

# **FCC Aqualia, S.A.**

**Financial Statement for the  
annual period ended 31  
December 2016, Directors'  
Report and Independent  
Audit Report**

## INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

To the Shareholders of FCC Aqualia, S.A.:

### Report on the financial statements

We have audited the enclosed financial statements of FCC Aqualia, S.A., which comprise the statement of financial position at 31 December 2016, the income statement, statement of changes in equity, statement of cash flows and notes to the financial statements for the year then ended.

#### *Directors' responsibility in relation to the financial statements*

The Directors are responsible for preparing the accompanying financial statements, to provide a true and fair view of the equity, financial position and results of FCC Aqualia, S.A. in accordance with the regulatory framework for financial reporting applicable to the company in Spain, which is identified in Note 2.1 of the accompanying report, and the internal control deemed necessary to permit the preparation of financial statements free of material inaccuracies due to fraud or error.

#### *Auditor's responsibility*

Our responsibility is to express an opinion on the attached financial statements based on our audit work. We have performed our audit in accordance with the audit regulations in force in Spain. These regulations require us to meet ethical standards, and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including assessment of the risks of material misstatement in the financial statements, whether due to fraud or error. In making these risk assessments, the auditor considers the internal control relevant to the Company's preparation of the financial statements in order to design audit procedures that are appropriate to 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 the accounting policies used and the reasonableness of the accounting estimates made by Management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence that we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### *Opinion*

In our opinion, the accompanying financial statements present fairly, in all material respects, the equity and financial position of FCC Aqualia, S.A. at 31 December 2016, and the results of its operations and its cash flows for the year then ended, in conformity with the regulatory financial reporting framework applicable to the Company and, in particular, with the accounting principles and rules contained therein.

Report on other legal and regulatory requirements

The accompanying Directors' Report for 2016 contains the explanations which the Directors consider appropriate about the Company's situation, the evolution of its business and other matters, but is not an integral part of the financial statements. We have verified that the accounting information contained in said Directors' Report coincides with that of the financial statements for 2016. Our work as auditors was confined to checking the Directors' Report within the aforementioned scope, and did not include a review of any information other than that drawn from the company's accounting records.

DELOITTE, S.L.  
Inscrita en el R.O.A.C. nº

Antonio Sánchez-Nov1sa Martín-González  
28 February 2017

# **FCC Aqualia, S.A.**

## **FINANCIAL STATEMENTS AND DIRECTORS' REPORT FOR THE YEAR ENDED 31 December 2016**

### **➤ FINANCIAL STATEMENTS**

- Financial Statements
  - Balance Sheet
  - Income statement
  - Statement of changes in equity
  - Statement of cash flows
- Report

### **➤ DIRECTORS' REPORT**

**BALANCE SHEETS AT 31 December 2016 AND 2015**

(Thousands of Euros)

ASSETS	Notes to the Report	Year 2016	Year 2015	EQUITY AND LIABILITIES	Notes to the Report	Year 2016	Year 2015
<b>NON-CURRENT ASSETS</b>		<b>1.017.160</b>	<b>1.045.130</b>	<b>EQUITY</b>	Note 11	<b>737.016</b>	<b>686.752</b>
<b>Intangible assets</b>	Note 5	<b>612.718</b>	<b>627.998</b>	<b>SHAREHOLDERS' EQUITY</b>		<b>732.192</b>	<b>682.107</b>
Development expenditure		1.790	266	<b>Capital</b>		<b>145.000</b>	<b>145.000</b>
Concessions		521.412	529.401	Registered Share capital		145.000	145.000
Service concession on arrangements, capitalised borrowing costs		14.918	15.193	<b>Issue premium</b>		<b>112.019</b>	<b>112.019</b>
Goodwill		74.487	82.763	<b>Reserves</b>		<b>425.088</b>	<b>402.017</b>
Other intangible assets		111	375	Legal and bylaw reserves		29.000	29.000
<b>Property, plant and equipment</b>	Note 6.1	<b>20.996</b>	<b>22.446</b>	Other reserves		396.088	373.017
Land and buildings		1.519	1.286	<b>Profit (loss) for the year</b>		<b>50.085</b>	<b>53.521</b>
Technical installations and other property, plant and equipment		19.388	21.104	<b>Interim dividend</b>			<b>(30.450)</b>
Property, plant and equipment in the course of construction and ac		89	56				
<b>Non-current investments in Group companies and associates</b>		<b>274.318</b>	<b>266.785</b>	<b>GRANTS, DONATIONS AND LEGACIES RECEIVE</b>	Note 12	<b>4.824</b>	<b>4.645</b>
Equity instruments	Note 7.1	173.500	176.487	Grants, donations and legacies received		4.824	4.645
Loans to companies	Notes 7.2 & 8	100.818	90.298				
<b>Non-current financial investments</b>	Note 8	<b>101.170</b>	<b>114.356</b>				
Equity instruments		10	10	<b>NON-CURRENT LIABILITIES</b>		<b>473.751</b>	<b>470.175</b>
Loans to Third Parties		85.387	99.467	<b>Non-current provisions</b>	Note 13	<b>61.216</b>	<b>58.431</b>
Other financial assets	Note 8.3	15.773	14.879	Obligations for long-term staff benefits		144	106
<b>Deferred tax assets</b>	Note 15	<b>7.958</b>	<b>13.545</b>	Other provisions		61.072	58.325
				<b>Non-current payables</b>	Note 14	<b>34.744</b>	<b>29.539</b>
<b>Non-current trade receivables</b>	Note 8	-	-	Obligations under finance leases		36	76
Concession arrangement - collection right	Note 8.4	-	-	Other financial liabilities		34.708	29.463
<b>CURRENT ASSETS</b>		<b>689.270</b>	<b>606.133</b>	<b>Borrowings from Group companies and associate</b>	Note 14.2	<b>363.384</b>	<b>361.301</b>
<b>Inventories</b>		<b>18.272</b>	<b>17.830</b>	<b>Deferred tax liabilities</b>	Note 15	<b>9.897</b>	<b>9.956</b>
Trade receivables		723	655	<b>Non-current accruals and deferred income</b>	Note 16	<b>4.510</b>	<b>4.696</b>
Raw materials and other purchases		8.873	8.620	<b>Trade and other payables</b>		-	<b>6.252</b>
Advances to suppliers		8.676	8.555	Other accounts payable to public authorities	Note 15		6.252
<b>Trade and other receivables</b>		<b>139.260</b>	<b>148.082</b>	<b>CURRENT LIABILITIES</b>		<b>495.663</b>	<b>494.336</b>
Customer receivables – sales and service provision	Note 10.1	69.418	63.820	<b>Short-Term Provisions</b>	Note 13	<b>11.093</b>	<b>9.108</b>
Trade receivables from Group companies and associate	Note 10.2	38.408	37.168	<b>Current borrowings</b>	Note 14	<b>5.375</b>	<b>4.340</b>
Staff costs		147	156	Bank borrowings		-	-
Sundry receivables		7.385	5.144	Obligations under finance leases		41	39
Current tax assets	Note 15	(40)	(61)	Other financial liabilities		5.334	4.301
Other accounts receivable from public authorities	Note 15	23.942	28.798	<b>Current payables to Group companies and associate</b>	Note 14.3	<b>172.819</b>	<b>164.483</b>
Current collection rights – concession arrangements		-	13.057	<b>Trade and other payables</b>	Note 14	<b>304.141</b>	<b>315.988</b>
				Accounts payable for purchases and services		109.154	99.775
<b>Current investments in Group companies and ass</b>	Note 8	<b>468.186</b>	<b>375.290</b>	Payable to suppliers - Group companies and associate	Note 14.4	19.545	29.561
Loans to companies	Note 9.1	464.736	372.373	Sundry accounts payable		91.947	94.664
Other financial assets	Note 8.3	3.450	2.917	Staff costs		2.687	2.306
<b>Short-term financial investments</b>	Note 8	<b>27.379</b>	<b>28.105</b>	Current tax liabilities	Note 15	1.991	2.404
Loans to Third Parties	Note 9.2	18.398	16.823	Other accounts payable to Public Authorities	Note 15	66.640	79.693
Other financial assets	Note 8.3	8.981	11.282	Customer advances		12.177	7.585
<b>Current accruals and deferred income</b>		<b>184</b>	<b>375</b>	<b>Current accruals and deferred income</b>		<b>2.235</b>	<b>417</b>
<b>Cash and cash equivalents</b>		<b>35.989</b>	<b>36.451</b>				
Cash on hand		35.989	36.451				
<b>TOTAL ASSETS</b>		<b>1.706.430</b>	<b>1.651.263</b>	<b>TOTAL EQUITY AND LIABILITIES</b>		<b>1.706.430</b>	<b>1.651.263</b>

The Notes 1 to 23 are an integral part of the Financial Statements for 2016.




FCC Aqualia, S.A.

**INCOME STATEMENTS FOR THE YEARS  
ENDED 31 December 2016 AND 2015**  
(Thousands of Euros)



	Notes to the Report	Year 2016	Year 2015
<b>CONTINUING OPERATIONS</b>			
<b>Net revenues</b>	<b>Note 18.1</b>	<b>673.069</b>	<b>637.756</b>
Sales		673.069	637.756
<b>Change in inventories of finished goods and work in progress</b>		<b>31</b>	<b>21</b>
<b>Capitalised expenses of in-house work on fixed assets</b>		<b>919</b>	<b>1.770</b>
<b>Purchases</b>	<b>Note 18.3</b>	<b>(231.409)</b>	<b>(229.635)</b>
Goods held for resale used		(86.155)	(86.300)
Cost of raw materials and other consumables used		(76.397)	(75.203)
Outsourced work		(68.857)	(68.132)
Write-downs of goods held for resale, raw materials and other supplies		-	-
<b>Other profit from operations</b>		<b>19.096</b>	<b>19.969</b>
Sundry income and other current operating income		12.953	9.898
Income-related grants transferred to profit or loss	<b>Note 12</b>	6.143	10.071
<b>Employee benefits expense</b>		<b>(173.683)</b>	<b>(166.244)</b>
Wages, salaries and similar expenses		(131.923)	(126.088)
Employee benefit costs	<b>Note 18.7</b>	(41.760)	(40.156)
<b>Other operating expenses</b>		<b>(136.740)</b>	<b>(133.112)</b>
Outsourced services	<b>Note 18.4</b>	(120.198)	(116.072)
Taxes	<b>Note 18.14</b>	(4.207)	(3.788)
Losses, impairment and changes in trade provisions	<b>Note 18.11</b>	(7.064)	(6.638)
Other current operating expense	<b>Note 18.12</b>	(5.271)	(6.614)
<b>Amortisation and depreciation</b>	<b>Notes 5 &amp; 6</b>	<b>(59.658)</b>	<b>(43.034)</b>
<b>Recognition of non-financial asset grants and other</b>	<b>Note 12</b>	<b>1.358</b>	<b>1.689</b>
<b>Excessive provisions</b>		<b>3.755</b>	<b>1.801</b>
<b>Impairment and profit/loss from disposal of assets</b>	<b>Note 18.13</b>	<b>(572)</b>	<b>(1.032)</b>
Gains or losses on disposals and other		(572)	(1.032)
<b>PROFIT FROM OPERATIONS</b>		<b>96.166</b>	<b>89.949</b>
<b>Finance income</b>		<b>10.316</b>	<b>12.067</b>
From marketable securities and other financial instruments		10.316	12.067
- Group companies and associates	<b>Note 18.2</b>	6.119	7.547
- Third parties		4.197	4.520
<b>Finance costs</b>	<b>Note 18.8</b>	<b>(30.072)</b>	<b>(28.553)</b>
On debts to Group companies and associates	<b>Notes 14 &amp; 18.2</b>	(23.225)	(21.572)
On borrowings from third parties	<b>Note 14</b>	(5.646)	(5.577)
Interest cost relating to provisions		(1.201)	(1.404)
<b>Exchange differences</b>	<b>Note 18.9</b>	<b>(762)</b>	<b>899</b>
<b>Impairment and profit/loss from disposal of financial instruments</b>	<b>Note 18.10</b>	<b>(4.897)</b>	<b>(3.428)</b>
Impairment and other losses		(4.897)	(3.428)
<b>FINANCE INCOME/COST</b>		<b>(25.415)</b>	<b>(19.015)</b>
<b>PROFIT BEFORE TAXES</b>		<b>70.751</b>	<b>70.934</b>
Income tax	<b>Note 15</b>	(20.666)	(17.413)
<b>PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS</b>		<b>50.085</b>	<b>53.521</b>
<b>PROFIT FOR THE YEAR</b>		<b>50.085</b>	<b>53.521</b>

The Notes 1 to 23 are an integral part of the Financial Statements for 2016.

		
<b>FCC Aqualia, S.A.</b>		
<b>STATEMENTS OF CHANGES IN EQUITY FOR</b>		
<b>THE YEARS ENDED 31 DECEMBER 2016 AND 2015</b>		
(thousands of euros)		
<b>A) STATEMENTS OF RECOGNISED INCOME AND EXPENSE FOR THE YEARS ENDED 31 December 2016 AND 2015</b>		
	Notes	2015
<b>A) Profit from income statement</b>		<b>53.521</b>
Income and expense recognised directly in equity		
III. Grants, donations and legacies received		14
V. Tax effect		(4)
<b>B) Total income and expense recognised directly in equity</b>		<b>10</b>
Transfers to the Income Statement		
VIII. Grants, donations and legacies received	12	(1.689)
IX. Tax effects		473
<b>C) Total transfers to profit or loss</b>		<b>(1.216)</b>
<b>TOTAL RECOGNISED INCOME AND EXPENSE (A + B + C)</b>		<b>52.315</b>
		<b>2016</b>
<b>A) Profit from income statement</b>		<b>50.085</b>
Income and expense recognised directly in equity		
III. Grants, donations and legacies received	12	539
V. Tax effect		
<b>B) Total income and expense recognised directly in equity</b>		<b>539</b>
Transfers to the Income Statement		
VIII. Grants, donations and legacies received	12	(1.358)
IX. Tax effects		92
<b>C) Total transfers to profit or loss</b>		<b>(1.266)</b>
<b>TOTAL RECOGNISED INCOME AND EXPENSE (A + B + C)</b>		<b>49.358</b>
The Notes 1 to 23 are an integral part of the Financial Statements for 2016.		

FCC Aqualia, S.A.

