,801	7,246
Trade and other payables	**25,905**	**821**	**1,550**	**-**	**28,276**
Suppliers	15,037	811	1,511	-	17,359
Suppliers, Group companies and associates	-	-	35	-	35
Other payables	4,810	-	4	-	4,814
Personnel	1,181	10	-	-	1,191
Advances from customers	4,877	-	-	-	4,877
Total current liabilities	**55,785**	**1,561**	**2,405**	**5,801**	**65,552**
TOTAL FINANCIAL LIABILITIES	**116,872**	**1,561**	**4,520**	**5,801**	**128,754**

	Thousands of Euros			
	2012			
	Colombian Pesos	Dominican Pesos	US Dollars (Ecuador)	TOTAL
Non-current payables	**61,252**	**22**	**2,531**	**63,805**
Loans and borrowings	48,956	-	102	49,058
Other financial liabilities	12,296	22	2,429	14,747
Total non-current liabilities	**61,252**	**22**	**2,531**	**63,805**
Current payables	**28,917**	**480**	**669**	**30,066**
Bonds and other marketable securities	15,743	-	-	15,743
Loans and borrowings	12,722	-	512	13,234
Other financial liabilities	452	480	157	1,089
Trade and other payables	**26,110**	**999**	**1,337**	**28,446**
Suppliers	13,998	987	1,299	16,284
Suppliers, Group companies and associates	-	-	32	32
Other payables	5,138	1	6	5,145
Personnel	1,302	11	-	1,313
Advances from customers	5,672	-	-	5,672
Total current liabilities	**55,027**	**1,479**	**2,006**	**58,512**
TOTAL FINANCIAL LIABILITIES	**116,279**	**1,501**	**4,537**	**122,317**

23. PAYABLES AND TRADE PAYABLES

a. Payables

Details of payables are as follows:

	Thousands of Euros			
	2013		2012	
	Non-current	**Current**	**Non-current**	**Current**
Unrelated parties				
Non-convertible bonds	-	-	-	15,431
Accrued interest	-	-	-	312
	-	**-**	**-**	**15,743**
Loans and borrowings	183,663	54,768	49,058	13,208
Accrued interest	-	2,091	-	1,015
	183,663	**56,859**	**49,058**	**14,223**
Suppliers of fixed assets (note 8 (a))	24,600	47,150	-	69,906
Bills payable	2,063	317	2,428	46
Dividend payable	-	27,863	-	12,518
Guarantees and deposits received	37,995	1,463	31,627	1,295
Other payables	43,784	3,104	46,629	3,351
Other financial liabilities	10,823	7,518	12,318	1,215
	119,265	**87,415**	**93,002**	**88,331**
TOTAL	**302,928**	**144,274**	**142,060**	**118,297**

Other non-current payables include Euros 22,346 thousand payable by the Parent to the Tajo Water Board for the Picadas Valmayor conduits (Euros 23,036 thousand in 2012), of which Euros 691 thousand is recognised as current, and Euros 24,539 thousand payable to Sociedad Estatal Aguas de la Cuenca del Sur for works carried out in Campo de Pozos del Guadarrama and the second ring (Euros 26,944 thousand in 2012), of which Euros 2,413 thousand has been recognised as current.

Guarantees and deposits received mainly 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 25).

At 31 December 2013, dividends payable include a Euros 27,599 thousand (Euros 12,234 thousand in 2012) dividend payable by the Parent to certain shareholders (see notes 4 and 28 (a)) and a Euros 264 thousand (Euros 284 thousand in 2012) dividend payable by the subsidiary Triple A de Barranquilla to its non-controlling shareholders.

Non-convertible marketable bonds, which were settled in May 2013, were issued by the subsidiary Triple A de Barranquilla, S.A. E.S.P.

Details of loans and borrowings are as follows:

							Thousands of Euros
				2013			
COMPANY	ORIGINAL AMOUNT	TYPE	MATURITY	ANNUAL INTEREST RATE	CURRENT	NON-CURRENT	TOTAL
CANAL GESTIÓN [1]	Euros 134,400	Syndicated	28 Dec 20	Euribor+4.35%	-	134,400	134,400
INASSA SUBGROUP							
Inassa (Colombia)	USD 15,4 million	Ordinary	Several dates	LIBOR + (between 2.9 and 3.3) and DTF + (between 2.4 and 4)	10,280	903	11,183
Inassa (Panama branch)	USD 2 million	Ordinary	Several dates	LIBOR + (between 2.8 and 4)	635	544	1,179
Triple A de Barranquilla	COP 220.700 million	Ordinary	Several dates	DTF + (between 1.8 and 5.5%)	16,328	48,814	65,142
GIS	COP 155 million	Cash	Several dates	DTF + 7.44%	58	-	58
AAA Ecuador	USD 1,494 million	Commercial	Several dates	Between 3% and 10.5%	440	64	504
R&T	COP 1,100 million	Cash	31 Dec 13	DTF + (between 2.61 and 3.37%)	414	-	414
				TOTAL	**28,155**	**184,725**	**212,880**

[1] Syndicated loan managed by Banco Santander and extended by BBVA, Banco Popular, Banco Sabadell, Caixabank and Bankinter. The terms of this loan include a net financial debt/ebitda covenant ratio. At 31 december 2013 the company is in compliance with this covenant.

(continued)

							Thousands of Euros
				2012			
COMPANY	**ORIGINAL AMOUNT**	**TYPE**	**MATURITY**	**ANNUAL INTEREST RATE**	**CURRENT**	**NON-CURRENT**	**TOTAL**
CANAL EXTENSIA	Euros 1 million	Ordinary	10 Mar 13	Euribor + 3.75%	987	-	987
INASSA SUBGROUP							
Inassa (Panama branch)	USD 2 million	Ordinary	Several dates	LIBOR(180)+(between 2.8 and 4)	1,129	104	1,233
Triple A de Barranquilla	COP 97,500 million	Ordinary	Several dates	DTF + (between 4.5% y 5.50%)	10,302	48,852	59,154
GIS	COP 155 million	Cash	Several dates	DTF + 6.77%	67	-	67
AAA Ecuador	USD 2,108 thousand	Commercial	Several dates	between 3% and 11.23%	509	102	611
R&T	COP 500 million	Cash	31 Dec 13	DTF + 2.9%	214	-	214
				TOTAL	**13,208**	**49,058**	**62,266**

Other financial liabilities mainly derive from the financing of certain intangible assets held by the subsidiary Triple A de Barranquilla. These borrowings bear annual interest at Colombian market rates.

Details of the Parent's credit facilities and drawdowns at 31 December 2013 are as follows:

	Thousands of Euros	
	2013	
Institution	Credit limit	Amount drawn down
B. Cooperativo	6,000	5,890
Bankia	10,000	8,722
Santander	26,000	5,201
Caixa Geral	7,000	6,800
TOTAL	**49,000**	**26,613**

b. Trade and other payables

Details of trade and other payables are as follows:

	Thousands of Euros			
	2013		2012	
	Non-current	Current	Non-current	Current
Related parties				
Suppliers, Group companies and associates (note 28)	-	3,370	-	1,438
Unrelated parties				
Suppliers	-	26,245	-	25,766
Trade payables	-	114,779	-	117,213
Personnel	-	9,325	-	9,152
Current tax liabilities (note 26)	-	1,220	-	2,751
Public entities, other (note 26)	-	17,273	-	16,233
Advances from customers	-	4,877	-	5,673
	-	173,719	-	176,788
TOTAL	**-**	**177,089**	**-**	**178,226**

c. Classification by maturity

The classification of financial liabilities by maturity is as follows:

	Thousands of Euros					
	2013					
	2014	2015	2016	2017	2018	Subsequent years
Payables	**144,274**	**41,173**	**52,636**	**50,531**	**38,669**	**119,919**
Bonds and other marketable securities	-	-	-	-	-	
Loans and borrowings	56,859	15,997	39,270	37,125	33,533	57,738
Other financial liabilities	87,415	25,176	13,366	13,406	5,136	62,181
Group companies and associates	**160,927**	**152,419**	**150,836**	**127,253**	**106,003**	**324,435**
Trade and other payables	**158,596**	**-**	**-**	**-**	**-**	**-**
Suppliers	26,245	-	-	-	-	-
Suppliers, Group companies and associates	3,370	-	-	-	-	-
Other payables	114,779	-	-	-	-	-
Advances from customers	4,877	-	-	-	-	-
Personal	9,325	-	-	-	-	-
	463,797	**193,592**	**203,472**	**177,784**	**144,672**	**444,354**

	Thousands of Euros					
	2012					
	2013	2014	2015	2016	2017	Subsequent years
Payables	**118,297**	**21,873**	**18,323**	**16,714**	**14,373**	**70,777**
Bonds and other marketable securities	15,743	-	-	-	-	-
Loans and borrowings	14,223	12,116	11,746	10,095	7,095	8,006
Other financial liabilities	88,331	9,757	6,577	6,619	7,278	62,771
Group companies and associates	**147,656**	**147,622**	**152,419**	**150,836**	**127,253**	**430,437**
Trade and other payables	**159,242**	**-**	**-**	**-**	**-**	**-**
Suppliers	25,766	-	-	-	-	-
Suppliers, Group companies and associates	1,438	-	-	-	-	-
Other payables	117,213	-	-	-	-	-
Advances from customers	5,673	-	-	-	-	-
Personal	9,152	-	-	-	-	-
	425,195	**169,495**	**170,742**	**167,550**	**141,626**	**501,214**

24. LATE PAYMENTS TO SUPPLIERS. "REPORTING REQUIREMENT", THIRD ADDITIONAL PROVISION OF LAW 15/2010 OF 5 JULY 2010

Details of late payments to suppliers are as follows:

Payments made and outstanding at the reporting date				
	Thousands of Euros			
	2013		2012	
	Amount	%	Amount	%
Within maximum legal period (*)	275,643	88.70	82,853	52.67
Other	35,124	11.30	74,459	47.33
Total payments for the year	**310,767**	**100.00**	**157,312**	**100.00**
Weighted average late payment days	68.31		29.91	
LATE PAYMENTS EXCEEDING THE MAXIMUM LEGAL PERIOD AT THE REPORTING DATE	**1,646**		**3,035**	

(*) Pursuant to Law 15/2010 of 5 July 2010, which introduced measures to combat late payment in commercial transactions, the maximum legal payment period was 40 days in 2012. The above figures are for trade payables and do not include balances payable to suppliers of fixed assets.

25. ACCRUALS

Details of accruals are as follows:

	Thousands of Euros			
	2013		2012	
	Non-current	**Current**	**Non-current**	**Current**
Advances for water use	45,539	1,522	51,127	1,561
Charge for third depot sports facilities	-	152	-	-
	45,539	**1,674**	**51,127**	**1,561**

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 by the Parent (see note 5 (n)).

26. TAXATION

On 25 July 2012 the Parent wrote to the Spanish taxation authorities to inform them of its intention – as stated in note 3 – to avail of the tax neutrality scheme regulated in section VII, chapter VIII of Royal Legislative Decree 4/2004 of 5 March 2004, which approved the Revised Spanish Income Tax Law, in relation to the contribution of activities.

Details of balances with public entities are as follows:

	Thousands of Euros			
	2013		2012	
	Non-current	Current	Non-current	Current
Assets				
Deferred tax assets	2,890	-	2,632	-
Current tax assets (note 13 (b))	-	21,949	-	1,242
Public entities, other (note 13 (b))	-	12,853	-	10,857
	2,890	**34,802**	**2,632**	**12,099**
Liabilities				
Deferred tax liabilities	(27,257)	-	(28,280)	-
Current tax liabilities (note 22 (b))	-	(1,220)	-	(2,751)
Public entities, other (note 22 (b))	-	(17,273)	-	(16,233)
	(27,257)	**(18,493)**	**(28,280)**	**(18,984)**
	(24,367)	**16,309**	**(25,648)**	**(6,885)**

In accordance with current legislation, taxes cannot be considered definitive until they have been inspected and agreed by the taxation authorities or before the inspection period of four years has elapsed. At 31 December 2013 the Parent has open to inspection by the taxation authorities all main applicable taxes since its date of incorporation and its Spanish-based subsidiaries have open to inspection all main applicable taxes since 1 January 2009.

As Canal Extensia, S.A.U. filed an amended return in 2009 in relation to the allocation of deductions for export activities for 2005, 2006 and 2007, at 31 December 2009 income taxes for those years were open to inspection until 2013.

The subsidiaries in Latin America have open to inspection by the taxation authorities all main applicable taxes for the following periods:

Years open to inspection						
			Thousands of Euros			
Tax	Inassa	Triple A de Barranquilla	GIS	AAA Dominicana	AAA Ecuador	Soluciones Andinas
Income tax	2011-2013	2011-2013	2011-2013	2010-2013	2010-2013	2013
Value added tax	2012-2013	2012-2013	2012-2013	2010-2013	2010-2013	2013
Personal income tax	2009-2013	2009-2013	2009-2013	2010-2013	2010-2013	2013
Business activities tax	2011-2013	2011-2013	2011-2013	-	2011-2013	2013
Social Security	2010-2013	2010-2013	2010-2013	-	2010-2013	-

Due to the treatment permitted by fiscal legislation of certain transactions, additional tax liabilities could arise in the event of inspection. In any event, the directors of the Parent do not consider that any such liabilities that could arise would have a significant effect on the consolidated annual accounts.

Income tax

All the companies in the Canal de Isabel II Gestión, S.A. Group are taxed individually in their respective countries. The standard rate of tax is 30% in Spain, 33% in Colombia, 25% in the Dominican Republic and 25% in Ecuador.

As stated in note 5 (w), the Company is subject to general taxation and is therefore required to file annual income tax returns.

2013

	Thousands of Euros						
	Increases	Decreases	Net	Increases	Decreases	Net	TOTAL
Income and expenses for the period	**214,595**	**-**	**214,595**	**29,295**	**(12,802)**	**16,493**	**231,088**
Income tax	11,740	-	11,740	(107)	63	(44)	11,696
Translation differences	-	-	-	-	(6,372)	(6,372)	(6,372)
Profit before income tax	**226,335**	**-**	**226,335**	**29,188**	**(19,111)**	**10,077**	**236,412**
Permanent differences	**21,551**	**(56)**	**21,495**	**-**	**-**	**-**	**21,495**
Temporary differences	**35,806**	**(21,459)**	**14,347**	**19,111**	**(29,188)**	**(10,077)**	**(4,270)**
Individual companies	33,771	(21,459)	12,312	19,111	(29,188)	(10,077)	2,235
Originating in current period	33,698	(2,198)	31,500	-	-	-	31,500
Originating in prior periods	73	(19,261)	(19,188)	19,111	(29,188)	(10,077)	(29,265)
Consolidation adjustments	2,035	-	2,035	-	-	-	2,035
Offset of tax loss carryforwards		**(185)**	**(185)**	**-**	**-**	**-**	**(185)**
	283,692	**(21,700)**	**261,992**	**48,299**	**(48,299)**	**-**	**261,992**
TAXABLE INCOME			**261,992**			**-**	**261,992**

A reconciliation of net income and expenses for the year with the aggregated taxable income is as follows:

	2012						
	Income statement			Income and expense recognised in equity			
	Increases	Decreases	Net	Increases	Decreases	Net	TOTAL
Income and expenses for the period	**137,452**	**-**	**137,452**	**7,861**	**(6,206)**	**1,655**	**139,107**
Income tax	6,385	-	6,385	**33**	(23)	10	6,395
Translation differences	-	-	-	-	(2,971)	(2,971)	(2,971)
Profit before income tax	**143,837**	**-**	**143,837**	**7,894**	**(9,200)**	**(1,306)**	**142,531**
Permanent differences	**14,385**	**(771)**	**13,614**	-	-	-	**13,614**
Temporary differences	**16,122**	**(7,034)**	**9,088**	**9,199**	**(7,893)**	**1,306**	**10,394**
Individual companies	16,122	(7,034)	9,088	**9,199**	**(7,893)**	**1,306**	10,394
Originating in current period	14,087	(6,977)	7,110	-	-	-	7,110
Originating in prior periods	-	(57)	(57)	9,199	(7,893)	1,306	1,249
Consolidation adjustments	2,035	-	2,035	-	-	-	2,035
Offset of tax loss carryforwards	-	**(18)**	(18)	-	-	-	**(18)**
	174,344	**(7,823)**	**166,521**	**17,093**	**(17,093)**	**-**	**166,521**
TAXABLE INCOME			**166,521**			**-**	**166,521**

Permanent differences primarily relate to different types of accounting provisions which become tax-deductible when applied, and to other non-tax-deductible expenses.

Temporary differences originating in the current year of Euros 30,876 thousand include Euros 29,268 thousand resulting from the application of article 7 of Law 16/2012 of 27 December 2012 (published in the Official State Gazette on 28 December), which establishes that maximum 70 per cent of the deductible amortisation/depreciation charge that would be otherwise deductible under points 1 and 4 of article 11 of the Spanish Income Tax Law passed in Royal Legislative Decree 4/2004 may be deducted from taxable income for the tax years commencing in 2013 and 2014. A deferred tax asset of Euros 310 thousand has been recognised as a result of this adjustment.

The relationship between the tax expense and accounting profit for the period is as follows:

	Thousands of Euros		
		2013	
	Profit and loss	Equity	TOTAL
Income and expenses for the period	**226,335**	**35,774**	**262,109**
Increases	**22,911**	-	**22,911**
Charge to non-deductible provisions	1,360	-	1,360
Other non-deductible expenses	21,551	-	21,551
Decreases	**(3,856)**	**(35,774)**	**(39,630)**
Accelerated amortisation and depreciation	(1,641)	-	(1,641)
Application of non-deductible provisions	(281)	-	(281)
Grants	(78)	(35,774)	(35,852)
Other non-deductible expenses	(1,856)	-	(1,856)
Effect of differences in tax rates	-	-	-
Other adjustments	**224**	-	**224**
Consolidation adjustments	**2,035**	-	**2,035**
	247,649	-	**247,649**
Tax at 30%	**74,295**	-	**74,295**
Deductions and credits for the period	**(62,555)**	-	(62,555)
CONSOLIDATED INCOME TAX EXPENSE	**(11,740)**		**(11,740)**

	Thousands of Euros		
		2012	
	Profit and loss	Equity	TOTAL
Income and expenses for the period	**143,837**		**143,837**
Increases	**19,906**	**-**	**19,906**
Accelerated amortisation/depreciation			-
Charge to non-deductible provisions	5,521		5,521
Other non-deductible expenses	14,385		14,385
Decreases	**(6,726)**	**(10,865)**	**(17,591)**
Accelerated amortisation and depreciation	(3,259)		(3,259)
Application of non-deductible provisions			-
Grants	(41)	(10,865)	(10,906)
Other non-deductible expenses	(3,426)		(3,426)
Effect of differences in tax rates			**-**
Other adjustments	**(1,378)**		**(1,378)**
Consolidation adjustments	**2,035**		**2,035**
	157,674	**(10,865)**	**146,809**
Tax at 30%	**47,302**		**47,302**
Deductions and credits for the period	**(40,900)**		(40,900)
Other	(17)		**(17)**
CONSOLIDATED INCOME TAX EXPENSE	**6,385**	**-**	**6,385**

Details of the income tax expense are as follows:

	Thousands of Euros	
	2013	2012
Current tax		
Present period	11,262	6,385
Deferred tax	253	-
Adjustment in the final return for prior years	225	-
	11,740	**6,385**

Details of deferred tax assets and liabilities at 31 December 2013, by type of asset and liability, are as follows:

	Thousands of Euros					
	Assets		Liabilities		Net	
	2013	**2012**	**2013**	**2012**	**2013**	**2012**
Concessions	-	-	(12,123)	(12,699)	(12,123)	(12,699)
Accelerated amortisation and depreciation	-	-	(1,224)	(1,934)	(1,224)	(1,934)
Tax loss carryforwards	56	56	-	-	56	56
Grants	-	-	(2,284)	(2,248)	(2,284)	(2,248)
Provisions	985	1,656	-	-	985	1,656
Amortisation	310	-	-	-	310	-
Other	1,539	920	(11,626)	(11,399)	(10,088)	(10,479)
NET ASSETS AND LIABILITIES	**2,890**	**2,632**	**(27,257)**	**(28,280)**	**(24,367)**	**(25,648)**

At 31 December details of deferred tax liabilities that are expected to be realised or reversed in periods exceeding 12 months are as follows:

	Thousands of Euros	
	2013	2012
Assets		
Amortisation and depreciation	310	-
Liabilities		
Concessions	(11,513)	(12,089)
Grants	(2,106)	(2,150)
Other	(11,250)	(13,258)
	(24,559)	**(27,497)**

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

The Group has no available tax deductions at 31 December 2013.

The Latin American subsidiaries have tax loss carryforwards available for offset totalling Euros 224 thousand at 31 December 2013.

27. ENVIRONMENTAL INFORMATION

Details of the assets classified under concessions and used to minimise the Group's impact on the environment are as follows:

	Thousands of Euros		
		2013	
Description	**Cost**	**Accumulated amortisation**	**Net**
- Treatment plant facilities and buildings	540,066	(184,995)	355,071
- Sewer network	57,734	(11,535)	46,199
- Recycling network	61,120	(6,128)	54,992
	658,920	**(202,658)**	**456,262**

	Thousands of Euros		
		2012	
Description	**Cost**	**Accumulated amortisation**	**Net**
- Treatment plant facilities and buildings	514,632	(178,910)	335,722
- Sewer network	51,205	(8,957)	42,248
- Recycling network	52,291	(5,514)	46,777
	618,128	**(193,381)**	**424,747**

Details of environmental investments made by the Group are as follows:

	Thousands of Euros	
	2013	2012
Description		
- Water treatment	25,434	13,443
- Sewer system	6,529	5,000
- Recycling	8,829	1,397
	40,792	**19,840**

Details of environmental costs incurred by the Group are as follows:

	Thousands of Euros	
	2013	2012
Description		
- Water treatment	120,777	59,193
- Sewer system	87,622	34,345
- Recycling	4,547	3,590
- Other (green areas, environmental costs, etc.)	3,178	2,603
	216,124	**99,731**

Parent management integrates all its activities through an Environmental Management System, which has been duly certified in accordance with the UNE-EN-ISO-14001:2004 environmental management standard. The second follow-up audit for this certificate was carried out in 2013.

The Group has pursued the following lines of action in Latin America:

- **Triple A de Barranquilla**

– CDM Project (Clean Development Mechanism) - Los Pocitos biogas.

– Integrated Solid Waste Management Programme (ISWMP).

– Waste Management Programme.

- **Amagua C.E.M.** Sewer system:

– Rinconada del Lago sewer system: construction of sewage networks (wastewater) and the corresponding treatment plant. This project will eradicate the need to use septic tanks (subsoil contamination). The system has been designed to serve a total of 52 households.

– Expansion of the capacity of the Los Arcos wastewater treatment facility from 800 to 2,400 m3/day. This infrastructure will cover growth in the Los Arcos commercial sector (residential, commercial, cultural, etc.). The environmental permit is also included.

– Environmental permit for 50 wastewater treatment plants issued by the competent environmental body, the Council of the Province of Del Guayas.

At 31 December 2013 and 2012, the Group considers that no significant contingencies exist concerning possible litigation, indemnities or other items connected with the environment and, accordingly, no provision has been made in this regard.

The Group has insurance policies which reasonably assure the coverage of any possible contingency that could arise from its environmental activities. In addition to its public liability cover, since June 2010 the Parent, as the affected operator, has held an insurance policy to cover the potential risks deriving from the entry into force of Law 26/2007 on environmental responsibility and Royal Decree 2090/2008, which implements it. This policy was arranged for the maximum financial guarantee established in the Law, Euros 20 million.

28. RELATED PARTY BALANCES AND TRANSACTIONS

a. Related party balances and transactions

Details of balances receivable from and payable to non-consolidated Group companies, equity-accounted investees, joint ventures and related parties are as follows:

	Thousands of Euros			
	2013		2012	
	Receivable	Payable	Receivable	Payable
Group companies				
Canal de Isabel II (Public Entity)	17,517	(1,024,645)	5,008	(1,171,606)
Aguas de Alcalá TJV	735	-	732	-
Associates				
Acueducto y Alcantarillado Metropolitano de Santa Marta, S.A.E.S.P.	1,312	-	1,293	-
Avanzadas Soluciones de Acueducto y Alcantarillado S.A.	1,936	-	-	-
GSS Venture, S.L.	-	(516)	-	(689)
Others	460	(82)	-	-
TOTAL	**21,960**	**(1,025,243)**	**7,033**	**(1,172,295)**
	(notes 13 y 14 (b))	**(notes 22 and 23(b))**	**(notes 13 and 14 (b))**	**(notes 22 and 23(b))**

The Euros 1,012,241 thousand payable to the Public Entity (Euros 1,146,637 thousand in 2012) reflects the Company's obligation to pay the Public Entity the amounts necessary to fulfil its obligations arising on financing contracts as required by the Contract-Programme ("mirror effect"). The origin of this payable is the non-monetary contribution described in note 3, as the debt of the contributed activity is transferred from the Public Entity to the Parent. Both parties have 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. Although the Public Entity is still the named party in the financing contracts with the lender institutions, the Parent has assumed all of the obligations originally agreed in these contracts at the corresponding amounts. The maturities and interest rates applicable to the balances payable by the Parent to the Public Entity are those specified in the contracts between the latter and the financial institutions (see note 22 (a)). In 2013 the weighted average interest rate was 2.05% (2.10% in 2012).

The balance payable to the Public Entity also includes Euros 9,586 thousand reflecting the inter-company credit account set up to adjust the difference between the estimated amounts of the assets and liabilities stated in the valuation report and the net worth of the assets and liabilities actually transferred on the contribution date (see note 3).

At 31 December 2013 receivables from third parties, trade receivables and taxes include Euros 51,683 thousand, Euros 61,163 thousand and Euros 35,303 thousand, respectively, receivable from new shareholders of the Parent, specifically certain town councils (Euros 53,151 thousand, Euros 65,441 thousand and Euros 34,733 thousand, respectively, in 2012) (see note 18). Dividends payable include

Euros 27,599 thousand payable to these same shareholders (Euros 12,234 thousand in 2012) (see note 23 (a)).

Transactions between the Group and Canal de Isabel II (Public Entity) by December 2013 comprise borrowing costs of Euros 22,801 thousand on the "mirror" transaction (Euros 11,381 thousand in 2012), operating expenses of Euros 15,848 thousand (Euros 10,644 thousand in 2012) and other operating income totalling Euros 326 thousand (Euros 220 thousand in 2012).

Transactions carried out by the Group with the equity-accounted investee GSS Venture amount to Euros 4,949 thousand (Euros 1,750 thousand in 2012) and primarily relate to telemarketing activities.

As a result of town councils gaining stakes in its share capital, in 2013 the Parent has carried out transactions with shareholders in the form of services and tax settlements totalling Euros 44,027 thousand and Euros 31,337 thousand, respectively (Euros 31,037 thousand and Euros 12,948 thousand, respectively, in 2012).

b. Information on the members of the board of directors and senior management personnel

Pursuant to the articles of association, the members of the Company's board of directors do not receive any remuneration. In 2013 senior management of the Parent received total remuneration of Euros 889 thousand (Euros 492 thousand in 2012). Neither the members of the board of directors nor senior management personnel have received advances or loans, and the Parent has not extended any guarantees on their behalf. The Parent does not have any pension plan or life insurance obligations with former or current members of its board of directors, but it does have pension plan commitments with its senior management personnel (see note 5 (s)).

c. Interests and positions held by members of the board of directors and senior management in other companies

For the purposes of preparing this information, companies engaged in activities related to the comprehensive water cycle are considered to have identical or complementary activities to that of the Company.

The board members, senior management personnel and their related parties have declared that they do not hold any shares in companies with an identical, similar or complementary activity to that of the Company.

The positions held and duties performed by the Parent's directors and senior management personnel and their related parties in other companies engaged in activities that are identical, similar or complementary to that of the Company are presented in Appendix IV.

29. INCOME AND EXPENSES

a. Revenues

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

	Thousands of Euros					
	Domestic		Latin America		TOTAL	
	2013	**2012**	**2013**	**2012**	**2013**	**2012**
Revenue from the sale of goods and merchandise	28	23	600	210	628	233
Revenue from the rendering of services	5,496	6,038	26,290	10,645	31,786	16,683
Revenue from the rendering of infrastructure operating services	839,738	445,183	154,163	80,781	993,901	525,964
Revenue from the sale of electricity	8,276	1,280	-	-	8,276	1,280
	853,538	**452,524**	**181,053**	**91,636**	**1,034,591**	**544,160**

All of these domestic revenues have been earned in Euros. Sales in Latin America have been carried out in Colombian Pesos, Dominican Pesos and US Dollars.

b. Supplies

Details of supplies are as follows:

	Thousands of Euros			
	Domestic		Latin America	
	2013	2012	2013	2012
Electricity used	50,285	21,918	12,152	6,098
Raw materials used	1,013	402	2,423	1,204
Merchandise used	27,178	15,687	15,865	10,268
Change in inventories	2,136	(675)	138	(2,206)
Total inventories consumed	80,612	37,332	30,578	15,364
Subcontracted work	89,210	47,462	36,500	14,090
TOTAL	**169,822**	**84,794**	**67,078**	**29,454**

All of the supplies listed in the "domestic" column have been purchased in Euros, whereas supplies used in Latin America are denominated in Colombian Pesos, Dominican Pesos and US Dollars.

c. Personnel expenses

Details of personnel expenses are as follows:

	Thousands of Euros	
	2013	2012
Salaries and wages	115,906	53,914
Employee benefits expense	38,955	19,561
Social Security payable by the Company	32,234	16,078
Contributions to defined contribution plans (repaid)	(47)	(123)
Long-service bonuses	264	132
Other employee benefits expenses	6,504	3,474
	154,861	**73,475**

d. Gains/losses on disposal of fixed assets

Details of gains and losses on the disposal of fixed assets are as follows:

	Thousands of Euros	
	2013	2012
Gains		
Property, plant and equipment	83	-
Intangible assets	567	16
	650	16
Losses		
Property, plant and equipment	(37)	(12)
Intangible assets	(654)	(43)
	(691)	(55)
TOTAL	**(41)**	**(39)**

e. Other operating income

Non-trading income is primarily income from energy sales and other income derived from the lease of certain properties.

30. EMPLOYEE INFORMATION

The average headcount, distributed by category, is as follows:

	2013	2012
Management	96	89
Technicians	1,494	1,365
Administrative staff	1,643	906
Workers and porters	910	1,563
	4,143	**3,923**
Semi-retired personnel	210	212

The average headcount of the equity-accounted investees Metroagua and GSS Venture, by professional category, is as follows:

	2013	2012
Management	42	34
Technicians	97	76
Administrative staff	106	64
Workers and porters	296	258
	541	**432**

At the 2013 and 2012 reporting dates, the distribution by gender of personnel, members of the board of directors and senior management is as follows:

	2013		2012	
	Female	Male	Female	Male
Board members	1	9	3	16
Management	39	57	33	56
Technicians	579	935	493	887
Administrative staff	596	1,040	589	308
Workers and porters	22	878	36	1,516
	1,237	**2,919**	**1,154**	**2,783**
Semi-retired personnel	41	167	37	184

The year-end distribution by gender of personnel, members of the board of directors and senior management of the equity-accounted investees Metroagua, GSS Venture and ASAA is as follows:

	2013		2012	
	Female	**Male**	**Female**	**Male**
Board members	-	1	-	1
Management	18	23	16	17
Technicians	48	49	31	45
Administrative staff	49	57	44	20
Workers and porters	245	51	217	41
	360	**181**	**308**	**124**

The average number of Group employees in Spain with a disability rating of 33% or higher, distributed by category, is as follows (for the year ended 31 December 2013 and the six-month period ended 31 December 2012):

	2013	2012
Management	-	-
Technicians	3	3
Administrative staff	13	17
Workers and porters	22	15
	38	35

31. AUDIT FEES

KPMG Auditores, S.L., the auditors of the annual accounts of the Group, have invoiced the following net fees for professional services during the periods ended 31 December 2013 and 2012:

	Thousands of Euros	
	2013	2012
Audit services	364	420
Audit-related services	57	9
	421	**429**

Other KPMG Europe, LLP group companies have invoiced the following net fees for professional services during the periods ended 31 December 2013 and 2012:

	Thousands of Euros	
	2013	2012
Tax advisory services	18	27
Other advisory services	-	56
	18	**83**

Other affiliates of KPMG International have invoiced the Group the following fees and expenses for professional services during the periods ended 31 December 2013 and 2012:

	Thousands of Euros	
	2013	2012
Audit services	98	147
Other services	32	9
	130	**156**

The amounts detailed in the above table include the total fees for services rendered in 2013 and 2012, irrespective of the date of invoice.