STATEMENTS OF CHANGES IN EQUITY FOR  
THE YEARS ENDED 31 DECEMBER 2016 AND 2015  
(THOUSANDS OF EUROS)

**B) STATEMENT OF CHANGES IN TOTAL EQUITY FOR THE YEARS ENDED 31 December 2016 AND 2015**

	CAPITAL (Note 11)	SHARE PREMIUM (Note 11)	RESERVES (Note 11)	PROFIT/LOSS FROM PREVIOUS PERIODS	PROFIT FOR THE YEAR	INTERIM DIVIDEND	TOTAL SHAREHOLDERS' EQUITY	GRANTS (Note 12)	TOTAL
<b>BALANCE AT 31 December 2014</b>	<b>145.000</b>	<b>112.019</b>	<b>397.878</b>	-	<b>29.566</b>	-	<b>684.463</b>	<b>5.851</b>	<b>690.314</b>
I. Total comprehensive income	-	-	-	-	53.521	-	53.521	(1.206)	52.315
II. Transactions with shareholders or owners	-	-	(25.428)	-	-	-	(25.428)	-	(25.428)
4. (-) Dividends paid	-	-	(25.428)	-	-	-	(25.428)	-	(25.428)
III. Other changes in equity	-	-	29.567	-	(29.566)	(30.450)	(30.449)	-	(30.449)
<b>BALANCE AT 31 DECEMBER 2015</b>	<b>145.000</b>	<b>112.019</b>	<b>402.017</b>	-	<b>53.521</b>	<b>(30.450)</b>	<b>682.107</b>	<b>4.645</b>	<b>686.752</b>
I. Total comprehensive income	-	-	-	-	50.085	-	50.085	(727)	49.358
II. Transactions with shareholders or owners	-	-	114	-	-	-	114	906	1.020
4. (-) Dividends paid	-	-	-	-	-	-	-	-	-
6. (+) Increase in equity from business combination	-	-	114	-	-	-	-	906	-
III. Other changes in equity	-	-	22.957	-	(53.521)	30.450	(114)	-	(114)
<b>BALANCE AT 31 December 2016</b>	<b>145.000</b>	<b>112.019</b>	<b>425.088</b>	-	<b>50.085</b>	-	<b>732.192</b>	<b>4.824</b>	<b>737.016</b>

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**FCC Aqualia, S.A.**  
**STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED**  
**31 DECEMBER 2016 AND 2015**  
 (THOUSANDS OF EUROS)

	Notes	2016	2015
<b>A- CASH FLOWS FROM OPERATING ACTIVITIES</b>			
<b>1. Loss for the year before tax</b>		<b>70.751</b>	<b>70.934</b>
<b>2. Adjustments to profit or loss</b>		<b>56.887</b>	<b>53.516</b>
a) Depreciation and amortisation charge (+)	5 and 6	59.658	43.034
b) Impairment losses (+/-)		6.058	6.638
c) Changes in provisions (+/-)		3.939	8.782
d) Recognition of grants in profit or loss (-)	12	(1.358)	(1.689)
e) Gains/Losses on derecognition and disposal of non-current assets (+/-)		(4)	32
f) Gains/Losses on derecognition and disposal of financial instruments (+/-)		9	74
g) Finance income and Dividends (-)		(42.249)	(31.459)
h) Finance costs (+)	18.7	30.072	28.553
i) Exchange differences (+/-)	18.8	762	(899)
j) Changes in fair value of financial instruments (+/-)			54
k) Other income and expenses (+/-)			396
<b>3. Changes in working capital</b>		<b>(9.167)</b>	<b>(6.015)</b>
a) Inventories, trade and other receivables and other current assets (+/-)		7.357	27.039
b) Other current assets (+/-)		195	(251)
c) Trade and other payables (+/-)		(18.350)	(32.648)
d) Other current liabilities (+/-)		1.817	(155)
e) Other non-current assets and liabilities (+/-)		(186)	-
<b>4. Other cash flows from operating activities</b>		<b>(6.678)</b>	<b>(22.742)</b>
a) Interest paid (-)		(24.673)	(28.553)
b) Dividends received (+)		31.313	19.932
c) Interest received (+)		9.069	12.067
d) Income tax recovered (paid) (+/-)		(15.322)	(26.188)
e) Other amounts paid (received) (+/-)		(7.065)	-
<b>5. Cash flows from operating activities (+/-1+/-2+/-3+/-4)</b>		<b>111.793</b>	<b>95.693</b>
<b>B) CASH FLOWS FROM INVESTING ACTIVITIES</b>			
<b>6. Payments due to investment (-)</b>		<b>(146.087)</b>	<b>(160.084)</b>
a) Group companies and associates		(105.779)	(136.125)
b) Intangible Assets and Property, Plant and Equipment		(21.427)	(17.125)
c) Other financial assets		(18.881)	(6.834)
<b>7. Proceeds from disposals (+)</b>		<b>24.939</b>	<b>18.387</b>
a) Group companies and associates		7.415	13.959
b) Intangible Assets and Property, Plant and Equipment		883	372
c) Other financial assets		14.991	4.033
d) Other assets		1.650	23
<b>8. Cash flows from investing activities (7-6)</b>		<b>(121.148)</b>	<b>(141.697)</b>
<b>C) CASH FLOWS FROM FINANCING ACTIVITIES</b>			
<b>9. Amounts received and paid for equity instruments</b>		<b>292</b>	<b>545</b>
a) Grants, donations and legacies received (+)		292	545
<b>10. Amounts received and paid for financial debt instruments</b>		<b>9.119</b>	<b>61.783</b>
a) Issuance of		67.061	98.637
2. Loans to Group companies and associates (+)		58.473	97.926
3. Other borrowings (+)		8.588	711
b) Repayment of		(57.942)	(36.854)
1) Bank borrowings (-)		(38)	-
2) Borrowings from Group companies and associates (-)		(52.835)	(33.361)
3) Other payables (-)		(5.069)	(3.493)
<b>11. Dividends and returns on other equity instruments paid</b>	-		<b>(30.450)</b>
b) Dividends (-)	-		(30.450)
<b>12. Cash flows from financing activities (+/-9+/-10-11)</b>		<b>9.411</b>	<b>31.878</b>
<b>D) EFFECT OF FOREIGN EXCHANGE RATE CHANGE</b>		<b>(518)</b>	<b>494</b>
<b>E) NET INCREASE IN CASH AND CASH EQUIVALENTS (+/-5+/-8+/-12+/-D)</b>		<b>(462)</b>	<b>(13.632)</b>
Cash and cash equivalents at beginning of year		36.451	50.083
Cash and cash equivalents at end of year		35.989	36.451

The Notes 1 to 23 are an integral part of the Financial Statements for 2016.

## NOTE 1 COMPANY ACTIVITIES

FCC Aqualia, S.A. (“the Company” or “ FCC Aqualia”) was incorporated in Spain in accordance with the Spanish Limited Liability Companies Law. It was incorporated in 1980 under the name of Seragua, S.A. In July 2002, its registered offices were transferred to Madrid and in July 2002, it was renamed as Aqualia Gestión Integral del Agua and on 2 April 2014, the resolution under which the company's registered name was changed to FCC Aqualia, S.A. was notarised. Its corporate address is registered in Madrid.

The corporate purpose of the Company is to perform, both in Spain and in any other country, the following activities:

- The provision and implementation of sanitation and cleaning services of all kinds for the treatment, recovery, disposal and purification of solid or liquid waste, drinking water for supply or industrial processes, urban or industrial wastewater and all kinds of works and auxiliary equipment relevant thereto.
- Manufacture, sale and purchase, assembly, supply, representation and distribution of machinery, vehicles and mechanical, electrical equipment and any major appliances or accessories that are necessary for the treatment and purification of waste and water, as well as the performance of all kinds civil works that are related to the aforementioned activities, exploiting and commercializing patents, utility models, trademarks and licences.
- Construction, installation, operation, maintenance, management, repair, purchase, sale and development, on its own behalf or on behalf of others, of all kinds of waste treatment, recovery or removal stations, plants and equipment, water filtering and any other facilities whose purpose is water treatment.
- The sale of treated, purified or drinking water or water of any other kind.
- The formulation, performance and advice from all kinds of reports, studies and projects, and the provision and execution of all types of services related to the activities described above.
- The performance of all types of acts of collaboration inherent to the collection management of any of the Public Authorities, which does not involve the exercise of authority or custody of public funds, awarded by such Authorities.
- Supply, transmission and distribution of any kind of combustible gases, as well as regasification, liquefaction and storage thereof. Completion, implementation and maintenance of all types of works, infrastructures and installations relevant to these activities.
- Implementation and maintenance of all types of civil works and buildings and facilities of any kind, both public and private, on its own behalf or for third parties, including the operation of sports facilities, swimming pools, sports centres and leisure and recreation centres, in general.
- Management of the end-to-end water cycle; collection, transportation, treatment and distribution of water, technical, administrative and computer works for customer management, meter reading, billing, invoice collection management services, conservation and maintenance of water networks and sewerage systems, comprehensive conservation and maintenance of wastewater treatment plants, detection of network leaks, sanitation, disinfection and pest control in buildings, premises, gardens, sewerage networks, water networks and sewage treatment plants, maintenance and repair of electrical and electronic equipment and installations, maintenance and repair of plumbing facilities and equipment, water and gas pipes, processing and incineration of waste, sludge and municipal waste and cleaning services, in general.
- The performance of all types of activities related to the analysis and control of water and wastewater at the laboratories and facilities of the Company.

The Company may carry on all the aforementioned activities on its own, or through ownership interests held in other Spanish or foreign companies with the same or a similar company object. Such interests shall include the subscription, purchase or acquisition, by any lawful means, of securities that represent an interest in the share capital or profits of said companies, as well as any type of association between companies. All activities required by law to meet special requirements that are not met by the Company are excluded.

- a) The Temporary Joint Ventures in which FCC Aqualia participates perform the same activities and are detailed below:

NAME	PARTICIPANTS	TAX AND LEGAL REGISTERED OFFICE	INTEREST S %	OPERATIONAL FUNDS (thousands of euros)
UTE Abastecimiento Villalón	FCC Aqualia, S.A. – FCC Construcción, SA	C/ Federico Salmón, 13. Madrid	80%	-
UTE Agua Santo Domingo	FCC Aqualia, S.A. - Agua Energía y MSI SL	C/ San Pedro, 3. Nájera (La Rioja)	70%	-
UTE Aguas de Alcalá	FCC Aqualia, S.A. – Canal de Isabel II.	C/ Federico Salmón, 13. Madrid	50%	3
UTE Aguas del Doramás	FCC Aqualia, S.A. – Eicoh Explot. S.L. – E. Maspalomas, S.A.	C/ Bentago Semidán, 2 Gáldar (Gran Canaria)	50%	3
UTE Aguas Tomelloso	FCC Aqualia, S.A. - FCC, S.A.	C/ Federico Salmón, 13. Madrid	80%	5
UTE Aigües els Poblets	FCC Aqualia, S.A. –Hidrosal, S.A.	C/ Federico Salmón, 13. Madrid	95%	-
UTE Aqualia Infilco	FCC Aqualia, S.A. – Acciona Agua, S.A.	C/ Rrez. de Arellano, 15 Madrid.	50%	3
UTE Aqualia Inima (Depuración poniente almeriense)	FCC Aqualia, S.A. – Inima, S.A.	C/ Rrez. de Arellano, 15 Madrid	75%	7
UTE Aqualia Riofabar Piloña	FCC Aqualia, S.A.	C/ Muñoz Degrain, 4-6. Oviedo	100%	6
UTE Alkhorayef	FCC Aqualia, S.A. - Alkhorayef	Al Riyadh C Al Yarmook C. Riyadh. Saudi Arabia.	51%	-
UTE Cangas	FCC Aqualia, S.A. - FCC, S.A.	C/ Cantabria, s/n Vigo (Pontevedra)	50%	3
UTE Centro Deportivo Granadilla de Abona	FCC Aqualia, S.A. - FCC, S.A.	C/ Federico Salmón, 13. Madrid	99%	-
UTE Consorcio Louro	FCC Aqualia, S.A. - Civis Global, S.L.	C/Puerto Rico, 18-20 Of.7 Vigo (Pontevedra)	99%	6
UTE Control Calidad Agua Huesca	FCC Aqualia, S.A. - Sociedad Española de Aguas Filtradas, S.A.	C/ Federico Salmón, 13. Madrid	80%	-
UTE Costa Tropical	FCC Aqualia, S.A. - Acciona Agua, S.A.	C/ Nueva, 4. Motril (Granada)	51%	-
Ute Costa Tropical II	FCC Aqualia, S.A. - Acciona Agua, S.A.	C/ Nueva, 4. Motril (Granada)	51%	-
Ute Costa Tropical III	FCC Aqualia, S.A. - Acciona Agua, S.A.	C/ Nueva, 4. Motril (Granada)	51%	-
UTE Denia	FCC Aqualia, S.A.	C/ José Luis Goyoaga, 36 Erandio (Vizcaya)	100%	6

NAME	PARTICIPANTS	TAX AND LEGAL REGISTERED OFFICE	INTEREST S %	OPERATIONAL FUNDS (thousands of euros)
UTE Depósito Hervencia	FCC Aqualia, S.A. – Aqualia Intech, S.A.	C/ Federico Salmón, 13. Madrid	80%	-
UTE EDAM Bajo Almanzora	FCC Aqualia, S.A. – Aqualia Intech, S.A. – FCC Construcción, S.A. - BEFESA	C/ Ulises, 18. Madrid	10%	1
UTE EDAM Santa Eulalia	FCC Aqualia, S.A. – Aqualia Intech, S.A.	C/ Gral. Ramírez de Madrid, 8. Madrid.	99%	1
UTE EDAR A Guarda	FCC Aqualia, S.A. – Depuración, Mantenimiento e Instalaciones, S.L..	C/ Puerto Rico, 18-20 Of.7 Vigo (Pontevedra)	50%	-
UTE EDAR Albuñol	FCC Aqualia, S.A. - FCC Construcción, S.A.	C/Hilera, 10. Albuñol. Granada.	50%	3
UTE EDAR Almansa	FCC Aqualia, S.A. - FCC, S.A.	C/ Federico Salmón, 13. Madrid	95%	6
UTE EDAR Chipiona	FCC Aqualia, S.A. – S.E.Aguas Filtradas, S.A.	P.I. Ronda Oeste – nave 24 Jerez de la Frontera (Cádiz)	20%	-
UTE EDAR Cuerva	FCC Aqualia, S.A. - FCC, S.A.	C/ Cardenal Marcelo Spínola, 42 Madrid	95%	6
UTE EDAR La Ranilla	FCC Aqualia, S.A. – Aqualia Intech - FCC, S.A. – FCC Construcción, S.A.	C/Balmes, 36. Barcelona	25%	3
UTE EDAR Reinosa	FCC Aqualia, S.A. – FCC, S.A.	C/ Federico Salmón, 13. Madrid	99%	-
UTE EDAR San Vicente de la Barquera	FCC Aqualia, S.A. – FCC, S.A.	C/ Federico Salmón, 13. Madrid	99%	-
UTE EDAR Valdepeñas	FCC Aqualia, S.A. – Aqualia Intech – FCC Construcción, S.A.	C/ Ulises, 18. Madrid	50%	3
UTE ETAPS Este	FCC Aqualia, S.A. - Iragaz Watin, S.A.	Pº Campo Volantín, 24-5-3 Bilbao	65%	4
UTE Explotación ITAM Tordera	FCC Aqualia, S.A. – Acciona Agua, S.A.	C/ Berlín, 38-48. Barcelona	50%	3
UTE Explotación Piscinas Vigo	FCC Aqualia, S.A. – Idónea CYS, S.L.	C/ Puerto Rico, 18-20 Of.7 Vigo (Pontevedra)	50%	3
UTE FS Badajoz	FCC Aqualia, S.A. – FS Colaboración y Asistencia, S.A.	C/ Donoso Cortés, 6. Badajoz	40%	2
UTE Gestión Cangas	FCC Aqualia, S.A. - Civis Global, S.L.	C/ Puerto Rico, 18-20-of.7 Vigo (Pontevedra)	70%	4
UTE Gestión Piscinas Vigo	FCC Aqualia, S.A. - Idónea Cys, S.L.	C/ Puerto Rico, 18-20-of.7 Vigo (Pontevedra)	50%	3
UTE Groupement Solidaire Jerba	FCC Aqualia, S.A. – Aqualia Intech – Inima	C/ Federico Salmón, 13. Madrid	20%	1
UTE Guadiana	FCC Aqualia, S.A. - FCC, S.A.	C/ Cardenal Marcelo Spínola, 42 Madrid	80%	-
UTE HIDC-HIDR-INV. do centr. ACE	FCC Aqualia, S.A. - Lena Ambiente-Gestao de Residuos, S.A.	Urb. Dos Plátanos-lote 2D-loja B Fregueria de Alferrarede - Concelho de Abrantes. Portugal.	50%	-
UTE Idam Janubio	FCC Aqualia, S.A. – Aqualia Intech, S.A.	C/Hermano Pedro, 15. Adeje. (Santa Cruz de Tenerife)	50%	-
UTE IDAM Sant Antoni	FCC Aqualia, S.A. – Acciona Agua, S.A.	C/ Berlín, 38-48. Barcelona	50%	5

NAME	PARTICIPANTS	TAX AND LEGAL REGISTERED OFFICE	INTEREST S %	OPERATIONAL FUNDS (thousands of euros)
UTE IDAM Sant Antoni II	FCC Aqualia, S.A. – Acciona Agua, S.A.	C/ Berlín, 38-48. Barcelona	50%	5
UTE Ibiza	FCC Aqualia, S.A. – Acciona Agua, S.A.	C/ Berlín, 38-48. Barcelona	50%	-
UTE La Sagra	FCC Aqualia, S.A.	C/ Ulises, 18. Madrid	100%	6
UTE Louro	FCC Aqualia, S.A. - Movex Vial, S.L.	C/ Puerto Rico, 18-20-of.7 Vigo (Pontevedra)	65%	4
UTE Mancomunidad de Órbigo	FCC Aqualia, S.A. - FCC, S.A.	C/ Federico Salmón, 13. Madrid	99%	-
UTE Mérida	FCC Aqualia, S.A. - FCC, S.A.	C/ Federico Salmón, 13. Madrid	99%	-
UTE Nigrán	FCC Aqualia, S.A. - FCC, S.A.	C/ Doctor Esquerdo, 59. Madrid	99%	6
UTE Oviedo	FCC Aqualia, S.A. - Soc. Española de Aguas Filtradas, S.A.	Plaza América, 10. Oviedo	95%	6
UTE OYM Cap Djinet	FCC Aqualia, S.A. – Inima	C/ Ulises, 18. Madrid	50%	3
UTE OYM Mostaganem	FCC Aqualia, S.A. – Inima	C/ Gobelas, 35-37. Madrid	50%	3
UTE Potabilizadora Els Poblets	FCC Aqualia, S.A. – Hidrosal	C/Isaac Peral, 12. Denia (Alicante)	70%	-
UTE Redes CABB	FCC Aqualia, S.A. - Iragaz Watin, S.A.	Pº Campo Volantín, 24-5-3 Bilbao	65%	4
UTE Redondela	FCC Aqualia, S.A. - FCC, S.A.	C/ Doctor Esquerdo, 59. Madrid	99%	6
UTE Salamanca	FCC Aqualia, S.A. - FCC, S.A.	C/ Ancha, 8. Salamanca	95%	6
UTE Saneamiento Canet y L'Almardà	FCC Aqualia, S.A. – Aqualia Intech, S.A. – FCC Construcción	Avda. Blasco Ibáñez, 25. Valencia	50%	1
UTE Santomera	FCC Aqualia, S.A. - FCC, S.A.	C/ Doctor Esquerdo, 59. Madrid	40%	2
UTE Sollanoko Ura	FCC Aqualia, S.A. – Iragaz Wating S.A.	C/ Gregorio de Revilla, 27. Bilbao	50%	3
UTE Tablada	FCC Aqualia, S.A. - FCC, S.A.	Avda. Kansas City, 9. Seville	80%	5
UTE Ussa A	FCC Aqualia, S.A. - Iragaz Watin, S.A.	Pº Campo Volantín, 24-5-3 Bilbao	65%	4
UTE Vigo	FCC Aqualia, S.A. - FCC, S.A.	C/ Federico Salmón, 13. Madrid	99%	28,691
UTE Vigo Piscinas	FCC Aqualia, S.A. - Idonea Cys, S.L.	C/ Puerto Rico, 18-20-of.7 Vigo (Pontevedra)	50%	-
UTE Villalón de Campos	FCC Aqualia, S.A. - FCC, S.A.	C/ Federico Salmón, 13. Madrid	80%	-

b) The Company also participates in Economic Interest Groups (EIG), whose participation details we reference below:

- A.I.E. ITAM Delta de la Tordera. Its purpose is the construction and operation of a desalination plant in Gerona. Relevant details:  
 Corporate address: Travesía de Gracia, 58. Barcelona.  
 Participants:
 

FCC Aqualia, S.A.	49.9 %
FCC Construcción, S.A.	0.1%
Aqualia Intech, S.A.	0.1%
Acciona Agua, S.A.	49.9 %
  
- A.I.E. Gestión de Servicios Hidráulicos de Ciudad Real. It has a stake in the share capital of the company that supplies drinking water to several municipalities in the province of Ciudad Real. Relevant details:  
 Corporate address: C/ Ramirez de Arellano, 15. Madrid.  
 Participants:
 

FCC Aqualia, S.A.	75.00 %
Acciona Agua, S.A.	25.00 %
  
- A.I.E. Costa Tropical de Granada. Its main activity is the construction and operation of facilities for the treatment and purification of drinking water, including supplying it to the municipalities that form the Association of Municipalities of the Tropical Coast of Granada.  
 Corporate address: Plaza de la Aurora, s/n. Motril (Granada).  
 Participants:
 

FCC Aqualia, S.A.	51.00 %
Acciona Agua, S.A.	49.00 %
  
- A.I.E. Aquagest Medioambiente, S.A. – Aqualia (formerly A.I.E. Sorea – SEARSA – Aqualia). Their activity involves participation in the shareholding of the joint venture of Costa Brava, S.A.  
 Corporate address: Condado de Jaruco, s/n. Lloret de Mar (Gerona)  
 Participants:
 

Aquagest Medioambiente, S.A.	62.50 %
FCC Aqualia, S.A.	37.50 %
  
- A.I.E. Costa Brava Abastament Aqualia – Sorea. Incorporated on 14 October 2009, it holds a stake in the share capital of a company that deals with the management of wholesale water services in the territorial scope of the Costa Brava Consortium.  
 Corporate address: C/ Sector Carlit, s/n. Castelló d'Empuries (Gerona)  
 Participants:
 

FCC Aqualia, S.A.	50.00 %
Sorea, S.A.	50.00 %

c) Likewise, FCC Aqualia has ownership interests in companies with similar corporate purposes and business activities. The details of the group companies and associates is presented in Note 7.

The Company voluntarily prepares consolidated financial statements and directors' reports as the parent of all the subsidiaries that are detailed in this Report, in accordance with the provisions of Article 42.6 of the Commercial Code. It does so despite being exempted from the obligation to do so under applicable law, Article 43 of the Commercial Code and Article 7 of the Regulations on the Preparation of Consolidated Financial Statements of Royal Decree 1159/2010, of 17 September, as a member of the FCC Group, whose parent company is Fomento de Construcciones y Contratas, S.A. with registered office in c/ Balmes, 36, Barcelona 08007, Spain, and whose shares are listed for trading on the four Spanish stock exchanges (Madrid, Barcelona, Bilbao and Valencia). The consolidated financial statements and directors' report of Fomento de Construcciones y Contratas, S.A. are deposited in the Companies Registry of Barcelona.

The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS), as established by Regulation (EC) No 1606/2002 of the European Parliament and of the Council, of 19 July 2002, as well as by all the provisions and interpretations implementing it. The consolidated financial statements of the Company for 2016, which were formally prepared by the directors, will also be submitted for approval by the shareholders at the Annual General Meeting, and it is considered that they will be approved without any changes.

The Company's consolidated financial statements, prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union, show an asset volume of EUR 2,287,547 thousand (EUR 2,220,596 thousand at 31 December 2015) and shareholders' equity attributable to shareholders of the Company in the amount of EUR 803,729 thousand (EUR 736,921 thousand at 31 December 2015). In addition, the consolidated revenues and attributable profit amounted, respectively, to EUR 991,242 and 71,251 thousand (EUR 995,696 and 67,133 thousand at 31 December 2015).

## **NOTE 2 \_\_\_\_\_ BASIS OF PRESENTATION OF THE FINANCIAL STATEMENTS**

### **2.1. Regulatory financial reporting framework applicable to the Company**

These financial statements were formally prepared by the directors in accordance with the regulatory financial reporting framework applicable to the Company, which consists of:

- The Spanish Commercial Code and all other Spanish corporate law.
- The Spanish National Chart of Accounts approved under Royal Decree 1514/2007, amended under Royal Decree 602/2016, and its industry adaptations, in particular the rules adapting the Spanish National Chart of Accounts to public infrastructure concession operators approved by Order EHA/3362/2010.
- The mandatory rules approved by the Spanish Accounting and Audit Institute in order to implement the Spanish National Chart of Accounts and the relevant secondary legislation.
- All other applicable Spanish accounting legislation.

### **2.2. Fair presentation.**

The financial statements, which were obtained from the Company's accounting records, are presented in accordance with the regulatory financial reporting framework applicable to the Company and, in particular, with the accounting principles and rules contained therein and, accordingly, present fairly the Company's equity, financial position, results of operations and cash flows for the current year.

These financial statements, which were formally prepared by the Company's Directors, will be submitted for approval by the Ordinary General Shareholders' Meeting, and are expected to be approved without any changes. The 2015 financial statements were approved by the shareholders at the Annual General Meeting held on 20 April 2016.

The balance sheets, income statements and cash flow statements of the temporary joint ventures in which the Company has a stake have been incorporated by proportional consolidation based on the percentage holding in each.

The consolidation of the temporary joint ventures was performed after having applied the timing and

valuation adjustments, the necessary reconciliations and reclassifications, and the appropriate deletions of both the assets and liabilities balances and the reciprocal income and expenses. Where they are significant, any material amounts corresponding thereto are disclosed in the notes herein.

In addition, the Company includes in its financial statements the result of the Economic Interest Groupings in which it participates, under the sub-account "Income from equity investments" under the heading "Net turnover" on the accompanying income statement (see note 18.1).

### **2.3. Non-obligatory accounting principles applied**

No non-obligatory accounting principles were applied. Also, the directors formally prepared these financial statements taking into account all the obligatory accounting principles and standards with a significant effect hereon, i.e., all obligatory accounting policies were applied.

### **2.4. Key issues in relation to measurement**

In preparing the accompanying financial statements estimates were made by the Company's directors in order to measure certain of the assets, liabilities, income, expenses and obligations reported herein. Basically, these estimates refer to:

- The assessment of possible impairment losses on certain assets (see Notes 5, 6, 7 and 8).
- The useful life of the tangible and intangible assets (see Notes 5 and 6).
- The calculation of certain provisions (see Note 13).
- The recognition of deferred tax assets (see Note 15).
- The estimate of the exchange rate, interest rate, solvency and liquidity risks (see Note 22).
- The Company's taxable profit/loss to be submitted to the authorities will be settled in the future and has been used as the basis for accounting for certain balances relating to income tax in these financial statements (see Note 15).
- The degree of progress of construction activities (see Note 4.10).
- The fair value of certain financial assets, including group companies (see Note 4.5.1)

Although these estimates were made on the basis of the best information available at the end of the 2016 reporting period, events that take place in the future might make it necessary to change these estimates in coming years. Changes in accounting estimates would be applied prospectively.

### **2.5. Comparative information**

For comparison purposes, in addition to the figures for 2016 for each item in the statement of financial position, income statement, statement of changes in equity, statement of cash flows and notes to the financial statements, the figures that formed part of the financial statements for 2015 are also shown, except for those indicated in the following paragraphs.

*Royal Decree 602/2016, of 2 December*

In December 2016, Royal Decree 602/2016, of 2 December, was passed, which introduced amendments to the Spanish National Chart of Accounts approved under Royal Decree 1514/2007, of 16 November, and it is applicable to periods starting on 1 January 2016.



The main amendments introduced under Royal Decree 602/2016 that affect the Company are in relation to changes in the accounting and measurement standards for intangible assets (in particular, goodwill). In line with the amendments to the Commercial Code introduced under Act 22/2015, of 20 July, it establishes here that intangible assets have a finite useful life and therefore, must be subject to systematic amortisation over the period during which the economic benefits inherent to the asset are reasonably estimated to provide returns for the company. When the useful life cannot be estimated reliably, they will be amortised over a maximum period of ten years, notwithstanding any periods established in specific rules on certain intangible assets. Regarding goodwill, amortisation takes place over the asset's useful life and it is specified that, unless proven otherwise, the useful life is presumed to be ten years and recovery is taken place on a straight-line basis. Previously, these intangible assets and goodwill were considered assets with indefinite useful lives and were not subject to systematic amortisation, but merely to impairment.

In relation to the new reporting requirements to be included in the report and as allowed under additional provision two of the aforementioned Royal Decree, the Company, pursuant to valid regulations, has not included a breakdown of comparative information.

Regarding the amortisation of goodwill and as allowed under the sole transitional provision of Royal Decree 602/2016, the Company has applied the new amortisation criteria set forth in the regulations to the carrying amount of goodwill stated at the end of the previous year in a prospective manner starting from the beginning of 2016. The amortisation expense for this item of the 2016 income statement came to a total of EUR 8,276 thousand.

## 2.6. Aggregation

Certain items in the balance sheet, income statement, statement of changes in equity and statement of cash flows are grouped together to facilitate their understanding; however, whenever the amounts involved are material, the information is broken down in the related notes to the financial statements.

## 2.7. Correction of errors

In 2016, there were no significant changes in rules and accounting policies with respect to those applied in 2015.

In preparing these financial statements no significant errors were detected that would have made it necessary to restate the amounts included in the year 2015.

## NOTE 3            DISTRIBUTION OF PROFIT

The proposed distribution of profit from 2016 to be submitted for approval by the shareholders at the General Shareholders' Meeting is as follows:

<b>PROPOSED DISTRIBUTION OF PROFIT</b> <i>(Amounts in thousands of euros)</i>	
<b>Profit for the year</b>	<b>50,085</b>
<b>Distribution:</b>	
<b>To voluntary reserves</b>	<b>50,085</b>

## **NOTE 4 \_\_\_\_\_ ACCOUNTING POLICIES AND MEASUREMENT BASES**

The principal accounting policies and measurement bases applied by the Company in preparing the financial statements for 2016, in accordance with the Spanish National Chart of Accounts, were as follows:

### **4.1. Intangible assets**

In general, intangible assets are initially measured at their acquisition price or production cost. They are subsequently measured at cost less any accumulated amortisation and any accumulated impairment losses.

#### **a) Administrative concessions**

The Company records the amounts furnished in accordance with the specifications and agreed to upon signature of the concession agreements and any other costs incurred in attaining the water supply and sanitation service concessions as administrative concessions.

Amortisation is performed on a straight-line basis over the period of each concession, with the latter having a duration of between 5 and 50 years.

Concession arrangements are arrangements between a public sector concession grantor and the Company to provide public services consisting of the distribution of drinking water, construction and operation of water and other infrastructures. Revenue from performing the service may be received directly from the users or, sometimes, through the concession grantor itself, which regulates the prices for service provision.

The concession right generally entails a monopoly on the provision of the service granted for a certain period of time, after which time, the infrastructure related to the concession required to provide the service is handed over to the concession grantor, generally without remuneration. The concession agreement must necessarily include the management or operation of the said infrastructure. Another common characteristic is the existence of obligations to purchase or build all the elements that are needed to provide the concession service throughout the duration of the contract.

The aforementioned concession contracts are recorded according to the provisions of Order EHA/3362/2010, of 23 December, laying down the rules adapting the general accounting plan to public infrastructure concessionaires.

#### **b) Intangible assets, concession agreements**

This is the combination of infrastructures built, improved or acquired by the Company in its capacity as concessionaire, to provide a public service linked to a concession contract. The recognition of an intangible asset occurs in cases in which the Company is entitled to charge a fee to users of the public service, depending on the use made of that service, with the concessionaire assuming, therefore, demand risk. The fact that the awarding body controls the physical use that should be given to the infrastructure, the way in which the service must be provided and the price thereof, means that such infrastructure is recorded as an intangible asset and not as a property, plant and equipment.

Its initial measurement is performed at the fair value of the service, equivalent to the cost of acquisition or production plus the margin for the construction of the infrastructure, with such value being recovered during the life of the contract through the right to charge the users of the service the appropriate fees depending on the degree of utilization thereof.

Also, in concessions classified as intangible assets, at the start of the concession, provisions for dismantling, removal or renovation and any actions intended to enhance or increase capacity, the income from which is foreseen in the initial contract, are recognised as the greater value of the asset and the depreciation of these assets, as well as the financial adjustments made to the said provisions, are taken to the income statement during the term of the contract. In turn, provisions in response to replacement and repair activities regarding the infrastructures will be systematically taken to profit/loss as the obligation arises.

For those elements under this heading requiring construction periods longer than one year, the Company capitalises the financial expenses that accrued before the start-up of operations of the asset, which have been charged by the supplier or relate to loans or other external financing, whether specific or generic, directly attributable to the acquisition or manufacture thereof.

They are amortised over the concession period on a linear basis, with no significant differences between the amount calculated in this way and that which would be obtained according to the cubic meters of water produced in the contracts which the Company operates.

At year end we have adjusted the indications of impairment identified in certain intangible assets included under this heading, as the Directors estimate that for the remaining assets of the Company the recoverable value of the assets is greater than their book value.

c) Deferred finance costs.

From the date of start-up, the financial expenses for the year are expensed in proportion to the revenue provided under the Company's Economic and Financial Plan.

In relation to the projected revenue, the proportion that the plant's revenue represents for each year with respect to the total is determined. This proportion is applied to all the borrowing costs projected for the concession term in order to determine the amount of the costs to recognise in each reporting period as period borrowing costs. If the actual revenue for the year exceeds the projected revenue, the proportion will be calculated as the difference between actual revenue and the aforementioned total estimated revenue.

The difference between total borrowing costs for the year and the borrowing costs recognised in profit or loss are capitalised as deferred finance costs.

d) Goodwill.

In this section, the Company includes the goodwill arising in 2002 from the merger that the Company has performed with several of its subsidiaries.