32. EVENTS AFTER THE REPORTING PERIOD

On 10 January 2014, the Company and Aqualia Gestión Integral de Agua, S.A. purchased Valoriza Gestión, S.A.'s 25% stake in the Aguas de Alcalá temporary joint venture for Euros 8,500 thousand, split equally between the two acquirers. The Company now holds a 50% stake in this temporary joint venture as a result.

33. SEGMENT REPORTING

Information on the Group's different operating segments is contained in Appendix VI.

Operating segments are the components that engage in activities from which the Group may earn income and incur expenses and whose operating results are regularly reviewed, discussed and assessed by management in the decision-making process.

The Group's segments are "domestic" and "international". Information on each segment is allocated on the basis of the financial statements of the different Group companies, which operate exclusively in their geographical area due to the nature of their activities.

APPENDICES

DETAILS OF GROUP COMPANIES AT 31 DECEMBER 2013
(Free translation from the original version in Spanish. In the event of discrepancy, the original Spanish-language version prevails.)

Appendix I (1)

				% ownership			Thousands of Euros					
Company	**Registered offices**	**Activity**	**Auditor**	**Direct**	**Indirect**	**Total**	**Capital**	**Reserves**	**Other equity**	**Profit/ (loss)**	**Total capital and reserves**	**Total equity**
Canal Extensia, S.A.U.	Santa Engracia 125 - Madrid	Share-holding company	KPMG	100.00%	-	100.00%	80,600	31,823	-	7,260	119,683	119,683
Hispanagua, S.A.U.	San Enrique 3 - Madrid	Water-related maintenance, operation, distribution and sanitation services	KPMG	100.00%	-	100.00%	1,188	9,821	165	1,793	12,967	12,967
Canal de Comunicaciones Unidas, S.A.U.	Santa Engracia 125 - Madrid	Public service operation of terrestrial mobile radio-communications in the Madrid area	KPMG	100.00%	-	100.00%	4,620	3,812	-	1,196	9,628	9,628
Hidráulica Santillana, S.A.U.	San Enrique 3 - Madrid	Production of electricity	KPMG	100.00%	-	100.00%	4,753	12,151	297	2,214	19,003	19,416
Canal Gestión Lanzarote, S.A.U.	Ctra. Arrecife-Las Caletas Km.3,5 - Lanzarote	Comprehensive water cycle management	KPMG	100.00%	-	100.00%	60	(1)	-	(2,676)	(2,617)	(2,617)
Canal Energía, S.L.	José Abascal 10 - Madrid	Holding company	KPMG	80.00%	20.00%	100.00%	4	-	16	-	20	20
Canal Energía Comercialización, S.L.	José Abascal 10 - Madrid	Sale of electricity	KPMG	-	100.00%	100.00%	4	189	49	(7)	235	235
Canal Energía Generación, S.L.	José Abascal 10 - Madrid	Production and transformation of electricity	KPMG	-	100.00%	100.00%	4	(7)	8	-	5	5
Canal Energía Distribución, S.L.	José Abascal 10 - Madrid	Distribution of electricity	KPMG	-	100.00%	100.00%	4	24	(3)	-	25	25
Canal Gas Distribución, S.L.	José Abascal 10 - Madrid	Distribution of hydrocarbons	KPMG	-	100.00%	100.00%	4	(1)	(0)	-	3	3
Interamericana de Aguas and Servicios S.A. and subsidiaries	Barranquilla (Colombia)	Comprehensive water cycle operator	KPMG	-	81.24%	81.24%	43,563	4,230	3,420	6,592	57,805	57,805
Watco Dominicana, S.A.	Santo Domingo (Dominican Republic)	Sale of IT services	KPMG	-	51.00%	51.00%	2	-	149	(20)	131	131
Sociedad de Acueducto, Alcantarillado and Aseo de	Barranquilla (Colombia)	Comprehensive water cycle	KPMG	-	67.91%	67.91%	27,654	6,763	1,204	11,638	47,259	47,259

(continued)

Barranquilla, S.A. E.S.P.												
Gestión Integral de Suministros Ltda.	Colombia	Supply of goods	KPMG	-	81.24%	81.24%	75	75	379	4	533	533
Recaudos and Tributos, S.A.	Barranquilla (Colombia)	Comprehensive advisory services in the field of tax collection	KPMG	-	80.46%	80.46%	1,041	1,829	(493)	318	2,695	2,695
AAA Dominicana	Santo Domingo (Dominican Republic)	Comprehensive water cycle	KPMG	-	52.81%	52.81%	830	83	3,709	11	4,633	4,633
Inforesa	Santo Domingo (Dominican Republic)	Comprehensive water cycle	KPMG	-	42.25%	42.25%	17	-	(53)	(2)	(38)	(38)
AAA Ecuador Agacase, S.A.	Ecuador	Management of public resources	KPMG	-	81.43%	81.43%	73	-	(168)	155	60	60
Amagua, CEM	Ecuador	Comprehensive water cycle	KPMG	-	57.00%	57.00%	1,547	145	1,249	716	2,602	3,657
Amerika Tecnologías de la Información, S.A.S.	Barranquilla (Colombia)	Design, maintenance, development, support and management of information technology projects	KPMG	-	70.00%	70.00%	226	-	-	27	253	253
Soluciones Andinas de Aguas, S.R.L.	Montevideo (Uruguay)	Asset investment and holding	KPMG	-	90.62%	90.62%	5	-	-	(83)	(78)	(78)
Interamericanas de Aguas de México, S.A.	Mexico	Comprehensive water cycle	-	-	79.61%	79.61%	92	-	(37)	(61)	(6)	(6)
Mexaqua	Mexico	Comprehensive water cycle	-	-	55.73%	55.73%	122	-	714	(5)	831	831
AAA Venezuela	Venezuela	Comprehensive water cycle	-	-	80.43%	80.43%	1	4	-	-	5	5
Emissao Engenharia e Construcoes, S.A.	Brazil	Water-related maintenance, operation, distribution and sanitation services	-	-	72.47%	72.47%	9,209	-	(579)	1,639	10,269	10,269

This appendix forms an integral part of note 1 to the consolidated annual accounts, in conjunction with which it should be read.

Figures translated at the reporting-date exchange rate.

(continued)

DETAILS OF GROUP COMPANIES AT 31 DECEMBER 2012 **Appendix I (2)**

Company	Registered offices	Activity	Auditor	% ownership Direct	Indirect	Total	Thousands of Euros Capital	Reserves	Other equity	Profit/(loss)	Total capital and reserves	Total equity
Canal Extensia, S.A.U.	Santa Engracia 125 - Madrid	Share-holding company	KPMG	100.00%	-	100.00%	80,600	27,660	-	4,163	112,423	112,423
Hispanagua, S.A.U.	San Enrique 3 - Madrid	Water-related maintenance, operation, distribution and sanitation services	KPMG	100.00%	-	100.00%	1,188	7,970	165	1,851	11,174	11,174
Canal de Comunicaciones Unidas, S.A.U.	Santa Engracia 125 - Madrid	Public service operation of terrestrial mobile radio-communications in the Madrid area	KPMG	100.00%	-	100.00%	4,620	2,747	-	1,065	8,432	8,432
Hidráulica Santillana, S.A.U.	San Enrique 3 - Madrid	Production of electricity	KPMG	100.00%	-	100.00%	4,853	14,151	437	(115)	18,789	19,226
Canal Energía, S.L.	José Abascal 10 - Madrid	Holding company	KPMG	80.00%	20.00%	100.00%	4	-	16	-	20	20
Canal Energía Comercialización, S.L.	José Abascal 10 - Madrid	Sale of electricity	KPMG	-	100.00%	100.00%	4	189	81	(32)	242	242
Canal Energía Generación, S.L.	José Abascal 10 - Madrid	Production and transformation of electricity	KPMG	-	100.00%	100.00%	4	(7)	8	-	5	5
Canal Energía Distribución, S.L.	José Abascal 10 - Madrid	Distribution of electricity	KPMG	-	100.00%	100.00%	4	24	(3)	-	25	25
Canal Gas Distribución, S.L.	José Abascal 10 - Madrid	Distribution of hydrocarbons	KPMG	-	100.00%	100.00%	4	(1)	-	-	3	3
Interamericana de Aguas y Servicios S.A. and subsidiaries	Barranquilla (Colombia)	Comprehensive water cycle operator	KPMG	-	81.24%	81.24%	49,619	5,701	(8,550)	18,033	64,803	64,803
Watco Dominicana, S.A.	Santo Domingo (Dominican Republic)	Sale of IT services	KPMG	-	51.00%	51.00%	2	-	180	(16)	166	166
Sociedad de Acueducto, Alcantarillado and Aseo de Barranquilla, S.A. E.S.P.	Barranquilla (Colombia)	Comprehensive water cycle	KPMG	-	67.91%	67.91%	31,498	6,258	1,371	9,356	48,483	48,483
Gestión Integral de Suministros	Colombia	Supply of goods	KPMG	-	67.91%	67.91%	86	86	652	(220)	604	604

(continued)

Ltda.												
Recaudos and Tributos, S.A.	Barranquilla (Colombia)	Comprehensive advisory services in the field of tax collection	KPMG	-	80.46%	80.46%	1,186	1,490	(161)	192	2,707	2,707
AAA Dominicana	Santo Domingo (Dominican Republic)	Comprehensive water cycle	KPMG	-	52.81%	52.81%	919	92	3,892	215	5,118	5,118
Inforesa	Santo Domingo (Dominican Republic)	Comprehensive water cycle	KPMG	-	42.25%	42.25%	19	-	(61)	2	(40)	(40)
AAA Ecuador Agacase, S.A.	Ecuador	Management of public resources	KPMG	-	81.43%	81.43%	76	-	(67)	55	64	64
Amagua, CEM	Ecuador	Comprehensive water cycle	KPMG	-	57.00%	57.00%	1,471	104	1,241	564	2,248	3,380
Interamericanas de Aguas de México, S.A.	Mexico	Comprehensive water cycle	KPMG	-	79.61%	79.61%	96	-	13	(53)	56	56
Mexaqua	Mexico	Comprehensive water cycle	KPMG	-	55.73%	55.73%	128	-	(171)	922	879	879
AAA Venezuela	Venezuela	Comprehensive water cycle	KPMG	-	80.43%	80.43%	2	6	-	-	8	8

The subsidiary Inforesa has not been consolidated as the effect of its inclusion in these consolidated annual accounts would be immaterial

This appendix forms an integral part of note 1 to the consolidated annual accounts, in conjunction with which it should be read.

Figures translated at the reporting-date exchange rate.

(continued)

DETAILS OF ASSOCIATES AT 31 DECEMBER 2013
(Free translation from the original version in Spanish. In the event of discrepancy, the original Spanish-language version prevails.)

Appendix II

				% ownership			Thousands of Euros					
Company	Registered offices	Activity	Auditor	Direct	Indirect	Total	Capital	Reserves	Other equity	Profit/(loss)	Total capital and reserves	Total equity
GSS Venture, S.L.	c/ Guzmán el Bueno, 133 (Madrid)	Communications and telemarketing services	Mazars Auditores SLP	25.00%	-	25.00%	60	1,948	(139)	(192)	1,677	1,677
Acueducto y Alcantarillado Metropolitano de Santa Marta, S.A. E.S.P.	Santa Marta (Colombia)	Comprehensive water cycle operator	KPMG	-	29.13%	29.13%	12,612	978	(4,101)	(147)	9,342	9,342
Avanzadas Soluciones de Acueducto y Alcantarillado, S.A. E.S.P.	Riohacha (Colombia)	Comprehensive water cycle operator	KPMG	-	32.50%	32.50%	753	185	(274)	(248)	415	415

This appendix forms an integral part of note 1 to the consolidated annual accounts, in conjunction with which it should be read
.

DETAILS OF ASSOCIATES AT 31 DECEMBER 2012
(Free translation from the original version in Spanish. In the event of discrepancy, the original Spanish-language version prevails.)

Appendix II

				% ownership			Thousands of Euros					
Company	Registered offices	Activity	Auditor	Direct	Indirect	Total	Capital	Reserves	Other equity	Profit/(loss)	Total capital and reserves	Total equity
GSS Venture, S.L.	c/ Guzmán el Bueno, 133 (Madrid)	Communications and telemarketing services	-	25.00%	-	25.00%	60	1,948	-	(319)	1,689	1,689
Acueducto y Alcantarillado Metropolitano de Santa Marta, S.A. E.S.P.	Santa Marta (Colombia)	Comprehensive water cycle operator	KPMG	-	29.13%	29.13%	14,365	942	(4,052)	(447)	10,808	10,808

(continued)

DETAILS OF JOINT VENTURES AT 31 DECEMBER 2013
(Free translation from the original version in Spanish. In the event of discrepancy, the original Spanish-language version prevails.)

Appendix III (1)

Thousands of Euros

Name	Registered offices	Activity	Type	Direct	Indirect	Total	Net sales
				% ownership			
Jointly controlled operations							
Aguas de Alcalá TJV	C/ Federico Salmún, 13 - Madrid	Management of water supply and sanitation for the city of Alcalá de Henares		37.50%	-	37.50%	10,668
Z.V. Mejost	C/ García Plata de Osma, 1 - Cáceres	Works on distribution and sanitation facilities		-	100.00%	100.00%	-
Unión Temporal de Sociedades A.A. Santa Marta	Santa Marta (Colombia)	Water cycle advisory services		-	44.45%	44.45%	836
							11,504

This appendix forms an integral part of note 7 to the consolidated annual accounts, in conjunction with which it should be read.

(continued)

DETAILS OF JOINT VENTURES AT 31 DECEMBER 2012
(Free translation from the original version in Spanish. In the event of discrepancy, the original Spanish-language version prevails.)

Appendix III (2)

				% ownership			Thousands of Euros
Name	Registered offices	Activity	Type	Direct	Indirect	Total	Net sales
Jointly controlled operations							
Aguas de Alcalá TJV	C/ Federico Salmún, 13 - Madrid	Management of water supply and sanitation for the city of Alcalá de Henares		37.50%	-	37.50%	11,338
Z.V. Mejost	C/ García Plata de Osma, 1 - Cáceres	Works on distribution and sanitation facilities		-	100.00%	100.00%	-
PR. Huesca	C/ Madre Rafols, 215 - Zaragoza	Dam maintenance		-	40.00%	40.00%	26
Unión Temporal de Sociedades A.A. Santa Marta	Santa Marta (Colombia)	Water cycle advisory services		-	44.45%	44.45%	918
							12,282

This appendix forms an integral part of note 7 to the consolidated annual accounts, in conjunction with which it should be read.

(continued)

DETAILS OF POSITIONS HELD IN OTHER COMPANIES BY DIRECTORS OF CANAL DE ISABEL II GESTIÓN, S.A. WITH SPEAKING AND VOTING RIGHTS
(Free translation from the original version in Spanish. In the event of discrepancy, the original Spanish-language version prevails.)

Appendix IV

2013

Board members	Company	Position and duties
Mr Salvador Victoria Bolívar	Canal de Isabel II (Public Entity) Canal de Isabel II Charitable Foundation	Chairman and board member Vice-Chairman
Mr José Manuel Serra Peris	AAA Dominicana S.A.	Board member with speaking and voting rights
Mr David Pérez García	Canal de Isabel II (Public Entity)	Board member with speaking and voting rights
Mr Enrique Ossorio Crespo	Canal de Isabel II (Public Entity)	Board member with speaking and voting rights

DETAILS OF POSITIONS HELD IN OTHER COMPANIES BY DIRECTORS OF CANAL DE ISABEL II GESTIÓN, S.A. WITH SPEAKING AND VOTING RIGHTS
(Free translation from the original version in Spanish. In the event of discrepancy, the original Spanish-language version prevails.)

Appendix IV

2012

Board members	Company	Position and duties
Mr Salvador Victoria Bolívar	Canal de Isabel II (Public Entity) Canal de Isabel II Charitable Foundation	Chairman and board member Vice-Chairman
Mr José Manuel Serra Peris	AAA Dominicana S.A.	Board member with speaking and voting rights
Mr David Pérez García	Canal de Isabel II (Public Entity)	Board member with speaking and voting rights
Mr Enrique Ossorio Crespo	Canal de Isabel II (Public Entity)	Board member with speaking and voting rights

This appendix forms an integral part of note 27 (c) to the consolidated annual accounts, in conjunction with which it should be read.

(continued)

DETAILS OF POSITIONS HELD BY CANAL DE ISABEL II GESTIÓN, S.A. SENIOR MANAGEMENT IN OTHER COMPANIES – 2013 REPORTING PERIOD

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

Appendix V (1)

Board members	Company	Position and duties
Mr Adrián Martín López de las Huertas	Canal de Isabel II Gestión, S.A.	Managing Director, member of the Board of Directors and Chairman of the Steering Committee of CYII Gestión
	Canal Extensia, S.A.U.	Chairman and CEO
	Hispanagua, S.A.U.	Chairman and CEO
	Hidráulica Santillana, S.A.U.	Chairman and CEO
	Canal de Comunicaciones Unidas, S.A.U.	Chairman and CEO
	Canal Energía, S.L.	Chairman and CEO
	Canal Energía Generación, S.L.U.	Sole Director
	Canal Energía Distribución, S.L.U.	Sole Director
	Canal Energía Comercialización, S.L.U.	Sole Director
	Canal Gas Distribución, S.L.U.	Sole Director
	Aguas de Alcalá TJV	Sole Director
	Canal de Isabel II Charitable Foundation	Member of the Management Committee, representing CYII
	Canal de Isabel II Sports Club	Ex officio board member
	Madrid Town Planning Committee	Chairman of the Governing Board
	Nuevo Arpegio, Áreas de Promoción Empresarial, S.A.l	Board member
	A.G.A.	Member of the Board of Directors
	National Water Council	Representative of Canal de Isabel II
	Tajo Water Board	Board member
	Canal Extensia, S.A.U.	Representative of CAM on the steering committee
	Alberche Board of Operations	Board member
Ms Dña. María Fernanda Richmond	Canal de Isabel II Gestión, S.A.	General Manager, Economy and Finance
	Canal Extensia, S.A.U.	Board member
	Hispanagua, S.A.U.	Board member
	Hidráulica Santillana, S.A.U.	Board member
	Canal de Comunicaciones Unidas, S.A.U.	Board member
	Canal Energía, S.L.	Board member
	Aguas de Alcalá TJV	Representing CYII
	Interamericana de Aguas y Servicios, S.A. (INASSA)	Board member
	Amagua	Board member
	Emissao Engenharia e Construcoes, S.A.	Board member
	GSS Venture, S.L.	Board member

(continued)

Mr Fernando de Cevallos Aguaron	Canal de Isabel II Gestión, S.A. Canal Extensia, S.A.U. Hispanagua, S.A.U. Canal Energía, S.L.	Secretary to the Board of Directors and Director of the Technical General Secretariat Board member Board member Board member
Mr Juan Ignacio Zubizarreta Pariente	Canal de Isabel II Gestión, S.A. Canal de Comunicaciones Unidas, S.A.U. GSS Venture, S.L.	Sales Director Board member Board member
Ms M. Carmen del Río Ganuza	Canal de Isabel II Gestión, S.A. Canal de Isabel II Sports Club	Director of Human Resources and Quality Board member
Ms Nuria San Román Navarro	Canal de Isabel II Gestión, S.A. Canal de Isabel II Sports Club	Sub-Director, Communications and Public Relations Board member
Ms Belén Benito Martínez	Canal de Isabel II Gestión, S.A.	Sub-Director, Engineering and Construction
Mr Luis Miguel Garrido Martínez	Canal de Isabel II Gestión, S.A.	Director, Safety
Mr Jesús Díez de Ulzurrum	Canal de Isabel II Gestión, S.A.	Director, Sanitation

This appendix forms an integral part of note 27 to the annual accounts, in conjunction with which it should be read.

(continued)

DETAILS OF POSITIONS HELD BY CANAL DE ISABEL II GESTIÓN, S.A. SENIOR MANAGEMENT IN OTHER COMPANIES – 2012 REPORTING PERIOD

Appendix V (2)

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

Board members	Company	Position and duties
Mr Adrián Martín López de las Huertas	Canal de Isabel II Gestión, S.A.	Managing Director, member of the Board of Directors and Chairman of the Steering Committee of CYII Gestión
	Canal Extensia, S.A.U.	Chairman and CEO
	Hispanagua, S.A.U.	Chairman and CEO
	Hidráulica Santillana, S.A.U.	Chairman and CEO
	Canal de Comunicaciones Unidas, S.A.U.	Chairman and CEO
	Canal Energía, S.L.	Chairman and CEO
	Canal Energía Generación, S.L.U.	Sole Director
	Canal Energía Distribución, S.L.U.	Sole Director
	Canal Energía Comercialización, S.L.U.	Sole Director
	Canal Gas Distribución, S.L.U.	Sole Director
	Aguas de Alcalá TJV	Member of the Management Committee, representing CYII
	Canal de Isabel II Charitable Foundation	Ex officio board member
	Canal de Isabel II Sports Club	Chairman of the Governing Board
	Madrid Town Planning Committee	Board member
	Nuevo Arpegio, Áreas de Promoción Empresarial, S.A.l	Member of the Board of Directors
	A.G.A.	Representative of Canal de Isabel II
	National Water Council	Board member
	Tajo Water Board	Representative of CAM on the steering committee
	Alberche Board of Operations	Board member
Ms María Fernanda Richmond	Canal de Isabel II Gestión, S.A.	General Manager, Economy and Finance
	Canal Extensia, S.A.U.	Board member
	Hispanagua, S.A.U.	Board member
	Hidráulica Santillana, S.A.U.	Board member
	Canal de Comunicaciones Unidas, S.A.U.	Board member
	Canal Energía, S.L.	Board member
	Aguas de Alcalá TJV	Representing CYII
	Interamericana de Aguas y Servicios, S.A. (INASSA)	Board member
	Amagua	Board member
	AAA Dominicana, S.A.	Board member
	GSS Venture, S.L.	

(continued)

Mr Fernando de Cevallos Aguaron	Canal de Isabel II Gestión, S.A.	Secretary to the Board of Directors and Director of the Technical General Secretariat
	Canal Extensia, S.A.U.	Board member
	Hispanagua, S.A.U.	Board member
	Canal Energía, S.L.	Board member
Mr Juan Ignacio Zubizarreta Pariente	Canal de Isabel II Gestión, S.A.	Sales Director
	Canal de Comunicaciones Unidas, S.A.U.	Board member
	GSS Venture, S.L.	Board member
Ms M. Carmen del Río Ganuza	Canal de Isabel II Gestión, S.A.	Director of Human Resources and Quality
Ms Nuria San Román Navarro	Canal de Isabel II Sports Club	Board member
	Canal de Isabel II Gestión, S.A.	Sub-Director, Communications and Public Relations
Ms Belén Benito Martínez	Canal de Isabel II Sports Club	Board member
	Canal de Isabel II Gestión, S.A.	Sub-Director, Engineering and Construction
Mr Luis Miguel Garrido Martínez	Canal de Isabel II Gestión, S.A.	Director, Safety
Mr Jesús Díez de Ulzurrum	Canal de Isabel II Gestión, S.A.	Director, Sanitation

This appendix forms an integral part of note 27 to the annual accounts, in conjunction with which it should be read.

(continued)

CANAL DE ISABEL II GESTIÓN, S.A. AND SUBSIDIARIES

Appendix VI (1)

SEGMENT REPORTING AT 31 DECEMBER 2013
(Free translation from the original version in Spanish. In the event of discrepancy, the original Spanish-language version prevails.)

(Expressed in thousands of Euros)

	SEGMENTS		TOTAL
	Domestic	International	
Revenues	**853,538**	**181,053**	**1,034,591**
- External customers	853,538	180,394	1,033,932
- Inter-segment revenues	-	658	658
Supplies	**(170,133)**	**(67,078)**	**(237,211)**
Personnel expenses	**(134,323)**	**(20,538)**	**(154,861)**
Amortisation and depreciation	**(100,508)**	**(17,222)**	**(117,730)**
Losses, impairment and changes in provisions	**(114,196)**	**(8,790)**	**(122,986)**
- Current	(114,196)	(8,790)	(122,986)
- Non-current	-	-	-
RESULTS FROM OPERATING ACTIVITIES	**213,718**	**25,101**	**238,819**
Finance income	6,263	4,930	11,193
Finance costs	(14,126)	(6,336)	(20,462)
PROFIT/(LOSS) FROM DISCONTINUED OPERATIONS	**-**	**-**	**-**
PROFIT BEFORE INCOME TAX	**204,738**	**21,597**	**226,335**
Segment assets	4,747,874	189,276	4,937,150
Segment liabilities	1,821,902	162,100	1,984,002
Cash flows from (used in)	**(18,733)**	**(3,973)**	**(22,706)**
- Operating activities	260,678	55,295	315,973
- Investing activities	(187,119)	(39,692)	(226,811)
- Financing activities	(92,291)	(19,577)	(111,868)
Acquisitions of non-current assets during the year	**173,170**	**21,581**	**194,751**

(continued)

CANAL DE ISABEL II GESTIÓN, S.A. AND SUBSIDIARIES

Appendix VI (2)

SEGMENT REPORTING AT 31 DECEMBER 2012
(Free translation from the original version in Spanish. In the event of discrepancy, the original Spanish-language version prevails.)

(Expressed in thousands of Euros)

	SEGMENTS		TOTAL
	Domestic	International	
Revenues	**452,524**	**91,636**	**544,160**
- External customers	452,524	91,210	543,734
- Inter-segment revenues	-	426	426
Supplies	**(84,794)**	**(29,454)**	**(114,248)**
Personnel expenses	**(60,309)**	**(13,166)**	**(73,475)**
Amortisation and depreciation	**(48,586)**	**(8,529)**	**(57,115)**
Losses, impairment and changes in provisions	**(70,054)**	**(5,542)**	**(75,596)**
- Current	(70,054)	(5,542)	(75,596)
- Non-current	-	-	-
RESULTS FROM OPERATING ACTIVITIES	**135,899**	**11,835**	**147,734**
Finance income	2,984	1,835	4,819
Finance costs	(8,090)	(4,334)	(12,424)
PROFIT/(LOSS) FROM DISCONTINUED OPERATIONS	**-**	**-**	**-**
PROFIT BEFORE INCOME TAX	**135,617**	**8,220**	**143,837**
Segment assets	4,641,097	185,965	4,827,062
Segment liabilities	1,762,038	143,554	1,905,592
Cash flows from (used in)	**7,527**	**1,525**	**9,052**
- Operating activities	142,723	28,902	171,625
- Investing activities	(116,969)	(23,686)	(140,655)
- Financing activities	(18,227)	(3,691)	(21,918)
Acquisitions of non-current assets during the year	**123,108**	**7,819**	**130,927**

CONSOLIDATED DIRECTORS' REPORT FOR 2013

CONSOLIDATED DIRECTORS' REPORT FOR 2013

CONSOLIDATED DIRECTORS' REPORT FOR 2013

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

The company Canal de Isabel II Gestión, S.A. was incorporated on 27 June 2012 through the contribution of a branch of activity by the Public Entity Canal de Isabel II, and started operating on 1 July 2012.

The date of incorporation and first consolidation of the Group formed by Canal de Isabel II Gestión, S.A. and its subsidiaries is therefore 1 July 2012 and the Group's consolidated results for 2012 correspond solely to activity in the second half of the year.

Nevertheless, in accordance with its articles of association and the Contract-Programme signed with the Public Entity Canal de Isabel II, Canal Isabel II Gestión, S.A. (the Company) is responsible for running (operation, maintenance and upkeep) the Community of Madrid General Network and provides the water supply, treatment and reuse services for this network, which until 30 June 2012 were rendered by the Public Entity Canal de Isabel II. Therefore, for the purposes of this directors' report, performance is described and financial and operating figures are presented for 2013 in comparison with full-year performance and figures for 2012.

In 2013 Canal de Isabel II Gestión, S.A. continued to follow action lines aimed at managing available water resources more efficiently, given the scarcity of these resources in the Madrid region and how consumption is expected to evolve in the future.

These activities not only focus on operational aspects or the improvement of infrastructures, but also on the adoption of communication initiatives and new ways of managing resources in general, guaranteeing not only water quality, but also service and all-round customer care.

The major efforts made by the organisation in meeting its objectives demonstrate its commitment to and involvement in the wellbeing of the residents of the Community of Madrid and sustainable development.

In light of the above, the plans for the supply area notably include initiatives to reduce uncontrolled water through increased measurement precision, efficient planning of network renewal activity, leakage detection, inspection and fraud detection campaigns, etc.

Moreover, works underway to divide the distribution network into sections have improved water pressure management which, along with the other measures mentioned above, is enabling a significant decrease in network disruptions and achieving a shorter average stoppage time due to breakdowns, and lower frequency and impact of interruptions per contract.

In the water treatment area, implementation of the initiatives foreseen in the National Water Quality Plan continued throughout 2013. Under this plan, to comply with EU Water Framework Directive 2005/60/EC, treatment plants must have the processes required to eliminate phosphorus and nitrogen in place by 2015. This obligation entails a number of investments to furnish treatment facilities with advanced nutrient removal treatments.

Another plan developed in recent years relates to the extension of the reclaimed water supply for park and garden irrigation, street cleaning and use in industrial processes. The plan to improve the treatment system through the construction of new treatment plants, the expansion of existing plants and the

CONSOLIDATED DIRECTORS' REPORT FOR 2013

installation of tertiary treatment systems remained in force during the year. Development work is also underway on the new infrastructure required to distribute reclaimed water. Reclaimed water production totalled 10.37 hm^3 in 2013.

Water recycling constitutes an essential component of the comprehensive management of water resources, in line with environmental sustainability, and contributes to the net increase in these resources.

Another development worth noting is that, following the expansion of sewer system provision to new towns over the past year to reach approximately 85% of the overall population of the Community of Madrid, in 2013 the Company has worked on consolidating this service, making significant progress in the updating the mapping of the urban drainage network, preparation of diagnostic studies of outlets and sewer networks, and installation of measuring equipment.

The results of these optimisation initiatives and measures are reflected in the volume of water consumed in the Community of Madrid, which declined by 5.36% in 2013 compared to 2012, standing at 496.85 hm^3, a level similar to, and even lower than, that seen in 1990. This curbed consumption in recent years is particularly significant in light of the increase in the population supplied in the Community of Madrid, and considering that there have been no water use restrictions due to periods of drought over recent years. All of this reflects the highly efficient nature of the water supply system in the Community of Madrid.

The Group's other activities must also be considered, which can be divided into three segments:

- Comprehensive management of the water cycle in Spain, Colombia and Ecuador.
- Support services for comprehensive management, such as plant operations, works and installations for hook-ups and meters, procurement of supplies, commercial management of water supply and treatment operations, call centre management and collection of levies and taxes. To carry out these activities, the Canal Gestión Group has companies in Spain, Colombia, Panama, the Dominican Republic, Ecuador and, since late 2013, Brazil.
- Other synergistic activities related to comprehensive management of the water cycle, such as hydroelectric power generation, telecommunications, IT, sector advisory and consultancy services, waste management and urban cleaning services. These activities are carried out by Group companies in Spain and Colombia.

In total, the Canal de Isabel II Gestión Group provides services to more than 9.58 million inhabitants through these activities (6.7 million in Spain and 2.88 million in Latin America).

<u>Group financial and activity performance indicators</u>

Canal de Isabel II Gestión, S.A.'s turnover amounted to Euros 828.7 million in 2013. Considering, for comparison purposes, total revenues for the full year of 2012 (i.e. including the revenues of Canal de Isabel II to 30 June, when the branch of activity was contributed to the Company), which amounted to Euros 819.1 million, in 2013 revenues grew 1.2% on the 2012 figure despite a sharp drop in water use.