Subsequent to initial recognition, goodwill is measured at acquisition price less accumulated amortisation and, where appropriate, accumulated adjustments for impairment recognised. Pursuant to applicable regulations, the useful life of goodwill has been set at 10 years and amortisation is applied on a straight-line basis.

Furthermore, impairment is tested on an annual basis or earlier, if there are indications of a potential impairment of the asset. For this purpose, the goodwill resulting from the business combination discussed previously is assigned to the Company as a whole as cash-generating unit, which is expected will benefit from the synergies of the combination.

Until the period that ended 31 December 2015, pursuant to the Spanish Companies Law valid at that time, when

the profits for each period are allocated, Companies had to set up an unavailable reserve equal to the goodwill stated under Assets of the statement of financial position, allocating a portion of profit representing at least five percent of the abovementioned goodwill for this purpose. Should there be no profit, or should it be insufficient, available reserves were to be used.

According to the amendments introduced in the Spanish Companies Law under Act 22/2015, of 20 July, on Accounts Auditing, in periods starting 1 January 2016 the Company shall cease to contribute to this reserve for goodwill and the amount thereof shall be re-allocated to voluntary reserves, with the amount in excess of the goodwill recognised in assets on the balance sheet being available starting in this period. No amounts whatsoever were reclassified to voluntary reserves in 2016.

e) Computer software.

Software applications includes the costs incurred in the acquisition of computer programs, which are amortised over a maximum period of five years. Maintenance costs are recognised with a charge to the income statement for the year in which they are incurred.

f) Research and development expenditure:

Its initial measurement is performed at acquisition cost or production cost when the Company has proceeded to conduct research and development. They are recorded by project, individually, and their activation occurs only when there is proof of technical success and economic profitability of the project.

They are amortised linearly over the life of the project and in any case within a maximum period of 5 years.

#### **4.2. Property, plant and equipment**

Property, plant and equipment is recognised at purchase price or production cost when the Company performs in-house work on non-current assets and is subsequently reduced by the related accumulated depreciation and by any impairment losses recognised. At year end, there is no indication that the Company's property, plant and equipment assets have suffered an impairment loss. The directors of the Company consider that the recoverable amount of the assets is higher than their carrying amount and, accordingly, no provision has been made for impairment losses.

Expenses for preservation and maintenance of the property, plant and equipment items are stated in the income statement in the period in which they occur. On the other hand, the costs of investments made to improve the capacity and/or efficiency of the assets, or to prolong the useful life thereof, are capitalised.

For assets that require a period of more than one year to be fit for use, the capitalised costs include the finance costs that have accrued prior to commissioning of the asset and have been billed by the supplier or that correspond to loans or some other type of specific or general third-party financing directly attributable to the purchase or manufacturing of the asset.

The Company's capitalised expenses of in-house work on fixed assets are shown at the accumulated cost resulting from adding internal costs, determined on the basis of internal consumption of materials, to external costs, labour costs directly incurred and general manufacturing expenses calculated according to absorption rates similar to those applied for the purposes of measuring inventories.

The Company's property, plant and equipment depreciate according to the straight-line method, applying annual depreciation rates calculated on the basis of the years of estimated useful life of the respective assets, as follows:

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**ESTIMATED USEFUL LIFE YEARS**

Buildings	33 – 50
Technical installations and machinery	10 – 25
Other installations, tools and furniture	7 – 10
Other property, plant and equipment items	4 – 6

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**4.3. Impairment of non-financial assets subject to amortisation or depreciation**

The Company evaluates whether there are indications of possible impairment in the value of non-financial assets subject to amortisation or depreciation to verify whether the carrying amount of these assets exceeds the recoverable amount. The recoverable amount is the higher of the fair value less costs to sell and the value in use.

Impairment losses are taken to the income statement under "Impairment losses and gains on disposals of fixed assets".

In order to determine the recoverable value of assets subjected to impairment tests, the present value of net cash flows generated by the Cash Generating Units (CGU) associated with them has been estimated, except for flows related to payments or collections from financing transactions and income tax payments, as well as payments deriving from scheduled future renovations or enhancements for the assets in the aforementioned cash generating units. In order to adjust the cash flows, a pre-tax discount rate has been used that includes current market assessments of the time value of money and the specific risks of each cash generating unit.

The estimated cash flows have been attained from the forecasts made by Management at each of the CGU which, in general, span periods of five years, except when the nature of the business suggests longer periods are preferable. In this regard, to calculate the recoverable amount of the Group's concession assets, the time remaining in the concession period is considered and additional extensions are only considered when the Group has contractual compensation commitments that are likely to occur. Likewise, growth rates based on approved business plans that are periodically reviewed are included. Zero growth is considered for periods after the time span forecasted in these plans. In addition, it must be noted that sensitivity analyses are conducted in relation to the growth of income, operating margins and discount rates, in order to predict the impact of future changes in these variables.

At the end of each reporting period the Company assesses whether there is any indication that an impairment loss recognised in prior periods may no longer exist or may have decreased. Impairment losses relating to goodwill are not reversible. The impairment losses for the remaining 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 profit or loss. However, the increase in the 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 or 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 income statement.

#### **4.4. Leases**

Leases are classified as finance leases whenever one can infer from the conditions thereof that the risks and rewards inherent to ownership of the asset that is the subject-matter of the agreement are substantially transferred to the lessee. At 31 December 2016, the Company has signed two contracts of this kind, and the Directors do not believe that their impact on the accompanying financial statements of the Company shall be significant.

##### **Operating leases**

Expenses resulting from operating leases are charged to income in the year in which they are incurred.

Any amounts that may be collected or paid when entering into an operating lease shall be treated as an advance payment or collection stated on the income statement throughout the lease period, to the extent that the benefits of the leased asset are transferred or received.

#### **4.5. Financial Instruments**

Financial instruments are classified on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the nature of the contractual arrangement and the definitions of a financial asset, financial liability or equity instrument.

##### **4.5.1 Financial assets**

##### **Classification**

The financial assets held by the Company are classified in the following categories:

- Loans and receivables: Financial assets derived from the sale of goods or the rendering of services relative to the Company's trade operations, or which, while not of a commercial nature, are not equity instruments or derivatives, provide specific or determinable returns and are not traded on an active market.
- Equity investments in Group companies, associates and jointly controlled entities: Group companies are deemed to be those related to the Company as a result of a relationship of control and associates are companies over which the Company exercises significant influence. Jointly controlled entities include companies over which, by virtue of an agreement, the Company exercises joint control with one or more other venturers.
- Held-for-trading financial assets: Assets acquired with the intention of selling them in the short term and assets that form part of a portfolio for which there is evidence of a recent actual pattern of short-term profit-taking.

##### **Initial measurement**

Financial assets are initially measured at the fair value of the consideration received plus any directly attributable transaction costs.

In the case of equity investments in group companies affording control over the subsidiary, since 1 January 2010 the fees paid to legal advisers and other professionals relating to the acquisition of the investment have been recognised directly in profit or loss.

In concession contracts, the consideration received by the Company will result in the recognition of a financial asset when it has an unconditional right to collect a certain sum in exchange for the services provided, that is, when the Company does not assume the demand risk and therefore its income does not depend on the use made by users of the public service.

#### Subsequent measurement

- Loans, receivables and held-to-maturity investments are measured at amortised cost.
- Investments in Group companies and associates and interests in jointly controlled entities are measured at cost net, where appropriate, of any accumulated impairment losses. The impairment loss is calculated as the difference between the carrying amount of the investment and its recoverable amount, recoverable amount being the higher of fair value less costs to sell and the present value of the future cash flows from the investment. Unless there is better evidence of the recoverable amount, it is based on the value of the equity of the investee, adjusted by the amount of the unrealised gains existing at the date of measurement, including any goodwill.
- Held-for-trading financial assets are measured at fair value and the gains and losses arising from changes in fair value are recognised in the income statement.
- At least at year-end, the Company conducts an impairment test of the financial assets that are not stated at fair value. Objective evidence of impairment is considered to exist if the recoverable amount of the financial asset is lower than its carrying amount. When this occurs, the impairment loss is recorded in the income statement.
- In particular, regarding the valuation adjustments relating to trade and other receivables, the Company proceeds to calculate the corresponding value adjustments, as follows:
  - For private customers with balances due more than one year prior, a provision is made for the entire amount.
  - For private customers with balances due less than one year prior, a provision is made for a percentage based on past debts.
  - Provisions for public customer receivables are allocated on the basis of a specific analysis.

#### **4.5.2. Derecognition of financial assets.**

The Company derecognises a financial asset when the rights to the cash flows from the financial asset expire or have been transferred and substantially all the risks and rewards of ownership of the financial asset have also been transferred, such as in the case of firm asset sales, factoring of trade receivables in which the Company does not retain any credit or interest rate risk or sales of financial assets under an agreement to repurchase them at fair value.

However, the Company does not derecognise financial assets and recognises a financial liability for an amount equal to the consideration received in transfers of financial assets in which substantially all the risks and rewards

of ownership are retained, such as in the case of note and bill discounting, with-recourse factoring, sales of financial assets subject to an agreement to buy them back at a fixed price or at the selling price plus a lender's return or any other kind of guarantee that absorbs substantially all the expected losses.

#### **4.5.3. Financial liabilities**

Financial liabilities include accounts payable by the Company that have arisen from the purchase of goods or services in the normal course of the Company's business and also those which, not having commercial substance, cannot be classed as derivative financial instruments.

Accounts payable are initially recognised at the fair value of the consideration received, adjusted by the directly attributable transaction costs. Subsequently, these liabilities are measured at amortised cost.

The Company derecognises financial liabilities when the obligations giving rise to them ceased to exist.

#### **4.6. Inventories**

Inventories are measured at purchase price, production cost, or net realisable value, whichever is the lowest. Commercial discounts, rebates or other similar items and interest added to the nominal amount of the debits are deducted from the purchase price.

Production cost includes the cost of materials directly used and, where appropriate, direct labour costs and general manufacturing expenses.

Net realisable value represents the estimated selling price less all estimated costs for completion and costs incurred in the marketing, sale and distribution process.

The Company makes the necessary value adjustments, recognising them as an expense on the income statement when the net realisable value of the inventories is lower than the purchase price or production cost thereof.

#### **4.7. Foreign currency transactions**

The Company's functional currency is the euro. Therefore, transactions in currencies other than the euro are deemed to be "foreign currency transactions" and are recognised by applying the exchange rates prevailing at the date of the transaction.

At the end of each reporting period, monetary assets and liabilities denominated in foreign currencies are translated to euros at the rates then prevailing. Any resulting gains or losses are recognised directly in the income statement in the year in which they arise.

Similarly, financial instruments in the equity of group companies in foreign currencies, whose purchase was financed with loans in the same currency, have been translated at the closing exchange rate.

#### **4.8. Income tax**

The expense or income deriving from income tax includes both current income tax expenses or income and deferred tax expenses or income.

The current income tax expense is the amount payable by the Company as a result of income tax settlements for a given year. These tax assessments take into account the permanent differences between the taxable income and



accounting income. Deductions and other tax advantages applied to the tax rate, not including withholdings and on-account payments, as well as tax losses carried forward from previous years and effectively applied this year, reduce the current tax amount.

The deferred tax expense or income corresponds to the recognition and derecognition of deferred tax assets or liabilities. These include temporary differences, which are identified as any amounts envisaged as payable or recoverable arising from the difference between the carrying amount of assets and liabilities and their fiscal value, as well as the tax losses carried forward and credits on account of tax deductions not levied as tax. Such amounts are stated by applying the tax rate at which they are expected to be recovered or settled to the temporary difference or relevant credit.

Deferred tax liabilities are recognised for all temporary tax differences, except when the temporary difference is the result of the initial recognition of goodwill or of other assets and liabilities in a transaction that does not affect either the tax profit or the accounting profit and is not a business combination.

In turn, deferred tax assets are only recognised if it is considered likely that the Company will have future tax benefits against which to offset them.

Deferred tax assets and liabilities arising from transactions charged or credited directly to equity are also recognised in equity.

At the end of each year, deferred tax assets are restated, making the relevant adjustments thereto if there is doubt as to their future recovery. In addition, on each closing date, the deferred tax assets not recorded on the statement of financial position are evaluated and recognised to the degree that their recovery with future fiscal gains becomes probable.

Deferred tax assets and deferred tax liabilities are recognised in the balance sheet under non-current assets or liabilities, irrespective of the expected date of recovery or settlement.

The Company is part of consolidated tax group 18/89 headed by FCC and pays tax in relation to the Corporate Income Tax according to the Special Tax Consolidation System provided for in Article 64 et seq. of the Consolidated Text of Legislative Royal Decree 4/2004, of 5 March.

Income tax expense accrued by the companies that pertain to the consolidated taxation system is calculated by taking the following parameters into consideration, in addition to those mentioned above to be followed for separate taxation:

- The temporary and permanent differences arising as a result of the elimination of profit/loss from transactions carried out between companies within the group, which derives from the process of establishing the consolidated taxable profit.
- The deductions and credits that correspond to each company in the consolidated tax group; for these purposes, the deduction and credits are allocated to the company that performed the activity or earned the profit needed to attain the right to the tax deduction or credit.
- As regards tax losses from some of the companies in the group, which have been offset by other companies in the consolidated group, a reciprocal credit or debit arises between the relevant companies and the companies that offset the loss. If there are tax losses that cannot be offset by the rest of the

companies in the consolidated group, these credits for tax losses carried forward are recognised as deferred tax assets, following the criteria established for recognition thereof and considering the tax group as the taxpayer.

- The parent of the Group recognises the total consolidated income tax payable (or refundable) with a charge (credit) to accounts receivable from (payable to) Group companies and associates.
- The accounts payable or receivable relating to the subsidiaries are recognised with a credit or charge, respectively, to accounts payable to and receivable from Group companies and associates.

Furthermore, at year-end December 2015 and 2016, the company took into account the change in the Income Tax rate introduced under Corporate Income Tax Act 27/2014, which took effect on 1 January 2015. According to this law, the tax rate dropped from the current 30% at the time of the approval of the Act to 28 % in 2015 and to 25 % starting in 2016 and therefore, the deferred tax assets and liabilities at 31 December 2016 and 2015 were measured using the new rates.

At year-end December 2016, the Company also recorded the full amount of portfolio impairment that it had deducted from taxable profit up to 2013 as an income tax expense, recognising one fifth of this amount as an increase in tax debt with group companies and the rest as an increase in the Deferred tax liabilities balance.

#### **4.9. Provisions and contingencies**

When preparing the financial statements the Company's Directors made a distinction between:

- Provisions: payable balances covering present obligations arising as a result of past events, settlement of which is likely to result in an outflow of resources, but their amount and/or time of settlement are unknown.

Contingent liabilities: possible obligations that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more future events beyond the Company's control.

The financial statement contains all the provisions for which it is estimated to be more likely than not that the obligation must be settled. Contingent liabilities are not recognised in the financial statement, but rather are reported in the notes to the annual report as long as they are not considered remote.

Provisions are measured at the present value of the best possible estimate of the amount needed to cancel or transfer the obligation, taking into account the available information regarding the event and consequences thereof, and recording any adjustments arising from the revaluation of the provision as a finance cost as they accrue.

#### **4.10. Income and expense recognition**

Revenue from sales is recognised when the significant risks and rewards of ownership of the goods sold have been transferred to the buyer, and the Parent retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold.

Revenue from the rendering of services is recognised by reference to the stage of completion of the transaction at the end of the reporting period, provided the outcome of the transaction can be estimated reliably.

Interest received from financial assets is recognised by using the effective interest method, and dividends are recognised when the shareholder's right to receive them is established. In any case, interest and dividends from financial assets accrued subsequent to the time of acquisition are recognised as income on the income statement.

Revenue mainly comprises the following items:

- Sales of water. This is the amount corresponding to the number of cubic metres supplied to consumers, valued at sale price. The sale price is established for each contract based on the rates passed by each City Council and published in the Official Journals of the relevant province.
- Sales of works and services. This is the amount corresponding to construction work and activities that the Company performs in relation to the provision of end-to-end water services in the towns in which contracts have been awarded. The amount for sales is calculated by applying the degree of progress criterion, consisting in assessing the units of work performed during the period at sale price, which is set forth in the contract, and at the same time recognising the expenses incurred in such work.

The difference between the amount for production of each of the contracts and the amount billed for each one up to the reporting date of the statement of financial position is stated as "Production executed and pending invoicing" under "Customer receivables – sales and service provision".

- Dividends earned on interests in equity instruments of group companies, joint ventures and associates. In application of consultation 2 of the Spanish Accounting and Audit Institute's Journal No. 79, dividends earned on equity instruments of group companies and associates are deemed to be part of net revenue, as shareholding is one of the Company's ordinary activities.

The remaining revenue and expenses are also recognised on an accrual basis, i.e. when the actual flow of the related goods and services occurs, regardless of when the resulting monetary or financial flow arises.

#### **4.11. Termination benefits**

Under current legislation, the Company is required to pay termination benefits to employees terminated under certain conditions. Therefore, termination benefits that can be quantified reasonably are recognised as an expense in the year in which the decision to terminate the employment relationship is taken. The accompanying financial statements do not include any provision in this connection, since no situations of this nature are expected to arise.

#### **4.12. Grants**

The Company applies the following criteria for accounting of grants received:

##### a) Non-repayable grants:

Are recognised in equity and are measured at the fair value of the amount or the asset received, based on whether or not they are monetary grants, and they are taken to income in proportion to the period depreciation taken on the assets for which the grants were received or, where appropriate, on disposal of the asset or on the recognition of an impairment loss, except for grants received from shareholders or owners, which are recognised directly in equity and do not give rise to the recognition of any income.

##### b) Grants related to income:

grants related to income are credited to income when granted, unless their purpose is to finance losses from operations in future years, in which case they are allocated to income in those years. If grants are received to finance specific expenses, they are allocated to income as the related expenses are incurred.

#### **4.13. Joint ventures**

The Company accounts for its interests in unincorporated temporary joint ventures (UTEs) by recognising in its balance sheet the share corresponding to it, in proportion to its ownership interest, of the jointly controlled assets and of the jointly incurred liabilities. The Company's share of income earned and expenses incurred through the contract carried out through the temporary joint venture are recognised on the income statement. The Company's proportional share of the temporary joint venture items is recognised in the statement of changes in equity and in the statement of cash flows.

The figures contributed by the UTEs to the balance sheet and the income statement of the Company are reflected in each of the notes that make up this report.

#### **4.14. Related party transactions**

The Company performs all its transactions with related parties on an arm's length basis. Also, the transfer prices are adequately supported and, therefore, the Company's directors consider that there are no material risks in this connection that might give rise to significant liabilities in the future.

In mergers and spin-offs, items acquired are generally measured at the amount at which they would be recognised in the financial statements after the transaction. Any differences are recognised in reserves.

#### **4.15. Business activities with an effect on the environment**

The Company carries out actions the main objective of which is to prevent, reduce or repair the damage that might be caused to the environment as a result of its business operations.

Environmental costs are recorded as operating expenses in the year accrued.

Those elements that can be incorporated into the assets of the Company, in order to be used permanently in its activity and whose main purpose is to minimise the environmental impact and protect and improve the environment, are recorded as property, plant and equipment.

Furthermore, the Company records provisions for environmental actions when it is aware of any expenses incurred in the year or previously, clearly specified in terms of their nature, but their amount or date is not determined. Such provisions are made based on the best estimate of the expenditure required to meet the obligation, taking into account the financial impact, should it be significant.

#### **4.16. Current/Non-current classification**

The Company classifies assets and liabilities as current and non-current. In this connection, current assets and liabilities are those that meet the following conditions:

- The Group classifies an asset as current when it expects to realise the asset, or intends to sell or consume it, in its normal operating cycle; it holds the asset primarily for the purpose of trading; it expects to realise the asset within twelve months after the reporting period; or the asset is cash or a

cash equivalent unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

- The Group classifies a liability as current when it expects to settle the liability in its normal operating cycle; it holds the liability primarily for the purpose of trading; the liability is due to be settled within twelve months after the reporting period; or the Group does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period.

#### **4.17. Consolidated statement of cash flows-**

The following terms are used in the statement of cash flows:

- Cash flows: inflows and outflows of cash and cash equivalents.
- Cash flows from operating activities: payments and collections of the typical activities of the company and other activities that cannot be classified as investment or financing.
- Cash flows from investing activities: payments and collections originating from acquisitions and disposals of non-current assets.
- Cash flows from financing activities: payments and collections originating from the placement and settlement of financial liabilities, equity instruments or dividends.

## NOTE 5 \_\_\_\_\_ INTANGIBLE ASSETS

### 5.1. Change

a) The amounts and variations experienced by intangible assets during the year 2016 were as follows:

INTANGIBLE ASSETS					
<i>(Amounts in thousands of euros)</i>					
<i>Variation between 31 December 2015 and 2016</i>					
	BALANCE	(+)	(-)	(+/-)	BALANCE
	31/12/2015	ADDITIONS	REMOVALS	TRANSFERS	31/12/2016
Research and development expenditure:	730	1,959	-	-	2,689
Administrative concessions	535,729	20,859	(962)	7,129	562,755
Goodwill	82,763	-	-	-	82,763
Computer software	1,126	36	(68)	-	1,094
Other intangible assets	281	-	(270)	-	11
Advances under concession agreement	337	294	(323)	-	308
Service concession arrangements, capitalised borrowing costs	15,192	303	(577)	-	14,918
Concession arrangement, regulated asset:	424,604	86,037	(663)	-	509,978
<b>TOTAL COST</b>	<b>1,060,762</b>	<b>109,488</b>	<b>(2,863)</b>	<b>7,129</b>	<b>1,174,516</b>
Research and development expenditure:	(464)	(435)	-	-	(899)
Administrative concessions	(231,788)	(37,299)	599	-	(268,488)
Goodwill	-	(8,276)	-	-	(8,276)
Computer software	(1,031)	(31)	68	-	(994)
Concession arrangement, regulated asset:	(187,676)	(80,800)	657	-	(267,819)
<b>TOTAL ACCUMULATED AMORTISATION</b>	<b>(420,959)</b>	<b>(126,841)</b>	<b>1,324</b>	<b>-</b>	<b>(546,476)</b>
Administrative concessions	(11,670)	(1,877)	596	(2,240)	(15,191)
Concession arrangement, regulated asset:	(135)	-	4	-	(131)
<b>TOTAL IMPAIRMENT LOSSES</b>	<b>(11,805)</b>	<b>(1,877)</b>	<b>600</b>	<b>(2,240)</b>	<b>(15,322)</b>
<b>TOTAL, NET</b>	<b>627,998</b>	<b>(19,230)</b>	<b>(939)</b>	<b>4,889</b>	<b>612,718</b>

As a result of the increase in the number of joint ventures, additional amounts totalling EUR 70,829 thousand have been recognised for accumulated amortisation.

The changes in each item of this section are detailed below:

- Research and development expenses.

Under this heading, the Company has capitalised the costs incurred in R&D, primarily in four projects:

- ALL-GAS project. This project is part of the “Algae to Biofuel” initiative under Framework Programme 7 of the European Union. It began in May 2011 and is undertaken at the wastewater

treatment plant of Chiclana (Cádiz), the Company being the leader of a consortium of European companies that conducts studies to harness wastewater in the cultivation of microalgae and its subsequent conversion to energy products. The capitalised figure amounted to EUR 2,362 thousand of cost and EUR 585 thousand of accumulated amortisation at 31 December 2016 (EUR 430 and 164 thousand, respectively, at 31 December 2015).

- The ITACA Project on Research into Treatment Technologies, Reuse and Control for the sustainability of water purification plants. This project is conducted in collaboration with the University of Alcalá de Henares (Madrid). The capitalised figure amounted to EUR 242 thousand of cost and EUR 242 thousand of accumulated amortisation at 31 December 2016 (EUR 242 and 242 thousand, respectively, at 31 December 2015).
- The INNPRONTA-IISIS Project on Energy Improvements of Resources and Research, equipment and systems for the end-to-end water cycle. The capitalised figure amounted to EUR 29 thousand of cost and EUR 29 thousand of accumulated amortisation at 31 December 2016 (EUR 29 and 29 thousand, respectively, at 31 December 2015).
- The INNTERCONECTA SMARTIC-Extremadura project for the development of a “Water Monitoring System in Real Time with Intelligent Technology”. The capitalised figure amounted to EUR 30 thousand of cost and EUR 30 thousand of accumulated amortisation at 31 December 2016 (EUR 30 and 30 thousand, respectively, at 31 December 2015).
- Other smaller projects that began in 2016 had a capitalised cost of EUR 26 thousand and EUR 14 thousand in accumulated amortisation at 31 December 2016.

- Administrative concessions

In 2016, the Company recognised a total of EUR 20,859 thousand corresponding to the activities developed in Spain, mainly under the following contracts:

- Vigo (Pontevedra) for a total of EUR 16,026 thousand, for the purchase during the year of 49 % of the TJV that manages the service, which, up to 1 January 2016, was 50 %. This contract has been provided by the FCC Aqualia – FCCSA joint venture since 1991.
- Mérida (Badajoz), amounting to EUR 1,564 thousand for the purchase of 9% of the interests that the Company has in the TJV that has been managing the end-to-end water cycle in said municipality since 2000 and which, up to 1 January 2016, was 90 %. The other partner in the TJV is Fomento de Construcciones y Contratas, S.A.
- Rota (Cádiz), amounting to EUR 1,866 thousand for the extension granted by the City Council of this municipality in relation to the management of the municipal water supply service for a 4-year period.

In 2016, the Company also transferred a total of EUR 7,000 thousand from Non-current financial assets to Administrative concessions for the advance fee paid by the municipality of Gáldar (Gran Canaria) for management of the public drinking water supply service in said municipality over a 25-year period. Until 1 January 2016, this advance fee was accruing interest in the Company's favour.

- Intangible assets, concession agreement

Additions in 2016 amounted to EUR 86,037 thousand, the most significant having arisen in the following

contracts:

- Vigo (Pontevedra), amounting to EUR 69,586 thousand in relation to the addition of 49 % of the TJV that manages the service. Up to 1 January 2016, FCC Aqualia held a 50 % interest, which rose to 99 % after such date.
- Almansa (Albacete) for an amount of EUR 3,443 thousand for the investment commitments to be made in the municipality's water supply and sanitation networks.
- Campo de Gibraltar Association of Municipalities (Cádiz), amounting to EUR 2,534 thousand for the investment commitment in the water sanitation networks.

- Advances under concession agreement

A total of EUR 294 thousand was recognised in 2016, mainly undertaken in Guijuelo (Salamanca) for an amount of EUR 221 thousand in relation to construction of water infrastructure in the municipality.

- Impairment.

During the year, the Company made provisions for impairment amounting to EUR 1,877 thousand in relation to the concession in Monóvar (Alicante) as a result of the early termination of the concession by the city council of this municipality in previous periods, which the Company has appealed in court (see Note 18.13).

The decrease in impairment is explained by the depreciation occurring during the year on concessions impaired in previous years but in which the Company continues to provide service.

The transfer recognised in this section corresponds to impairment of interest accrued in previous periods on the advance fee paid by the municipality of Gáldar (Gran Canaria) which, up to 31 December 2015, was recorded as Impairment of non-current financial assets.



b) The amounts and variations experienced by intangible assets during the year 2015 were as follows:

<b>INTANGIBLE ASSETS</b>					
<i>(Amounts in thousands of euros)</i>					
<i>Variation between 31 December 2014 and 2015</i>					
	<b>BALANCE</b>	(+)	(-)	(+/-)	<b>BALANCE</b>
	<b>31/12/2014</b>	<b>ADDITIONS</b>	<b>REMOVALS</b>	<b>TRANSFERS</b>	<b>31/12/2015</b>
Research and development expenditure:	562	168	-	-	730
Administrative concessions	531,915	3,816	(2)	-	535,729
Goodwill	82,763	-	-	-	82,763
Computer software	1,052	79	(5)	-	1,126
Other intangible assets	11	270	-	-	281
Advances under concession agreement	2,228	1,534	(2)	(3,423)	337
Service concession arrangements, capitalised borrowing costs	15,803	335	(946)	-	15,192
Concession arrangement, regulated asset:	414,129	7,446	(394)	3,423	424,604
<b>TOTAL COST</b>	<b>1,048,463</b>	<b>13,648</b>	<b>(1,349)</b>	<b>-</b>	<b>1,060,762</b>
Research and development expenditure:	(376)	(88)	-	-	(464)
Administrative concessions	(211,051)	(20,739)	2	-	(231,788)
Computer software	(1,020)	(15)	4	-	(1,031)
Concession arrangement, regulated asset:	(170,520)	(17,352)	196	-	(187,676)
<b>TOTAL ACCUMULATED AMORTISATION</b>	<b>(382,967)</b>	<b>(38,194)</b>	<b>202</b>	<b>-</b>	<b>(420,959)</b>
Administrative concessions	(10,013)	(2,168)	511	-	(11,670)
Concession arrangement, regulated asset:	(139)	-	4	-	(135)
<b>TOTAL IMPAIRMENT LOSSES</b>	<b>(10,152)</b>	<b>(2,168)</b>	<b>515</b>	<b>-</b>	<b>(11,805)</b>
<b>TOTAL, NET</b>	<b>655,344</b>	<b>(26,714)</b>	<b>(632)</b>	<b>-</b>	<b>627,998</b>

- Research and development expenses.

Under this heading, the Company has capitalised the costs incurred in R&D in four projects:

- ALL-GAS project. This project is part of the “Algae to Biofuel” initiative under Framework Programme 7 of the European Union. It began in May 2011 and is undertaken at the wastewater treatment plant of Chiclana (Cádiz), the Company being the leader of a consortium of European companies that conducts studies to harness wastewater in the cultivation of microalgae and its subsequent conversion to energy products. The capitalised figure amounted to EUR 430 thousand of cost and EUR 164 thousand of accumulated amortisation at 31 December 2015 (EUR 261 and 107 thousand, respectively, at 31 December 2014).
- The ITACA Project on Research into Treatment Technologies, Reuse and Control for the sustainability of water purification plants. This project is conducted in collaboration with the University of Alcalá de Henares (Madrid). The capitalised figure amounted to EUR 242 thousand of cost and EUR 242 thousand of accumulated amortisation at 31 December 2015 (EUR 242 and 242 thousand, respectively, at 31 December 2014).
- The INNPRONTA-IISIS Project on Energy Improvements of Resources and Research, equipment and

systems for the end-to-end water cycle. The capitalised figure amounted to EUR 29 thousand of cost and EUR 29 thousand of accumulated amortisation at 31 December 2015 (EUR 29 and 10 thousand, respectively, at 31 December 2014).

- The ININTERCONECTA SMARTIC-Extremadura project for the development of a “Water Monitoring System in Real Time with Intelligent Technology”. The capitalised figure amounted to EUR 30 thousand of cost and EUR 30 thousand of accumulated amortisation at 31 December 2015 (EUR 30 and 17 thousand, respectively, at 31 December 2014).

- Administrative concessions.

In 2015, the Company recognised a total of EUR 3,816 thousand corresponding to the activities developed in Spain, mainly under the following contracts:

- Reinosa (Cantabria), for a total of EUR 1,050 thousand, for renovate the supply and distribution of drinking water service, as well as sewerage and treatment of waste water for 10 years. This contract has been provided by FCC Aqualia since 1998.

- San Juan del Puerto (Huelva) for an amount of EUR 596 thousand disbursed in 2015, in addition to the EUR 1,442 thousand disbursed in 2014 by the Company for the Management of the public service of drinking water supply and sewerage in this municipality for a period of 25 years.

- Cangas de Morrazo (Pontevedra) for an amount of EUR 583 thousand for the management of the end-to-end water cycle in the said municipality for a period of 25 years in a UTE, with a 70% stake together with a partner external to the FCC group which holds the remaining 30%. Up to the date of this award, the water service of this municipality was provided by another UTE in which FCC Aqualia also participated together with FCC, S.A.

- Cortegana (Huelva), for an amount of EUR 500 thousand in the form of an advance variable fee in the end-to-end water cycle contract provided by the Company in this municipality for a period of 25 years.

- Intangible assets, concession agreement

Additions in 2015 amounted to EUR 7,446 thousand, the most significant having arisen in the following contracts:

- Cangas de Morrazo (Pontevedra), for a total of EUR 2,464 thousand, for the agreement to make investments related to the end-to-end water supply and sanitation management contract in said town.

- Candelaria (Santa Cruz de Tenerife) for an amount of EUR 1,500 thousand for the investment commitments to be made in the water supply and sanitation networks of the municipality.