The Group's consolidated revenues for 2013 amount to Euros 1,034.6 million, approximately 20% of which was contributed by the subsidiaries and the remaining 80% by Canal de Isabel II Gestión. Behind

CONSOLIDATED DIRECTORS' REPORT FOR 2013

Canal de Isabel II Gestión, Triple A de Barranquilla's contribution of almost Euros 146 million (14.1% of total consolidated revenue) is also notable.

Consolidated profit for 2013 attributable to the Parent is Euros 210.3 million, with Canal de Isabel II Gestión contributing almost 94% of this amount.

To compare annual performance with 2012, we need to look at the revenues and consolidated profit of the Canal de Isabel II Group, of which the Canal de Isabel II Gestión Group forms part, since the Group's overall activity is the same in the two years despite the structural changes. Accordingly, as Canal de Isabel II Group's full-year consolidated revenue for 2012 totalled Euros 996.1 million, 2013 has seen growth of 3.7%.

Consolidated profit for 2013 attributable to the Parent is 15.8% up on the Euros 181.5 million reported by the Canal de Isabel II Group in 2012.

All of this was achieved despite a notable shrinkage of water consumption in 2013. The fact that it was a particularly wet year helped to curb production costs related to energy consumed in the process of obtaining and managing water resources. Similarly, the investments made in prior years and improvements to operating and management allowed the impact of the fall in consumption to be absorbed and even saw improvement in the margin on operations.

The individual annual accounts prepared by the subsidiaries for 2013 reflect the high revenue of Canal Extensia and its subsidiaries, an annual amount of Euros 181 million, generated on integrated water cycle and other related services in Latin America and the Caribbean.

Foreign companies' activities and income have continued to expand, in line with the economic growth in the countries where they operate. In addition, the Group is studying new business development opportunities, primarily through INASSA. In 2013 new operations started up in Riohacha (Colombia) and Brazil, new agreements were signed in Panama and the Dominican Republic and a new IT firm was created to operate the Amerika software.

Excellent operational and environmental management of the companies operating in Colombia and Ecuador has allowed innovative solutions to be applied in areas where previously it did not seem possible for treated water to be received.

Two major projects with significant returns in terms of environmental sustainability were commenced in Colombia by Triple A de Barranquilla in 2012 and developed throughout 2013: the Barranquilla urban waste recycling project (project "VerdeAzul") and the collection and use of biogas from the Los Pocitos landfill. These projects were developed as part of the Clean Development Mechanism included in the Kyoto Protocol, contributing to reducing greenhouse gas emissions.

In 2013 Triple A's management remit was extended to include a new town in the Atlántico Department in Colombia, Palmar de Varela, with some 24,000 inhabitants, bringing its total number of customer served to 440 thousand.

The Metroagua management model in Santa Marta is demonstrating its success as a regional model, combating difficulties due to the growth of the city's population and recurring dry spells. In 2013 this company implemented initiatives and made significant progress in proposing and seeking out financing from the Colombian authorities to fund projects that will allow the identification and exploitation of new supply sources of both surface and of underground water for Santa Marta. Another notable event this year was the completion of Phases I and II of Stage IV of the Bastidas Mar Caribe rain collector project.

A new company, ASAA, was created in September to run the comprehensive water cycle for the city of Riohacha, the capital of La Guajira Department (Colombia). With supply in this city reaching only 63.3% of the population (85,371 inhabitants served) and a deficient service unable to run 24 hours a day, ASAA has a strategy that should bring short-term improvements to this situation, applying the terms of the La Guajira Departmental Water Plan and making investments of over Euros 8 million to improve infrastructures. ASAA has also begun to make progress in the implementation of strategies to improve turnover and collection rates.

Again in Colombia, a highlight of 2013 was the segregation of all the information technology activities, previously been carried out by Inassa, by setting up a new company, Amerika, T.I., to carry out these activities. Inassa and all the Canal Gestión Group companies that use these services hold stakes in this new company.

Changes in environmental legislation in Ecuador have required Amagua to make efforts over recent years to improve the processes of the wastewater treatment facilities it runs, thus achieving environmental certification. In this respect, one highlight of 2013 was the awarding of an environmental permit for the Entre Ríos wastewater treatment facility – the company's largest – and the inclusion of the new Tarifa wastewater treatment facility in the sanitation system.

In 2013 the population served by Amagua grew 15.41% compared to 2012. Therefore, to ensure that this company is suitably sized, a drinking water distribution master plan has been drawn up for a 20-year time-span. In 2013 two local authorities undertook to support to support the project and achieve the financing necessary to build the Amagua wastewater treatment facility, which will bring substantial improvements in guarantee of supply to a growing population.

AAA Dominicana has made significant progress in ensuring its future sustainability in 2013 by securing new contracts such as a 20-year contract to manage sales for the Aqueduct and Sewer Board of La Vega, one of the most important provinces of the Dominican Republic in terms of GDP contribution, and extending or prolonging existing contracts to 2014 and 2015.

The Brazilian company Emissao Engenharia e Construcoes, S.A. joined the Canal Gestión Group In December 2013. Headquartered in Rio de Janeiro, this company oversees sales management for supply and sanitation services in several Brazilian states, as well as providing sector consultancy and engineering work, building, managing and maintaining supply facilities and networks, developing and maintaining facility telecontrol systems and acting as lead operator of supply to the town of Guapimirim (Rio de Janeiro state) through the company Fontes de Serra.

With regard to the Spanish subsidiaries:

One highlight of the year was the creation of Canal Gestión Lanzarote, S.A.U. in May 2013. This company began operating on 1 June as a result of obtaining a 30-year concession to provide comprehensive water cycle management services on the islands of Lanzarote and La Graciosa. On the subject of treatment, this company has a total nominal production capacity of over 64,000 m³ per day in seawater-based reverse osmosis and steam compression plants, so its addition to the Group is of great value from a technological perspective, as it diversifies and extends the Group's know-how in the field of drinking water treatment.

CONSOLIDATED DIRECTORS' REPORT FOR 2013

This company generated revenues of Euros 16.2 million in the seven months it was operative in 2013, although its overall contribution to the Group was negative (loss of almost Euros 2.7 million). Nevertheless, according to its business plan, planned investment in improvements and the application of the Group's management model are expected to bear fruit in the coming years in terms of financial indicators, service quality and guarantee of supply.

Hispanagua, S.A.U.'s Euros 30.4 million revenues for 2013 were primarily generated by works, network initiatives, hook-up and meter works, and the operation of wastewater treatment plants and other Canal de Isabel II Gestión facilities.

Hidráulica Santillana, S.A.U., engaged in the generation of electricity through 8 mini plants, generated 107.32 GWh in 2012, up 128% on 2012 due to the high water reserves during the year. Moreover, facilities availability throughout the year was 98%, allowing for efficient adaptation to the demand for operational management from Canal de Isabel II Gestión, minimising any potential impact on the environment and meeting the established water levels for ecological purposes.

Of total production, 11.62% was sold to the Group. Sales totalled Euros 9.36 million.

Canal de Comunicaciones Unidas, S.A.U. generated revenues of Euros 5.7 million during the year, rendering services to the Group in the area of radio communications and communications and telecontrol systems. The digital mobile radio telephony (trunking) network managed by Canal de Comunicaciones Unidas now has 83 operational stations and 4,922 operational terminals. This network provides services to the Canal Gestión Group and the emergency services in the Community of Madrid.

The corresponding cash flows from operating activities, derived from consolidated profit for the year, have been used in the significant investments undertaken in 2013, Euros 273.9 million in total, based on the planned investment programmes.

The most significant investments relate to the aforementioned objectives of guaranteeing satisfactory operations, maintaining current levels of production efficiency and competitiveness, and expanding the transportation and distribution network and storage capacity, as well as adapting and modernising the treatment system and expand the recycling system.

The above figure includes the investments considered as replacement activity, pursuant to the standards adapting the Spanish General Chart of Accounts for public infrastructure concession holders. In accordance with those standards, the Group has not capitalised these investments as an increase in fixed assets, but rather they have been applied to the provision for replacements in an amount of Euros 80 million.

To maintain its leading strategic position in the integrated water cycle sector, in 2013 the Group has maintained its policy of developing projects for the ongoing improvement of its management information systems in different areas, striving to improve the effectiveness and efficiency of operating and support processes by equipping them with the latest technologies for data handling and telecontrol.

In this respect, over the last two years significant progress has been made in the development of a telecontrol system for treatment plants in the Community of Madrid, which will soon allow these to be monitored entirely by remote control, optimising facility management.

The Group has also contributed actively to innovative research and studies to increase scientific and technical knowledge in the sector. These initiatives are carried out through the R&D&i plan intended to promote, organise and publicise the Company's efforts and undertakings in this area in an effective and efficient manner, and through collaborations with different research institutes and universities.

In terms of operating and management, the Group upholds its objective of continuing to upgrade its operational plans to achieve maximum efficiency of the integrated water cycle, incorporating the most recent advances and technical and management expertise, from the procurement and management of water resources and their treatment, distribution, cleaning and recycling to commercial and support activities, achieving an integrated planning, management and control system for the integrated water cycle and auxiliary activities.

In the risk management area, Canal de Isabel II Gestión has established a system for identification, analysis and control of the risks to which its business could be exposed, enabling it to make the investment and operational decisions that allow it to fulfil its mission satisfactorily and to minimise impacts on the income statement. The growing complexity of its activities, the high volume of investment in new infrastructure and the new environmental requirements oblige Canal to consider in ever-greater detail the variety of operational, fortuitous, strategic, financial and common risks that could hinder achievement of its objectives. The Internal Audit department has been reinforced in light of its key role in ensuring these targets are met.

Development and updating of internal regulations for the execution of processes and their monitoring and control, as well as the hedging policy, in certain cases based on the transfer of risks through insurance policies, is incorporated into the global risk management policy.

The Group's companies have implemented and received certification for a Quality and Environment Management System under ISO 9001:2008 and ISO 14001:2004, applicable to all their facilities, activities and operations. In 2013 the certifying entity performed the second follow-up audit of these certifications, and no deviations from the requirements contained in the above-mentioned standards were detected.

The renewal audit of the certification of the management system for occupational health and safety, in accordance with the BS OHSAS 18001:2007 standard, was also carried out for Canal de Isabel II Gestión in 2013, with the same result. Hispanagua has held certification for its occupational health and safety systems under the OHSAS 18001 standard since January 2012.

On the subject of water quality, in 2013 Canal Isabel II Gestión's laboratories have maintained the certification scope in terms of parameters covered by standard UNE-EN ISO/IEC 17025, with the addition of a further 12 parameters. Moreover, the first re-evaluation audit has been completed for meter verification processes, maintaining the tests that had already been certified.

The quality control systems help to optimise processes related to the comprehensive management of the water cycle and ongoing improvements. In particular, consideration of environmental factors in all its decisions is pivotal in terms of actively contributing to environmental conservation.

Finally, mention should be made of the Group's efforts to implement policies and carry out activities in the social sphere, including the initiatives of the Canal Volunteers programme for assistance in emergency situations and cooperation in the development of disadvantaged countries. This programme is run by the Group's own employees.

CONSOLIDATED DIRECTORS' REPORT FOR 2013

In addition to these activities, cultural exhibitions have also been organised, the success of which is reflected in the hundreds of thousands of visitors to the Canal Art Exhibition Centre, and the programming of the Fundación Canal has been arranged.

The short-term planning of the public companies in the Group is included in the Investment and Financing Action Programme of each for 2013, with the objective of optimising the integrated water cycle and other value added services that complement or support the Group's activities. Significant plans for future investments include the programmes for the extension of the supply system and investments in environmental commitments.

Authorisation for issue of the Consolidated Annual Accounts and Consolidated Directors' Report for the year ended 31 December 2013

At their meeting held on 26 February 2014, pursuant to the requirements of article 253.2 of the Revised Spanish Companies Act and article 37 of the Spanish Code of Commerce, the Directors of Canal de Isabel II Gestión, S.A. authorised for issue the consolidated annual accounts and consolidated directors' report for the reporting period from 1 January 2013 to 31 December 2013. The consolidated annual accounts and consolidated directors' report comprise the documents that precede this certification.

Signed:

Mr Salvador Victoria Bolívar **Chairman of Canal de Isabel II Gestión, S.A.**	
Mr José Manuel Serra Peris **Vice-chairman-Board Member**	**Mr David Pérez García** **Board member**
Mr Agapito Ramos Cuenca **Board member**	**Mr Enrique Ossorio Crespo** **Board member**
Mr Diego Sanjuanbenito Bonal **Board member**	

Annual Accounts and Director's Report Canal de Isabel II Gestión, S.A. and Subsidiaries

2012

Canal de Isabel II gestión

Annual Accounts and Director's Report Canal de Isabel II Gestión, S.A. and Subsidiaries

2012

Canal de Isabel II gestión

KPMG Auditores S.L.
Edificio Torre Europa
Paseo de la Castellana, 95
28046 Madrid

Auditors' Report on the Consolidated Annual Accounts

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

To the Shareholders of

Canal de Isabel II Gestión, S.A.

We have audited the consolidated annual accounts of Canal de Isabel II Gestión, S.A. (the "Company") and subsidiaries (the "Group"), which comprise the consolidated balance sheet at 31 December 2012, the consolidated income statement, the consolidated statement of changes in equity, the consolidated statement of cash flows and the notes thereto for the period from 27 June 2012 (the date of incorporation of the Company) to 31 December 2012. The Company's Directors are responsible for the preparation of the consolidated annual accounts in accordance with the financial information reporting framework applicable to the Group (specified in note 2 to the accompanying consolidated annual accounts) and, in particular, with the accounting principles and criteria set forth therein. Our responsibility is to express an opinion on the consolidated annual accounts taken as a whole, based on our audit, which was conducted in accordance with prevailing legislation regulating the audit of accounts in Spain, which requires examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated annual accounts and evaluating whether their overall presentation, the accounting principles and criteria used and the accounting estimates made comply with the applicable legislation governing financial information.

In our opinion, the accompanying consolidated annual accounts for 2012 present fairly, in all material respects, the consolidated equity and consolidated financial position of Canal de Isabel II Gestión, S.A. and subsidiaries at 31 December 2012, and the consolidated results of their operations and consolidated cash flows for the period from 27 June 2012 to 31 December 2012, in accordance with the applicable financial information reporting framework and, in particular, with the accounting principles and criteria set forth therein.

The accompanying consolidated directors' report for 2012 contains such explanations as the Directors of Canal de Isabel II Gestión, S.A. consider relevant to the situation of the Group, the evolution of its business and other matters, and is not an integral part of the consolidated annual accounts. We have verified that the accounting information contained therein is consistent with that disclosed in the consolidated annual accounts for 2012. Our work as auditors is limited to the verification of the consolidated directors' report within the scope described in this paragraph and does not include a review of information other than that obtained from the accounting records of Canal de Isabel II and subsidiaries.

KPMG Auditores, S.L.

(Signed on original in Spanish.)

Borja Guinea López

20 March 2013

CONTENTS

ANNUAL ACCOUNTS 2012

CONSOLIDATED BALANCE SHEET AT 31 DECEMBER 2012

CONSOLIDATED INCOME STATEMENT FOR THE SIX-MONTH PERIOD ENDED 31 DECEMBER 2012

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE SIX-MONTH PERIOD ENDED 31 DECEMBER 2012

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE SIX-MONTH PERIOD ENDED 31 DECEMBER 2012

NOTES TO THE ANNUAL ACCOUNTS 2012

1. NATURE, PRINCIPAL ACTIVITIES AND COMPOSITION OF THE CONSOLIDATED GROUP 1
2. BASIS OF PRESENTATION 2
3. NON-MONETARY CONTRIBUTION AND CONTRACT-PROGRAMME 4
4. DISTRIBUTION OF PROFIT 4
5. SIGNIFICANT ACCOUNTING POLICIES 6
6. GOODWILL OF CONSOLIDATED COMPANIES 25
7. JOINT VENTURES 26
8. INTANGIBLE ASSETS 27
9. PROPERTY, PLANT AND EQUIPMENT 38
10. INVESTMENT PROPERTY 39
11. RISK MANAGEMENT POLICY 40
12. CLASSIFICATION OF FINANCIAL ASSETS BY CATEGORY AND EQUITY-ACCOUNTED INVESTEES 42
13. INVESTMENTS AND TRADE RECEIVABLES 45
14. INVENTORIES 50
15. PREPAYMENTS 50
16. CASH AND CASH EQUIVALENTS 51
17. EQUITY 51
18. GRANTS, DONATIONS AND BEQUESTS RECEIVED 54
19. NON-CONTROLLING INTERESTS 56
20. PROVISIONS AND CONTINGENT LIABILITIES 57
21. FINANCIAL LIABILITIES BY CATEGORY 60
22. PAYABLES AND TRADE PAYABLES 63
23. LATE PAYMENTS TO SUPPLIERS. “REPORTING REQUIREMENT”, THIRD ADDITIONAL PROVISION OF LAW 15/2010 OF 5 JULY 2010 66
24. ACCRUALS 66

25. TAXATION 67

26. ENVIRONMENTAL INFORMATION 71

27. RELATED PARTY BALANCES AND TRANSACTIONS 73

28. INCOME AND EXPENSES 74

29. EMPLOYEE INFORMATION 76

30. AUDIT FEES 77

31. EVENTS AFTER THE REPORTING PERIOD 78

32. SEGMENT REPORTING 78

APPENDIX

APPENDIX I DETAILS OF GROUP COMPANIES AT 31 DECEMBER 2012

APPENDIX II DETAILS OF ASSOCIATES AT 31 DECEMBER 2012

APPENDIX III DETAILS OF JOINT VENTURES AT 31 DECEMBER 2012

APPENDIX IV DETAILS OF POSITIONS HELD IN OTHER COMPANIES BY DIRECTORS WITH SPEAKING AND VOTING RIGHTS IN 2012

APPENDIX V DETAILS OF POSITIONS HELD BY SENIOR MANAGEMENT PERSONNEL IN OTHER COMPANIES IN 2012

APPENDIX VI SEGMENT REPORTING AT 31 DECEMBER 2012

DIRECTOR'S REPORT FOR 2012

Canal de Isabel II gestión

Annual Accounts 2012

Consolidated Balance Sheet at 31 December 2012

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

ASSETS	NOTES	2012
A) NON-CURRENT ASSETS		**4,523,355**
I. Intangible assets	**8**	**4,284,965**
Development		362
Concessions		301
Computer software		374
Concession arrangement, regulated assets		3,975,913
Concession arrangement, capitalised borrowing costs		20,733
Concession arrangement, regulated assets under construction		287,282
II. Property, plant and equipment	**9**	**29,212**
Land and buildings		2,557
Technical installations and other items		25,553
Machinery, furniture and fixtures		1,102
III. Investment property	**10**	**24,050**
Land		7,898
Buildings		16,152
IV. Non-current investments in Group companies and associates		**4,479**
Equity instruments		181
Equity-accounted investees	12 (b)	4,298
V. Non-current investments	**12 (a) and 13 (a)**	**86,476**
Equity instruments		200
Loans to third parties		71,623
Other financial assets		14,653
VI. Deferred tax assets	**25**	**2,632**
VII. Prepayments for non-current assets	**15**	**78,353**
VIII. Goodwill of consolidated companies	**6**	**13,188**
B) CURRENT ASSETS		**309,377**
II. Inventories	**14**	**12,473**
Goods for resale		58
Raw materials and other supplies		10,990
Advances to suppliers		1,425
III. Trade and other receivables	**12 (a) and 13 (b)**	**229,587**
Trade receivables		173,859
Trade receivables from Group companies and associates		1,293
Other receivables		40,305
Personnel		2,031
Current tax assets	25	1,242

Public entities, other	25	10,857
IV. Current investments in Group companies and associates	**12 (a)**	**4,676**
Loans to companies		4,676
V. Current investments	**12 (a) and 13 (a)**	**12,891**
Loans to companies		12,829
Other financial assets		62
VI. Prepayments for current assets	**15**	**2,493**
VII. Cash and cash equivalents	**16**	**47,257**
TOTAL ASSETS (A + B)		**4,832,732**

The accompanying notes form an integral part of the consolidated annual accounts for the six-month period ended 31 December 2012.

Consolidated Balance Sheet at 31 December 2012 (Expressed in thousands of Euros) (Free translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails.)		
EQUITY AND LIABILITIES	NOTES	2012
A) EQUITY		**2,921,470**
A-1) Capital and reserves	17	**2,222,324**
I. Capital		**1,074,032**
II. Share premium		**1,074,032**
III. Reserves and prior years' profit and loss		**(234)**
Other reserves		(234)
IV. Reserves in consolidated companies		**8,023**
VIII. Profit for the year attributable to the Parent		**135,982**
Consolidated profit and loss		137,452
(Profit and loss attributable to non-controlling interests)		(1,470)
IX. (Interim dividend)	4	**(69,511)**
A-2) Valuation adjustments		**(2,971)**
I. Translation differences, consolidated companies		**(2,776)**
II. Translation differences, equity-accounted investees		**(195)**
A-3) Grants, donations and bequests received	18	**678,848**
Grants, donations and bequests received		678,848
A-4) Non-controlling interests	19	**23,269**
B) NON-CURRENT LIABILITIES		**1,388,006**
I. Non-current provisions	20	**157,972**
Long-term employee benefits		134
Provisions for infrastructure		131,673
Other provisions		26,165
II. Non-current payables	21 y 22 (a)	**142,060**
Loans and borrowings		49,058
Other financial liabilities		93,002
III. Group companies and associates, non-current	21 (a)	**1,008,567**
Group companies and associates, non-current		1,008,567
IV. Deferred tax liabilities	25	**28,280**
V. Non-current accruals	24	**51,127**
C) CURRENT LIABILITIES		**523,256**
II. Current provisions	20	**71,846**
Provisions for infrastructure		65,020
Other provisions		6,826
III. Current payables	22 (a)	**118,297**
Bonds and other marketable securities		15,743
Loans and borrowings		14,223

Other financial liabilities		88,331
IV. Group companies and associates, current	21 (a)	**162,290**
Group companies and associates, current		162,290
V. Trade and other payables	22 (b)	**169,262**
Suppliers		25,766
Suppliers, Group companies and associates		1,438
Other payables		108,249
Salaries payable		9,152
Current tax liabilities		2,751
Public entities, other		16,233
Advances from customers		5,673
VI. Current accruals	24	**1,561**
TOTAL EQUITY AND LIABILITIES (A+B+C)		**4,832,732**

The accompanying notes form an integral part of the consolidated annual accounts for the six-month period ended 31 December 2012.

Consolidated Income Statement for the six-month period ended 31 December 2012

(Expressed in thousands of Euros)

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

	NOTES	2012
A) CONTINUING OPERATIONS		
1. Revenues	**28 (a)**	**544,160**
Sales		1,513
Services rendered		542,647
2. Self-constructed assets		**10,945**
3. Supplies		**(114,222)**
Electricity used	28 (b)	(28,016)
Raw materials and other consumables used	28 (b)	(24,680)
Subcontracted work	28 (b)	(61,552)
Impairment of merchandise, raw materials and other supplies	14	26
4. Other operating income		**10,464**
Non-trading and other operating income	28 (e)	10,219
Operating grants taken to income	18	245
5. Personnel expenses	**28 (c)**	**(73,475)**
Salaries and wages		(53,914)
Employee benefits expense		(19,561)
6. Other operating expenses		**(181,792)**
External services		(80,095)
Taxes		(8,095)
Fees		(8,881)
Losses, impairment and changes in trade provisions	13 (b)	(18,953)
Charge to provision for infrastructure	20 (c)	(56,643)
Other operating expenses		(9,125)
7. Amortisation and depreciation	**8, 9 and 10**	**(57,115)**
8. Non-financial and other capital grants	**18**	**6,166**
9. Provision surpluses	**20**	**1,953**
10. Impairment and gains/(losses) on disposal of fixed assets		**2**
Impairment and losses	8	41
Losses on disposal and other	28 (d)	(39)
11. Other gains		**648**
A.1) RESULTS FROM OPERATING ACTIVITIES (1+2+3+4+5+6+7+8+9+10+11+12+13)		**147,734**
12. Finance income		**4,819**

Marketable securities and other financial instruments		4,396
Capitalised borrowing costs	8	423
13. Finance costs		**(12,424)**
Group companies and associates		(5,779)
Other		(5,449)
Provision adjustments	20	(1,196)
14. Exchange losses		**(146)**
15. Impairment and gains/(losses) on disposal of financial instruments		**4,116**
Impairment and losses	13 (a)	4,247
Losses on disposal and other		(131)
A.2) NET FINANCE COST (14+15+16+17+18)		**(3,635)**
16. Share in losses of equity-accounted investees	**12b**	**(262)**
A.3) PROFIT BEFORE INCOME TAX (A.1+A.2+19+20+21)		**143,837**
22. Income tax	**25**	**(6,385)**
A.4) PROFIT FROM CONTINUING OPERATIONS (A.3+22)		**137,452**
A.5) CONSOLIDATED PROFIT FOR THE YEAR (A.4+23)		**137,452**
Profit attributable to the Parent		135,982
Profit attributable to non-controlling interests	17 and 19	1,470

The accompanying notes form an integral part of the consolidated annual accounts for the six-month period ended 31 December 2012.

Consolidated Statement of Changes in Equity for the six-month period from 1 July to 31 December 2012

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

A) Consolidated Statement of Recognised Income and Expense

	Notes	2012
CONSOLIDATED PROFIT FOR THE YEAR		**137,452**
Income and expense recognised directly in equity		
I. Grants, donations and bequests received	18	10,865
II. Translation differences	17	(2,971)
VII. Tax effect		(33)
TOTAL INCOME AND EXPENSE RECOGNISED DIRECTLY IN CONSOLIDATED EQUITY		**7,861**
Amounts transferred to the consolidated income statement		
X. Grants, donations and bequests received	18	(6,166)
XI. Translation differences	18	(65)
XII. Tax effect		26
TOTAL AMOUNTS TRANSFERRED TO THE CONSOLIDATED INCOME STATEMENT		**(6,205)**
TOTAL CONSOLIDATED RECOGNISED INCOME AND EXPENSE		**139,108**
Total income and expense attributable to the Parent		135,982
Total income and expense attributable to non-controlling interests		1,470

The accompanying notes form an integral part of the consolidated annual accounts for the six-month period ended 31 December 2012.

Consolidated Statement of Changes in Equity for the six-month period ended 31 December 2012
(Expressed in thousands of Euros)
(Free translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails.)

B) Consolidated Statement of Total Changes in Equity

	Capital	Share premium	Parent reserves	Reserves in consolidated companies	Profit for the year attributable to the Parent	Interim dividend	Translation differences	Grants, donations and bequests received	Non-controlling interests	TOTAL
A. BALANCE AT 1 JULY 2012	**1,074,032**	**1,074,032**	**-**	**-**	**-**	**-**	**-**	**674,221**	**26,250**	**2,848,535**
I. Consolidated recognised income and expense	-	-	-	-	135,982	-	(2,971)	4,627	1,470	139,108
II. Distribution of dividends	-	-	-	-	-	(69,511)	-	-	-	(69,511)
III. Other changes in equity	-	-	(234)	8,023	-	-	-	-	(4,451)	3,338
E. BALANCE AT 31 DECEMBER 2012	**1,074,032**	**1,074,032**	**(234)**	**8,023**	**135,982**	**(69,511)**	**(2,971)**	**678,848**	**23,269**	**2,921,470**

The accompanying notes form an integral part of the consolidated annual accounts for the six-month period ended 31 December 2012.

Consolidated Statement of Cash Flows for the six-month period ended 31 December 2012

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

	2012
A) CASH FLOWS FROM OPERATING ACTIVITIES	
1. Profit for the period before tax	**143,837**
2. Adjustments for	**85,378**
a) Amortisation and depreciation (+)	57,115
b) Impairment (+/-)	18,685
c) Change in provisions (+/-)	14,771
d) Grants recognised in the income statement	(6,418)
e) Proceeds from disposals of fixed assets (-)	(6,166)
f) Proceeds from disposals of financial instruments (+/-)	31
g) Rdos. Por bajas y enajenaciones de instrumentos financieros (+/-)	(392)
h) Finance income (-)	(4,819)
i) Finance costs (+)	12.424
j) Exchange gains/losses (+/-)	147
3. Changes cash flows from operating activities	**(44,395)**
a) Inventories (+/-)	(1.021)
b) Trade and other receivables (+/-)	8,946
c) Other current assets (+/-)	27
d) Trade and other payables (+/-)	(3,231)
f) Provisions (+/-)	(49,116)
4. Other cash flows from operating liabilities	**(13,195)**
a) Interest paid (-)	(15,318)
c) Interest received (+)	5,027
d) Income tax received (paid) (-/+)	(2,904)
5. Cash flows from operating activities	**171,625**
B) CASH FLOWS FROM INVESTING ACTIVITIES	
6. Payments for investments (-)	**(145,579)**
a) Group companies and associates	(4,676)
b) Intangible assets	(128,854)
c) Property, plant and equipment	(2,073)
d) Investment property	(17)
e) Other assets	(9,959)

7. Proceeds from sale of investments (+)	**4,924**
c) Other financial assets	4,924
8. Cash flows used investing activities	**(140,655)**
C) CASH FLOWS FROM FINANCING ACTIVITIES	
9. Proceeds from and payments for financial liability instruments	**9,395**
e) Grants, donations and bequests received (+)	10,865
g) Increase (+) or decrease (-) in non-controling interests	(1,470)
10. Proceeds from and payments for financial liability instruments	**25,964**
a) Issue	115,709
2. Loans and borrow ings (+)	11,077
3. Group companies and associates (+)	102,500
4. Other payables (+)	2,132
b) Redemption and repayment of	(89,745)
1. Bonds and other marketable securities (-)	(15,000)
2. Loans and borrow ings (-)	(16,542)
3. Group companies and associates (-)	(56,454)
4. Other payables (-)	(1,749)
11. Dividends and interest on other equity instruments paid	**(57,277)**
a) Dividends (-)	(57,277)
12. Cash flows used in financing activities	**(21,918)**
D) Efect of Exchange rate fluctuations	**(147)**
E) NET INCREASE IN CASH AND CASH EQUIVALENTS	**8,905**
Cash and cash equivalents at beginning of period	38,352
Cash and cash equivalents at end of period	47,257

The accompanying notes form an integral part of the consolidated annual accounts for the six-month period ended 31 December 2012.

Canal de Isabel II gestión

Notes to the Annual Accounts 2012

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

Canal de Isabel II Gestión, S.A. (hereinafter the Parent or the Company) was incorporated pursuant to article 16 clause one of Law 3/2008 of 29 December 2008 (on Tax and Administration Measures), amended by Law 6/2011 of 28 December 2011 (on Tax and Administration Measures), which authorised Canal de Isabel II (hereinafter the Public Entity) to create a corporation to provide water supply, sanitation and other water-related services and works under the terms of Law 17/1984 of 20 December 1984, which regulates water supply and sanitation in the Community of Madrid, and other applicable legislation.

The Parent was incorporated with limited liability under Spanish law on 21 June 2012 in a deed attested by the Madrid notary public Valerio Pérez de Madrid y Palá, who recorded this deed as entry 1531 in his notarial record book. The Company is the first entry on sheet M-534929 of volume 29,733, page 86, section 8 of the Madrid Mercantile Registry. Its registered offices are located at Calle Santa Engracia, 125, Madrid.

According to its articles of association, the Parent's statutory activity consists of the following:

- Comprehensive water cycle management throughout the Madrid region, which involves:
    - Managing the supply and recycling of drinking water
    - Overseeing the sewer service
    - Controlling materials disposed of through the sewer system and water-related assets in the public domain
    - Running the wastewater treatment service
    - Conducting studies and research, whether technical, financial, legal or administrative, where necessary for the services and activities listed above to be carried out satisfactorily
    - Carrying out and/or overseeing any work, including civil work, necessary to maintain, replace, upgrade, install or extend the infrastructures used to provide the services listed above.
- Research activities and the provision of advice and assistance in all sectors relating to its statutory activity.
- The sale of electricity and all other activities that relate to or are instrumental or complementary to this business.
- Property development, construction, sale, rental and other associated activities, both in Spain and abroad, as well as the management of urban and land development projects.
- Any other public services or activities that reinforce the services provided by the Company and add value for users.
- Telecommunications-, information- and communications-related activities and services and any similar activities that may arise in the future.
- The acquisition, subscription, holding, 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. This excludes any activity restricted by law to collective investment undertakings or reserved by the Stock Market Law to member brokers and brokerage firms.

When commissioned to do so by the corresponding public authority, the Parent may also be involved in the process of collecting government revenue.

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

Under the terms of article 16, clause two, point 4 of Law 3/2008, on 14 June 2012 the Regional Cabinet of the Community of Madrid approved the Contract-Programme between the Public Entity and the Parent. The Contract-Programme, which was signed on 1 July 2012, establishes the mutual obligations and commitments assumed by both parties within the framework of the general financial policy and water policy of the regional authorities of the Community of Madrid, in turn within the scope of Law 17/84 of 20 December 1984, which regulates water supply and sanitation in the Community of Madrid. Its purpose is to establish the conditions necessary to carry out the capitalisation process foreseen in Law 3/2008 and manage the services assigned to the Public Entity by Law 17/1984, which include running (operation, maintenance and upkeep) the Community of Madrid General Network and providing the corresponding water supply, sanitation and recycling services. The agreement has a 50-year term which cannot be extended.

As established in article 4 of its articles of association, the Parent began operating on 1 July 2012.

Canal de Isabel II Gestión, S.A. is the parent of a group of subsidiaries (see Appendix I).

The Group also holds interests in associates (see Appendix III) and participates in joint ventures along with other venturers (see note 7). Information on temporary joint ventures is presented in Appendix III.

On 19 March 2013 the directors authorised for issue the individual annual accounts of Canal de Isabel II Gestión, S.A. for the six-month period ended 31 December 2012, which show profit of Euros 131,504 thousand and equity of Euros 2,887,100 thousand.

As described in note 3, in 2012 the Public Entity made a non-monetary contribution consisting of the activity, assets and liabilities, and shares and equity holdings in trading companies. Where applicable, the changes resulting from this transaction are disclosed in these notes to the annual accounts under "Additions due to non-monetary contribution".

2. BASIS OF PRESENTATION

a. Fair presentation

The accompanying consolidated annual accounts for 2012 have been prepared on the basis of the accounting records of Canal de Isabel II Gestión, S.A. and its subsidiaries, associates and joint ventures (the Group). The consolidated annual accounts for 2012 have been prepared in accordance with prevailing legislation, the Spanish General Chart of Accounts, the standards for the preparation of consolidated annual accounts, and Ministry of Economy and Finance Order EHA/3362/2010 of 23 December 2010, which approved the standards adapting the Spanish General Chart of Accounts for public infrastructure concession holders, to present fairly the equity and financial position at 31 December 2012 and results of operations, changes in equity, and cash flows for the period then ended.

The directors consider that the consolidated annual accounts for the six-month period ended 31 December 2012, authorised for issue on 19 March 2013, will be approved with no changes by the shareholders at their annual general meeting. All Group subsidiaries close their financial year on 31 December.

b. Comparative information

As explained in note 1, the Parent was incorporated on 27 June 2012 and began operating on 1 July 2012. Its first financial reporting period is therefore the six-month period from 1 July 2012 to 31 December 2012. Since this is the Group's first period of activity, the directors have not included comparative figures in the consolidated balance sheet, consolidated income statement, consolidated statement of changes in equity, consolidated statement of cash flows, or the notes thereto.

c. Functional and presentation currency

The figures disclosed in the consolidated annual accounts are expressed in thousands of Euros, the Group's functional and presentation currency, rounded off to the nearest thousand.

d. Critical issues regarding the valuation and estimation of relevant uncertainties and judgements used when applying accounting principles

(i) Relevant accounting estimates and assumptions

Relevant accounting estimates and judgements and other estimates and assumptions have to be made when applying the Company's accounting principles to prepare the consolidated annual accounts. A summary of the items requiring a greater degree of judgement or which are more complex, or where the assumptions and estimates made are significant to the preparation of the consolidated annual accounts, is as follows:

The Group tests its investment property, intangible assets and goodwill for impairment on an annual basis. Management and the Group must use estimates to calculate the recoverable amount, which is generally determined using cash flow discounting methods. Discounted cash flow calculations are based projections in the budgets approved by management. The cash flows take into consideration past experience and represent the best estimate of future market performance. The key assumptions employed when determining fair value (less costs to sell, where applicable) and value in use include growth rates, the weighted average cost of capital and tax rates. The estimates, including the methodology used, could have a significant impact on values and impairment.

The Parent recognises a provision on a systematic basis for the replacement of infrastructure transferred by third parties based on the best estimate of the annual replacement investment to be made in this infrastructure over the concession term. For the rest of its infrastructure, located in Latin America, the Group considers that a suitable preventative and corrective maintenance programme eradicates the need for any significant replacements.

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

The consolidated annual accounts for each year include an estimate of the water supplied but not yet billed at 31 December each year (approximately one month's supply). Due to the meter-reading procedure, this supply is billed the following year. The estimate is based on the water use invoiced in the immediately preceding period. The Group subsequently verifies whether there are any significant differences between this estimate and the amount finally billed the following January.

The Group is subject to regulatory and legal proceedings and inspections by government bodies in various jurisdictions. It recognises a provision for liabilities (see note 20) 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 Group has receivables from certain town and city councils due to work carried out on the water distribution infrastructure. These receivables are recognised at amortised cost considering recovery periods estimated by management based on past experience, representing the best estimate of the balance to be recovered in the future (see note 13 (a)).

The Parent has recognised security deposits placed by customers to guarantee payment for the water they use. These security deposits are recognised at amortised cost considering the average reimbursement period, estimated by the Company based on past experience, which is the best estimate of the amount to be reimbursed in the future (see note 22 (a)).

(ii) Changes in accounting estimates

Although estimates are calculated based on the best information available at 31 December 2012, future events may require changes to these estimates in subsequent years. Any effect on the consolidated annual accounts of adjustments to be made in subsequent years would be recognised prospectively.

e. Going concern

Due to the activities conducted by the Parent and the investments made, the consolidated annual accounts present negative working capital of Euros 213,879 thousand at 31 December 2012. However, the Parent's directors have prepared the consolidated annual accounts on a going concern basis considering that these circumstances were expected and reflect the nature of the business, taking into account its capacity to generate cash. Law 5/2012 of 23 December 2012, which passed the Madrid Regional Government's General Budgets for 2013, authorised Canal de Isabel II to obtain long-term borrowings of Euros 134.4 million, an amount considered sufficient to meet its obligations by the respective maturity dates.

3. NON-MONETARY CONTRIBUTION AND CONTRACT-PROGRAMME

a. Non-monetary contribution

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 Regional Cabinet of the Community 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 Parent.

Pursuant to article 14, clause two point 3 of Law 3/2008 (on Tax and Administration Measures), the Public Entity also transferred the ownership of all assets that do not form part of the Community of Madrid General Network and its shares and equity holdings in trading companies to the Parent.

This valuation and contribution exercise was carried out following the criteria and guarantees stipulated in article 114 of Law 33/2003 of 3 November 2003 (on the Assets of Public Entities), for the purposes foreseen in article 47 of Law 3/2001 of 21 June 2001 (on the Assets of the Community of Madrid).

For the contribution of this activity, the Group availed of the tax neutrality scheme regulated in section VII, chapter VIII of Royal Legislative Decree 4/2004 of 5 March 2004, which approved the Revised Spanish Income Tax Law.

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 approved by Royal Decree 1514/2007 of 16 November 2007, which was partially amended by Royal Decree 1159/2010 of 17 September 2010 and Ministry of Economy and Finance Order EHA/3362/2010 of 23 December 2010.

In accordance with Law 3/2008 and the Incorporation Agreement, the Public Entity conveyed all of the rights and obligations that it held as a party to the contracts and agreements arranged with third parties, under the same terms and conditions stipulated in these documents, to the Parent (except for the rights and obligations retained by the Public Entity under the terms of the Contract-Programme regulating the relationships involved in running the comprehensive water service entrusted to the Public Entity and the financing contracts between the Entity and its lenders). The Public Entity also conveyed its position in all ongoing procurement procedures or contracts awarded and all kinds of litigation, contracts, quasi-contracts and legal affairs to the Parent. As required by Law 3/2008, all of the Public Entity's staff necessary to provide the entrusted services have been transferred to the Parent, maintaining the same terms of employment existing at the transfer date. This transfer is considered as a case of "company succession" under applicable Spanish legislation. Similarly, the Parent has assumed all pension commitments previously existing between the Public Entity and its employees, under the terms of the corresponding Pension Plan Specifications and prevailing legislation.

As required by article 47 of Law 3/2001 of 27 June 2001 (on the Assets of the Community of Madrid), the valuation was submitted to General Directorate of Financial Policy, Treasury and Heritage of the Department of Economy and Finance, which gave its approval. The valuation report includes a description of the criteria followed to allocate values to the activity and its components.

The amounts stated in the valuation report, in thousands of Euros, are as follows:

Assets	Thousands of Euros
A) Non-current assets	**4,284,518**
I. Intangible assets	4,020,400
II. Investment property	25,203
III. Non-current investments in Group companies and associates	117,016
1. Equity instruments	115,226
2. Loans to companies	1,790
IV. Non-current investments	40,808
V. Prepayments for non-current assets	81,091
B) Current assets	**293,122**
I. Inventories	7,682
II. Trade and other receivables	228,885
III. Current investments in Group companies and associates	175
IV. Current investments	12,005
V. Prepayments for current assets	1,609
VI. Cash and cash equivalents	42,766
TOTAL ASSETS (A + B)	**4,577,640**

Equity and Liabilities	Thousands of Euros
A) Equity	**2,809,044**
A-1) Capital and reserves	2,148,064
Share capital	1,074,032
Share premium	1,074,032
A-2) Grants, donations and bequests received	660,980
B) Non-current liabilities	**1,271,636**
I. Non-current provisions	92,125
II. Non-current payables	88,323
III. Group companies and associates, non-current	1,040,404
IV. Deferred tax liabilities	2,024
V. Non-current accruals	48,760
C) Current liabilities	**496,960**
I. Current provisions	81,057
II. Current payables	150,226
III. Group companies and associates, current	127,214
IV. Trade and other payables	135,916
V. Current accruals	2,547
TOTAL EQUITY AND LIABILITIES (A+B+C)	**4,577,640**

Additional points: (i) for 90 days from the date of the contribution, the difference between the values estimated for the assets and liabilities following the established measurement criteria (and stated in the valuation report) and the net worth of the assets and liabilities actually transferred on the date of the contribution and commencement of activities by the Company is to be adjusted by establishing a debit/credit between the Public Entity and the Parent; (ii) similarly, given the complexity and diversity of the elements and relationships that make up this activity, the Company and the Public Entity are to adjust the different advances, receipts or payments that could not be settled on the activity transfer date due to their nature, frequency, established payment terms or for any other reason; (iii) if any event that occurred prior to the incorporation of the Company leads to an agreement to release any assets assigned to the Company from the public domain and which, as a result, become part of the assets of the Public Entity, the latter is required to compensate the Company for the loss of the assigned goods, once the formal procedures for releasing assets from the public domain have been completed.

The following assets and liabilities made up the activity transferred in this non-monetary contribution on 1 July 2012:

Assets	Thousands of Euros
A) Non-current assets	**4,364,082**
I. Intangible assets (note 8)	4,074,343
II. Investment property (note 10)	24,017
III. Non-current investments in Group companies and associates	144,779
1. Equity instruments	142,936
2. Loans to companies	1,843
IV. Non-current investments	37,018
V. Prepayments for non-current assets	83,925
B) Current assets	**206,096**
I. Inventories	8,141
II. Trade and other receivables	178,835
III. Current investments in Group companies and associates	175
IV. Current investments	11,991
V. Prepayments for current assets	1,742
VI. Cash and cash equivalents	5,212
TOTAL ASSETS (A + B)	**4,570,178**
Equity and Liabilities	**Thousands of Euros**
A) Equity	**2,820,614**
A-1) Capital and reserves	2,148,064
Share capital	1,074,032
Share premium	1,074,032
A-2) Grants, donations and bequests received (note 18)	672,550
B) Non-current liabilities	**1,262,618**
I. Non-current provisions (note 20)	126,740
II. Non-current payables	73,977
III. Group companies and associates, non-current	986,223
IV. Deferred tax liabilities	13,275
V. Non-current accruals	62,403
C) Current liabilities	**486,946**
I. Current provisions (note 20)	82,937
II. Current payables	117,776
III. Group companies and associates, current	145,152
IV. Trade and other payables	139,047
V. Current accruals	2,034
TOTAL EQUITY AND LIABILITIES (A+B+C)	**4,570,178**

The net assets contributed to the Parent total Euros 2,148,064 thousand (see note 17).

b. Contract-Programme

The Contract-Programme regulating the relationship between the Public Entity and the Parent in running the comprehensive water service was approved by the Regional Cabinet on 14 June 2012 and came into force on 1 July 2012.

The Regional Cabinet of the Community of Madrid has authorised the transfer of the water supply, sanitation and recycling services previously entrusted to the Public Entity by any permits, to Canal de Isabel II Gestión, S.A. These services include the operation and maintenance of the Community of Madrid General Network and the provision of the supply, sanitation and recycling services relating to this network and, in general, all of the services and activities that were previously carried out by the Public Entity, except those expressly reserved to the Entity under the terms of the Contract-Programme, specifically the capacity to exercise the powers, rights and obligations derived from (i) concessions and authorisations associated with water-related assets in the public domain, (ii) any administrative powers held by the Community of Madrid in relation to the distribution and treatment of water, including the power to impose penalties, (iii) the supply and sanitation services provided under Law 17/1984 and other applicable legislation, (iv) the water-related functions entrusted to it by the Community of Madrid, based on agreements signed with local authorities, and (v) all other water-related functions entrusted to it by the Community of Madrid.

So that it can provide these services, article 16 of Law 3/2008 requires the Community of Madrid and the Public Entity to convey to the Parent any assets in the public domain that make up the Community of Madrid General Network and which are necessary for the Company to conduct the activities and functions entrusted to it. The Contract-Programme also provides for the Parent's use and management of energy resources currently operated by the Public Entity, as well as any such activities that may be carried out in the future. Moreover, the Parent is entitled to provide any other services entrusted to the Public Entity by the Community of Madrid, particularly Closed User Group mobile communications services. All of these infrastructures are public property as they are used for public services provided by the Parent. As such, they may not be disposed of or seized and are not subject to any statute of limitations. These assets may only be sold in the event that they are no longer required, but with the legal obligation to allocate the gains obtained to investments in the Community of Madrid General Network.

The Contract-Programme has a 50-year duration from 1 July 2012 and cannot be renewed. Once this period has elapsed and the Contract-Programme expires, the Public Entity is required to compensate the Parent for any investments made to carry out new infrastructure plans and not depreciated while the Contract-Programme was in force, taking into account the condition of such infrastructures and the value of the investment made, deducting any technical depreciation under the terms set out in these plans. On expiry of the Contract-Programme, the Parent is required to return the assets and rights that make up the Community of Madrid General Network, and any other goods and installations in the public domain that are required to provide the service, to the public authorities in good working order and perfect condition, as required by the progress clause governing the Contract-Programme, ensuring that these assets are still capable of providing the service based on the depreciation schedules of the different constituent items.

Neither the assets that do not form part of the Community of Madrid General Network nor the shares and equity holdings in trading companies previously held by the Public Entity will revert on completion of the Contract-Programme.

4. DISTRIBUTION OF PROFIT

On 30 November 2012 the board of directors of the Parent agreed to distribute an interim dividend of Euros 69,511,351.04 to its shareholders, calculated as Euros 0.06472 per share.

It was agreed that this interim dividend will be distributed among the shareholders in proportion to their respective percentage interests and will be payable from the day after the adoption of this agreement until 25 June 2013 to every shareholder who notifies the Parent in writing of their wish to receive the payment of all or part of the amount to which they are entitled (see note 22 (a)).

The board of directors also resolved that, if by 25 June 2013 any shareholder has failed to contact the Parent requesting payment, the amount payable will be settled within the following two working days. It was also agreed that the Parent will pay these interim dividends under the terms of the Spanish Civil Code, including, without limitation, the Parent's right to offset balances with any shareholder.

These amounts to be distributed do not exceed profit for the reporting period, after deducting the estimated income tax payable on these profits, as required by article 277 of the Revised Spanish Companies Act.

The provisional accounting statement prepared in accordance with statutory requirements demonstrating that sufficient cash was available for distribution of the aforementioned dividend is as follows:

	Euros
Distributable profit for 2012:	
Projected profit after income tax to 31.12.2012	130,647,486
Less, provision required for legal reserve	(13,064,749)
Estimated distributable profit for 2012	117,582,737
Interim dividends	69,511,351
Forecast cash flow for the period from 30 November 2012 to 30 November 2013:	
Cash flow at 30 November 2012	23,657,916
Projected collections	1,143,179,443
Projected payments including interim dividends	(1,105,191,466)
Projected cash flow at 30 November 2013	**61,645,893**

The proposed distribution of the Parent's profit for 2012 to be submitted to the shareholders for approval at their annual general meeting is as follows:

	Euros
Basis of allocation	
Profit for the period	131,504,185
	131,504,185
Distribution	
Legal reserve	13,150,418
Interim dividend	69,511,351
Dividends	48,842,416
	131,504,185

Profit recognised directly in equity cannot be distributed, either directly or indirectly.

5. SIGNIFICANT ACCOUNTING POLICIES

a. Subsidiaries

Subsidiaries are entities, including special purpose entities, over which the Parent, either directly or indirectly through subsidiaries, exercises control as defined in article 42 of the Spanish Code of Commerce. Control is the power to govern the financial and operating policies of an entity so as to obtain economic benefits from its activities. In assessing control potential voting rights held by the Group or other entities that are exercisable or convertible at the end of each reporting period are considered.

Solely for the purpose of presentation and disclosure, companies controlled, by any means, by one or more individuals or legal entities in conjunction, or which are solely managed in accordance with statutory clauses or agreements, are considered Group companies. Subsidiaries are fully consolidated. Details of the subsidiaries making up the consolidated Group are provided in Appendix I.

The income, expenses and cash flows of subsidiaries are included in the consolidated annual accounts from the date of acquisition, which is when the Group takes control, until the date that control ceases.

Transactions and balances with subsidiaries and unrealised gains or losses have been eliminated upon consolidation. Nevertheless, unrealised losses have been considered as an indicator of impairment of the assets transferred.

The subsidiary Hispanagua, S.A.U., which is engaged in the construction and maintenance of infrastructures, sells inventories to other Group companies, which class these items as property, plant and equipment. This reclassification from inventories to property, plant and equipment within the Group is recognised under self-constructed assets in the consolidated income statement.

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

The annual accounts or financial statements of the subsidiaries used in the consolidation process have been prepared as of the same date and for the same period as those of the Parent.

b. Goodwill of consolidated companies

Goodwill on consolidation arising from business combinations carried out subsequent to the transition date reflects the excess of the cost of the business combination over the acquisition-date value of the assets acquired and the liabilities and contingent liabilities assumed from the acquired business.

The cost of a business combination is calculated as the sum of the acquisition-date fair values of the assets transferred, the liabilities incurred or assumed, the equity instruments issued and any consideration contingent on future events or compliance with certain conditions in exchange for control of the acquiree.

The cost of a business combination excludes any payments that do not form part of the consideration given in exchange for the acquiree. Acquisition costs are recognised as an expense when incurred.

At the acquisition date, the assets acquired and liabilities and contingent liabilities assumed (identifiable net assets) of the acquiree are recognised at fair value provided that this can be measured reliably.

Goodwill on consolidation is not amortised but is tested for impairment annually or more frequently where events or circumstances indicate that an asset may be impaired. Goodwill on business combinations is allocated to the cash-generating units (CGUs) or groups of CGUs that are expected to benefit from the synergies of the business combination and the criteria described in section (l) (impairment) are applied. After initial recognition, goodwill on consolidation is measured at cost less any accumulated impairment losses.

The goodwill shown in note 6 relates to transactions carried out prior to 2008 and was recognised in accordance with the accounting policies and criteria prevailing at that time.

c. Non-controlling interests

Non-controlling interests in subsidiaries are recognised at the acquisition date at the proportional part of the fair value of the identifiable net assets. Non-controlling interests in subsidiaries acquired prior to the transition date were recognised at the percentage of interest in equity at the date of first consolidation. Non-controlling interests are disclosed in consolidated equity separately from equity attributable to equity holders of the Parent. Non-controlling interests' share in profit or loss for the year is also disclosed separately in the consolidated income statement.

The profit or loss for the year and changes in equity of the subsidiaries attributable to the Group and non-controlling interests after consolidation adjustments and eliminations are determined in accordance with the percentage ownership at year end, without considering the possible exercise or conversion of potential voting rights and after discounting the effect of dividends, agreed or not, on cumulative preference shares classified in equity accounts.

Profit and loss and income and expenses recognised in the equity of subsidiaries are allocated to equity attributable to the Parent and to non-controlling interests in proportion to their investment, even if this results in a balance receivable from non-controlling interests. Agreements entered into between the Group and non-controlling interests are recognised as a separate transaction.

d. Associates

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

Investments in associates are accounted for using the equity method from the date that significant influence commences until the date that significant influence ceases. However, associates that qualify for classification at the acquisition date as non-current assets or disposal groups held for sale are recognised at fair value less costs to sell.

Details of equity-accounted investees are included in note 12 (b).

Investments in associates are initially recognised at cost, which is equivalent to the value of the Group's share of the fair value of the assets acquired, less the liabilities assumed, determined as described in the section on business combinations, plus goodwill, calculated as the excess of the above amount over the cost of the investment in the individual annual accounts. Cost includes or excludes the fair value of any consideration payable or receivable, respectively, conditional on future events or compliance with certain terms.

Any shortfall between the cost of the investment in the individual annual accounts and the value of the Group's share of the fair value of the assets acquired, less the liabilities assumed, is not included in the carrying amount of the investment but rather is recognised as income under negative goodwill on consolidation of equity-accounted investees in the consolidated income statement. However, before recognising this income, the Group evaluates the cost of the investment, the assets acquired and the liabilities assumed, and reduces the value of any intangible asset identified in the associate whose valuation cannot be calculated by reference to an active market and of any contingent consideration received.

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

The Group's share of the profit or loss of an associate and changes in equity is calculated to the extent of the Group's interest in the associate at year end and does not reflect the possible exercise or conversion of potential voting rights.

The profit or loss of an associate for the year attributable to the Group is recognised after consideration of the effect of dividends, agreed or not, relating to cumulative preference shares classified under equity.

Losses of an associate attributable to the Group are limited to the extent of its net investment, except where the Group has legal or constructive obligations or when payments have been made on behalf of the associate. For the purpose of recognising losses in associates, net investments are considered as the carrying amount of the investment after applying the equity method plus any other item which in substance forms part of the investment in the associate. Subsequent profits attributable to those associates for which impairment losses are limited are recognised to the extent of the previously unrecognised losses.

Unrealised gains and losses on transactions between the Group and associates are only recognised when they relate to interests of other unrelated investors, except in the case of unrealised losses evidencing the impairment of the transferred asset.

The accounting policies of associates have been harmonised in terms of timing and measurement, applying the policies described for subsidiaries.

(i) Impairment

The Group applies the impairment criteria detailed in the financial instruments section of this note to determine whether additional impairment losses to those already recognised in the net investment in the associate, or in any other financial asset held as a result of applying the equity method, should be recognised.

Impairment is calculated by comparing the carrying amount of the net investment in the associate with its recoverable amount. The recoverable amount is the higher of value in use and fair value less costs to sell.

Value in use is calculated based on the Group's share of the present value of future cash flows expected to be derived from ordinary activities and from the disposal of the asset, or the estimated cash flows expected to be received from the distribution of dividends and the final disposal of the investment.

Impairment losses are not allocated to goodwill or other assets implicit in the investment in associates derived from application of the purchase method. In subsequent years, reversals of impairment losses on investments are recognised in the income statement to the extent of any increase in the recoverable amount.

e. Joint ventures

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 Group and the remaining venturers.

The Group's joint ventures are treated as interests in jointly controlled entities and jointly controlled operations and assets.

Information relating to jointly controlled operations, referred to as temporary joint ventures, is presented in Appendix III.

Investments in jointly controlled entities are proportionately consolidated from the date joint control is obtained until the date joint control ceases. However, investments that qualify for recognition as non-current assets or disposal groups held for sale at the date joint control is obtained are recognised at fair value less costs to sell.

The measurement criteria initially applied to the assets acquired and liabilities assumed, and to goodwill or negative goodwill, are consistent with those described in the section on business combinations and associates.

The Group recognises assets controlled and liabilities incurred in respect of jointly controlled operations, as well as the proportional part of jointly controlled assets and liabilities and of expenses incurred and income earned from the sale of goods or services by the joint venture. The statement of changes in equity and the statement of cash flows also include the proportional part corresponding to the Group by virtue of the agreements reached.

Reciprocal transactions, balances, income, expenses and cash flows have been eliminated in proportion to the interest held by the Group in joint ventures. All dividends have been eliminated.

Unrealised gains and losses from non-monetary contributions or downstream transactions in joint ventures are recognised based on the substance of the transaction. Where the assets are retained by the joint venture and the Group has transferred the significant risks and rewards of ownership, only the portion of the gain or loss that is attributable to the interests of the other venturers is recognised. Unrealised losses are not eliminated if they provide evidence of an impairment loss.

The Group only recognises the portion of gains and losses on transactions in joint ventures that is attributable to the interests of the other venturers. In the event of losses, the Group applies the same recognition criterion as that described in the previous paragraph.

The Group has made the necessary measurement and timing harmonisation adjustments to incorporate its joint ventures in the consolidated annual accounts.

f. Foreign currency transactions, balances and cash flows

(i) Foreign currency transactions, balances and cash flows

Foreign currency transactions have been translated into Euros using the exchange rate prevailing at the transaction date.

Monetary assets and liabilities denominated in foreign currencies have been translated into Euros at the closing rate, while non-monetary assets and liabilities measured at historical cost have been translated at the exchange rate prevailing at the transaction date. Non-monetary assets measured at fair value have been translated into Euros at the exchange rate at the date that the fair value was determined.

In the consolidated statement of cash flows, cash flows from foreign currency transactions have been translated into Euros at the exchange rates at the dates the cash flows occur.

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

Exchange gains and losses arising on the settlement of foreign currency transactions and the translation into Euros of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

(ii) Translation of foreign operations

Foreign operations whose functional currency is not the currency of a hyperinflationary economy have been translated into Euros as follows:

- Assets and liabilities, including goodwill and net asset adjustments derived from the acquisition of the operations, including comparatives, are translated at the closing rate at the reporting date;
- Income and expenses are translated at the average exchange rates for the year; and
- All resulting exchange differences are recognised as translation differences in consolidated equity.

These criteria are also applicable to the translation of the financial statements of equity-accounted investees, with translation differences attributable to the Group recognised in consolidated equity.

In the consolidated statement of cash flows, cash flows from foreign currency transactions have been translated into Euros using the average exchange rates in the period for all the flows that occur during that period.

Translation differences recognised in consolidated equity are accounted for in the consolidated income statement using the criteria described in the sections on subsidiaries, associates and joint ventures. Translation differences on the reduction of the Group's interest in a subsidiary, equity-accounted investee or joint venture are recognised in the consolidated income statement using the criteria described for income and expenses recognised in consolidated equity.

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

g. Capitalised borrowing costs

Borrowing costs related to specific financing that are directly attributable to the acquisition or construction of intangible assets, investment property and inventories that will not be available for use or capable of operating for more than one year are included in the cost of the asset. To the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalisation is determined as the actual borrowing costs incurred. Capitalised borrowing costs are recognised in the consolidated income statement under capitalised borrowing costs.

h. Inmovilizado intangible

Intangible assets are measured at cost of acquisition and carried at cost, less any accumulated amortisation and impairment.

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

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

(i) Research and development

Expenditure on research and development is recognised as an expense when it is incurred.

The Group capitalises research and development expenses incurred by specific projects for each activity that meets the following conditions:

- Costs are clearly allocated, assigned and timed for each project.
- There is evidence of the project's technical success and economic-commercial feasibility.

(ii) Concessions and operating rights

As explained in note 8 the Group operates certain assets through service concession arrangements granted by different public sector entities.

Administrative concessions include the costs incurred in their procurement.

In the acquisition of the Inassa subgroup by Canal Extensia, S.A., the Euros 67,323 thousand difference between the acquisition-date values and the underlying book values was recognised on the acquisition date, based on market valuations carried out by third parties, as an increase in the value of the administrative concession for the operation of the water supply network in the Barranquilla District (Colombia).

Ministry of Economy and Finance Order EHA/3362/2010 requires the use of the recognition and measurement standards described in section (j) of this note, "Assets under concessions".

(iii) Patents, licences, trademarks and similar rights

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

(iv) Computer software

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

(v) Subsequent costs

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

(vi) Useful life and amortisation rates

The Group assesses whether the useful life of each intangible asset acquired is finite or indefinite. An intangible asset is regarded by the Group as having an indefinite useful life when there is no foreseeable limit to the period over which the asset will generate net cash inflows.

Intangible assets with indefinite useful lives are not amortised, but are instead tested for impairment on an annual basis or whenever there is an indication that the intangible asset may be impaired.

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

Type of asset	Years of useful life
Concessions	Concession term
Patents, licences, trademarks and similar rights	10
Computer software	5

Development expenditure is amortised on a straight-line basis over a period of five years from the date on which the project is completed. The depreciable amount of intangible assets is measured as the cost of the asset, less any residual value.

The Group 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.

(vii) Impairment losses

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

i. Property, plant and equipment

(i) Initial recognition

Property, plant and equipment are measured at cost of acquisition. Non-trading income obtained during the trial and start-up period of an asset is recognised as a reduction in the cost incurred. Property, plant and equipment are carried at cost less any accumulated depreciation and impairment.

The property, plant and equipment of the Inassa subgroup are recognised at cost of acquisition or production, including adjustments for inflation and valuation of assets carried out until 28 February 2002 (the date on which Canal Extensia, S.A. acquired the Inassa subgroup) under legislation applicable to the Latin American subsidiaries, as this is considered similar to the market value of the assets at the date of acquisition. Pursuant to local legislation, the effects of adjustments for inflation and the revaluation of assets have not been included since that date.

Self-constructed assets are recognised at the accumulated cost resulting from including external costs in the internal costs determined based on own consumption of warehouse materials, and are included in the consolidated income statement under self-constructed assets.

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

Property, plant and equipment are carried at cost less any accumulated depreciation and impairment.

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

Depreciation

Property, plant and equipment are depreciated by allocating the depreciable amount of the asset on a systematic basis over its useful life. The depreciable amount is the cost of an asset, less its residual value. The Group determines the depreciation charge separately for each component of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the asset and with a useful life that differs from the remainder of the asset.

Where applicable, in 2012 property, plant and equipment have been depreciated on a straight-line basis applying the following depreciation rates:

Type of asset	Depreciation rate	
	Minimum	Maximum
Buildings	1,00%	3,00%
Housing estates and roads	1,00%	12,00%
Reservoirs	1,40%	5,00%
Major conduits	1,40%	3,00%
Treatment plants	5,00%	10,00%
Elevation plants	5,00%	10,00%
Tanks	2,00%	6,00%
Distribution network	2,90%	8,00%
Power stations and high-voltage grids	1,40%	7,60%
Low-voltage power lines	4,00%	8,00%
Sewage plants	3,30%	10,00%
Underground water collection	1,40%	2,50%
Laboratory equipment	5,50%	12,00%
Communications	5,50%	12,00%
Information systems and facilities	7,10%	15,00%
Equipment and tools	12,50%	30,00%
Furniture and fixtures	5,00%	20,00%
Machinery	5,00%	30,00%
Information technology equipment	12,50%	25,00%
Motor vehicles	5,00%	16,00%

The Group reviews residual values, useful lives and depreciation methods at each financial year end. Changes to initially established criteria are accounted for as a change in accounting estimates.