- Talavera de la Reina (Toledo), for a total of EUR 1,338 thousand, to make investments related to the end-to-end water supply and sanitation management contract in said town.

- Advances under concession agreement

The additions in 2015 amounted to EUR 1,534 thousand, the following being the main ones:

- Puente Genil (Córdoba) for an amount of EUR 1,076 thousand for the expansion of one of the drinking water tanks and other actions in the network of the said municipality.

- Navalcán (Toledo) for an amount of EUR 270 thousand for the works related to the renovation and sectorisation of the supply network in the municipality.

- Impairment.

During the year, the Company made provisions for impairment amounting to EUR 2,168 million, corresponding to the concession of Llanera (Asturias) as a result of the analysis of signs of impairment conducted by the Managers at year-end 2015 (see Note 18.13).

The decrease in impairment made in prior years is explained by the depreciation in the year in view of deteriorating concessions in previous years but in which the Company continues to provide service.

## 5.2. Balances arising from the consolidation of the TJVs

The amounts contributed by the temporary joint ventures at 31 December 2016 include EUR 266,496 thousand relating to costs, EUR 188,466 thousand relating to accumulated amortisation and EUR 130 thousand relating to impairment (EUR 171,024 thousand relating to cost, EUR 104,424 thousand relating to accumulated amortisation and EUR 135 thousand relating to impairment at 31 December 2015).

## 5.3 Fully depreciated assets

The detail, by section, is as follows:

<b>FULLY AMORTISED INTANGIBLE ASSETS</b>		
<i>(Amounts in thousands of euros)</i>		
	<b>31/12/2016</b>	<b>31/12/2015</b>
Administrative concessions	30,658	26,135
Computer software	906	938
Concession arrangement, regulated asset:	11,781	12,155
<b>TOTAL</b>	<b>43,345</b>	<b>39,228</b>

## 5.4 Assets located outside Spain

At 31 December 2016, the elements of intangible assets outside Spanish territory amounted to EUR 87 thousand in cost and 50 in accumulated amortisation (EUR 63 thousand in cost and 47 in accumulated amortisation at 31 December 2015).

## 5.5 Intangible assets - concession arrangements

The concession contracts that have been recognised as an intangible asset at 31 December 2016, present the following breakdown, in cost and accumulated amortisation (amounts in thousands of euros):

**2016**

CONTRATO	Concesiones administrativas		Activo Intangible, acuerdo de concesión		Anticipos para Act. Intang. Acuerdo de concesión	Acuerdos de concesión Activación financiera	DURACIÓN
	COSTE	AM. AC.	COSTE	AM. AC.			
Alcalá de Henares (Madrid)	8.040	-4.040	8.434	-3.645	-	-	25 años
Algeciras (Cádiz)	460	-263	15.619	-5.168	-	-	50 años
Almansa (Albacete)	5.754	-923	3.480	-162	-	-	25 años
Almería (Almería)	10.780	-6.314	17.838	-6.110	-	-	40 años
Arcos de la Frontera (Cádiz)	7.937	-1.346	3.250	-537	-	-	25 años
Badajoz (Badajoz)	15.436	-8.721	37.359	-14.582	-	-	50 años
Barbate (Cádiz)	4.189	-768	3.029	-550	-	-	25 años
Cabezo Torres (Murcia)	-	-	6.314	-4.172	-	-	40 años
Calahorra (Rioja)	6.391	-3.395	106	-84	-	-	25 años
Chipiona (Cádiz)	2.131	-1.004	4.923	-1.852	-	-	25 años
Denia (Alicante)	-	-	11.568	-5.491	-	-	35 años
Galdar (Gran Canarias)	10.802	-1.392	2.118	-582	-	-	25 años
Jaén (Jaén)	9.538	-6.070	57	-55	-	1.182	30 años
L'Ametlla de Mar (Tarragona)	8.415	-4.023	592	-301	-	-	25 años
La Línea de la Concepción (Cádiz)	8.712	-6.521	2.534	-134	-	782	40 años
La Nucia (Alicante)	29	-29	21.804	-8.651	-	-	30 años
La Solana (C.Real)	3.461	-1.256	2.052	-712	-	753	35 años
Llanera (Asturias)	1.248	-1.220	8.296	-2.836	-	-	25 años
Lleida (Lleida)	38.098	-4.683	11.179	-1.459	-	-	25 años
Lloret de Mar (Girona)	22.253	-9.791	299	-172	-	-	25 años
Los Alcázares (Murcia)	7.946	-5.674	312	-261	-	667	20 años
Mdad. El Girasol (Cuenca)	3.689	-2.214	4.166	-1.652	-	700	25 años
Mérida (Badajoz)	17.207	-8.898	3.981	-2.133	-	-	30 años
Moguer (Huelva)	5.739	-1.491	1.674	-413	-	-	30 años
Oviedo (Asturias)	17.945	-7.143	19.131	-6.723	-	6.519	50 años
Salamanca (Salamanca)	6.961	-2.452	43	-15	-	826	25 años
San Lorenzo de El Escorial	2.543	-450	3.968	-1.050	-	-	30 años
Sanlúcar de Barrameda (Cádiz)	17.268	-4.297	-	-	-	0	40 años
Sant Feliu (Gerona)	6	-6	6.928	-4.001	-	-	50 años
Sant Josep (Ibiza)	-	-	11.576	-4.900	-	-	28 años
Santander (Cantabria)	72.632	-31.150	13.718	-5.826	-	-	25 años
Soller (Mallorca)	68	-17	6.571	-2.026	-	-	30 años
Talavera de la Reina (Toledo)	16.516	-11.434	11.838	-3.375	-	342	25 años
Valverde del Camino (Huelva)	5.701	-969	505	-85	-	-	25 años
Vélez – Málaga (Málaga)	6.750	-3.235	1.134	-104	-	-	20 años
Vigo (Pontevedra)	32.380	-30.657	147.504	-121.729	-	-	30 años
Resto inferior a 5 millones	185.727	-96.642	116.077	-56.272	309	3.148	5 – 50 años
<b>TOTAL</b>	<b>562.755</b>	<b>-268.488</b>	<b>509.978</b>	<b>-267.819</b>	<b>309</b>	<b>14.918</b>	

The detail at 31 December 2015 is as follows:

## Año 2015

CONTRATO	Concesiones Administrativas		Activo Intangible, acuerdo de concesión		Anticipos Activos Intang. Acuerdo de concesión	Acuerdos de concesión Activación financiera	DURACIÓN
	COSTE	AMORTIZ. AC.	COSTE	AMORT. AC.			
Alcalá de Henares (Madrid)	8.040	-3.718	8.434	-3.262	-	-	25 años
Algeciras (Cádiz)	460	-256	15.619	-4.852	-	-	50 años
Almansa (Albacete)	5.754	-692	57	-57	-	-	25 años
Almería (Almería)	10.780	-6.035	17.838	-5.377	-	-	40 años
Arcos de la Frontera (Cádiz)	7.937	-1.032	3.250	-268	-	-	25 años
Badajoz (Badajoz)	15.436	-8.479	37.359	-13.761	-	-	50 años
Calahorra (Rioja)	6.391	-3.043	106	-79	-	-	
Cabezo Torres (Murcia)	-	-	6.314	-3.646	-	-	-
Denia (Alicante)	-	-	10.995	-4.912	-	-	35 años
Ingenio (Gran Canaria)	6.138	-3.225	-	-	-	781	35 años
Jaén (Jaén)	9.135	-5.643	57	-54	-	1.214	30 años
L'Ametlla de Mar (Tarragona)	8.415	-3.685	592	-278	-	-	25 años
La Línea de la Concepción (Cádiz)	8.712	-6.271	-	-	-	811	40 años
La Nucia (Alicante)	29	-29	21.804	-7.712	-	-	30 años
Llanera (Asturias)	1.248	-1.218	12.513	-2.930	-	-	
Lleida (Lleida)	38.098	-3.077	11.179	-959	-	-	25 años
Lloret de Mar (Girona)	22.253	-8.901	299	-163	-	-	25 años
Los Alcázares (Murcia)	7.946	-5.253	312	-251	-	748	20 años
Mérida (Badajoz)	15.642	-7.539	3.619	-1.817	-	-	30 años
Moguer (Huelva)	5.739	-1.261	1.674	-344	-	-	30 años
Oviedo (Asturias)	17.945	-6.779	19.131	-6.306	-	6.217	50 años
Puente Genil (Córdoba)	3.324	-3.160	2.016	-143	-	98	30 años
Salamanca (Salamanca)	6.961	-2.001	43	-13	-	903	25 años
Ronda (Málaga)	4.584	-2.442	257	-12	-	673	
Sanlúcar de Barrameda (Cádiz)	17.268	-3.609	-	-	-	-	40 años
Santander (Cantabria)	72.632	-28.239	13.718	-5.272	-	-	25 años
Santa María de Guía (Gran Canaria)	-	-	5.682	-5.136	-	-	
Sant Feliu (Gerona)	5	-5	6.791	-3.907	137	-	
Sant Josep (Ibiza)	-	-	11.576	-4.569	-	-	28 años
Soller (Mallorca)	68	-13	6.571	-1.685	-	-	30 años
Talavera de la Reina (Toledo)	16.985	-10.776	11.838	-2.812	-	534	25 años
Valverde del Camino (Huelva)	5.701	-741	500	-65	-	-	25 años
Vélez – Málaga (Málaga)	6.750	-2.978	208	-9	-	-	20 años
Vigo (Pontevedra)	16.353	-15.048	71.278	-57.046	-	-	25 años
Resto inferior a 5 millones	189.000	-86.640	122.974	-49.979	200	3.213	5 – 50 años
<b>TOTAL</b>	<b>535.729</b>	<b>-231.788</b>	<b>424.604</b>	<b>-187.676</b>	<b>337</b>	<b>15.192</b>	

In these contracts, the Company performs the management of the end-to-end water cycle, covering all phases of the same:

- Uptake from water basins or wells.

- Water purification and treatment at the drinking water treatment plants.
- Supply through the water network to all subscribers.
- Collection of wastewater through the sewage network to the wastewater treatment plants, from where it is returned to the environment.

Administrative concessions are defined by Act 13/2003, of 23 May, as those under which the public administration or public law entity that awards the concession grants to a concessionaire, for a specific period, the construction and exploitation —or only the exploitation— of the works which, being exploitable, are necessary for the provision of public services of an economic nature. The concession operator executes the construction and operation of the public works under concession at its own risk, assuming the financial risks involved in such construction and operation processes.

From the above it follows that the concession agreements require the existence of an infrastructure controlled by the public administration, which is operated by the Company under the framework of a set of rules emanating from the said administration which establish important aspects such as the rate necessary for the recovery of the investment made by the concessionaire.

The definition of infrastructure includes both the works and facilities built by the Company with its own resources and those acquired from third parties, provided they are intended for the provision of the public services under the concession agreement.

The recognition of the intangible asset mentioned in this Note occurred because the Company is entitled to charge a fee to users of the public service, depending on the use made of that service, with the concessionaire assuming, therefore, demand risk.

Furthermore, the fact arises that in these contracts the awarding body controls the physical use must be given to the infrastructure, the way in which the service is provided and its price.

The balance under "Deferred financial expenses" fully relates to the deferred financial burden of the financing instrument associated with the construction of the concessions. (See Note 4.1.c).

As noted above, the rates that the Company must charge users of the public service are regulated by the awarding body. However, in these contracts there are clauses that allow the Company to request the review of the rates, in the event it requires an economic rebalancing.

In addition, the Company records as an intangible asset, at the beginning of each concession, the amount of the investment commitments included in each contract that involves actions to improve networks and infrastructures under the concession, which are recovered through the rates charged to subscribers from its start-up. Until the investment proper is made, the Company records these amounts under the heading "Provisions for action on infrastructure" which is included under the caption "Other provisions for risks and expenses" (see note 13).

## **5.6 Capitalization of finance costs**

During fiscal year 2016, the Company capitalised finance costs under the item "Advances - concession arrangements" for an amount of EUR 1 thousand (EUR 27 thousand in 2015), accumulating at origin an amount of EUR 3,836 thousand (EUR 3,835 thousand accumulated at 31 December 2015).

Furthermore, under the line item "Capitalization of finance costs, concession arrangements", the Company reversed to income a net amount of EUR 274 thousand in 2016 (EUR 611 thousand of net balance reversal at 31 December 2015).

### 5.7 Commitment to purchase goods

As of 31 December 2016, there are no additional commitments to those already listed under the heading "Provisions for actions on infrastructure" (see Note 13).

### 5.8 Insurance Policies

The Company takes out the necessary insurance policies to cover the possible risks to which its intangible assets are subject.

### 5.8 Goodwill

In 2016, no additional amounts were recognised in goodwill. The Cash Generating Unit (CGU) is the Company as a whole.

## NOTE 6 \_\_\_\_\_ PROPERTY, PLANT AND EQUIPMENT

### 6.1. Change

The movement in the various tangible asset headings and the related accumulated depreciation was the following:

#### a) Change during 2016

<b>PROPERTY, PLANT AND EQUIPMENT</b>						
<i>(Amounts in thousands of euros)</i>						
<i>Variation between 31 December 2015 and 2016</i>						
	<b>BALANCE</b>	<b>(+)</b>	<b>(-)</b>	<b>(+)(-)</b>	<b>BALANCE</b>	
	<b>31/12/2015</b>	<b>ADDITIONS</b>	<b>REMOVALS</b>	<b>TRANSFERS</b>	<b>31/12/2016</b>	
Land and buildings	3,287	289	(5)	-	3,571	
Technical installations and other property, plant and equipment	90,055	4,430	(10,767)	2	83,720	
Assets in progress	56	35	-	(2)	89	
<b>TOTAL COST</b>	<b>93,398</b>	<b>4,754</b>	<b>(10,772)</b>	<b>-</b>	<b>87,380</b>	
Buildings	(2,001)	(56)	5	-	(2,052)	
Technical installations and other property, plant and equipment	(68,951)	(5,658)	10,277	-	(64,332)	
<b>TOTAL ACCUMULATED DEPRECIATION</b>	<b>(70,952)</b>	<b>(5,714)</b>	<b>10,282</b>	<b>-</b>	<b>(66,384)</b>	
<b>TOTAL, NET</b>	<b>22,446</b>	<b>(960)</b>	<b>(490)</b>	<b>-</b>	<b>20,996</b>	

As a result of the increase in the number of joint ventures, additional amounts totalling EUR 1,108

thousand have been recognised for accumulated amortisation.

Amounts recognised. The Company has recognised a total of EUR 4,754 thousand in property, plant and equipment relating to assets used in the contracts implemented by the Company that are not concession contracts, as well as those attained that do not revert to the awarding bodies, despite being concessions.

Disposals: These mainly relate to fully amortised assets written off the balance sheet.

c) Change during 2015

<b>PROPERTY, PLANT AND EQUIPMENT</b>						
<i>(Amounts in thousands of euros)</i>						
<i>Variation between 31 December 2014 and 2015</i>						
	<b>BALANCE</b>	<b>(+)</b>	<b>(-)</b>	<b>(+)(-)</b>	<b>BALANCE</b>	
	<b>31/12/2014</b>	<b>ADDITIONS</b>	<b>REMOVALS</b>	<b>TRANSFERS</b>	<b>31/12/2015</b>	
Land and buildings	3,475	-	(58)	(130)	3,287	
Technical installations and other property, plant and equipment	86,984	3,428	(900)	543	90,055	
Assets in progress	286	49	-	(279)	56	
<b>TOTAL COST</b>	<b>90,745</b>	<b>3,477</b>	<b>(958)</b>	<b>134</b>	<b>93,398</b>	
Buildings	(2,097)	(45)	28	113	(2,001)	
Technical installations and other property, plant and equipment	(64,624)	(4,795)	721	(253)	(68,951)	
<b>TOTAL ACCUMULATED DEPRECIATION</b>	<b>(66,721)</b>	<b>(4,840)</b>	<b>749</b>	<b>(140)</b>	<b>(70,952)</b>	
<b>TOTAL, NET</b>	<b>24,024</b>	<b>(1,363)</b>	<b>(209)</b>	<b>(6)</b>	<b>22,446</b>	

Additions: The Company has recognised a total of EUR 3,477 thousand in property, plant and equipment relating to assets used in the contracts implemented by the Company that are not concession contracts, as well as those attained that do not revert to the awarding bodies, despite being concessions.

Disposals: These mainly relate to fully amortised assets written off the balance sheet.