(ii) Subsequent costs

Subsequent to initial recognition of the asset, only the costs incurred which increase capacity or productivity or which lengthen the useful life of the asset are capitalised. The carrying amount of parts that are replaced is derecognised. Servicing costs are therefore recognised in the consolidated income statement as incurred.

(iii) Impairment

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

j. Assets under concessions

The Group 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 adapting the Spanish General Chart of Accounts for public infrastructure concession holders.

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

The Group 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 measurement standard applicable to intangible assets.

If the concession is remunerated, the right of use is recognised at the present value of the consideration paid or payable, without taking into account any contingent payments associated with the transaction. Consideration is understood to exist and to reflect the fair value of the aforementioned right when the concession of the infrastructure is included within the terms of a tender whereby the concession holder undertakes to make an investment or to convey another type of consideration and in exchange is entitled to operate either the pre-existing infrastructure only or the aforementioned infrastructure together with the new infrastructure built.

If the Group receives the right of access to the infrastructure for the purpose of rendering the operating service free of charge or for consideration of less than the fair value of the right, the right of use is recognised using the criteria applicable to grants, donations and bequests described in section (r).

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

Borrowing costs accrued during the construction or upgrade period are capitalised under intangible assets. If the infrastructure is acquired from third parties, the borrowing costs are capitalised using the criteria set out in section (g). In both cases, the "capitalised borrowing costs" caption in the consolidated income statement, which forms part of the net finance income or cost for the period, is used to recognise the capitalisation.

If the infrastructure comprises items that may be used separately and the dates on which they will be ready for use differ between items, the Group considers this circumstance and stops capitalising the borrowing costs corresponding to the proportional part of the intangible asset that should be grouped with items that are already in working condition.

If the remuneration is in the form of an intangible asset, the Group capitalises the borrowing costs accrued when the infrastructure enters operation provided that:

- They are separately identifiable and can be measured reliably.

- Reasonable evidence exists and it is probable that future revenues will enable the Group to recover the amount capitalised.

The Group considers there to be reasonable evidence that these costs will be recovered through tariffs charged in future years when this circumstance is considered in the Economic-Financial Plan and the following two conditions are met:

- It is possible that the Group will obtain future revenues of an amount at least equal to the capitalised borrowing costs by including these as permitted costs for the purpose of calculating the tariff.

- There is evidence that previously incurred costs can be recovered through future revenues.

For the purpose of determining the borrowing costs to be included in the intangible asset, the following amounts are determined based on the indicators in the Economic-Financial Plan:

- Total forecast revenues for the concession term and the amount corresponding to each period.

- Total forecast borrowing costs to be incurred during the concession term and the amount corresponding to each period.

The Group determines the proportion of total forecast revenues represented by operating revenues for each period. This proportion is applied to the total borrowing costs forecast for the concession term to determine the amount to be recognised as borrowing costs for each reporting period. If the revenues generated during a period exceed the forecast, the proportion for the period is determined based on actual revenues as a proportion of total forecast revenues, which generally gives rise to an adjustment in the amount recognised for the prior period.

Any positive difference between forecast borrowing costs and the amount determined as described in the preceding paragraph is reflected under assets and taken to profit and loss as borrowing costs for the period from the period in which this difference is negative and for the same amount.

If the borrowing costs incurred during a year differ from the amount stated in the Economic-Financial Plan, the difference is treated as an increase or decrease in the borrowing costs to be taken to profit and loss for the period.

If revenue forecasts are amended, the effects of the change are recognised without adjusting the borrowing costs already taken to profit and loss in prior periods, applying the criteria described in the preceding paragraphs for the period remaining until the end of the concession term, taking into account that the capitalised amount pending recognition in profit and loss should form part of the total forecast borrowing costs to be incurred over the remainder of the concession term.

These capitalised borrowing costs are recognised in the consolidated balance sheet as intangible assets under "Concession arrangement, capitalised borrowing costs".

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

Maintenance work is recognised as an expense when incurred. Replacements, major repairs and any other work necessary before the infrastructure can be returned require the systematic recognition of a provision. However, as this obligation is similar to an obligation to decommission the asset, it is recognised as such.

Work undertaken to improve or increase the capacity of assets should be considered as new concessions. However, if, based on the terms of the agreement, the Company does not consider that such work will be compensated by the possibility of obtaining higher revenues from the date on which it is carried out, it recognises a provision for decommissioning or withdrawal based on its best estimate of the present value of the amount required to settle the obligation associated with this work. The balancing entry for this provision is an increase in the cost of acquisition of the 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 the section on leases. When all the risks and rewards of 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.

k. Investment property

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

Property that is being constructed or developed for future use as investment property is classified as property, plant and equipment under development until construction or development is complete. Nevertheless, redevelopment work to extend or improve property is classified as investment property.

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

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

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

l. Impairment of non-financial assets subject to amortisation or depreciation

The Group evaluates whether there are indications of possible impairment losses on non-financial assets subject to amortisation or depreciation to verify whether the carrying amount of these assets exceeds the recoverable amount, which is the higher of the fair value less costs to sell and the value in use.

The Group tests goodwill and intangible assets with indefinite useful lives for impairment at least annually, irrespective of whether there is any indication that the assets may be impaired.

Where the Group has reasonable doubts as to the technical success or financial and commercial feasibility of in-progress research and development projects, the amounts recognised in the consolidated balance sheet are taken directly to the consolidated income statement under losses on the disposal of intangible assets and may not be reversed.

Impairment losses are recognised in the consolidated income statement.

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 cash-generating unit (CGU) to which the asset belongs.

Impairment losses for cash-generating units are allocated first to reduce the carrying amount of goodwill allocated to the unit and then to the other non-current assets of the unit pro rata with their carrying amounts. The carrying amount of each asset may not be reduced below the highest of its fair value less costs to sell, its value in use and zero.

At the end of each reporting period the Group assesses whether there is any indication that an impairment loss recognised in prior periods may no longer exist or may have decreased. Impairment losses on goodwill are not reversible. Impairment losses on other assets are only reversed if there has been a change in the estimates used to calculate the recoverable amount of the asset.

A reversal of an impairment loss is recognised in the consolidated income statement. The increased carrying amount of an asset attributable to a reversal of an impairment loss may not exceed the carrying amount that would have been determined, net of depreciation or amortisation, had no impairment loss been recognised.

After an impairment loss or reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the asset is adjusted in future periods based on its new carrying amount.

However, if the specific circumstances of the assets indicate an irreversible loss, this is recognised directly in losses on the disposal of fixed assets in the consolidated income statement.

m. Leases

(i) Lessor accounting records

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

Leases that do not transfer to third parties substantially all the risks and rewards incidental to ownership of the assets are classified as operating leases, otherwise they are classified as finance leases.

(ii) Operating leases

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

Operating lease income, net of incentives granted, is recognised in income on a straight-line basis over the lease term, unless another systematic basis is more representative of the time pattern in which the benefits deriving from the leased asset are diminished.

Initial direct costs are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease income.

Contingent rents are recognised as income when it is probable that they will be obtained, which is generally when the conditions agreed in the contract arise.

n. Financial instruments

(i) Classification and separation of financial instruments

Financial instruments are classified on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the economic substance of the contractual arrangement and the definitions of a financial asset, a financial liability and an equity instrument.

The Group classifies financial instruments into different categories based on the nature of the instruments and its intentions on initial recognition.

(ii) Offsetting principles

A financial asset and a financial liability are offset only when the Group currently has the legally enforceable right to offset the recognised amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

(iii) Loans and receivables

Loans and receivables comprise trade and non-trade receivables with fixed or determinable payments that are not quoted in an active market other than those classified in other financial asset categories. These assets are initially recognised at fair value, including transaction costs, and are subsequently measured at amortised cost using the effective interest method.

Nevertheless, financial assets which have no established interest rate, which mature or are expected to be received in the short term, and for which the effect of discounting is immaterial, are measured at their nominal amount.

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

(iv) Derecognition of financial assets

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

If, as a result of a transfer, a financial asset is derecognised in its entirety, the new financial asset, financial liability or servicing liability is recognised at fair value.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received, net of transaction costs, including any new asset obtained less any new liability assumed and any cumulative gain or loss deferred in recognised income and expense, is recorded in profit or loss.

If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the consideration received is recognised under liabilities. Transaction costs are recognised in profit and loss using the effective interest method.

(v) Impairment of financial assets

A financial asset or a group of financial assets is impaired and impairment losses are incurred if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset and the event or events have an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The Group recognises impairment of loans and receivables and debt instruments when estimated future cash flows are reduced or delayed due to debtor insolvency.

(vi) Impairment of financial assets carried at amortised cost

In the case of financial assets carried at amortised cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate.

The impairment losses are recognised in profit and loss and may be reversed in subsequent periods if the decrease can be objectively related to an event occurring after the impairment has been recognised. The loss can only be reversed to the limit of the amortised cost of the assets had the impairment loss not been recognised.

(vii) Interest and dividend

Interest is recognised using the effective interest method.

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

(viii) Financial liabilities

Financial liabilities, including trade and other payables, are initially recognised at fair value less any transaction costs that are directly attributable to the issue of the financial liability. After initial recognition, liabilities classified under this category are measured at amortised cost using the effective interest method.

Nevertheless, financial liabilities which have no established interest rate, which mature or are expected to be settled in the short term, and for which the effect of discounting is immaterial, are measured at their nominal amount.

The Group receives security deposits from customers when contracts are signed to guarantee payment of future supplies. These deposits are recognised as financial liabilities. The difference between the amount received and the amortised cost is classified as an advance from customers and taken to consolidated profit or loss over the average estimated period during which the service is to be rendered.

(ix) Derecognition and modifications of financial liabilities

The Group derecognises all or part of a financial liability when it either discharges the liability by paying the creditor or is legally released from primary responsibility for the liability either by process of law or by the creditor.

o. Inventories

Inventories are measured at average cost of purchase. The cost of purchase comprises the amount invoiced by the seller, after deduction of any discounts, rebates or other similar items, such as interest incorporated into the nominal amount, plus any additional costs incurred to bring the goods to a consumable or saleable condition and other costs directly attributable to the acquisition, as well as borrowing costs (see note 5 (g)) and indirect taxes not recoverable from the Spanish taxation authorities.

Trade discounts are recognised as a reduction in the cost of inventories when it is probable that the conditions for discounts to be received will be met. Unallocated discounts are recognised as a decrease on the purchase.

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

When the cost of inventories exceeds net realisable value, materials are written down to net realisable value, which is understood to be their replacement cost.

The previously recognised write-down is reversed against profit and loss when the circumstances that previously caused inventories to be written down no longer exist or when there is clear evidence of an increase in net realisable value because of changed economic circumstances. The reversal of the valuation adjustment is limited to the lower of the cost and the revised net realisable value of the inventories.

Write-downs to net realisable value recognised or reversed on inventories are classified under changes in inventories of supplies.

p. Cash and cash equivalents

Cash and cash equivalents include cash on hand and demand deposits in financial institutions.

The Group recognises cash payments and receipts for financial assets and financial liabilities in which turnover is quick on a net basis in the statement of cash flows. Turnover is considered to be quick when the period between the date of acquisition and maturity does not exceed six months. In the statement of cash flows, drawdowns on credit facilities that form an integral part of the Group's cash management are included as a component of cash and cash equivalents.

q. Equity

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

r. Grants, donations and bequests received

Any grants, donations and bequests received are recorded in recognised income and expense when 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 Group considers that the conditions of capital grants from European Funds have been met when these grants are actually received.

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

In accordance with the provisions of the Spanish General Chart of Accounts adapted for water supply and sanitation sector businesses, grants also include the amounts received by the Group from new water users for hook-up rights and pipeline adaptation and extension work. As per Decree 2922/1975 of 31 December 1975, which enacted the Regulations for water services and distribution, any work carried out by the Parent to be able to supply water is the Parent's property.

Grants are allocated to profit and loss for the year in proportion with the depreciation for the year of the assets they are used to finance and are recognised in the consolidated income statement under non-financial and other capital grants.

Grants awarded to finance specific costs are recognised as income when the financed costs are accrued.

s. Defined contributions, defined benefits and other long-term employee benefits

Canal de Isabel II Gestión and certain subsidiaries have pension plan and other commitments with personnel.

Canal de Isabel II Gestión, S.A.:

On 3 November 1990 the Public Entity agreed to set up an External Fund for its current staff, availing itself of the Spanish Pension Plan Regulations Act (Law 8/1987 of 8 June 1987). 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 who entered service prior to 3 November 1990 and 6.5% for those who joined since that date. For the unit holders who entered service 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 who entered service after 3 November 1990, 4.8% is allocated to the Capitalisation Fund and the remaining 1.7% to assure death and disability contingencies.

The Parent recognises the contributions payable to this defined contribution plan when the employee has provided the corresponding services. The contributions payable are recognised as an employee benefits expense (see note 28 (c)).

In accordance with article 2 clause three of Royal Decree-Law 20/2011 of 30 December 2011 (on urgent budget, tax and financial measures to redress the public deficit), in 2012 no contributions were made to the pension plans arranged on behalf of employees. Similarly, article 22 of the General State Budget for 2013 (Law 17/2012 of 27 December 2012) once again establishes that in 2013 no contributions can be made to pension plans or collective insurance policies covering retirement.

On 15 November 2002 the Public Entity externalised the internal fund it had appropriated for its retired personnel through a policy arranged with an insurance company. The insured commitments relate to those beneficiaries who retired before the pension plan was set up on 3 November 1990 and comprise retirement and disability benefits and widows/widowers' and orphans' pensions. These benefits are subject to an estimated revaluation of 2% per year. The following assumptions were employed in the actuarial study used to calculate the insurance premium for the externalisation of the pension plan: technical interest rate of 5.15% until 31 December 2041 and 2.5% as of 1 January 2042, PERM/F 2000P mortality tables and management costs of 0.23% of the premium. Pensions are updated annually based on the increases in state pensions. The premium required to adjust the externalised commitments being paid to retired personnel is calculated annually by independent actuaries using the Projected Unit Credit Method and recognised in the consolidated income statement.

Every year independent actuarial studies are used to adjust the policy through which the commitments assumed in the collective bargaining agreement – whereby employees opting for early retirement on turning sixty will receive 50% of their last twelve monthly payments – were externalised on 15 November 2002. In the event that an employee does not eventually retire at sixty, the insurance company repays the premium settled at the date on which the plan was externalised. The assumptions employed are the same as those detailed above with respect to retired personnel. This policy has been cancelled in 2012 because the Company no longer has any employees to whom any such commitments apply.

However, the policy of recognising the provision needed to cover long-service bonuses for serving personnel on a systematic basis has been maintained. As per the collective bargaining agreement in force, an internal fund has been set up to cover long-service bonuses for employees with 25 or 35 years' service. Charges are made to this provision on a straight-line basis from 15 and 25 years, respectively, of service in the Parent, based on the year from which the corresponding personnel obligation started to accrue. On 4 January 2011, as a result of the agreement signed with employee representatives on 30 April 2010, an insurance policy for the accrual of early settlements of long-service bonuses was arranged and paid through a single payment of Euros 5,833 thousand. The insurance company guarantees the payment of a deferred endowment to the beneficiary in the event that he or she is still alive. To receive the insured benefit, the insured party must have been in service for 25 or 35 years. The assumptions used to define the policy and calculate the initial single premium were a technical interest rate of 4.89% until 4 January 2051 and 2.25% thereafter, the PERM/F-2000P mortality tables and management costs of 0.10% of the premium.

In prior years, under the terms of the collective bargaining agreement in force, a seniority supplement was recognised for each three years' service provided. On 4 January 2011 the Public Entity took out and paid a liability insurance policy for the early settlement of this item, making a single payment of Euros 55,591 thousand. The insurance company undertakes to pay the insured parties a temporary actuarial annuity without reversal until they retire at 65, or until the termination date of their contract in the case of temporary staff. This annuity is subject to an annual growth rate of 1.2% and is payable as of

September 2013. The assumptions employed to determine the single premium were a technical interest rate of 5.33%, the Perm/F 2000P mortality tables and management costs of 0.45% of the premium.

The Parent recognises the expenses relating to these plans when the obligation arises, based on the actuarial studies conducted to calculate the commitment at each year end. Any actuarial gains or losses are recognised in the income statement for the period.

Hidráulica Santillana S.A.U. and Hispanagua, S.A.U:

Pursuant to Royal Decree 1588/1999 of 15 October 1999, which sets forth the legal provisions on the arrangement of company pension plan commitments, these subsidiaries have set up employee pension plans.

The pension plan adopted by the subsidiaries was formally arranged in December 2000 and consists of defined contributions for retirement benefits and defined benefits for death and disability (covered by an insurance contract).

The pension plan takes into account the previous benefits to which the employees were entitled for past service at 1 December 2000, which totalled Euros 154 thousand in the case of Hidráulica Santillana and Euros 2,828 thousand in the case of Hispanagua and were paid into the "FONDPOSTAL Canal de Isabel II, F.P." pension fund in December 2000. This fund is administered by the pension fund management company "Gestión de Previsión y Pensiones, S.A." and has been deposited with the trustee entity BBVA.

Pursuant to Royal Decree 1588/1999 of 15 October 1999, which sets forth the legal provisions on the arrangement of company pension plan commitments, Hispanagua, S.A.U. externalised its commitments to retired personnel through an insurance policy contracted with SCH Seguros in 1999. Contributions totalling Euros 5,672 thousand were paid in full in 1999.

Similarly, Hispanagua S.A.U. has an early retirement bonus commitment which was externalised in 2002 through an insurance policy contracted with BBVA Seguros. The contributions, totalling Euros 173 thousand, have been paid in full.

The subsidiary 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 28 (c)).

In accordance with article 2 clause three of Royal Decree-Law 20/2011 of 30 December 2011, which introduced urgent budget, tax and financial measures to redress the public deficit, these two subsidiaries did not make any contributions to pension plans in 2012. Similarly, article 22 of the General State Budget for 2013 (Law 17/2012 of 27 December 2012) once again establishes that in 2013 no contributions can be made to pension plans or collective insurance policies covering retirement.

AMAGUA C.E.M:

The Labour Code of the Republic of Ecuador requires this subsidiary to provide an employer-paid retirement plan ("jubilación patronal") to all employees with at least 25 years' service. Since 2008 Amagua has recognised provisions for these benefits based on an actuarial study conducted by an independent third party. According to this study, at 31 December 2012 the present value of the actuarial mathematical provision for employer-paid retirement plans is approximately Euros 56 thousand.

t. Provisions

(i) General criteria

Provisions are recognised when the Group has a present obligation (legal, contractual, constructive or tacit) as a result of a past event; it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the expenditure required to settle the present obligation at the end of the reporting period, taking into account all risks and uncertainties surrounding the amount to be recognised as a provision and, where the time value of money is material, the financial effect of discounting provided that the expenditure to be made each period can be reliably estimated.

Single obligations are measured using the individual most likely outcome. When the provision involves a large population of identical items, the obligation is estimated by weighting all possible outcomes by their associated probabilities. Where there is a continuous range of possible outcomes, and each point in that range is as likely as any other, the mid-point of the range is used.

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

The tax effect and gains on the expected disposal of assets are not taken into account in measuring a provision.

Where a risk is externalised to a third party by means of a legal or contractual agreement, provision is only made for the part of the risk assumed by the Group.

If it is not probable that an outflow of resources will be required to settle an obligation, the provision is reversed.

u. Revenue from the sale of goods

Revenue from the sale of goods is measured at the fair value of the consideration received or receivable.

However, the Group includes interest incorporated in trade balances maturing in less than one year that do not have a contractual rate of interest when the effect of not discounting future receipts is not material.

Income is recognised when the Group has rendered the corresponding service, irrespective of the date of collection.

v. Rendering of services

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

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

Revenue from the sale of goods or services is measured at the fair value of the consideration received or receivable.

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.

w. Income tax

On 1 January 1996 Law 43/1995 of 27 December 1995 came into force. Article 32.2 of this law provided for tax relief of 99% on income tax payable on revenues from the provision of certain public services, including water supply, sanitation and recycling. The Parent applies this tax relief as it has been commissioned to provide these services in the Community of Madrid.

The income tax expense or tax income for the period comprises current tax and deferred tax.

Current tax assets or liabilities are measured at the amount expected to be paid to or recovered from the taxation authorities, using the tax rates and tax laws that have been enacted or substantially enacted at the reporting date.

Current and deferred tax are recognised as income or an expense and included in profit or loss for the period, except to the extent that the tax arises from a transaction or event which is recognised, in the same or a different year, directly in equity, or from a business combination.

(i) Taxable temporary differences

Taxable temporary differences are recognised in all cases except where they arise from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither accounting profit nor taxable income.

(ii) Deductible temporary differences

Deductible temporary differences are recognised provided that it is probable that sufficient taxable income will be available against which the deductible temporary difference can be utilised, unless the differences arise from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither accounting profit nor taxable income.

Tax planning opportunities are only considered when assessing the recoverability of deferred tax assets and if the Group intends to use these opportunities or it is probable that they will be utilised.

(iii) Measurement

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the years when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantially enacted. The tax consequences that would follow from the manner in which the Group expects to recover or settle the carrying amount of its assets or liabilities are also reflected in the measurement of deferred tax assets and liabilities.

(iv) Classification

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

x. Classification of assets and liabilities as current and non-current

The Group classifies assets and liabilities in the consolidated balance sheet as current and non-current. Current assets and liabilities are determined as follows:

- Assets are classified as current when they are expected to be realised or are intended for sale or consumption in the Group's normal operating cycle, they are held primarily for the purpose of trading, they are expected to be realised within twelve months after the reporting date or are cash or a cash equivalent, unless the assets may not be exchanged or used to settle a liability for at least twelve months after the reporting date.

- Liabilities are classified as current when they are expected to be settled in the Group's normal operating cycle, they are held primarily for the purpose of trading, they are due to be settled within twelve months after the reporting date or the Group does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting date.

- Financial liabilities are classified as current when they are due to be settled within twelve months after the reporting date, even if the original term was for a period longer than twelve months, and an agreement to refinance or to reschedule payments on a long-term basis is completed after the reporting date and before the annual accounts are authorised for issue.

y. Environmental issues

The Group takes measures to prevent, reduce or repair the damage caused to the environment by its activities.

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

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

z. Transactions with non-consolidated Group companies and other related parties

Transactions with non-consolidated Group companies and other related parties, except those related to 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 recognised in line with the underlying economic substance of the transaction.

6. GOODWILL OF CONSOLIDATED COMPANIES

Movement during 2012 is as follows:

2012			
Thousands of Euros			
	Balance at 01/07/2012	Translation differences	Balance at 31/12/2012
AAA Ecuador Agacase	616	(38)	578
Hidráulica Santillana, S.A.U.	12,610	-	12,610
Total	**13,226**	**(38)**	**13,188**

The key assumptions employed when determining value in use applied to obtain the recoverable amount when testing goodwill for impairment include growth rates, the weighted average cost of capital and tax rates. Cash flows beyond this five-year period are extrapolated using a growth rate that does not exceed the medium- to long-term average growth rate for the business in which these companies operate. The time periods considered in these projections are the terms of the concessions currently held by these entities. The weighted average cost of capital is 7.75% for Hidráulica Santillana, S.A.U. and 13.96% for AAA Ecuador Agacase.

7. JOINT VENTURES

Information on temporary joint ventures is presented in Appendix III.

Details of balance sheet and income statement items relating to the different temporary joint ventures, which are consolidated in proportion to the Group's percentage ownership, are included below:

	2012		
	Thousands of Euros		
	Aguas de Alcalá TJV	Other	Total
Non-current assets	23,284	-	23,284
Current assets	5,656	1,337	6,993
Equity	277	135	412
Current liabilities	(29,217)	(1,472)	(30,689)
Revenues	5,992	250	6,242
Supplies	(1,858)	-	(1,858)
Personnel expenses	(1,035)	-	(1,035)
Other operating expenses	(1,461)	(89)	(1,550)
Amortisation and depreciation	(712)	-	(712)
Finance costs	(704)	-	(704)

8. INTANGIBLE ASSETS

Details of intangible assets and movement in 2012 are as follows:

Thousands of Euros								
2012								
	Development	Concessions	Patents, licences, trademarks and similar rights	Computer software	Concession arrangement, regulated assets	Concession arrangement, regulated assets under construction	Concession arrangemen, capitalised borrowing costs	TOTAL
Cost at 1 July 2012	-	-	-	-	-	-	-	-
Additions due to non-monetary contribution	619	3,013	1	2,081	6,046,790	360,581	14,739	6,427,824
Additions	191	-	-	120	77,363	45,783	-	123,457
Capitalised borrowing costs	-	-	-	-	-	423	5,994	6,417
Disposals	(90)	-	-	-	(120)	-	-	(210)
Transfers	-	-	-	-	119,356	(119,341)	-	15
Translation differences	(71)	(126)	-	(81)	(8,845)	(164)	-	(9,287)
Cost at 31 December 2012	**649**	**2,887**	**1**	**2,120**	**6,234,544**	**287,282**	**20,733**	**6,548,216**
Accumulated amortisation at 1 July 2012	-	-	-	-	-	-	-	-
Additions due to non-monetary contribution	(403)	(2,661)	(1)	(1,632)	(2,209,352)	-	-	(2,214,049)
Amortisation	-	(39)	-	(178)	(54,348)	-	-	(54,565)
Disposals	90	-	-	-	45	-	-	135
Translation differences	26	114	-	64	5,109	-	-	5,313
Accumulated amortisation at 31 December 2012	**(287)**	**(2,586)**	**(1)**	**(1,746)**	**(2,258,546)**	**-**	**-**	**(2,263,166)**
Accumulated impairment at 1 July 2012	-	-	-	-	-	-	-	-
Additions due to non-monetary contribution	-	-	-	-	(126)	-	-	(126)
Reversal of impairment losses	-	-	-	-	41	-	-	41
Accumulated impairment at 31 December 2012	**-**	**-**	**-**	**-**	**(85)**	**-**	**-**	**(85)**
CARRYING AMOUNT AT 31 DECEMBER 2012	**362**	**301**	**-**	**374**	**3,975,913**	**287,282**	**20,733**	**4,284,965**

The main additions to concessions in 2012 are as follows:

Construction of the Robledillo de la Jara and Berzosa de la Sierra wastewater treatment plants and collectors, which form part of the Lozoya River Lower Basin Project, which in turn falls within the second stage of the Community of Madrid Sanitation and Treatment Plan, included in the Sanitation and Treatment Master Plans of all of the municipalities located in the Community of Madrid.

To deal with sludge from urban wastewater treatment plants, a landfill site was built in Loeches to ensure the safe storage, for approximately two years, of sludge classed as unsuitable for agriculture.

Extensions have been carried out in the Valmayor drinking water treatment plant, and impurity removal improved. These measures were declared urgent and in the public interest by the Community of Madrid Regional Cabinet in Decree 98/2005 of 29 September 2005.

Investment in the area of extension, upgrading and improvement of canals and major conduits notably includes the various stages of the project to reinforce the Picadas-Majadahonda arterial conduit.

The most significant supply infrastructures completed in 2012 include the construction of the San Agustín de Guadalix water tank and the Nuevo Baztán tank and lift station.

Projects involving the supply of recycled water for irrigation purposes have been carried out in San Fernando de Henares and Miraflores de la Sierra, where water tanks, pumping systems and a distribution network have been built.

The most significant additions in Latin America are sewer network and conduit infrastructures of approximately Euros 12,201 thousand located in Barranquilla District (Colombia).

The total carrying amount of the Group's intangible assets located outside of Spain is Euros 133,493 thousand.

a. Concession Arrangements and Administrative Concessions

Details of the most significant concession arrangements at 31 December 2012 are as follows:

				Thousands of Euros			
				2012			
Description	**Use**	**Expiry date**	**Amortisation period**	**Cost**	**Accumulated amortisation**	**Impairment**	**Net**
Concession arrangement, regulated assets							
In Spain							
Rights to use Community of Madrid General Network infrastructures	Operations	2062	50	4,614,576	(1,874,218)	(85)	2,740,273
Rights to use Madrid City Council sanitation infrastructures	Operations	2036	31	926,000	(206,000)	-	720,000
Additional investments, rights to use Madrid City Council sanitation infrastructures	Operations	2036	31	34,359	(3,601)	-	30,758
Rights to use Madrid City Council recycling infrastructures	Operations	2061	50	189,000	(5,670)	-	183,330
Rights to use municipal sewer infrastructures	Operations	2062	50	132,285	(5,686)	-	126,599
Rights to use technical installations (Aguas de las Cuencas del Sur)	Operations	2039	30	27,512	(3,721)	-	23,791
Rights to use council-owned land in Guadarrama	Operations	2039	30	10,752	(1,404)	-	9,348
Investments to extend and upgrade the Alcalá de Henares concession	Operations	2030	25	12,564	(3,845)		8,719
Rights to use western sewage outlet right bank, Alcalá de Henares	Operations	2034	30	3,000	(825)	-	2,175
In Latin America							
Barranquilla District concession	Operations	2033	20+20	258,598	(136,426)	-	122,172
Rights to contracts, AAA Ecuador	Operations	2032	30	6,435	(1,758)	-	4,677
Rights to contracts, AAA Dominicana	Operations	2015	11	2,696	(2,464)	-	232
Atlántico concession, other towns	Operations	2019	20	4,806	(1,445)	-	3,361
				6,222,583	**(2,247,063)**	**(85)**	**3,975,435**

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

- The Community of Madrid General Network comprises all of the infrastructures used to provide the public services assigned to the Public Entity by the Community of Madrid. Under the terms of Law 3/2008 and in accordance with the terms and conditions of the Contract-Programme, the management of these infrastructures has been entrusted to the Parent. This includes the operation, repair and maintenance of the Network, the provision of the corresponding water supply, sanitation and recycling services, and any other services and activities corresponding to the Public Entity under the mentioned law, except those expressly reserved to the Public Entity by the terms of the Contract-Programme. So that the Parent can manage these infrastructures, article 16 of Law 3/2008 required the Community of Madrid and the Public Entity to provide it with as many public-domain assets making up the Community of Madrid General Network as necessary for it to exercise the activities and duties entrusted to it. The Contract-Programme also provides for the Parent's use and management of energy resources currently operated by the Public Entity, as well as any such activities that may be carried out in the future. Furthermore, the Parent is entitled to provide any other services entrusted to the Public Entity by the Community of Madrid, particularly Closed User Group mobile communications services. All of these infrastructures are public property as they are used for public services provided by the Parent and, as such, may not be disposed of or seized and are not subject to any statute of limitations. These assets may only be sold in the event that they are no longer required, but with the legal obligation to allocate the gains obtained to investments in the Community of Madrid General Network.

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

- On expiry of the Contract-Programme, the Parent is required to return the assets and rights that make up the Network, and any other goods and installations in the public domain that are required to provide the service, to the public authorities in good working order and perfect condition, as required by the progress clause governing the Contract-Programme, ensuring that these assets are still capable of providing the service based on the depreciation schedules of the different constituent items.

- Once this period has elapsed and the Contract-Programme expires, the Public Entity is required to compensate the Parent for any investments made to carry out new infrastructure plans and not depreciated while the Contract-Programme was in force, taking into account the condition of such infrastructures and the value of the investment made, deducting any technical depreciation under the terms set out in these plans.

- In 2012 the Parent charged Euros 46,285 thousand to the provision for infrastructure replacement relating to the Community of Madrid General Network (see note 20 (c)).

- The consideration received by the Parent is the right to collect tariffs from customers for their use of the public services provided. Tariffs and any amendments thereto are authorised by the pertinent government authority in accordance with prevailing legislation.

- The conveyance of the right to use Madrid City Council treatment infrastructures is regulated by the Agreement for the Management of Sanitation Services, signed between Madrid City Council, the Community of Madrid and Canal de Isabel II on 19 December 2005, which assigned the running of the sanitation services (sewage and treatment), in both technical and commercial terms, as well as wastewater recycling services in the city of Madrid, to Canal. This agreement is valid for 25 years from 1 January 2006, and consideration of Euros 700 million is payable for the right to use the treatment and sewage 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 consideration of Euros 226 million 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 Euros 613 million, of which Euros 443 million is considered as investment in replacements. During the period ended 31 December 2012 the Parent charged Euros 8,276 thousand to the provision for replacements (see note 20 (c)).

- Once this agreement has expired, the rights to use the sewage and treatment infrastructure will revert from the Parent to the City Council. At the end of the initial established agreement term, the City Council has agreed to pay the Parent the amount outstanding for the new investments under the terms of this agreement.

- Under the terms of the agreement signed between the Community of Madrid, Canal de Isabel II and Madrid City Council on 4 May 2011, relating to the inclusion of the latter in Canal de Isabel II's future management model, the sanitation service agreement which expires on 31 December 2036 must be extended or renewed pursuant to the good faith and loyalty required from both parties by the fifth clause of this inclusion agreement. When this extension is agreed, Madrid City Council will receive financial consideration for the rights of use transferred for the extension period.
  The consideration received by the Parent is the right to collect the corresponding tariffs from customers in the city of Madrid for sewage and treatment services rendered, based on their use of these services. Tariffs and any amendments or updates thereto are authorised by the government authority, in accordance with prevailing legislation.

- 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 Autonomous Community 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 prevailing legislation to Canal for a period of 50 years from 1 July 2011. The Parent manages the maintenance and operation of the infrastructure and facilities included within the scope of this agreement. For all effects and purposes the water recycling infrastructure will be included in the Madrid Community network and will be managed by the Parent, although ownership of the infrastructure will remain with Madrid City Council. Should the agreement be terminated for any reason, the municipal infrastructure used to render the water recycling service will revert from the Parent to Madrid City Council, in good working condition. The agreement does not include any commitment to perform any maintenance work required with respect to the infrastructure for the transport and supply of reclaimed water.

- Total consideration of Euros 189 million was paid for the right to use these infrastructures. At the end of the initial established agreement term, the City Council has agreed to pay the Parent the amount outstanding for the new investments under the terms of this agreement. As consideration, the Parent was entitled to bill the recycling services it rendered, in accordance with the approved tariffs. Tariffs and any amendments or updates thereto are authorised by the government authority, in accordance with prevailing legislation. During the period ended 31 December 2012 the Parent charged Euros 1,361 thousand to the provision for replacements (see note 20 (c)).
  Under the terms of the agreement signed between the Community of Madrid, Canal de Isabel II and Madrid City Council on 4 May 2011, relating to the inclusion of the latter in Canal de Isabel II's future management model, the reclaimed water recycling agreement which expires on 4 May 2061 must be extended or renewed pursuant to the good faith and loyalty required from both parties by the fifth clause of the inclusion agreement.

- The conveyance of rights to use municipal sewer network infrastructure is governed by the respective agreements entered into by town and city councils, the Community of Madrid and Canal de Isabel II for the provision of sewage services in certain areas. These agreements stipulate that the sewage networks owned by the town and city councils form part of the Madrid Community network and are assigned to Canal de Isabel II. The town and city councils have entrusted the management and operation of the sewage services, as well as the corresponding infrastructure and facilities, to the Community of Madrid through the Parent.

At 31 December 2012,133 municipalities have signed these sewage agreements. The following agreements came into force between 1 July and 31 December 2012:

Thousands of Euros		
	2012	
Municipality	**Term (years)**	**Cost**
Ambite sewer system	50	33
Cadalso de los Vidrios sewer system	50	177
Corpa sewer system	50	36
Fresnedillas Oliva sewer system	50	90
Fuentidueña Tajo sewer system	50	126
Navas del Rey sewer system	50	157
Pelayos de la Presa sewer system	50	157
Santorcaz sewer system	50	49
Valverde Alcalá sewer system	50	29
Getafe sewer system	50	10,148
Chinchón sewer system	50	321
Perales de Tajuña sewer system	50	174
Santa Mª Alameda sewer system	50	70
Velilla San Antonio sewer system	50	700
Villamantilla sewer system	50	57
Villanueva de Perales sewer system	50	92
San Martin de Valdeiglesias sewer system	50	491
Moraleja de Enmedio sewer system	50	317
Villanueva Pardillo sewer system	50	1,009
Valdemorillo sewer system	50	673
Arroyomolinos sewer system	50	1,367
Torrelaguna sewer system	50	-
Boadilla del Monte sewer system	50	2,683
Alcobendas sewer system	50	6,756
San Fernando de Henares sewer system	50	2,483
San Sebastián de los Reyes sewer system	50	4,995
Villarejo de Salvanés sewer system	50	444
Villaviciosa de Odón sewer system	50	1,604
TOTAL SEWER SYSTEM		**35,238**

These agreements do not stipulate any investment commitments, but rather require Canal to conduct diagnostic studies on the current condition of the sewage networks so that master plans for the improvement of these installations can be drawn up where necessary. The consideration received by the Parent for providing the sewage 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 pertinent government authority in accordance with prevailing legislation. At the end of the established term of the agreements, the city councils have agreed to pay the Parent the amount outstanding for the investments made.

Between 1 July and 31 December 2012, in order to regulate the municipal sewer systems, the running of which has been entrusted to the Company, sewer service provision agreements totalling Euros 35,238 thousand have been signed with various town councils, whereby the facilities in these municipalities are incorporated into the Community of Madrid General Network. Euros 31,856 thousand is outstanding in relation to these agreements at 31 December 2012 and has been recognised under payables to suppliers of fixed assets (see note 22 (a)).

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

Amagua C.E.M. (Ecuador) provides public drinking water and sewer services through exclusive concessions (under regulated authorisation) granted by the Decentralised Autonomous Governments of the cantons of Samborondón and Daule.

- Amagua's operations in the Samborondón canton are governed by the "Agreement regulating the relationship between the Town of Samborondón and the company Aguas de Samborondón Amagua C.E.M for the provision of drinking water and sewer services in the urban development area of Samborondón canton", which was signed on 30 November 2001, and the addenda thereto signed on 14 December 2009, for a 50-year period from March 1998 onwards. The service provided by Amagua also falls within the scope of the town charter passed by the Mayor of Samborondón on 28 May 2010.

- Operations in the Daule canton are covered by an agreement signed with the canton authorities on 10 February 2005, a first addendum signed on 22 July 2009 and a second addendum dated 1 August 2012, for a 15-year period from 2005 (until 2020). This service is governed by a town charter passed by the Mayor of Daule on 24 July 2009.

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

Amagua's obligations derived from these agreements do not include any investment commitments, as its operations are limited to the existing infrastructure available for the service, in some cases provided by the municipal authorities themselves, and in others by property development firms. According to this subsidiary's technical department, the useful life of the installations is longer than the concession term and a suitable corrective and preventative maintenance programme will eradicate the need for any major investments or replacements. Although it is not bound to make any investments, where required for its particular needs, the subsidiary may carry out work on a self-financed basis or in collaboration with other parties.

Triple A de Barranquilla (Colombia) has the following concession contracts:

- Share subscription agreement signed with the District of Barranquilla on 19 October 1993, whereby it received the right to use the assets directly or indirectly involved in the conduit, sewer and sanitation services in this district under a 20-year concession. These assets were previously held by the former state-owned enterprise Empresa Pública Municipal de Barranquilla, S.A.

On expiry of the 20-year contract term, this subsidiary is required to hand all of the concession assets back to the authorities. While the contract is in force it is required to ensure preventative and corrective maintenance.

On 19 July 2000 this subsidiary signed a twenty-year extension to the concession awarded by the District of Barranquilla, running from 19 October 2013 to 9 October 2033. Once the concession term has elapsed, the District authorities will compensate the subsidiary for any upgrade work not covered by the corrective or preventative maintenance programme at the carrying amounts at which the corresponding investments are recognised in its accounts.

- Concession contract signed on 25 March 1997 covering the provision, operation, organisation and comprehensive management of public residential conduit, sewer and sanitation services within the jurisdiction of the town of Puerto Colombia and its area of influence for a 20-year period. This contract considers that these conduit and sewer services were assumed by the concession holder from 1 April 1997.

- Concession contract signed on 4 December 2001 for a 20-year period, covering the financing, extension, refurbishment and maintenance of conduit and sewer services and complementary activities in the town of Soledad.

  The general obligations assumed by the concession holder under this contract include the operation and administration of the infrastructure received on concession to provide the conduit and sewer services from the date of the corresponding initiation certificate, and the operation and maintenance of this structure under the terms provided in the contract.

  Through a conveyance certificate signed on 19 December 2001, Soledad town authorities handed the assets involved in the conduit and sewer services over to Triple A de Barranquilla. These assets include the "Municipal Conduit Treatment Plant" and "Metropolitan Conduit Treatment Plant".

  As the infrastructure of these treatment plants must be returned to the Soledad town authorities in working condition, the subsidiary needs to begin securing the financial resources necessary to carry out work to upgrade the treatment plants by 2020 so that it can hand them over to Soledad town authorities on the date specified in the concession contract. Under prevailing accounting legislation, and on the grounds that it is required to return the infrastructure in a usable condition and working order under the terms of the contracts, the subsidiary has considered this work as a replacement and major repair and has therefore recognised the corresponding provision during the year ended 31 December 2012 with a charge of Euros 721 thousand to the consolidated income statement (see note 20 (c)).

- Concession contract signed on 18 October 2002 for a 20-year period, covering the conduits and sewer infrastructure services and complementary activities in the town of Galapa. This agreement includes the obligation to provide drinking water in bulk to guarantee the efficient provision of the conduit and sewer services within the town boundaries of Galapa. Ownership of part of the bulk drinking water pipe has also been conveyed to the subsidiary. Operations under this contract commenced on 1 November 2002.
- Operation/investment contract arrangement between Triple A de Barranquilla, Acueducto Regional Costero S.A. E.S.P. and Arcos S.A. E.S.P. for a 16-year period. This contract was signed on 13 October 2006 but began in May 2008 because it was subject to the completion of certain work by the Barranquilla District authorities.

  The purpose of this operation/investment contract is to regulate the obligations, rights and activities for the management, financing, operation, refurbishment, design, expansion, replacement and maintenance of the infrastructure of the residential public water conduit service and complementary activities in the towns of Juan de Acosta, Tubará, Usiacuri and Piojó.

As a result of its merger with Triple A Atlántico, this subsidiary has assumed the following operating contracts:

- Sabanalarga operations contract. The operation of public residential water conduit and sewer services in the town of Sabanalarga (Atlántico Department) was conveyed in Contract 001-2002, signed on 24 June 2004.

  Through this agreement, the recipient acquired all the transferor's rights and obligations in relation to this contract, in return for consideration of Colombian Pesos 300 million.

  The recipient is required to hand over all of the component assets of the Sabanalarga water conduit and sewer service infrastructure to the transferor on expiry of this agreement in 2022.

- Baranoa and Polonuevo operations contract. On 7 June 2005 Aguas del Norte S.A. E.S.P. transferred operation/investment contract 1/2003, which regulates the administration, management, financing, refurbishment, expansion, replacement, maintenance, design and operation of the infrastructure making up the public residential water conduit and sewer services in the urban areas of Baranoa and Polonuevo, including rural estates and areas (Atlántico Department), as well as complementary activities. This contract has a term of twenty years starting on 1 December 2003.

  Through this agreement, the subsidiary acquired all of Aguas del Norte S.A. E.S.P.'s rights and obligations in relation to this contract, in return for consideration of Colombian Pesos 650 million.

- Sabanagrande and Santo Tomás operation/investment contract. On 18 March 2005 the subsidiary signed an operation/investment contract with ASOSASA, E.S.P. for the management, financing, operation, refurbishment, expansion, replacement and maintenance of the infrastructure making up the residential public water conduit and sewer service within the town boundaries of Sabanagrande and Santo Tomás (Atlántico Department), as well as complementary activities. This contract has a 19-year term.

As established in these agreements, the Colombian government is responsible for any major investments necessary in water conduit and basic sanitation infrastructures.

Pursuant to prevailing legislation, tariffs and any amendments or updates thereto are authorised by the pertinent government authority.

b. Concession arrangements, regulated assets under construction and intangible assets under construction

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

		Thousands of Euros
Description	**Term**	**2012**
Community of Madrid General Network	50	271,479
		271,479

c. Capitalised borrowing costs

In 2012 the Group has capitalised borrowing costs amounting to Euros 423 thousand under "concession arrangements, regulated assets under construction". These costs were incurred for certain investment projects relating to supply and sanitation works financed using loans from the European Investment Bank.

Borrowing costs of Euros 20,733 thousand have been capitalised in 2012 in relation to the financing of sanitation and recycling agreements entered into with Madrid City Council and included under "concession arrangement, capitalised borrowing costs", in accordance with the standards adapting the Spanish General Chart of Accounts for public infrastructure concession holders (see note 5 (g)).

d. Disposals

Disposals of intangible assets in 2012 gave rise to a gain of Euros 16 thousand and a loss of Euros 43 thousand, which have been recognised in the consolidated income statement (see note 28 (d)).

e. Impairment

The Group has not recognised any impairment on its intangible assets in the six-month period ended 31 December 2012.

f. Insurance

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

g. Revertible intangible assets

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

h. Investment commitments

At 31 December 2012 the Parent's budgets for the coming year include investment commitments amounting to Euros 230 million. Replacements account for Euros 66 million of this balance.

Under the terms of the Agreement for the Management of Sanitation Services entered into by Madrid City Council, the Community of Madrid and Canal de Isabel II, the Parent is contractually bound to carry out any work necessary to maintain the wastewater treatment infrastructure, as well as to comply with the annual new work schedule and upgrade existing infrastructure. These investments are expected to total Euros 613 million by the end of the agreement term, of which Euros 158 million reflects treatment and Euros 455 million relates to sewers. At 31 December 2012, investments totalling Euros 70 million have been made, Euros 7 million of which within the period from 1 July 2012 to 31 December 2012 (see note 20 (a)).

At 31 December 2012 the Latin American subsidiaries do not have any major investment commitments in their budgets for the coming year.

i. Individually significant items

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

	Thousands of Euros
	2012
	Carrying amount
Canals and general conduits	938,886
Distribution network	633,258
Wastewater treatment plant	324,040
Tanks	218,103
Land	198,471
General buildings	143,023
Drinking water treatment plant	125,053
Low-voltage transformation and distribution	71,422
Recycling networks	46,776
Underground water collection	19,774
	2,718,806

There are no individually significant assets in Latin America at 31 December 2012.

j. Fully amortised assets

The cost of fully amortised intangible assets at 31 December 2012 is as follows:

	Thousands of Euros
Description	2012
Development	304
Trademarks	1
Computer software	20,447
Concessions	319,647
	340,399

9. PROPERTY, PLANT AND EQUIPMENT

Details of property, plant and equipment and movement are as follows:

	Thousands of Euros			
	2012			
	Land and buildings	Technical installations and other items	Machinery, furniture and fixtures	TOTAL
Cost:				
Opening balance at 1 July 2012	-	-	-	-
Additions due to non-monetary contribution	4,349	70,575	4,270	79,194
Additions	144	1,095	196	1,435
Disposals	(50)	(1,430)	(1,225)	(2,705)
Translation differences	(171)	(1,172)	(390)	(1,733)
Cost at 31 December 2012	4,272	69,068	2,851	76,191
Accumulated depreciation:				
Opening balance at 1 July 2012	-	-	-	-
Additions due to non-monetary contribution	(1,751)	(44,048)	(3,032)	(48,831)
Depreciation	(82)	(1,777)	(79)	(1,938)
Disposals	50	1,418	1,225	2,693
Translation differences	68	892	137	1,097
Accumulated depreciation at 31 December 2012	**(1,715)**	**(43,515)**	**(1,749)**	**(46,979)**
Carrying amount at 31 December 2012	**2,557**	**25,553**	**1,102**	**29,212**

Details of depreciation for the year, accumulated depreciation and the carrying amount of individually significant items of property, plant and equipment located in Spain at 31 December are as follows:

	Thousands of Euros		
	2012		
Description of the asset	**Depreciation**	**Accumulated depreciation**	**Carrying amount**
Mini-power stations	(1,681)	(30,489)	20,534
	(1,681)	**(30,489)**	**20,534**

At 31 December 2012 there are no individually significant items of property, plant and equipment in Latin America.

a. Fully depreciated assets

Details of the cost of fully depreciated property, plant and equipment in use at 31 December are as follows:

	Thousands of Euros
	2012
Buildings	525
Technical installations and machinery	1,523
Other installations, equipment and furniture	5,940
Other property, plant and equipment	3,074
	11,062

b. Insurance

The Group has taken out insurance policies to cover the risk of damage to its property, plant and equipment. The coverage of these policies is considered sufficient.

c. Impairment

The Group has not recognised any impairment on its property, plant and equipment in 2012.

10. INVESTMENT PROPERTY

a. General

Details of investment property and movement during the period ended 31 December 2012 are as follows:

	Thousands of Euros		
		2012	
	Land	Buildings	TOTAL
Cost at 1 July 2012	-	-	-
Additions due to non-monetary contribution	7,927	25,279	33,206
Additions	-	17	17
Transfers	-	(15)	(15)
Translation differences	(29)	-	(29)
Cost at 31 December 2012	**7,898**	**25,281**	**33,179**
Accumulated depreciation at 1 July 2012	-	-	-
Additions due to non-monetary contribution	-	(8,517)	(8,517)
Depreciation	-	(612)	(612)
Accumulated depreciation at 31 December 2012	-	**(9,129)**	**(9,129)**
Carrying amount at 31 December 2012	**7,898**	**16,152**	**24,050**

Investment property mainly includes sports facilities located in the Islas Filipinas tank three and several other heritage assets.

Operation of the sports facilities located in Islas Filipinas tank three, representing a total investment of Euros 14 million, has been transferred to a third party for a five-year period (which ended on 25 March 2012 and has been extended for another year) in exchange for an annual fee of Euros 700 thousand.

The total carrying amount of the Group's investment property outside Spain is Euros 643 thousand. This property is held by the subsidiary Triple A de Barranquilla (Gestión Integral de Suministros).

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

		Thousands of Euros	
		2012	
Description	**Cost**	**Accumulated depreciation**	**Net**
Land	7,898	-	7,898
Heritage assets	2,882	(916)	1,966
	10,780	**(916)**	**9,864**

b. Income and expenses from investment property

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

	Thousands of Euros
	2012
Lease income	718
Operating expenses of income-generating investments	(555)
Operating expenses of non-income-generating investments	(57)
	106

c. Insurance

The Group has taken out insurance policies to cover the risk of damage to its investment property. The coverage of these policies is considered sufficient.

11. RISK MANAGEMENT POLICY

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

a. Credit risk

The Group has no significant concentrations of credit risk other than those mentioned in note 13 (b). Valuation allowances for bad debts, 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 by management.

Details of financial assets exposed to credit risk are provided in note 12 (a).

b. Interest rate risk

Interest rate risk constitutes the impact on profit of a rise in interest rates, which increases the cost of borrowings. The Parent endeavours to mitigate this risk through drawdowns on fixed-rate loans, which at 31 December 2012 represent 37% of total borrowings.

The interest rate on variable-rate net debt is pegged to the Euribor in Spain and the DTF in Colombia. At 31 December 2012 the estimated sensitivity of the finance costs included in the net finance cost for the year to changes in interest rates, and the structure of net debt, are as follows:

	Increase in interest rate	Impact on finance costs
Euribor	± 10 p.b.	681
DTF	± 10 p.b.	59

c. Liquidity risk

The Group applies a prudent policy to cover its liquidity risks, based on having cash and sufficient financing through credit facilities. Given the dynamic nature of its underlying business, the Finance Department aims to be flexible with regard to financing through drawdowns on contracted credit facilities.

The term and repayment schedule of financing obtained is established based on the type of financing requirements. In 2012 the Group has arranged long-term financing to meet its future investment requirements.

Details of financial assets and financial liabilities by contractual maturity date are provided in notes 12 and 21.

d. Currency risk

The risk arising from exchange rate volatility is not considered to be significant and primarily relates to fluctuations in the Colombian and Dominican Peso reflected in the valuation of assets and liabilities located in Colombia and the Dominican Republic. This risk is managed using resources denominated in the corresponding foreign currencies.

12. CLASSIFICATION OF FINANCIAL ASSETS BY CATEGORY AND EQUITY-ACCOUNTED INVESTEES

a. Classification of financial assets by category

	Thousands of Euros	
	2012	
	Non-current	Current
	At amortised cost	At amortised cost
	Carrying amount	Carrying amount
Investments in Group companies and associates		
Equity instruments	181	-
Equity-accounted investees	4,298	-
Other financial assets (note 27)	-	4,676
	4,479	**4,676**
Investments		
Equity instruments		
Unquoted	200	-
Loans		
Other	71,623	12,829
Deposits and guarantees	14,653	56
Other financial assets	-	6
	86,476	**12,891**
Trade and other receivables		
Trade receivables	-	175,152
Other receivables	-	42,336
	-	217,488
TOTAL FINANCIAL ASSETS	**90,955**	**235,055**

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

The only gains and losses on financial assets are finance income due to measuring receivables at amortised cost (see note 13 (a) (ii)), the impairment described in note 13 (a) (iii) and (b) and finance income earned on refinancing agreements (see note 13 (a) (ii)).

Details of financial assets denominated in foreign currencies are as follows:

	Thousands of Euros			
	2012			
	Colombian Pesos	Dominican Pesos	US Dollars (Ecuador)	Total
Non-current investments in Group companies and associates	**4,057**	**-**	**-**	**4,057**
Equity instruments	181	-	-	181
Equity-accounted investees	3,876	-	-	3,876
Loans and receivables	**35,226**	**31**	**43**	**35,300**
Equity instruments	323	-	-	323
Loans to third parties	34,899	-	43	34,942
Other financial assets	4	31	-	35
Total non-current financial assets	**39,283**	**31**	**43**	**39,357**
Trade and other receivables	**49,751**	**3,785**	**1,285**	**54,821**
Trade receivables – current	26,423	2,265	1,133	29,821
Trade receivables from Group companies and associates – current	1,293	-	-	1,293
Other receivables	21,643	-	117	21,760
Personnel	392	1,520	35	1,947
Total current financial assets	**49,751**	**3,785**	**1,285**	**54,821**
Total financial assets	**89,034**	**3,816**	**1,328**	**94,178**

The classification of financial assets by maturity is as follows:

	Thousands of Euros					
	2012					
	2013	2014	2015	2016	Subsequent years	TOTAL
Non-current investments in Group companies and associates	**4,676**	**181**	**-**	**-**	**-**	**4,857**
Loans to companies	-	181	-	-	-	181
Other financial assets	4,676	-	-	-	-	4,676
Investments	12,891	10,663	13,643	13,336	48,834	99,367
Loans to third parties	**12,829**	**7,928**	**11,205**	**10,898**	**41,592**	**84,452**
Deposits and guarantees	56	2,735	2,438	2,438	7,242	14,909
Other financial liabilities	6	-	-	-	-	6
Trade and other receivables	**217,488**	**-**	**-**	**-**	**-**	**217,488**
Trade receivables	173,859	-	-	-	-	173,859
Trade receivables, equity-accounted investees	2,357	-	-	-	-	2,357
Other receivables	39,241	-	-	-	-	39,241
Personnel	2,031	-	-	-	-	2,031
	235,055	**10,844**	**13,643**	**13,336**	**48,834**	**321,712**

b. Equity-accounted investees

Details of investments in equity instruments of Group companies and associates at 31 December 2012 are as follows:

	Thousands of Euros
	2012
Equity-accounted investees	**4,298**
Investments in equity-accounted companies	**4,298**

Details of movement in equity-accounted investees by company at 31 December 2012 are as follows:

	Thousands of Euros			
	2012			
	Balance at 01/07/2012	Profit/ (loss)	Translation differences	Balance at 31/12/2012
GSS Venture, S.L.	512	(90)	-	422
Compañía de Acueducto y Alcantarillado Metropolitano de Santa Marta	4,229	(172)	(181)	3,876
	4,741	**(262)**	**(181)**	**4,298**

13. INVESTMENTS AND TRADE RECEIVABLES

a. Investments

Details of investments are as follows:

	Thousands of Euros	
	2012	
	Non-current	Current
Unrelated parties		
Equity instruments	323	-
Loans to third parties	39,091	15,551
Refinancing agreements	60,368	-
Deposits and guarantees	14,653	56
Other financial assets	10,053	6
	124,488	**15,613**
Impairment	(38,012)	(2,722)
TOTAL	**86,476**	**12,891**

(i) Other information on investments

The main characteristics of receivables from third parties, refinancing agreements and other financial assets are as follows:

		Thousands of Euros		
			2012	
Type	**Year of final maturity**	**Nominal amount**	**Non-current**	**Current**
Unrelated parties				
Works carried out for town councils	2019	71,960	39,091	12,810
Disposal of fixed assets	2009	2,722	-	2,722
Regeneration works	2040	326	307	19
Refinancing agreement Triple A Barranquilla (Colombia)	2020	33,835	33,835	-
"Fondo de Solidaridad" (Colombia)	Various years	26,533	26,533	-
Receivables from partners and shareholders	Various years	2,445	2,445	-
Other receivables from Triple A Barranquilla (Colombia)	Various years	6,685	6,685	-
Loans to personnel	Various years	60	60	-
Other	Various years	562	556	6
		145,128	**109,512**	**15,557**

Works carried out for town councils include balances receivable by the Parent from certain councils for work conducted on water distribution infrastructure in the respective municipalities. Receivables of Euros 2,957 thousand arose on such work in 2012. These balances are generally settled through customer bills, and total amount of Euros 4,171 thousand was received in 2012. Current receivables include amounts due from Alcalá de Henares town authorities for treatment services provided in previous years.

As is mentioned in note 5 (n), these receivables from town and city councils are recognised at amortised cost, considering the period over which each balance is expected to be recovered. Any difference between the discounted balance and the amount actually received is recognised under prepayments (see note 15). The impairment presented in the non-current column reflects unrecoverable receivables from these councils under the terms of the corresponding agreements.

Refinancing agreements reflect amounts due from users of the public water service with whom refinancing arrangements have been established and collection rescheduled. These receivables earn annual interest at market rates.

The balance under "Fondo de Solidaridad (Colombia)" reflects the deficit between the welfare contributions from socio-economic levels 5 and 6 in the commerce and industry sectors and the subsidies allocated to levels 1, 2 and 3 in the Barranquilla District and the towns of Soledad, Galapa, Usiacurí, Puerto Colombia, Tubará and Juan de Acosta. As a result of the merger with Triple A Atlántico, since 31 March 2012 welfare contributions have also been made for Sabanagrande, Sabanalarga, Santo

Tomás, Polonuevo and Baraona. The Group will receive these amounts from the district and town authorities. These receivables fall due at various points in time up to 2020 and earn annual interest at market rates.

Receivables from partners and shareholders include Euros 2,445 thousand for services provided to the District of Barranquilla, which, through ruling 222 of 12 February 2011, was admitted to a financial restructuring process under the terms of Law 550 of 1999. This amount falls due in October 2015.

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

The balance listed under impairment relates to the sale of Canal's interest in the share capital of Global Sales Solutions Line, S.L. for Euros 4,234 thousand in 2007, at which time the Euros 2,722 thousand receivable was recognised under current investments in the consolidated balance sheet. Provision has been made for this entire balance as payment was not settled on the agreed date and reasonable doubts exist as to its recovery. The impairment recognised under non-current receivables relates to refinancing agreements and welfare contributions to the Colombian "Fondo de Solidaridad" by the subsidiary Triple A de Barranquilla.

(ii) Net losses and gains by category of financial asset

Net losses and gains by category of financial asset are as follows:

	Thousands of Euros
	Loans and receivables
	2012
Finance income from refinancing agreements	2,025
Finance income at amortised cost	609
Operating costs relating to the change in amortised cost	(601)
Finance income at amortised cost – other receivables	8
NET GAINS/(LOSSES) IN PROFIT OR LOSS	**2,041**

Finance income mainly derives from the revaluation of non-current receivables from certain town councils in relation to works carried out on the water distribution infrastructure, financed through add-ons to the tariff and operating expenses, as well as the proportional distribution of the difference between the nominal amount and amortised cost based on the terms of the agreements in place.

(iii) Impairment

Movement in impairment is as follows:

	Thousands of Euros
	2012
Non-monetary contribution	(45,636)
Charges	(4,175)
Surpluses	8,422
Transfers	(891)
Translation differences	1,546
BALANCE AT 31 DECEMBER 2012	**(40,734)**

b. Trade and other receivables

Details of trade and other receivables are as follows:

	Thousands of Euros
	Current
	2012
Related parties (note 27)	
Other receivables	2,565
Impairment	(208)
	2,357
Unrelated parties	
Trade receivables	257,477
Other receivables	48,040
Personnel	2,031
Taxation authorities, income tax (note 25)	1,242
Public entities, other (note 25)	10,857
	319,647
Impairment	(92,417)
	227,230
TOTAL	**229,587**

Other receivables from related parties primarily reflect the balance receivable from the Aguas de Alcalá temporary joint venture for water treatment services.

Trade receivables from unrelated parties are balances receivable from customers for amounts billed in relation to the Group's principal activity.

The contractual relationship between Madrid City Council and Canal de Isabel II dates back to 1972. A new agreement, which was signed on 19 December 2005 and took effect on 1 January 2006, established the terms of the relationship between Canal and the City Council with regard to water supply to the city of Madrid. These agreements determine both the financial aspects of this relationship and those relating to the planning, construction, maintenance and renovation of water use networks and the use of the water supply. The financial aspects of the 2005 agreement stipulated that receivables and payables between Canal and the City Council would be settled by offsetting balances.

Pursuant to the agreement signed between the Community of Madrid, Canal de Isabel II and Madrid City Council on 4 May 2011, relating to the inclusion of the latter in Canal de Isabel II's future management model, this relationship agreement has been automatically extended and now has the same duration as the inclusion agreement, i.e. 50 years.

Movement in impairment is as follows:

	Thousands of Euros
	2012
Non-monetary contribution	(78,488)
Charges	(19,633)
Applications	2,865
Surpluses	707
Transfers	891
Translation differences	1,033
BALANCE AT 31 DECEMBER	**(92,625)**

In 2012 the Parent recognised losses of Euros 27 thousand on bad trade debts for which no provision had been made.

14. INVENTORIES

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

	Thousands of Euros
	2012
Production and distribution business	
Goods for resale	535
Works materials	2,138
Chemical reagents	5,520
Other supplies	3,207
Advances	1,425
Impairment	(352)
TOTAL	**12,473**

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

Impairment losses of Euros 26 thousand have been reversed in 2012.

The Group has taken out insurance policies to cover the risk of damage to its inventories. The coverage of these policies is considered reasonable.

15. PREPAYMENTS

El detalle del epígrafe "Periodificaciones" es como sigue:

	Thousands of Euros	
	2012	
	Non-current	**Current**
Other prepayments	-	1,089
Prepayments for loans, supplementary instalment (note 13 (a))	18,897	1,162
Prepayments for long-service bonus	2,942	242
Prepayments for seniority awards	56,514	-
	78,353	**2,493**

"Prepayments for loans, supplementary instalment" reflects the difference between the nominal amount and amortised cost of the supplementary instalment receivable from certain city councils in relation to the Master Plans to finance work carried out by the Parent for these city councils (see note 13 (a)).

Prepayments for long-service bonuses reflect the deferred premium paid by the Parent to an insurance company in respect of an insurance policy for the accrual of early settlements of long-service bonuses (see note 5 (s)). These prepayments are taken to income as the premium in question is accrued.

Prepayments for seniority awards reflect the deferred premium paid by the Parent to an insurance company in respect of a risk insurance policy for early settlement of the seniority commitment (see note 5 (s)). These prepayments are taken to income as the premium in question is accrued. Euros 1,500 thousand has been recognised in 2012 reflecting the finance charge for restating these balances.

16. CASH AND CASH EQUIVALENTS

El detalle del epígrafe "Efectivo y otros activos líquidos equivalentes" es como sigue:

	Thousands of Euros
	2012
Cash in hand and at banks	41,805
Current bank deposits	5,452
	47,257

Cash in hand and at banks reflects the aggregated cash of each of the companies forming the consolidated Group, with Euros 22,340 thousand corresponding to Canal de Isabel II Gestión and Euros 16,145 thousand to Inassa. Euros 4,965 thousand of the balance under current bank deposits pertains to Triple A de Barranquilla. Of this amount, Euros 349 thousand is held in restricted, interest-bearing accounts allocated for the redemption of non-convertible bonds (see note 22 (a)).