## 6.2. Land and Buildings

At 31 December 2016, lands represent an amount of EUR 318 thousand in cost (EUR 318 thousand in cost at 31 December 2015).

## 6.3 Balances arising from the consolidation of the UTEs

The balances at 31 December 2016 include EUR 6,143 and EUR 4,777 thousand relating to the cost and accumulated depreciation, respectively, provided by temporary joint ventures (EUR 4,847 and EUR 3,809 thousand, respectively, at 31 December 2015).

## 6.4 Fully depreciated items of property, plant and equipment

At 31 December 2016, fully depreciated elements under the heading "Technical installations and other property, plant and equipment" still in use having a carrying amount of EUR 45,624 thousand (EUR 45,499 thousand at 31 December 2015).



#### **6.5 Acquisitions of fixed assets from group companies**

During fiscal years 2015 and 2016 no acquisitions of fixed assets from group companies have been made.

#### **6.6 Insurance Policies**

The Company takes out all the insurance policies considered necessary to cover the possible risks to which its property, plant and equipment are subject.

#### **6.7 Fixed assets located outside Spanish territory**

At 31 December 2016, the Company has assets outside Spanish territory amounting to EUR 509 thousand in cost and EUR 279 thousand of accumulated depreciation (EUR 822 and EUR 212 thousand, respectively, at 31 December 2015).

#### **6.8 Commitment to purchase goods**

At year-end 2016 and 2015, there were no significant commitments to purchase tangible assets.

#### **6.9 Collateral**

There are no tangible assets pledged as security for commitments of the Company.

## NOTE 7 \_\_\_\_\_ NON-CURRENT INVESTMENTS IN GROUP COMPANIES AND ASSOCIATES

### 7.1 Equity Instruments

The detail and the changes therein are as follows:

#### a) Changes in 2016

	EQUITY INSTRUMENTS					BALANCE 31/12/2016
	<i>(Amounts in thousands of euros)</i>					
	<i>Variation between 31 December 2015 and 2016</i>					
BALANCE 31/12/2015	(+) ADDITIONS	(-) REMOVALS	(-) EXCLUSION DUE TO LIQUIDATION	(+/-) TRANSFERS		
Equity Instrum. in Group comp.	170,328	-	-	(6,044)	15	164,299
Capital payments payable on shares of Group companies:	(4,561)	-	-	4,534	-	(27)
Equity Instruments of Associates	28,481	-	-	-	(15)	28,466
Capital payments payable on shares of Associates:	(191)	-	6	-	-	(185)
<b>Total</b>	<b>194,057</b>	<b>-</b>	<b>6</b>	<b>(1,510)</b>	<b>-</b>	<b>192,553</b>
Net impairment losses (Note 18.10)	(17,570)	(1,941)	458	-	-	(19,053)
<b>TOTAL, NET</b>	<b>176,487</b>	<b>(1,941)</b>	<b>464</b>	<b>(1,510)</b>	<b>-</b>	<b>173,500</b>

By heading, the most important movements in 2016 are as follows:

- Equity instruments of Group companies:
  - EUR 6,044 thousand was derecognised upon liquidation of Depurtebo, S.A., a company with uncalled capital amounting to EUR 4,534 thousand, which was incorporated in 2008 but never began business activities. This liquidation has no impact whatsoever on the income statement at 31 December 2016, given that it merely involved winding up the company, distributing reserves to shareholders as dividends in proportion to their respective interests. (Note 18.1)
  - Transfers. This includes the reclassification of EUR 15 thousand from “Equity instruments in associates” to “Group companies” due to the transfer of the Company's interests in Aqualia Mace, L.L.P. This transfer took place after an agreement was reached in 2016 between the Company and other shareholders in the subsidiary in order to have a majority of the seats on the Board of Directors and a 51 % attribution of that company's profits.
- Equity instruments of associates:
  - EUR 6 thousand was derecognised from “Uncalled capital from associates” in relation to Orasqualia O&M due to the depreciation of the exchange rate between the Egyptian pound and the euro at year-end.

b) Change during 2015

<b>EQUITY INSTRUMENTS</b>						
<i>(Amounts in thousands of euros)</i>						
<i>Variation between 31 December 2014 and 2015</i>						
	<b>BALANCE</b>	<b>(+)</b>	<b>(-)</b>	<b>(+/-)</b>	<b>BALANCE</b>	
	<b>31/12/2014</b>	<b>ADDITIONS</b>	<b>REMOVALS</b>	<b>EXCLUSION DUE TO LIQUIDATION</b>	<b>31/12/2015</b>	
Equity Instrum. in Group comp.	172,218	150	-	(2,040)	170,328	
Capital payments payable on shares of Group companies:	(4,561)	-	-	-	(4,561)	
Equity Instruments of Associates	41,294	-	(12,381)	(432)	28,481	
Capital payments payable on shares of Associates:	(191)	-	-	-	(191)	
<b>Total</b>	<b>208,760</b>	<b>150</b>	<b>(12,381)</b>	<b>(2,472)</b>	<b>194,057</b>	
Impairment	(20,336)	(1,260)	1,554	2,472	(17,570)	
<b>TOTAL, NET</b>	<b>188,424</b>	<b>(1,110)</b>	<b>(10,827)</b>	<b>-</b>	<b>176,487</b>	

By heading, the most important movements in 2015 are as follows:

- Equity instruments of Group companies:
  - Additions amounting to EUR 150 thousand relating to the capitalization of the loan granted to Aquamaior, Aguas del Campo Maior, S.A. to offset losses.
  - Disposals amounting to EUR 2,040 thousand euros corresponding to Augas Municipais de Arteixo, S.A., which was fully provisioned. In fiscal year 2015 the liquidation process was approved, which in practice means a liquidation of the rights and obligations vis-à-vis its shareholders. The financial investment is therefore written off at its net book value which is equal to zero.
- Equity instruments of associates:
  - Disposals amounting to EUR 12,813 thousand relating to:
    - The sale of 41.81% of Orasqualia Development Waste TP, valued at EUR 12,381 thousand, to the companies Aqualia New Europe BV and Orasqualia O&M for a total of EUR 12,392.
    - Disposal of Genéravila, S.A. for EUR 432 thousand, a company which was fully provisioned. This company is subject to a judicial liquidation process, and therefore is valued at its net book value (i.e. zero), in financial investments held to maturity, we have proceeded to its derecognition.
- c) The uncalled capital on group company and associate shares in the balance sheet at 31 December 2016 and 2015 is broken down as follows:

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**UNCALLED CAPITAL FROM GROUP COMPANIES**

*(Amounts in thousands of euros)*

	<b>31/12/2016</b>	<b>31/12/2015</b>
Compañía Onubense de Aguas, S.A.	27	27
Depurtebo, S.A.	-	4,534
<b>TOTAL</b>	<b>27</b>	<b>4,561</b>

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**UNCALLED CAPITAL FROM ASSOCIATES**

*(Amounts in thousands of euros)*

	<b>31/12/2016</b>	<b>31/12/2015</b>
Aigües del Segarra Garrigues, S.A.	150	150
Sera Q.A. Duitama ESP., S.A.	27	27
Orasqualia O & M	5	11
AIE ITAM Delta de la Tordera	3	3
<b>TOTAL</b>	<b>185</b>	<b>191</b>

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d) Equity instruments of Group companies. The breakdown at 31 December 2016 and 31 December 2015 is as follows:

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**EQUITY INSTRUMENTS IN GROUP COMPANIES 2016**

*(Amounts in thousands of euros)*

<b>COMPANIES</b>	<b>BUSINESS LINE</b>	<b>INVESTMENT</b>	<b>PROVISION</b>	<b>NET COST</b>
<b>FCC Aqualia América, S.A.U.</b> C/ Uruguay, 11 – Vigo (PONTEVEDRA)	Water cycle management	601	(282)	319
<b>Aquajerez, S.L.</b> Pol.Ind.Ronda Oeste, 24 Jerez de la Frontera (CADIZ)	Water cycle management	2	-	2
<b>Aquacartaya, S.L.</b> Av. San Fco.Javier,15- SEVILLE	Water cycle management	3	-	3
<b>Aqua Campiña, S.A.</b> C/Blas Infante, 6 – Écija (SEVILLE)	Water cycle management	541	(51)	490
<b>Acque di Caltanissetta, S. p.a.</b> Viale Sicilia 176 93100 Caltanissetta - ITALY	Water cycle management	18,809	(15,152)	3,657
<b>Aquaelvas – Aguas de Elvas, S.A.</b> Rua Paco Bandeira, 14 – Assunção Elvas - PORTUGAL	Water cycle management	402	-	402
<b>Aquafundalia - Aguas do Fundão, S.A.</b> Rua Fernando Pessoa, 195 - Fundão PORTUGAL	Water cycle management	510	-	510
<b>Aguas de Alcázar Empresa Mixta, S.A.</b> C/ Rondilla Cruz Verde, 1 - Alcázar de San Juan (CIUDAD REAL)	Water cycle management	1,142	-	1,142
<b>Aguas de las Galeras, S.L.</b> Avda. Camino de Santiago, 40 – MADRID	Water cycle management	2	-	2
<b>Colaboración, Gestión y Asistencia, S.A.</b> C/ Federico Salmón, 13 – MADRID	Collection management	964	(130)	834
<b>Compañía Onubense de Aguas, S.A.</b> C/Martín Alonso Pinzón, 8 - HUELVA	Water cycle management	36	(9)	27
<b>Depurplan 11, S.A.</b> C/ San Miguel, 1 – ZARAGOZA	Water treatment and purification	4,700	-	4,700
<b>Empresa Mixta de Butarque, S.A.</b> C/Princesa, 3 - (MADRID)	Water cycle management	84	(84)	0
<b>Inversora Riutort, S.L.</b> C/ Alfonso XIII – Sabadell (BARCELONA)	Holding company	3	-	3

**EQUITY INSTRUMENTS IN GROUP COMPANIES 2016**
*(Amounts in thousands of euros)*

<b>COMPANIES</b>	<b>BUSINESS LINE</b>	<b>INVESTMENT</b>	<b>PROVISION</b>	<b>NET COST</b>
<b>Sociedad Ibérica del Agua, S.A.U.</b> C/ Federico Salmón, 13 – MADRID	Water cycle management	60	-	60
<b>Tratamiento Industrial del Agua, S.A.</b> C/ Federico Salmón, 13 – MADRID	Water Treatment and Purification	652	-	652
<b>Hidrotec Tecnología del Agua, S.L.U.</b> C/Pinzel, 25 – SEVILLE	Industrial water treatment	32	-	32
<b>Empresa Gestora de Aguas Linenses, S.L.</b> C/ Federico Salmón, 13 – MADRID	Water cycle management	2	-	2
<b>Entemanser, S.A.</b> C/Castillo, 13 – ADEJE (SANTA CRUZ DE TENERIFE)	Water cycle management	63,953	-	63,953
<b>Infraestructuras y Distribución General de Agua, S.L.</b> C/La Presa, 14 – Tijoco Bajo-ADEJE (S.C.TENERIFE)	Participation and implementation of works	8,665	-	8,665
<b>Sociedad Española de Aguas Filtradas, S.A.</b> Avda. Camino de Santiago, 40 – MADRID	Water treatment	1,436	-	1,436
<b>Aqualia Intech, S.A.</b> Avda. Camino de Santiago, 40 – MADRID	Water treatment and purification	10,745	-	10,745
<b>Aqualia México, S.A. de C.V.</b> C/ Carrizal, 33 – Santiago de Querétaro - MEXICO	Water treatment and purification	1	-	1
<b>Aqualia Czech, S.L.U.</b> Avda. Camino de Santiago, 40 – MADRID	Water cycle management	35,344	-	35,344
<b>Aqualia MACE LLC</b> P.O Box 105547 Abu Dhabi (United Arab Emirates)	Op. & Maint. Infrastr. sanitation and treatment sys.	15	-	15
<b>Aqualia New Europe B.V.</b> C/Calude Debussylann, 24 – Amsterdam (THE NETHERLANDS)	Water cycle management	8,160	(1,846)	6,314
<b>Aigües de Vallirana, S.A.</b> C/ Conca de Tremp, 14 – Vallirana (BARCELONA)	Water cycle management	3,702	-	3,702
<b>Aquamaior – Aguas de Campo Maior, S.A.</b> Rua Mayor Talaya, 28 – Campo Maior – PORTUGAL	Water cycle management	875	(764)	111
<b>Abrantaqua, S.A.</b> Parque Lena – Alferrarede Abrantes – PORTUGAL	Water cycle management	190	-	190
<b>Conservación y Sistemas, S.A.</b> C/Federico Salmón, 13-MADRID	Maintenance work of Infrastructures	1,558	-	1,558
<b>Cartagua, Aguas Do Cartaxo, S.A.</b> Z. Industrial do Cartaxo, lote 20 – CARTAXO (PORTUGAL)	Water treatment and purification	1,110	-	1,110
<b>TOTAL</b>		<b>164,299</b>	<b>(18,318)</b>	<b>145,981</b>

**EQUITY INSTRUMENTS IN GROUP COMPANIES 2015**
*(Amounts in thousands of euros)*

COMPANIES	BUSINESS LINE	INVESTMENT	PROVISION	NET COST
<b>FCC Aqualia América, S.A.U.</b> C/ Uruguay, 11 – Vigo (PONTEVEDRA)	Water cycle management	601	(282)	319
<b>Aquajerez, S.L.</b> Pol.Ind.Ronda Oeste, 24 Jerez de la Frontera (CADIZ)	Water cycle management	2	-	2
<b>Aquacartaya, S.L.</b> Av. San Fco.Javier,15- SEVILLE	Water cycle management	3	-	3
<b>Aqua Campiña, S.A.</b> C/Blas Infante, 6 – Écija (SEVILLE)	Water cycle management	541	(60)	481
<b>Acque di Caltanissetta, S. p.a.</b> Viale Sicilia 176 93100 Caltanissetta - ITALY	Water cycle management	18,809	(15,152)	3,657
<b>Aquelvas – Aguas de Elvas, S.A.</b> Rua Paco Bandeira, 14 – Assunção Elvas - PORTUGAL	Water cycle management	402	(271)	131
<b>Aquafundalia - Aguas do Fundão, S.A.</b> Rua Fernando Pessoa, 195 - Fundão PORTUGAL	Water cycle management	510	-	510
<b>Aguas de Alcázar Empresa Mixta, S.A.</b> C/ Rondilla Cruz Verde, 1 - Alcázar de San Juan (C.REAL)	Water cycle management	1,142	-	1,142
<b>Aguas de las Galeras, S.L.</b> Avda. Camino de Santiago, 40 – MADRID	Water cycle management	2	-	2
<b>Colaboración, Gestión y Asistencia, S.A.</b> C/ Federico Salmón, 13 – MADRID	Collection management	964	(34)	930
<b>Compañía Onubense de Aguas, S.A.</b> C/Martín Alonso Pinzón, 8 - HUELVA	Water cycle management	36	(9)	27
<b>Depurtebo, S.A.U.</b> C/ San Pedro, 57 – Zuera - ZARAGOZA	Water treatment and purification	6,045	-	6,045
<b>Depurplan 11, S.A.</b> C/ San Miguel, 1 – ZARAGOZA	Water treatment and purification	4,700	-	4,700
<b>Empresa Mixta de Butarque, S.A.</b> C/Princesa, 3 - (MADRID)	Water cycle management	84	(84)	-
<b>Inversora Riutort, S.L.</b> C/ Alfonso XIII – Sabadell (BARCELONA)	Holding company	3	-	3
<b>Sociedad Ibérica del Agua, S.A.U.</b> C/ Federico Salmón, 13 – MADRID	Water cycle management	60	-	60
<b>Tratamiento Industrial del Agua, S.A.</b> C/ Federico Salmón, 13 – MADRID	Water Treatment and Purification	652	-	652
<b>Hidrotec Tecnología del Agua, S.L.U.</b> C/Pinzel, 25 – SEVILLE	Industrial water treatment	32	-	32
<b>Empresa Gestora de Aguas Linenses, S.L.</b> C/ Federico Salmón, 13 – MADRID	Water cycle management	2	-	2
<b>Entemanser, S.A.</b> C/Castillo, 13 – ADEJE (SANTA CRUZ DE TENERIFE)	Water cycle management	63,953	-	63,953
<b>Infraestructuras y Distribución General de Agua, S.L.</b> C/La Presa, 14 – Tijoco Bajo-ADEJE (S.C.TENERIFE)	Participation and implementation of works	8,665	-	8,665
<b>Sociedad Española de Aguas Filtradas, S.A.</b> Avda. Camino de Santiago, 40 – MADRID	Water treatment	1,436	-	1,436
<b>Aqualia Infraestructuras, S.A.</b> Avda. Camino de Santiago, 40 – MADRID	Water treatment and purification	10,744	-	10,744
<b>Aqualia Infraestructuras de México, S.A. de C.V.</b> C/ Carrizal, 33 – Santiago de Querétaro - MEXICO	Water treatment and purification	1	-	1
<b>Aqualia Czech, S.L.U.</b> Avda. Camino de Santiago, 40 – MADRID	Water cycle management	35,344	-	35,344
<b>Aqualia New Europe B.V.</b> C/Calude Debussylann, 24 – Amsterdam (THE NETHERLANDS)	Water cycle management	8,160	-	8,160
<b>Aigües de Vallirana, S.A.</b> C/ Conca de Tremp, 14 – Vallirana (BARCELONA)	Water cycle management	3,702	-	3,702
<b>Aquamaior – Aguas de Campo Maior, S.A.</b> Rua Mayor Talaya, 28 – Campo Maior – PORTUGAL	Water cycle management	875	(875)	-
<b>Abrantaqua, S.A.</b> Parque Lena – Alferrarede Abrantes – PORTUGAL	Water cycle management	190	-	190
<b>Conservación y Sistemas, S.A.</b> C/Federico Salmón, 13-MADRID	Maintenance work of Infrastructures	1,558	-	1,558
<b>Cartagua, Aguas Do Cartaxo, S.A.</b> Z. Industrial do Cartaxo, lote 20 – CARTAXO (PORTUGAL)	Water treatment and purification	1,110	-	1,110
<b>TOTAL</b>		<b>170,328</b>	<b>(16,767)</b>	<b>153,561</b>

During 2015, a merger took place between the companies Aqualia Infraestructuras, S.A. and Aqualia Industrial Solutions, S.A., with the former assuming all the rights and obligations of the latter due to the termination of the latter following the merger.