The exceptions stated in the previous paragraph notwithstanding, the full cash balance is available for use in Group activities.

17. EQUITY

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

a. Capital

The Parent was incorporated on 27 June 2012 through the issue of 1,074,032,000 ordinary shares of Euro 1 par value each, which were subscribed and fully paid in by the Public Entity by way of the non-monetary contribution of the activity described in note 3. These shares have the same voting and profit-sharing rights and can be freely transferred where permitted by law. None of the Parent's shares are listed on any stock exchange.

On 30 November 2012 the board of directors of the Public Entity, fulfilling the obligation assumed in the Agreements of Inclusion in the Management Model signed with virtually all the local councils in the Community of Madrid, authorised the conveyance of the shares in the Parent corresponding to each local authority, following the established criteria on this matter. At 31 December 2012 these local councils now hold 17.60% of the Parent's share capital.

The transferral of these shares is subject to Laws 3/2008 and 6/2011 and to the terms of the Agreements of Inclusion in the Management Model signed with local councils in the Community of Madrid.

The shareholders with direct interests of at least 10% in the share capital of the Parent are as follows:

Entity	No. of shares	Percentage ownership
Canal de Isabel II (Public Entity)	884,997,643	82.40
Madrid City Council	107,403,200	10.00

b. Share premium

The shares were issued with a share premium of Euro 1 per share, i.e. a total amount of Euros 1,074,032,000. The Public Entity paid in this share premium when it paid in the share capital through the non-monetary contribution described in note 3. This reserve is freely distributable.

c. Reserves

Details of reserves and results, and movement during the period, are shown in the consolidated statement of changes in equity.

(i) Legal reserve

Article 274 of the Spanish Companies Act requires companies to transfer 10% of profits for the period to this reserve until it reaches an amount equal to 20% of share capital. The Company's legal reserve will be appropriated using the profit for 2012.

The legal reserve is not distributable to shareholders and if it is used to offset losses, in the event that no other reserves are available, it must be replenished with future profits.

This reserve has not yet been created at 31 December 2012.

(ii) Other Parent reserves

At 31 December 2012 this reserve reflects the effect of the costs incurred to incorporate Canal de Isabel II Gestión, S.A.

(iii) Reserves in consolidated companies

At 31 December 2012 this reserve reflects the effect of adjustments made on the consolidation of the subsidiary Hidráulica Santillana, S.A.

d. Translation differences

Details of translation differences are as follows:

	Thousands of Euros
Company	2012
Sociedad Interamericana de Aguas y Servicios, S.A.	(2,803)
Sociedad de Acueducto, Alcantarillado y Aseo de Barranquilla, S.A. E.E.P.	154
Recaudos y Tributos, S.A.	(58)
AAA Dominicana, S.A.	(193)
AAA Ecuador Agacase, S.A.	(63)
Watco Dominicana, S.A.	(8)
TOTAL	**(2,971)**

e. Profit for the year attributable to the Parent

The contribution of each consolidated Group company to consolidated profit, indicating the portion attributable to non-controlling interests, is as follows:

	Thousands of Euros	
	2012	
Company	Consolidated profit/(loss)	Profit/(loss) attributable to non-controlling interests
Canal de Isabel II Gestión, S.A.	131,235	-
Hidráulica Santillana, S.A.	244	-
Hispanagua, S.A.	915	-
Canal Energía subgroup	(17)	-
Canal de Comunicaciones Unidas, S.A.	621	-
Canal Extensia, S.A.	1,968	-
Watco Dominicana, S.A.	(4)	(2)
Interamericana de Aguas y Servicios, S.A.	(1,455)	(273)
Sociedad de Acueducto, Alcantarillado y Aseo de Barranquilla, S.A. E.E.P.	3,629	1,491
Recaudos y Tributos, S.A.	(110)	(22)
AAA Dominicana, S.A.	266	126
AAA Ecuador Agacase, S.A.	422	182
Fully consolidated companies	137,714	1,502
GSS Venture, S.L.	(90)	-
Metroagua, S.A.	(172)	(32)
Equity-accounted investees	(262)	(32)
TOTAL	**137,452**	**1,470**

18. GRANTS, DONATIONS AND BEQUESTS RECEIVED

Movement in 2012 in non-refundable grants, donations and bequests received is as follows:

	Thousands of Euros
	2012
Balance at 1 July	
Additions due to non-monetary contribution	674,221
Grants received during the year	10,865
Amounts transferred to the income statement	(6,166)
Translation differences	(65)
Tax effect	(7)
BALANCE AT 31 DECEMBER	**678,848**

This item primarily comprises the following grants held by the Parent at 31 December 2012:

The Euros 22,816 thousand Cohesion Fund contribution to the set of projects entitled "Basin Clean-ups and Extension of Madrid Treatment Plants", of which Euros 8,219 thousand is pending release to profit and loss. This Cohesion Fund assistance was approved by the Commission of European Communities on 13 October 1997.

The Euros 14,215 thousand Cohesion Fund contribution to the project for the "Tajo Basin Clean-up 2001, Group III", of which Euros 10,010 thousand is pending release to profit and loss. This grant was approved by the Commission of European Communities on 18 December 2001.

The Cohesion Fund contribution to the "Tajo Basin Clean-up 2001, Group II" project, totalling Euros 51,102 thousand. This grant, of which Euros 30,542 thousand is pending release to profit and loss, was approved by the Commission of European Communities on 26 March 2002.

The Euros 12,338 thousand Cohesion Fund contribution to the project for the "Tajo Basin Clean-up 2002", of which Euros 7,609 thousand is pending release to profit and loss.

The contribution from the European Regional Development Fund under the remit of 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 Euros 58,017 thousand. This funding was granted on 7 March 2001. Euros 41,038 thousand of the total balance has yet to be taken to income.

The contributions from the European Regional Development Fund's CAM 2007-2013 Operational Programme amounting to Euros 862 thousand, aimed at ongoing research and innovation or energy efficiency and savings projects; the funds received have yet to be taken to profit and loss. The ERDF's CAM 2007-2013 Operational Programme was approved on 14 December 2007.

Cohesion Fund contributions of Euros 24,392 thousand 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. Euros 21,359 thousand is pending transfer to the income statement.

Cohesion Fund contributions to the "Clean-up and treatment of the La Reguera river basin" project, totalling Euros 14,611 thousand. This assistance from the Cohesion Fund was approved by decision of the Commission on 19 November 2003. As this project is co-financed by a subsidy of Euros 5,935 thousand, the total grant amount is Euros 20,546 thousand, of which Euros 17,468 thousand is still to be taken to income.

The Spanish Energy Diversification and Saving Institute (IDAE) has financed four projects through the Community of Madrid, contributing Euros 2,739 thousand to the first project, Euros 164 thousand to a second project, which is pending release to profit and loss, Euros 400 thousand to a third project, and Euros 31 thousand to a fourth, which is currently underway. The first and third projects are being transferred to profit and loss, with a total of Euros 2,585 thousand yet to be released.

The value of Euros 90,018 thousand attributed to installations assigned to the Parent by various town councils. At 31 December 2012, Euros 7,078 thousand is pending transfer to the income statement.

Third-party financing, namely amounts received from new water utility customers for hook-up rights and pipeline adaptation and extension totalling Euros 761,482 thousand. At 31 December 2012, Euros 531,985 thousand is pending transfer to the income statement.

Details of grants received in 2012 are as follows:

	Thousands of Euros		
	2012	**Purpose**	**Grant date**
Grantor			
Third-party financing	10,865	Supply works	Several dates
	10,865		

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

	Thousands of Euros
	2012
Capital grants	
Cohesion Funds and ERDF	**1,376**
Rights conveyed by town councils	**99**
Third-party financing	**4,603**
Other	**42**
	6,166

Operating grants taken to income for the year total Euros 245 thousand.

19. NON-CONTROLLING INTERESTS

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

	Thousands of Euros
Company	**2012**
Sociedad Interamericana de Aguas y Servicios, S.A.	11,937
Watco Dominicana, S.A.	82
Sociedad de Acueducto, Alcantarillado y Aseo de Barranquilla, S.A. E.E.P.	7,850
Recaudos y Tributos, S.A.	296
AAA Dominicana, S.A.	2,153
AAA Ecuador Agacase, S.A.	951
TOTAL	**23,269**

Movement in non-controlling interests is as follows:

	Thousands of Euros
	2012
Additions due to non-monetary contribution	26,250
Share of profit/(loss)	1,470
Change in translation differences	(1,253)
Dividends	(3,198)
BALANCE AT 31 DECEMBER	**23,269**

20. PROVISIONS AND CONTINGENT LIABILITIES

Details of provisions are as follows:

	Thousands of Euros	
	2012	
	Non-current	Current
Provisions for long-term employee benefits under defined benefit plans	134	-
Provisions for other employee benefits	-	191
Provisions for taxes	6,175	3,874
Provisions for infrastructure	131,673	65,020
Provisions for other liabilities	19,990	2,761
TOTAL	**157,972**	**71,846**

El movimiento de las cuentas representativas de este epígrafe es el siguiente:

	Thousands of Euros				
	Provisions for taxes	Provision for long-service bonuses	Provisions for other liabilities	Provisions for infrastructure	TOTAL
Additions due to non-monetary contribution	11,042	454	27,193	178,197	216,886
Charges	4,156	382	1,957	56,643	63,138
Provision adjustments	-	-	-	1,196	1,196
Applications	(3,612)	(492)	(5,677)	(39,336)	(49,117)
Provision surplus	(1,437)	-	(516)	-	(1,953)
Translation differences	(100)	(19)	(206)	(7)	(332)
AT 31 DECEMBER 2012	**10,049**	**325**	**22,751**	**196,693**	**229,818**

a. Provisions for taxes

This provision primarily relates to the public prices payable by the Group for the private and special use made of land and public thoroughfares. Allocations to this provision are made based on the best estimates of the amount accrued each year, calculated using land registers and city by-laws.

b. Provisions for 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 at 31 December 2012. The provision is estimated using the individual most likely outcome.

c. Provisions for infrastructure

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				
	2012				
	Provision for the Community of Madrid network	Provision for the Madrid City Council sanitation agreement	Provision for the Madrid City Council recycling agreement	Soledad provision	Total
Additions due to non-monetary contribution	151,315	26,881	-	-	178,196
Charges	46,285	8,276	1,361	721	56,643
Provision adjustments	1,055	142	-	-	1,197
Applications	(16,688)	(22,648)	-	-	(39,336)
Translation differences	-	-	-	(7)	(7)
BALANCE AT 31 DECEMBER 2012	**181,967**	**12,651**	**1,361**	**714**	**196,693**

Based on the Parent's estimates, the investment plan for replacement initiatives in the Community of Madrid network over the next 50 years totals Euros 4,690 million.

d. Contingent liabilities, guarantees and other commitments

Details of guarantees deposited and received at 31 December 2012 are as follows:

	Thousands of Euros
	2012
Guarantee deposits received	137,119
Guarantees deposited with public entities	8,806
TOTAL	**145,925**

Euros 12,862 thousand of total guarantees deposited and received pertain to the Latin American subsidiaries. Details are as follows:

- **Inassa:** This subgroup has guarantees amounting to Euros 2,726 thousand, namely bank guarantees paid to Banco de Bogotá to support loans granted to Aguas de Samborondón Amagua, CEM and bank guarantees deposited with Helm Bank to secure loans granted to the Metroagua-Incatema consortium.

- **Triple A de Barranquilla:** Triple A has guarantees amounting to Euros 10,136 thousand relating to government contributions to infrastructure works in the town of Soledad and investment plan works in south-western Barranquilla.

Group management does not expect any significant liabilities to arise from these guarantees.

Triple A de Barranquilla is currently involved in litigation for a total amount of Euros 5,785 thousand. The directors and legal advisors do not expect these matters to give rise to any significant liabilities for the Group.

21. FINANCIAL LIABILITIES BY CATEGORY

a. Classification of financial liabilities by category

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

	Thousands of Euros	
	2012	
	At amortised cost or cost	
	Carrying amount	
	Non-current	Current
Debts and payables		
Group companies and associates (note 27)	1,008,567	162,290
	1,008,567	**162,290**
Loans and borrowings (note 22 (a))		
Fixed rate	49,058	-
Variable rate	-	14,223
	49,058	**14,223**
Bonds and other marketable securities (note 22 (a))		
Variable rate	**-**	**15,743**
	-	15,743
Other financial liabilities (note 22 (a))		
Other financial liabilities	93,002	88,331
	93,002	**88,331**
Trade and other payables (note 22 (b))		
Suppliers	-	25,766
Suppliers, Group companies and associates	-	1,438
Other payables	-	108,249
Sundry payables	-	5,673
Personnel	-	9,152
		150,278
	1,150,627	**430,865**

Payables to Group companies reflect the Parent's obligation to repay the financing contracts arranged between the Public Entity and its lender institutions (further information on this "mirror effect" is provided in note 27).

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

The only gains and losses on financial liabilities are due to measuring advances for water use at amortised cost, as well as finance costs on loans and borrowings and payables to Group companies (see point (i) of this note).

(i) Net losses and gains by financial liability category

Net losses and gains by financial liability category are as follows:

	Thousands of Euros
	2012
	Debts and payables
Finance costs at amortised cost	(775)
Change in fair value of revenue from services rendered	775
Loan interest	(9,961)
NET GAINS IN PROFIT AND LOSS	**(9,961)**

Finance costs at amortised cost are those derived from the updating of advances received for the use of water during the year. Similarly, revenues from the rendering of services reflect the proportional distribution of the difference between the nominal amount and amortised cost based on the average estimated years over which the services will be provided (see notes 22 (a) and 24).

(ii) Amounts denominated in foreign currencies

Details of financial liabilities denominated in foreign currencies are as follows:

	Thousands of Euros			
	2012			
	Colombian Pesos	Dominican Pesos	US Dollars (Ecuador)	Total
Non-current payables	**61,252**	**22**	**2,531**	**63,805**
Loans and borrowings	48,956	-	102	49,058
Other financial liabilities	12,296	22	2,429	14,747
Total non-current liabilities	**61,252**	**22**	**2,531**	**63,805**
Current payables	**28,917**	**480**	**669**	**30,066**
Bonds and other marketable securities	15,743	-	-	15,743
Loans and borrowings	12,722	-	512	13,234
Other financial liabilities	452	480	157	1089
Trade and other payables	**26,110**	**999**	**1,337**	**28,446**
Suppliers	13,998	987	1,299	16,284
Suppliers, Group companies and associates	-	-	32	32
Other payables	5,138	1	6	5,145
Personnel	1,302	11	-	1,313
Advances from customers	5,672	-	-	5,672
Total current liabilities	**55,027**	**1,479**	**2,006**	**58,512**
TOTAL FINANCIAL LIABILITIES	**116,279**	**1,501**	**4,537**	**122,317**

22. PAYABLES AND TRADE PAYABLES

a. Payables

Details of payables are as follows:

	Thousands of Euros	
	2012	
	Non-current	**Current**
Unrelated parties		
Non-convertible bonds	-	15,431
Accrued interest	-	312
	-	**15,743**
Loans and borrowings	49,058	13,208
Accrued interest	-	1,015
	49,058	**14,223**
Suppliers of fixed assets (note 8 (a))	-	69,906
Bills payable	2,428	46
Dividend payable	-	12,518
Guarantees and deposits received	31,627	1,295
Other payables	46,629	3,351
Other financial liabilities	12,318	1,215
	93,002	**88,331**
TOTAL	**142,060**	**118,297**

Other non-current payables include Euros 23,036 thousand payable by the Parent to the Tajo Water Board for the Picadas Valmayor conduits, of which Euros 771 thousand is recognised as current, and Euros 26,944 thousand payable to Sociedad Estatal Aguas de la Cuenca del Sur for works carried out in Campo de Pozos del Guadarrama and the second ring, of which Euros 2,580 thousand has been recognised as current.

Guarantees and deposits received mainly 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 24).

At 31 December 2012, dividends payable include a Euros 12,234 thousand dividend payable by the Parent to certain shareholders (see notes 4 and 27 (a)) and a Euros 284 thousand dividend payable by the subsidiary Triple A de Barranquilla to its non-controlling shareholders.

Non-convertible bonds reflect the 180,000 ordinary bonds with a par value of Colombian Pesos 1 million each - Colombian Pesos 180,000 million in total - issued by the subsidiary Triple A de Barranquilla, S.A.

E.S.P. in May 2003. These bonds mature at ten years, with partial annual redemptions from the fifth year onwards, and accrue interest at the CPI + 8.5%. The issue has a 25% guarantee from the IFC (International Finance Corporation). The legal representative of the bonds is Helm Trust.

This guarantee is governed by a contract signed between Triple A de Barranquilla, S.A. E.S.P. and the IFC. The terms of this agreement include the following:

1. The funds should be allocated to extend the conduit and sewer networks in south-western Barranquilla, as part of the concession, and to refinance part of the Company's payables so that the outstanding debt comprises (i) guaranteed bonds, (ii) existing bonds (iii) the Corfinsura loan and (iv) the remaining debt.

2. The subsidiary should not distribute any dividends without providing the IFC with a document signed by an authorised representative certifying compliance with certain financial indicators.

3. The subsidiary should not hold any fixed assets, except for those allocated to replace and improve equipment used in the ordinary running of its businesses, which under no circumstances should have an aggregate value of over USD 500 thousand.

4. The Group may not reduce its interest in Inassa to below 51% without the prior consent of the IFC.

Details of loans and borrowings in 2012 are as follows:

					Thousands of Euros		
Company	**Original Amount**	**Type**	**Maturity**	**Annual Interest Rate**	**Current**	**Non-Current**	**Total**
Canal Extensia	Euros 1 million	Ordinary	10 Mar 13	Euribor + 3.75%	987	-	987
Inassa Subgroup							
Inassa (Panama branch)	USD 2 million	Ordinary	Several dates	LIBOR(180) + (between 2.8 and 4)	1,129	104	1,233
Triple A de Barranquilla	COP 97,500 million	Ordinary	Several dates	DTF + (between 4.5% and 5.50%)	10,302	48,852	59,154
GIS	COP 155 million	Cash	Several dates	DTF + 6.77%	67	-	67
AAA Ecuador	USD 2,108 thousand	Commercial	Several dates	between 3% and 11.23%	509	102	611
R&T	COP 500 million	Cash	31 Dec 13	DTF + 2.9%	214	-	214
				TOTAL	**13,208**	**49,058**	**62,266**

The amount listed for Canal Extensia, S.A. is a credit facility with a Euros 1,000 thousand limit, which was arranged with Bankinter on 10 December 2012. This facility expires on 10 March 2013 and is benchmarked to the three-month Euribor. As the initial value of this benchmark rate is 0.19% and the applicable spread is 3.75%, the interest rate on this facility is 3.94%.

Other financial liabilities mainly derive from the financing of certain intangible assets held by the subsidiary Triple A de Barranquilla. These borrowings bear annual interest at Colombian market rates.

b. Trade and other payables

Details of trade and other payables are as follows:

	Thousands of Euros	
	2012	
	Non-current	Current
Related parties		
Suppliers, Group companies and associates (note 27)		1,438
Unrelated parties		
Suppliers	-	25,766
Trade payables	-	108,249
Personnel	-	9,152
Current tax liabilities (note 25)	-	2,751
Public entities, other (note 25)	-	16,233
Advances from customers	-	5,673
	-	169,262
TOTAL	**-**	**169,262**

c. Classification by maturity

The classification of financial liabilities by maturity is as follows:

	Thousands of Euros					
	2012					
	2013	2014	2015	2016	2017	Subsequent years
Payables	**118,297**	**21,873**	**18,323**	**16,714**	**14,373**	**70,777**
Bonds and other marketable securities	15,743	-	-	-	-	-
Loans and borrowings	14,223	12,116	11,746	10,095	7,095	8,006
Other financial liabilities	88,331	9,757	6,577	6,619	7,278	62,771
Group companies and associates	**162,290**	**147,622**	**152,419**	**150,836**	**127,253**	**430,437**
Trade and other payables	**150,278**	**-**	**-**	**-**	**-**	**-**
	25,766	-	-	-	-	-
	1,438	-	-	-	-	-
Other payables	108,249	-	-	-	-	-
Advances from customers	5,673	-	-	-	-	-
Personnel	9,152	-	-	-	-	-
	430,865	**169,495**	**170,742**	**167,550**	**141,626**	**501,214**

23. LATE PAYMENTS TO SUPPLIERS. "REPORTING REQUIREMENT", THIRD ADDITIONAL PROVISION OF LAW 15/2010 OF 5 JULY 2010

Details of late payments to suppliers are as follows:

	Payments made and outstanding at the reporting date	
	Thousands of Euros	
	2012	
	Amount	%
Within maximum legal payment term	82,853	52.67
Other	74,459	47.33
Total payments for the period	**157,312**	**100.00**
Weighted average late payment days	29.91	
Late payments exceeding the maximum legal term at the reporting date	3,035	

(*)Pursuant to Law 15/2010 of 5 July 2010, which introduced measures to combat late payment in commercial transactions, the maximum legal payment period was 40 days in 2012. The above figures are for trade payables and do not include balances payable to suppliers of fixed assets.

24. ACCRUALS

Details of accruals are as follows:

	Thousands of Euros	
	2012	
	Non-current	Current
Advances for water use	51,127	1,561
	51,127	**1,561**

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 by the Parent (see note 5 (n)).

25. TAXATION

On 25 July 2012 the Parent wrote to the Spanish taxation authorities to inform them of its intention – as stated in note 3 – to avail of the tax neutrality scheme regulated in section VII, chapter VIII of Royal Legislative Decree 4/2004 of 5 March 2004, which approved the Revised Spanish Income Tax Law, in relation to the contribution of activities.

Details of balances with public entities are as follows:

	Thousands of Euros	
	2012	
	Non-current	**Current**
Assets		
Deferred tax assets	2,632	-
Current tax assets (note 13 (b))	-	1,242
Public entities, other (note 13 (b))	-	10,857
	2,632	**12,099**
Liabilities		
Deferred tax liabilities	(28,280)	-
Current tax liabilities (note 22 (b))	-	(2,751)
Public entities, other (note 22 (b))	-	(16,233)
	(28,280)	**(18,984)**
	(25,648)	**(6,885)**

In accordance with current legislation, taxes cannot be considered definitive until they have been inspected and agreed by the taxation authorities or before the inspection period of four years has elapsed. At 31 December 2012 the Parent has open to inspection by the taxation authorities all main applicable taxes since its date of incorporation and its Spanish-based subsidiaries have open to inspection all main applicable taxes since 1 January 2008.

As Canal Extensia, S.A.U. filed an amended return in 2009 in relation to the allocation of deductions for export activities for 2005, 2006 and 2007, at 31 December 2009 income taxes for those years were open to inspection until 2013.

The subsidiaries in Latin America have open to inspection by the taxation authorities all main applicable **taxes for the following periods:**

	Years open to inspection				
Tax	Inassa	Triple A de Barranquilla	GIS	AAA Dominicana	AAA Ecuador
Income tax	2010-2012	2010-2012	2010-2012	2009-2012	2009-2012
Value added tax	2011-2012	2011-2012	2011-2012	2009-2012	2009-2012
Personal income tax	-	-	-	2009-2012	2010-2012
Business activities tax	2010-2012	2010-2012	2010-2012	-	2010-2012
Social Security	2009-2012	2009-2012	2009-2012	-	2009-2012

Due to the treatment permitted by fiscal legislation of certain transactions, additional tax liabilities could arise in the event of inspection. In any event, the directors of the Parent do not consider that any such liabilities that could arise would have a significant effect on the consolidated annual accounts.

Income tax

All the companies in the Canal de Isabel II Gestión, S.A. Group are taxed individually in their respective countries. The standard rate of tax is 30% in Spain, 33% in Colombia, 25% in the Dominican Republic and 25% in Ecuador.

As stated in note 5 (w), the Company is subject to general taxation and is therefore required to file annual income tax returns.

A reconciliation of net income and expenses for the year with the aggregated taxable income is as follows:

	Thousands of Euros						
	2012						
	Income statement			Income and expense recognised in equity			
	Increases	Decreases	Net	Increases	Decreases	Net	Total
Income and expenses for the period	**137,452**	**-**	**137,452**	**7,861**	**(6,206)**	**1,655**	**139,107**
Income tax	6,385	-	6,385	33	(23)	9	6,394
Translation differences	-	-	-	-	(2,971)	(2,971)	(2,971)
Profit before income tax	**143,837**	**-**	**143,837**	**7,893**	**(9,200)**	**(1,307)**	**142,531**
Permanent differences	**14,385**	**(771)**	**13,614**	**-**	**-**	**-**	**13,614**
Temporary differences	**16,122**	**(7,034)**	**9,088**	**9,200**	**(7,893)**	**1,307**	**10,395**
Individual companies	16,122	(7,034)	9,088	9,199	(7,894)	1,307	10,395
Originating in current period	14,087	(6,977)	7,111	-	-	-	7,111
Originating in prior periods	-	(57)	(57)	9,199	(7,894)	1,307	1,249
Consolidation adjustments	2,035	-	2,035	-	-	-	2,035
Offset of tax loss carryforwards	**-**	**(18)**	**(18)**	**-**	**-**	**-**	**(18)**
	174,344	(7,823)	166,521	17,093	(17,093)	-	166,521
TAXABLE INCOME			**166,521**			-	**166,521**

Permanent differences primarily relate to different types of accounting provisions which become tax-deductible when applied, and to other non-tax-deductible expenses.

In 2007 the Public Entity availed of tax relief for reinvestment of extraordinary profit provided for by article 42 of the Revised Spanish Income Tax Law (Royal Legislative Decree 4/2004 of 5 March 2004). This reinvestment took place in 2007, affecting assets transferred to the Parent for operation at 1 July 2012, and resulted in a gain of Euros 2,919 thousand.

The assets subject to this reinvestment must remain in operation as part of the Parent's equity for a minimum period of five years, or three years in the case of moveable goods.

The relationship between the tax expense and accounting profit for the period is as follows:

	Thousands of Euros		
	2012		
	Profit and loss	Equity	Total
Income and expenses for the period	**143,837**		**143,837**
Increases	**19,906**	**-**	**19,906**
Accelerated amortisation and depreciation			-
Charge to non-deductible provisions	5,521	-	5,521
Other non-deductible expenses	14,385	-	14,385
Decreases	**(6,726)**	**(10,865)**	**(17,591)**
Accelerated amortisation and depreciation	(3,259)	-	(3,259)
Application of non-deductible provisions			-
Grants	(41)	(10,865)	(10,906)
Other non-deductible expenses	(3,426)	-	(3,426)
Effect of differences in tax rates			**-**
Other adjustments	**(1,378)**	**-**	**(1,378)**
Consolidation adjustments	**2,035**	**-**	**2,035**
	157,674	**(10,865)**	**146,809**
Tax at 30%	**47,302**	**-**	**47,302**
Deductions and credits for the period	(40,900)	-	(40,900)
Other	(17)	-	(17)
CONSOLIDATED INCOME TAX EXPENSE	**6,385**	**-**	**6,385**

Details of the income tax expense are as follows:

	Thousands of Euros
	2012
Current tax	
Present period	6,385
	6,385

Details of deferred tax assets and liabilities at 31 December 2012, by type of asset and liability, are as follows:

	Thousands of Euros		
	2012		
	Assets	Liabilities	Net
Concessions	-	(12,699)	(12,699)
Accelerated amortisation and depreciation		(1,934)	(1,934)
Tax loss carryforwards	56	-	56
Grants	-	(2,248)	(2,248)
Provisions	1,656	-	1,656
Other	920	(11,399)	10,479
	2,632	**(28,280)**	**(25,648)**
NET ASSETS AND LIABILITIES	**2,632**	**(28,280)**	**(25,648)**

At 31 December details of deferred tax liabilities that are expected to be realised or reversed in periods exceeding 12 months are as follows:

	Thousands of Euros
	2012
Concessions	12,123
Grants	2,150
Other	13,258
	27,531

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

The Group has no available tax deductions at 31 December 2012.

The Latin American subsidiaries have tax loss carryforwards available for offset totalling Euros 224 thousand at 31 December 2012.

26. ENVIRONMENTAL INFORMATION

Details of the assets classified under concessions and used to minimise the Group's impact on the environment are as follows:

	Thousands of Euros		
		2012	
Description	**Cost**	**Accumulated amortisation**	**Net**
- Treatment plant facilities and buildings			
- Sewer network	52,762	(8,957)	43,805
- Recycling network	52,291	(5,514)	46,777
	619,685	**(193,381)**	**426,304**

Details of environmental investments made by the Group are as follows:

	Thousands of Euros
	2012
Description	
- Water treatment	13,443
- Sewer system	6,557
- Recycling	1,397
	21,397

Details of environmental costs incurred by the Group are as follows:

	Thousands of Euros
	2012
Description	
- Water treatment	59,193
- Sewer system	34,345
- Recycling	3,590
- Other (green areas, environmental costs, etc.)	2,603
	99,731

Parent management integrates all its activities through an Environmental Management System, which has been duly certified in accordance with the UNE-EN-ISO-14001:2004 environmental management standard. The first follow-up audit for this certificate was carried out in 2012.

The Group has pursued the following lines of action in Latin America:

• **Triple A de Barranquilla**

– CDM Project (Clean Development Mechanism) - Los Pocitos biogas.

– Integrated Solid Waste Management Programme (ISWMP).

– Waste Management Programme.

• **Amagua C.E.M.** Sewer system:

– Rinconada del Lago sewer system: construction of sewage networks (wastewater) and the corresponding treatment plant. This project will eradicate the need to use septic tanks (subsoil contamination). The system has been designed to serve a total of 52 households.

– Expansion of the capacity of the Los Arcos wastewater treatment facility from 800 to 2,400 m3/day. This infrastructure will cover growth in the Los Arcos commercial sector (residential, commercial, cultural, etc.). The environmental permit is also included.

– Environmental permit for 50 wastewater treatment plants issued by the competent environmental body, the Council of the Province of Del Guayas.

At 31 December 2012, the Group considers that no significant contingencies exist concerning possible litigation, indemnities or other items connected with the environment and, accordingly, no provision has been made in this regard.

The Group has insurance policies which reasonably assure the coverage of any possible contingency that could arise from its environmental activities. In addition to its public liability cover, since June 2010 the Parent, as the affected operator, has held an insurance policy to cover the potential risks deriving from the entry into force of Law 26/2007 on environmental responsibility and Royal Decree 2090/2008, which implements it. This policy was arranged for the maximum financial guarantee established in the Law, Euros 20 million.

27. RELATED PARTY BALANCES AND TRANSACTIONS

a. Related party balances and transactions

Details of balances receivable from and payable to non-consolidated Group companies, equity-accounted investees, joint ventures and related parties are as follows:

	Thousands of Euros	
	2012	
	Receivable	Payable
Group companies		
Canal de Isabel II (Public Entity)	5,008	**(1,171,606)**
Aguas de Alcalá TJV	732	-
Interamericana de Aguas y Servicios (Inassa)	844	-
Levies and taxes	499	
Associates		
GSS Venture, S.L.	-	**(689)**
TOTAL	**7,033**	**(1,172,295)**
	(notes 12 and 13 (b))	**(notes 21 and 22 (b))**

The Euros 1,146,637 thousand payable to the Public Entity reflects the Company's obligation to pay the Public Entity the amounts necessary to fulfil its obligations arising on financing contracts as required by the Contract-Programme ("mirror effect"). The origin of this payable is the non-monetary contribution described in note 3, as the debt of the contributed activity is transferred from the Public Entity to the Parent. Both parties have 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. Although the Public Entity is still the named party in the financing contracts with the lender institutions, the Parent has assumed all of the obligations originally agreed in these contracts at the corresponding amounts. The maturities and interest rates applicable to the balances payable by the Parent to the Public Entity are those specified in the contracts between the latter and the financial institutions (see note 21 (a)). In 2012 the weighted average interest rate was 2.10%.

The balance payable to the Public Entity also includes Euros 24,220 thousand reflecting the inter-company credit account set up to adjust the difference between the estimated amounts of the assets and liabilities stated in the valuation report and the net worth of the assets and liabilities actually transferred on the contribution date (see note 3).

At 31 December 2012 receivables from third parties, trade receivables and other accounts within tax liabilities include Euros 49,925 thousand, Euros 116,631 thousand and Euros 55,039 thousand, respectively, receivable from new shareholders of the Parent, specifically certain town councils (see note 17). Dividends payable include Euros 12,234 thousand payable to these same shareholders (see note 22 (a)).

Transactions between the Group and Canal de Isabel II (Public Entity) during the six-month period ended 31 December 2012 comprise borrowing costs of Euros 11,381 thousand on the "mirror" transaction, operating expenses of Euros 1,732 thousand and other operating income totalling Euros 220 thousand.

Transactions carried out by the Group with the equity-accounted investee GSS Venture amount to Euros 1,750 thousand and primarily relate to telemarketing activities.

b. Information on the members of the board of directors and senior management personnel

The directors of the Parent have not received any remuneration in the six-month period ended 31 December 2012. In 2012 senior management of the Parent received total remuneration of Euros 492 thousand. Neither the members of the board of directors nor senior management personnel have received advances or loans, and the Parent has not extended any guarantees on their behalf. The Parent does not have any pension plan or life insurance obligations with former or current members of its board of directors, but it does have pension plan commitments with its senior management personnel (see note 5 (s)).

c. Interests and positions held by members of the board of directors and senior management in other companies

For the purposes of preparing this information, companies engaged in activities related to the comprehensive water cycle are considered to have identical or complementary activities to that of the Company.

The board members, senior management personnel and their related parties have declared that they do not hold any shares in companies with an identical, similar or complementary activity to that of the Company.

The positions held and duties performed by the Parent's directors and senior management personnel and their related parties in other companies engaged in activities that are identical, similar or complementary to that of the Company are presented in Appendix IV.

28. INCOME AND EXPENSES

a. Revenues

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

	Thousands of Euros		
	Domestic	Latin America	Total
	2012	2012	2012
Revenue from the sale of goods and merchandise	23	210	233
Revenue from the rendering of services	6,042	10,645	16,683
Revenue from the rendering of infrastructure operating services	445,183	80,781	525,964
Revenue from the sale of electricity	1,280	-	1,280
	452,524	**91,636**	**544,160**

All of these domestic revenues have been earned in Euros. Sales in Latin America have been carried out in Colombian Pesos, Dominican Pesos and US Dollars.

b. Supplies

Details of supplies are as follows:

	Thousands of Euros	
	Domestic	Latin America
	2012	**2012**
Electricity used	21,918	6,098
Raw materials used	402	1,204
Merchandise used	15,687	10,268
Change in inventories	(675)	(2,206)
Total inventories consumed	37,332	15,364
Subcontracted work	47,462	14,090
TOTAL	**84,794**	**29,454**

All of the supplies listed in the "domestic" column have been purchased in Euros, whereas supplies used in Latin America are denominated in Colombian Pesos, Dominican Pesos and US Dollars.

c. Personnel expenses

Details of personnel expenses are as follows:

	Thousands of Euros
	2012
Salaries and wages	53,914
Employee benefits expense	
Social Security payable by the Company	16,078
Contributions to defined contribution plans (repaid)	(123)
Long-service bonuses	132
Other employee benefits expenses	3,474
	73,475

d. Gains/losses on disposal of fixed assets

Details of gains and losses on the disposal of fixed assets are as follows:

	Thousands of Euros
	2012
Gains	
Intangible assets	16
	16
Losses	
Property, plant and equipment	(12)
Intangible assets	(43)
	(55)
TOTAL	**(39)**

e. Other operating income

Non-trading income is primarily income from energy sales and other income derived from the lease of certain properties.

29. EMPLOYEE INFORMATION

The average headcount, distributed by category, is as follows:

	2012
Management	89
Technicians	1,365
Administrative staff	906
Workers and porters	1,563
	3,923
Semi-retired personnel	212

The average headcount of the equity-accounted investees Metroagua and GSS Venture, by professional category, is as follows:

	2012
Management	34
Technicians	76
Administrative staff	64
Workers and porters	258
	432

At the 2012 reporting date, the distribution by gender of personnel, members of the board of directors and senior management is as follows:

	2012	
	Female	**Male**
Board members	3	16
Management	33	56
Technicians	493	887
Administrative staff	589	308
Workers and porters	36	1,516
	1,154	**2,783**
Semi-retired personnel	37	184

The year-end distribution by gender of personnel, members of the board of directors and senior management of the equity-accounted investees Metroagua and GSS Venture is as follows:

	2012	
	Female	**Male**
Board members	-	1
Management	16	17
Technicians	31	45
Administrative staff	44	20
Workers and porters	217	41
	308	**124**

The average number of Group employees in Spain with a disability rating of 33% or higher, distributed by category, is as follows (for the six-month period ended 31 December 2012):

	2012
Management	-
Technicians	3
Administrative staff	17
Workers and porters	15
	35

30. AUDIT FEES

KPMG Auditores, S.L., the auditors of the annual accounts of the Group, have invoiced the following net fees for professional services during the period ended 31 December 2012:

	Thousands of Euros
	2012
Audit services	420
Audit-related services	9
	429

Other KPMG Europe, LLP group companies have invoiced the following net fees for professional services during the period ended 31 December 2012:

	Thousands of Euros
	2012
Tax advisory services	27
Other advisory services	56
	83

Other affiliates of KPMG International have invoiced the Group the following fees and expenses for professional services during the period ended 31 December 2012:

	Thousands of Euros
	2012
Audit services	147
Other services	9
	156

The amounts detailed in the above table include the total fees for services rendered in 2012, irrespective of the date of invoice.

31. EVENTS AFTER THE REPORTING PERIOD

No significant events have taken place between the 2012 reporting date and the date of authorisation of the accompanying consolidated annual accounts for issue.

32. SEGMENT REPORTING

Information on the Group's different operating segments is contained in Appendix VI.

Operating segments are the components that engage in activities from which the Group may earn income and incur expenses and whose operating results are regularly reviewed, discussed and assessed by management in the decision-making process.

The Group's segments are "domestic" and "international". Information on each segment is allocated on the basis of the financial statements of the different Group companies, which operate exclusively in their geographical area due to the nature of their activities.

Appendix

Details of Group Companies at 31 December 2012
(Free translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails.)

Appendix I

				% ownership			Thousands of Euros					
Company	Registered offices	Activity	Auditor	Direct	Indirect	Total	Capital	Reserves	Other equity	Profit/(loss)	Total capital and reserves	Total equity
Canal Extensia, S.A.U.	Santa Engracia 125 – Madrid	Share-holding company	KPMG	100.00%	-	100.00%	80,600	27,660	-	4,163	112,423	112,423
Hispanagua, S.A.U.	San Enrique 3 – Madrid	Water-related maintenance, operation, distribution and sanitation services	KPMG	100.00%	-	100.00%	1,188	7,970	165	1,851	11,174	11,174
Canal de Comunicaciones Unidas, S.A.U.	Santa Engracia 125 – Madrid	Public service operation of terrestrial mobile radio-communications in the Madrid area	KPMG	100.00%	-	100.00%	4,620	2,747	-	1,065	8,432	8,432
Hidráulica Santillana, S.A.U.	San Enrique 3 – Madrid	Production of electricity	KPMG	100.00%	-	100.00%	4,853	14,151	437	(115)	18,789	19,226
Canal Energía, S.L.	José Abascal 10 – Madrid	Holding company	KPMG	80.00%	20.00%	100.00%	4	-	16	-	20	20
Canal Energía Comercialización, S.L.	José Abascal 10 – Madrid	Sale of electricity	KPMG	-	100.00%	100.00%	4	189	81	(32)	242	242
Canal Energía Generación, S.L.	José Abascal 10 – Madrid	Production and transformation of electricity	KPMG	-	100.00%	100.00%	4	(7)	8	-	5	5
Canal Energía Distribución, S.L.	José Abascal 10 – Madrid	Distribution of electricity	KPMG	-	100.00%	100.00%	4	24	(3)	-	25	25
Canal Gas Distribución, S.L.	José Abascal 10 – Madrid	Distribution of hydrocarbons	KPMG	-	100.00%	100.00%	4	(1)	-	-	3	3
Interamericana de Aguas y Servicios S.A. and subsidiaries	Barranquilla (Colombia)	Comprehensive water cycle operator	KPMG	-	81.24%	81.24%	49,619	5,701	(8,550)	18,033	64,803	64,803
Watco Dominicana, S.A.	Santo Domingo (Dominican Republic)	Sale of IT services	KPMG	-	51.00%	51.00%	2	-	180	(16)	166	166
Sociedad de Acueducto, Alcantarillado y Aseo de Barranquilla, S.A. E.S.P.	Barranquilla (Colombia)	Comprehensive water cycle	KPMG	-	67.91%	67.91%	31,498	6,258	1,371	9,356	48,483	48,483
Gestión Integral de Suministros Ltda.	Colombia	Supply of goods	KPMG	-	67.91%	67.91%	86	86	652	(220)	604	604
Recaudos y Tributos, S.A.	Barranquilla (Colombia)	Comprehensive advisory services in the field of tax collection	KPMG	-	80.46%	80.46%	1,186	1,490	(161)	192	2,707	2,707
AAA Dominicana	Santo Domingo (Dominican Republic)	Comprehensive water cycle	KPMG	-	52.81%	52.81%	919	92	3,892	215	5,118	5,118
Inforesa	Santo Domingo (Dominican Republic)	Comprehensive water cycle	KPMG	-	42.25%	42.25%	19	-	(61)	2	(40)	(40)
AAA Ecuador Agacase, S.A.	Ecuador	Management of public resources	KPMG	-	81.43%	81.43%	76	-	(67)	55	64	64
Amagua, CEM	Ecuador	Comprehensive water cycle	KPMG	-	57.00%	57.00%	1,471	104	1,241	564	2,248	3,380
Interamericanas de Aguas de México, S.A.	Mexico	Comprehensive water cycle	KPMG	-	79.61%	79.61%	96	-	13	(53)	56	56
Mexaqua	Mexico	Comprehensive water cycle	KPMG									
Mexaqua	Mexico	Comprehensive water cycle	KPMG	-	55.73%	55.73%	128	-	(171)	922	879	879

The subsidiary Inforesa has not been consolidated as the effect of its inclusion in these consolidated annual accounts would be immaterial. This appendix forms an integral part of note 1 to the consolidated annual accounts, in conjunction with which it should be read. Figures translated at the reporting-date exchange rate. Profit/(loss) reflects the full year ended 31 December 2012.

Details of Associates at 31 December 2012
(Free translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails.)

Appendix II

				% ownership			Thousands of Euros					
Company	**Registered offices**	**Activity**	**Auditor**	**Direct**	**Indirect**	**Total**	**Capital**	**Reserves**	**Other equity**	**Profit/(loss)**	**Total capital and reserves**	**Total equity**
GSS Venture, S.L.	c/ Guzmán el Bueno, 133 (Madrid)	Communications and telemarketing services	-	25.00%	-	25.00%	60	1,948	-	(319)	1,689	1,689
Acueducto y Alcantarillado Metropolitano de Santa Marta, S.A. E.S.P.	Santa Marta (Colombia)	Comprehensive water cycle operator	KPMG	-	29.13%	29.13%	14,365	942	(4,052)	(447)	10,808	10,808

This appendix forms an integral part of note 1 to the consolidated annual accounts, in conjunction with which it should be read.
Profit/(loss) reflects the full year ended 31 December 2012.

Details of Joint Ventures at 31 December 2012
(Free translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails.)

Appendix III

					% ownership		Thousands of Euros
Name	**Registered offices**	**Activity**	**Type**	**Direct**	**Indirect**	**Total**	**Net sales**
Aguas de Alcalá TJV	C/ Federico Salmún, 13 - Madrid	Management of water supply and sanitation for the city of Alcalá de Henares		37.50%	-	37.50%	11,338
Z.V. Mejost	C/ García Plata de Osma, 1 - Cáceres	Works on distribution and sanitation facilities		-	100.00%	100.00%	-
PR. Huesca	C/ Madre Rafols, 215 - Zaragoza	Dam maintenance		-	40.00%	40.00%	26
Unión Temporal de Sociedades A.A. Santa Marta	Santa Marta (Colombia)	Water cycle advisory services		-	44.45%	44.45%	918
							12,282

This appendix forms an integral part of note 7 to the consolidated annual accounts, in conjunction with which it should be read.
Net sales reflect the full year ended 31 December 2012.

Details of Positions Held in Other Companies by Directors of Canal de Isabel II Gestión, S.A. with Speaking and Voting Rights
(Free translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails.)

Appendix IV

	2012	
Board members	Company	Position and duties
Mr Salvador Victoria Bolívar	Canal de Isabel II (Public Entity)	Chairman and board member
	Canal de Isabel II Charitable Foundation	Vice-Chairman
Mr José Manuel Serra Peris	AAA Dominicana S.A.	Board member with speaking and voting rights
Mr David Pérez García	Canal de Isabel II (Public Entity)	Board member with speaking and voting rights
Mr Enrique Ossorio Crespo	Canal de Isabel II (Public Entity)	Board member with speaking and voting rights

This appendix forms an integral part of note 27 (c) to the consolidated annual accounts, in conjunction with which it should be read.

Details of Positions Held by Canal de Isabel II Gestión, S.A. Senior Management in Other Companies – 2012 reporting period
(Free translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails.)

Appendix V

Board members	Company	Position and duties
Mr Adrián Martín López de las Huertas	Canal de Isabel II Gestión, S.A. Canal Extensia, S.A.U. Hispanagua, S.A.U. Hidráulica Santillana, S.A.U. Canal de Comunicaciones Unidas, S.A.U. Canal Energía, S.L. Canal Energía Generación, S.L.U. Canal Energía Distribución, S.L.U. Canal Energía Comercialización, S.L.U. Canal Gas Distribución, S.L.U. Aguas de Alcalá TJV Canal de Isabel II Charitable Foundation Canal de Isabel II Sports Club Madrid Town Planning Committee Nuevo Arpegio, Áreas de Promoción Empresarial, S.A.l A.G.A. National Water Council Tajo Water Board Alberche Board of Operations	Managing Director, member of the Board of Directors and Chairman of the Steering Committee of CYII Gestión Chairman and CEO Chairman and CEO Chairman and CEO Chairman and CEO Chairman and CEO Sole Director Sole Director Sole Director Sole Director Member of the Management Committee, representing CYII Ex officio board member Chairman of the Governing Board Board member Member of the Board of Directors Representative of Canal de Isabel II Board member Representative of CAM on the steering committee Board member
Ms María Fernanda Richmond	Canal de Isabel II Gestión, S.A. Canal Extensia, S.A.U. Hispanagua, S.A.U. Hidráulica Santillana, S.A.U. Canal de Comunicaciones Unidas, S.A.U. Canal Energía, S.L. Aguas de Alcalá TJV Interamericana de Aguas y Servicios, S.A. (INASSA) Amagua AAA Dominicana, S.A.	General Manager, Economy and Finance Board member Board member Board member Board member Board member Representing CYII Board member Board member Board member
Mr Fernando de Cevallos Aguaron	Canal de Isabel II Gestión, S.A. Canal Extensia, S.A.U. Hispanagua, S.A.U. Canal Energía, S.L.	Secretary to the Board of Directors and Director of the Technical General Secretariat Board member Board member Board member
Mr Juan Ignacio Zubizarreta Pariente	Canal de Isabel II Gestión, S.A. Canal de Comunicaciones Unidas, S.A.U.	Sales Director Board member
Ms M. Carmen del Río Ganuza	Canal de Isabel II Gestión, S.A. Canal de Isabel II Sports Club	Director of Human Resources and Quality Board member
Ms Nuria San Román Navarro	Canal de Isabel II Gestión, S.A. Canal de Isabel II Sports Club	Sub-Director, Communications and Public Relations Board member
Ms Belén Benito Martínez	Canal de Isabel II Gestión, S.A.	Sub-Director, Engineering and Construction
Mr Luis Miguel Garrido Martínez	Canal de Isabel II Gestión, S.A.	Director, Safety
Mr Jesús Díez de Ulzurrum	Canal de Isabel II Gestión, S.A.	Director, Sanitation

This appendix forms an integral part of note 27 to the annual accounts, in conjunction with which it should be read.

Segment Reporting at 31 December 2012
(Free translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails.)

Appendix VI

(Expressed in thousands of Euros)

	SEGMENTS		
	Domestic	International	TOTAL
Revenues	**452,524**	**91,636**	**544,160**
- External customers	463,805	102,700	566,505
- Inter-segment revenues	(11,281)	(11,064)	(22,345)
Supplies	**(84. 794)**	**(29,454)**	**(114,248)**
Personnel expenses	**(60,309)**	**(13,166)**	**(73,475)**
Amortisation and depreciation	**(48,586)**	**(8,529)**	**(57,115)**
Losses, impairment and changes in provisions	**(70,054)**	**(5,542)**	**(75,596)**
- Current	(70,054)	(5,542)	(75,596)
- Non-current	-	-	-
RESULTS FROM OPERATING ACTIVITIES	**135,899**	**11,835**	**147,734**
Finance income	2,984	1,835	4,819
Finance costs	(8,090)	(4,334)	(12,424)
PROFIT/(LOSS) FROM DISCONTINUED OPERATIONS	-	-	-
PROFIT BEFORE INCOME TAX	**135,617**	**8,220**	**143,837**
Segment assets	4,646,767	185,965	4,832,732
Segment liabilities	1,767,708	143,554	1,911,262
Cash flows from (used in)	**7,527**	**1,525**	**9,052**
- Operating activities	196,326	39,756	236,082
- Investing activities	(103,449)	(20,948)	(124,397)
- Financing activities	(85,350)	(17,283)	(102,633)
Acquisitions of non-current assets during the year	**123,108**	**7,819**	**130,927**

This appendix forms an integral part of note 32 to the consolidated annual accounts for 2012, in conjunction with which it should be read.

Director’s Report For 2012

DIRECTORS' REPORT FOR 2012

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

The company Canal de Isabel II Gestión, S.A. was incorporated on 27 June 2012 through the contribution of a branch of activity by the Public Entity Canal de Isabel II, and started operating on 1 July 2012.

The date of incorporation and first consolidation of the Group formed by Canal de Isabel II Gestión, S.A. and its subsidiaries is therefore 1 July and the Group's consolidated results for 2012 correspond solely to activity in the second half of 2012.

During its first year – 2012 – Canal de Isabel II Gestión (the Company), as the parent of the Group, has maintained the operating and management policies, plans and projects that were the responsibility of Canal de Isabel II until 30 June, and has satisfactorily fulfilled the strategic plan and the objectives set for 2012, thus demonstrating its commitment and involvement with regard to the welfare of the inhabitants of the Community of Madrid and to sustainable development, working to guarantee a water supply of adequate quantity and quality.

In accordance with its articles of association and the Contract-Programme signed with the Public Entity Canal de Isabel II, the Company is responsible for running (operation, maintenance and upkeep) the Community of Madrid General Network and provides the water supply, treatment and reuse services for this network, which until 30 June were rendered by the Public Entity Canal de Isabel II. This directors' report therefore reflects performance for 2012 as a whole and includes comparisons with 2011.

These measures are aimed at achieving maximum efficiency in the management of available water resources, considering their scarcity in the Community of Madrid. As such, they not only focus on operational aspects or the improvement of infrastructure, to which the organisation has allocated considerable resources, but also on the implementation of communication initiatives and new strategies for water management.

In light of the above, the plans for the supply area notably include initiatives to reduce uncontrolled water through increased measurement precision, efficient planning of network renewal activity, leakage detection, inspection and fraud detection campaigns, etc. Moreover, works underway to divide the distribution network into sections have improved water pressure management which, along with the other measures mentioned above, is enabling a significant decrease in network disruptions.

In the water treatment area, implementation of the initiatives foreseen in the National Water Quality Plan continued throughout 2012. Under this plan, to comply with EU Water Framework Directive 2005/60/EC, treatment plants must have the processes required to eliminate phosphorus and nitrogen in place by 2015. This obligation entails a number of investments before that year to furnish treatment facilities with advanced nutrient removal treatments.

Another plan developed by Canal de Isabel II in recent years, and which the Company continues to implement, relates to the extension of the reclaimed water supply for park and garden irrigation, street cleaning and use in industrial processes. The plan to improve the treatment system through the construction of new treatment plants, the expansion of existing plants and the installation of tertiary treatment systems remained in force during the year, with a view to making 70 cubic hectometres of reclaimed water available each year. Development work is also underway on the new infrastructure required to distribute reclaimed water.

Water recycling constitutes an essential component of the comprehensive management of water resources, in line with environmental sustainability, and contributes to the net increase in these resources.

Activities have also been expanded to render sewage services in new municipalities. In 2012 agreements to render sewage services in 78 new towns came into force. As a result, this service is now provided in 133 towns, encompassing 85% of the total population of the Community of Madrid.

The results of these optimisation initiatives and measures are reflected in the volume of water consumed in the Community of Madrid, which declined by 2.94% in 2012 compared to 2011, standing at 524.98 hm3, a level similar to that seen in 1990. This curbed consumption in recent years is particularly significant in light of the increase in the population supplied in the Community of Madrid, and considering that there have been no water use restrictions due to periods of drought over the past five years. All of this reflects the highly efficient nature of the water supply system in the Community of Madrid.

The Group's other activities must also be considered, which can be divided into three segments:

Comprehensive management of the water cycle in Spain, Colombia and Ecuador.

Support services for comprehensive management, such as plant operations, works and installations for hook-ups and meters, procurement of supplies, commercial management of water supply and treatment operations, call centre management and collection of levies and taxes. To carry out these activities, the Canal Gestión Group has companies in Spain, Colombia, Panama, the Dominican Republic and, since 2012, Ecuador.

Other synergistic activities related to comprehensive management of the water cycle, such as hydroelectric power generation, telecommunications, IT, sector advisory and consultancy services, waste management and urban cleaning services. These activities are carried out by Group companies in Spain and Colombia.

In total, the Canal de Isabel II Gestión Group provides services to more than 9.15 million inhabitants through these activities (6.51 million in Spain and 2.64 million in Latin America).

The revenues of Canal de Isabel Gestión, S.A. for the period from 1 July to 31 December 2012 amounted to Euros 451 million. Revenues are affected by the seasonal nature of demand, which increases in summer months, and by application of the seasonal tariff. Total revenues for the full year of 2012 (i.e. including the revenues of Canal de Isabel II to 30 June, when the branch of activity was contributed to the Company) amounted to Euros 819.1 million, an increase of 6.2% on 2011.

The Group's consolidated revenues for the period from 1 July to 31 December 2012 amount to Euros 544.2 million, approximately 17% of which was contributed by the subsidiaries and the remaining 83% by Canal de Isabel II Gestión.

Consolidated profit for 2012 attributable to the Parent is Euros 136 million, with Canal de Isabel II Gestión contributing almost 97% of this amount.

To compare annual performance with 2011, we need to look at the revenues and consolidated profit of the Canal de Isabel II Group, of which the Canal de Isabel II Gestión Group forms part, since the Group's overall activity is the same in the two years despite the structural changes. Consolidated revenues of the Canal de Isabel II Group for 2012 amounted to Euros 1,005.8 million, up 8.5% on the 2011 figure. Consolidated profit for the year attributable to the Parent was Euros 181.5 million, 27% higher than in 2011.

The individual annual accounts prepared by the subsidiaries for 2012 reflect the high revenues of Canal Extensia and its subsidiaries generated on integrated water cycle and other related services in Latin America and the Caribbean, totalling Euros 174.15 million (of which Euros 92.14 million corresponds to the second half of 2012, and thus to the Canal de Isabel II Gestión Group).

Foreign companies' activities and income have continued to expand, in line with the economic growth in the countries where they operate. In addition, the Group is studying new business development opportunities, primarily through INASSA. Six major contracts were won in Ecuador and Panama in 2012.

Excellent operational and environmental management of the companies operating in Colombia and Ecuador has allowed innovative solutions to be applied in areas where previously it did not seem possible for treated water to be received in optimum quality conditions. Metroagua was awarded the "Reconocimiento 2012" prize by the National Association of Public Service and Communications Companies (ANDESCO) in recognition of its 15 years of work managing the water supply and sewage services in Santa Marta (Colombia).

Milestones include Triple A Barranquilla starting to operate the biogas extraction system for landfills and the biogas flare built in the Los Pocitos environmental park. This project was developed as part of the Clean Development Mechanism included in the Kyoto Protocol, contributing to reducing greenhouse gas emissions.

This year Metroagua submitted its 2012-2015 Plan for Comprehensive Improvement of the Conduit and Sewerage Services of Santa Maria.

AMAGUA has launched the general public participation process for the ex-post studies to obtain environmental licences for 51 wastewater treatment plants.

With regard to the Spanish subsidiaries:

Hispanagua, S.A.U.'s Euros 30.9 million revenues for 2012 were primarily generated by works, network initiatives, hook-up and meter works, and the operation of wastewater treatment plants and other Canal de Isabel II Gestión facilities. Euros 15.8 million of this amount corresponds to the second half of the year.

Hidráulica Santillana, S.A.U., engaged in the generation of electricity through 8 mini plants, generated 47.02 GWh in 2012, down 60% on 2011 due to the low water reserves during the year. In any case, facilities availability throughout the year was 98%, allowing for efficient adaptation to the demand for operational management from Canal de Isabel II Gestión, minimising any potential impact on the environment and meeting the necessary water levels for ecological purposes.

Of the electricity generated in the second half of the year (20.32 GWh), 28.97% was sold to the Group. Revenues for the year amounted to Euros 4.14 million, of which Euros 1.78 million corresponds to the second half of the year.

Canal de Comunicaciones Unidas, S.A.U. generated revenues of Euros 5.5 million during the year (Euros 2.9 million of which in the second half of the year), rendering services to the Group in the area of radio communications and communications and telecontrol systems. The digital mobile radio telephony (trunking) network managed by Canal de Comunicaciones Unidas now has 80 operational stations and 4,300 operational terminals. This network provides services to the Canal Gestión Group and the emergency services in the Community of Madrid.

The corresponding cash flows from operating activities, derived from consolidated profit for the year, have been used in the significant investments undertaken in 2012, based on the planned investment programmes.

In the period from 1 July to 31 December the Group made investments totalling Euros 170.4 million. Taking into account all of the investments made in 2012 by Group companies and those made by Canal de Isabel II to 30 June, total investment for the year is Euros 331 million.

The most significant investments aim to guarantee a satisfactory level of operational functioning, maintaining current levels of production efficiency and competitiveness, and to expand the transportation and distribution network and the treatment and reuse system.

The above figure includes the investments considered as replacement activity, pursuant to the standards adapting the Spanish General Chart of Accounts for public infrastructure concession holders. In accordance with those standards, the Company has not capitalised these investments as an increase in fixed assets, but rather they have been applied to the provision for replacements in an amount of Euros 39 million.

To maintain its leading strategic position in the integrated water cycle sector, in 2012 the Group has maintained its policy of developing projects for the ongoing improvement of its management information systems in different areas, striving to improve the effectiveness and efficiency of operating and support processes by equipping them with the latest technologies for data handling and telecontrol.

The Group has also contributed actively to innovative research and studies to increase scientific and technical knowledge in the sector. These initiatives are carried out through the R&D&i plan intended to promote, organise and publicise the Company's efforts and undertakings in this area in an effective and efficient manner, and through collaborations with different research institutes and universities.

In terms of operating and management, the new Company and its group is basically continuing with the plans implemented until 30 June 2012 by Canal de Isabel II, and upholds its objective of continuing to upgrade its operational plans to achieve maximum efficiency of the integrated water cycle, incorporating the most recent advances and technical and management expertise, from the procurement and management of water resources and their treatment, distribution, cleaning and recycling to commercial and support activities, achieving an integrated planning, management and control system for the integrated water cycle.

In the risk management area, Canal de Isabel II Gestión has established a system for identification, analysis and control of the risks to which its business could be exposed, enabling it to make the investment and operational decisions that allow it to fulfil its mission satisfactorily and to minimise impacts on the income statement. The growing complexity of its activities, the high volume of investment in new infrastructure and the new environmental requirements oblige Canal to consider in ever-greater detail the variety of operational, fortuitous, strategic, financial and common risks that could hinder achievement of its objectives. The Internal Audit department has been reinforced in light of its key role in ensuring these targets are met.

Development and updating of internal regulations for the execution of processes and their monitoring and control, as well as the hedging policy, in certain cases based on the transfer of risks through insurance policies, is incorporated into the global risk management policy.

The Group's companies have implemented and received certification for a Quality and Environment Management System under ISO 9001:2008 and ISO 14001:2004, applicable to all their facilities, activities and operations. In 2012 the certifying entity performed the first follow-up audit of these certifications, and no deviations from the requirements contained in the above-mentioned standards were detected.

The second follow-up audit of the certification of the management system for occupational health and safety, in accordance with the BS OHSAS 18001:2007 standard, was also carried out for Canal de Isabel II Gestión in 2012, with the same result. In January 2012 Hispanagua also obtained certification for its occupational health and safety systems under the OHSAS 18001 standard.

The quality control systems help to optimise processes related to the comprehensive management of the water cycle and ongoing improvements. In particular, consideration of environmental factors in all its decisions is pivotal in terms of actively contributing to environmental conservation.

Finally, mention should be made of the Group’s efforts to implement policies and carry out activities in the social sphere, including the initiatives of the Canal Volunteers programme for assistance in emergency situations and cooperation in the development of disadvantaged countries. This programme is run by the Group's own employees. In 2012, Canal de Isabel Gestión, S.A. was commended for the this corporate volunteer scheme by Fundación Corresponsables.

Moreover, Triple A Barranquilla received the Britcham Lazos Royal Award for Corporate Social Responsibility 2012, bestowed by the Colombian-British Chamber of Commerce.

In addition to these activities, cultural exhibitions have also been organised, the success of which is reflected in the hundreds of thousands of visitors to the Canal Art Exhibition Centre, and the programming of the Fundación Canal has been arranged.

In Colombia, Triple A Barranquilla launched a selective collection and recycling programme called "Verdeazul", as part of EXPOGESTION Caribe 2012 held in Barranquilla, with the aim of promoting the collective prosperity of the regions in the area.

The short-term planning of the public companies in the Group is included in the Investment and Financing Action Programme of each for 2013, with the objective of optimising the integrated water cycle and other value added services that complement or support the Group’s activities. Significant plans for future investments include the programmes for the extension of the supply system and investments in environmental commitments.

La Sociedad Canal de Isabel II Gestión, S.A. se constituyó con fecha 27 de junio de 2012, mediante aportación de rama de actividad por parte del Ente Canal de Isabel II, iniciando su actividad el día 1 de julio de 2012.

Santa Engracia, 125. 28003 Madrid
www.canalgestion.es

ISSUER

Canal de Isabel II Gestión, S.A.
Calle Santa Engracia, 125
Madrid, 28003
Spain

PAYING AGENT

BNP Paribas Securities Services, S.C.A., Sucursal en España
Ribera del Loira 28
28042 Madrid
Spain

LEGAL ADVISERS

To the Issuer as to English and Spanish law

Allen & Overy
Pedro de Valdivia, 10
28006 Madrid
Spain

To the Dealers as to English and Spanish law

Clifford Chance, S.L.
Paseo de la Castellana 110
28046 Madrid
Spain

AUDITORS

To the Issuer

KPMG Auditores, S.L.
Edificio Torre Europa
Paseo de la Castellana, 95
28046 Madrid
Spain

ARRANGER

Banco Santander, S.A.
Santander Global Banking & Markets
Ciudad Grupo Santander
Edificio Encinar
Avenida de Cantabria
28660 Boadilla del Monte
Madrid
Spain

DEALERS

Banco Bilbao Vizcaya Argentaria, S.A.
Plaza de San Nicolas, 4
48005 Bilbao
Spain

Banco Santander, S.A.
Santander Global Banking & Markets
Ciudad Grupo Santander
Edificio Encinar
Avenida de Cantabria
28660 Boadilla del Monte
Madrid
Spain

CaixaBank, S.A.
Avda. Diagonal, 621
08028 Barcelona
Spain

HSBC Bank plc
8 Canada Square
London E14 5HQ
United Kingdom

Société Générale
29 Boulevard Haussman
75009 Paris
France