The balance sheets of these companies at 31 December 2016 and 2015 contained the economic data presented below. Neither of them is publicly traded on the stock exchange and neither has generated results from discontinued operations.

#### ECONOMIC DATA OF GROUP COMPANIES 2016

(Amounts in thousands of euros)

COMPANIES	SHARE CAPITAL	Reserves and other equity items	2016 profit		% OF OWNERSHIP	
			Loss from Operations	Profit from continuing operations		
Abrantaqua, S.A.	500	545	573	278	278	60.00%
Acque di Caltanissetta, S.p.a.	3,500	3,019	4,612	2,805	2,805	98.48%
Aguas de Alcázar Empresa Mixta, S.A.	126	350	554	271	271	52.38%
Aguas de las Galeras, S.L.	3	297	1,242	250	250	51.00%
Aigües de Vallirana, S.A. (*)	102	2,870	211	237	237	100.00%
Aqua Campiña, S.A.	601	(56)	108	11	11	90.00%
Aquacartaya, S.L.	3	799	1,490	798	798	95.00%
Aquaervas – Aguas de Elvas, S.A.	50	328	404	243	243	100.00%
Aquafundalia – Agua do Fundão, S.A.	510	24	182	57	57	100.00%
Aquajerez, S.L.	3	1,481	5,164	1,357	1,357	51.00%
Aqualia Czech, S.L.U.	69,302	13,292	(202)	12,143	12,143	51.00%
Aqualia México, S.A. de C.V.	6,286	6,418	1,181	792	792	0.01%
Aqualia Intech, S.A.	1,200	17,074	4,134	3,641	3,641	99.99%
Aqualia MACE	39	4,489	6,279	6,392	6,392	51.00%
Aqualia New Europe B.V.	16,000	(3,619)	(242)	(3,532)	(3,532)	51.00%
Aquamaior – Aguas de Campo Maior, S.A.	50	97	189	134	134	100.00%
Cartagua, Aguas do Cartaxo, S.A.	1,850	118	392	79	79	60.00%
Colaboración, Gestión y Asistencia, S.A. (*)	480	753	(1)	482	482	99.99%
Compañía Onubense de Aguas, S.A. (*)	33	(72)	0	0	0	60.00%
Conservación y Sistemas, S.A.	300	1,704	86	183	183	99.99%
Depurplan 11, S.A.U.	4,700	(332)	892	(505)	(505)	100.00%
Empresa Gestora de Aguas Linenses, S.L.	3	128	797	62	62	52.33%
Empresa Mixta de Butarque, S.A. (*)	120	(120)	0	0	0	70.00%
Entemanser, S.A.	2,137	18,314	6,851	5,038	5,038	97.00%
FCC Aqualia América, S.A.U. (*)	601	(280)	(1)	(1)	(1)	100.00%
Hidrotec Tecnología del Agua, S.L.U.	3	11,117	6,079	4,750	4,750	100.00%
Infraestructuras y Dist. General del Agua, S.L. (*)	63	4,088	298	224	224	100.00%
Inversora Riutort, S.L. (*)	3	288	(2)	(1)	(1)	100.00%
Sociedad Española de Aguas Filtradas, S.A.	1,087	3,473	(26)	77	77	99.99%
Sociedad Ibérica del Agua, S.A.U. (*)	60	116	109	85	85	100.00%
Tratamiento Industrial de Aguas, S.A.	656	26,775	11,286	9,888	9,888	99.99%

(\*) Unaudited figures at 31 December 2016.

**ECONOMIC DATA OF GROUP COMPANIES 2015**
*(Amounts in thousands of euros)*

COMPANIES	SHARE CAPITAL	Reserves and other equity items	2015 profit		Result	% OF OWNERS HIP
			Loss from Operations	Profit from continuing operations		
Abrantaqua, S.A.	500	195	482	132	132	60.00%
Acque di Caltanissetta, S.p.a.	3,500	214	202	(648)	(648)	98.48%
Aguas de Alcázar Empresa Mixta, S.A.	126	137	569	183	183	52.38%
Aguas de las Galeras, S.L.	3	687	1,464	640	640	51.00%
Aigües de Vallirana, S.A. (*)	102	2,633	209	206	206	100.00%
Aqua Campiña, S.A.	601	(67)	193	(92)	(92)	90.00%
Aquacartaya, S.L.	3	634	1,197	634	634	95.00%
Aquaervas – Aguas de Elvas, S.A.	50	45	267	118	118	100.00%
Aquafundalia – Agua do Fundão, S.A.	510	(81)	113	(23)	(23)	100.00%
Aquajerez, S.L.	3	887	5,217	887	887	51.00%
Aqualia Czech, S.L.U.	69,302	13,249	142	17,044	17,044	51.00%
Aqualia Industrial Solutions, S.A.	151	1,435	(6)	(79)	(79)	99.99%
Aqualia Infraestructuras de México, S.A. de C.V.	7,236	6,523	2,334	2,698	2,698	0.01%
Aqualia Infraestructuras, S.A.	1,200	13,433	5,652	326	326	99.99%
Aqualia New Europe B.V.	16,000	(87)	(347)	2,032	2,032	51.00%
Aquamaior – Aguas de Campo Maior, S.A.	50	(37)	40	(119)	(119)	100.00%
Cartagua, Aguas do Cartaxo, S.A.	1,850	43	319	30	30	60.00%
Colaboración, Gestión y Asistencia, S.A. (*)	480	450	(1)	181	181	99.99%
Compañía Onubense de Aguas, S.A. (*)	33	(72)	-	-	-	60.00%
Conservación y Sistemas, S.A.	300	2,524	1,270	1,004	1,004	99.99%
Depurplan 11, S.A.U.	4,700	(536)	780	148	148	100.00%
Depurteho, S.A.U. (*)	1,511	(4,284)	297	208	208	100.00%
Empresa Gestora de Aguas Linenses, S.L.	3	67	836	61	61	52.33%
Empresa Mixta de Butarque, S.A. (*)	120	(120)	-	-	-	70.00%
Entemanser, S.A.	2,137	24,703	6,094	4,227	4,227	97.00%
FCC Aqualia América, S.A.U. (*)	601	(279)	(2)	(2)	(2)	100.00%
Hidrotec Tecnología del Agua, S.L.U.	3	6,367	4,683	3,313	3,313	100.00%
Infraestructuras y Dist. General del Agua, S.L. (*)	63	4,103	331	238	238	100.00%
Inversora Riutort, S.L. (*)	3	289	-	-	-	100.00%
Sociedad Española de Aguas Filtradas, S.A.	1,087	3,397	627	460	460	99.99%
Sociedad Ibérica del Agua, S.A.U. (*)	60	31	10	10	10	100.00%
Tratamiento Industrial de Aguas, S.A.	656	25,751	11,198	8,864	8,864	99.99%

(\*) Unaudited figures at 31 December 2015.



- Equity instruments in associates: Detail of the balance at 31 December 2016 and 2015:

<b>EQUITY INSTRUMENTS OF ASSOCIATES DURING 2016</b>				
<i>(Amounts in thousands of euros)</i>				
<b>COMPANIES</b>	<b>BUSINESS LINE</b>	<b>INVESTMENT</b>	<b>PROVISION</b>	<b>NET</b>
<b>Aguas de Denia, S.A.</b> Pedro Esteve, 17 - Denia (ALICANTE)	Water cycle management	400	-	400
<b>Aguas de Archidona, S.L.</b> Pza. Ochavada, 1 - Archidona (MÁLAGA)	Water cycle management	72	-	72
<b>Aguas de Ubrique, S.A.</b> Avenida España, 9 – Ubrique (CÁDIZ)	Water cycle management	59	(59)	0
<b>Aigües del Tomoví, S.A.</b> c/ Vella, 1 – El Vendrell (TARRAGONA)	Water cycle management	490	-	490
<b>Aguas de Narixa, S.A.</b> C/Málaga, 11 – Nerja (MÁLAGA)	Water cycle management	300	-	300
<b>Concesionaria de Desalación de Ibiza, S.A.</b> Rotonda de Sta. Eulalia, s/n – Ibiza (BALEARIC ISLANDS)	Operation of desalination plants	1,082	-	1,082
<b>AIE Costa Tropical de Granada</b> Plaza Aurora, s/n - Motril (GRANADA)	Water cycle management	828	-	828
<b>AIE ITAM Delta de la Tordera</b> Travesera de Gracia, 58 – BARCELONA	Construction and operation Desalination plant	3	-	3
<b>Compañía de Servicios Medioambientales do Atlántico, S.A.</b> Carretera de Cedeira, km1 - Narón (LA CORUÑA)	Water cycle management	294	-	294
<b>EMANAGUA - Empresa Municipal de Aguas de Níjar, S.A.</b> Plaza de la Glorieta, 1 – Níjar (ALMERÍA)	Water cycle management	221	-	221
<b>Empresa Municipal Aguas de Algeciras, S.A.</b> C/Virgen del Carmen, s/n - Algeciras (CÁDIZ)	Water cycle management	442	(241)	201
<b>Empresa Municipal de Aguas de Linares, S.A.</b> C/ Cid Campeador, 7 - Linares (JAEN)	Water cycle management	147	-	147
<b>Empresa Municipal Aguas de Benalmádena, S.A.</b> From Operations Ap.Tívoli, s/n – Arroyo de la Miel (MÁLAGA)	Water cycle management	1,310	-	1,310
<b>Empresa Municipal Aguas de Toxiria, S.A.</b> Plaza de la Constitución – Torredonjimeno (JAÉN)	Water cycle management	118	(42)	76
<b>Aigües del Segarra Garrigues, S.A.</b> C/Santa Clara, 4 – Tárrega (LÉRIDA)	Construction and operation, irrigation	309	-	309
<b>Girona, S.A.</b> Travesía del Carril, 2 – GERONA	Water cycle management	365	-	365
<b>Nueva Sociedad de Aguas de Ibiza, S.A.</b> C/Bartolomé Rosselló, 18 - (IBIZA)	Water cycle management	28	-	28
<b>Orasqualia O-M</b> Nile City Towers - El Cairo (EGYPT)	Maintenance treatment plants	1,508	-	1,508
<b>Aquos El Realito, S.A. de C.V.</b> B.Manuel Avila Camacho, nº36 - piso5 – Col. Lomas de Chapultepec Mexico	Channelling and drinking water treatment	5,127	-	5,127
<b>Sera.Q.A. Duitama, S.A.</b> (COLOMBIA)	Water cycle management	94	(67)	27
<b>Suministros aguas de Querétaro, S.A. de C.V.</b> Santiago de Querétaro – Querétaro Arteaga (MEXICO)	Water cycle management	182	-	182
<b>AIE Aquagest Medioambiente-Aqualia</b> C/Condado de Jaruco, s.n. – Lloret de Mar (GIRONA)	Holding of shares and conducting studies	240	-	240
<b>Shariket Thalya Miyah Mostaganem</b> Cité Abdoni Ilot, 36 – Dar el Beida (ALGERIA)	Construc. and operation desalination plants	8,308	-	8,308
<b>Shariket Miyeh Ras Djinet</b> Cité Abdoni Ilot, 36 – Dar el Beida (ALGERIA)	Construc. and operation desalination plants	5,188	-	5,188
<b>Aguas de Langreo, S.L.</b> C/Alonso del Riesgo, 3 – Langreo (ASTURIAS)	Water cycle management	882	(8)	874
<b>A.I.E. Costa Brava Abastament Aqualia – Sorea</b> Sector Carlit, s/nº - 17487 EMPURIABRAVA (GERONA)	Wholesale water supply	78	-	78
<b>Aguas de Priego, S.L.</b> Pz. De La Constitución, 3 – 14800 PRIEGO DE CORDOBA (CORDOBA)	Water cycle management	245	(245)	0
<b>Empresa Mixta de Aguas de Jódar, S.A.</b> Pz. De España, 1 – 23500 JÓDAR (JAEN)	Water cycle management	73	(73)	0
<b>Empresa Mixta de Aguas de Ubrique, S.A.</b> C/JUZGADO S/N - 11600 - UBRIQUE (CÁDIZ)	Water cycle management	73	-	73
<b>TOTAL</b>		<b>28,466</b>	<b>(735)</b>	<b>27,731</b>

**EQUITY INSTRUMENTS OF ASSOCIATES DURING 2015**
*(Amounts in thousands of euros)*

COMPANIES	BUSINESS LINE	INVESTMENT	PROVISION	NET
<b>Aguas de Denia, S.A.</b> Pedro Esteve, 17 - Denia (ALICANTE)	Water cycle management	400	-	400
<b>Aguas de Archidona, S.L.</b> Pza. Ochavada, 1 - Archidona (MÁLAGA)	Water cycle management	72	(4)	68
<b>Aguas de Ubrique, S.A.</b> Avenida España, 9 - Ubrique (CÁDIZ)	Water cycle management	59	(59)	-
<b>Aigües del Tomoví, S.A.</b> c/ Vella, 1 - El Vendrell (TARRAGONA)	Water cycle management	490	-	490
<b>Aguas de Narixa, S.A.</b> C/Málaga, 11 - Nerja (MÁLAGA)	Water cycle management	300	-	300
<b>Concesionaria de Desalación de Ibiza, S.A.</b> Rotonda de Sta. Eulalia, s/n - Ibiza (BALEARIC ISLANDS)	Operation of desalination plants	1,082	-	1,082
<b>AIE Costa Tropical de Granada</b> Plaza Aurora, s/n - Motril (GRANADA)	Water cycle management	828	-	828
<b>AIE ITAM Delta de la Tordera</b> Travesera de Gracia, 58 - BARCELONA	Construction and operation Desalination plant	3	-	3
<b>Compañía de Servicios Medioambientales do Atlántico, S.A.</b> Carretera de Cedeira, km1 - Narón (LA CORUÑA)	Water cycle management	294	-	294
<b>EMANAGUA - Empresa Municipal de Aguas de Níjar, S.A.</b> Plaza de la Glorieta, 1 - Níjar (ALMERÍA)	Water cycle management	221	(1)	220
<b>Empresa Municipal Aguas de Algeciras, S.A.</b> C/Virgen del Carmen, s/n - Algeciras (CÁDIZ)	Water cycle management	442	(256)	186
<b>Empresa Municipal de Aguas de Linares, S.A.</b> C/ Cid Campeador, 7 - Linares (JAEN)	Water cycle management	147	(30)	117
<b>Empresa Municipal Aguas de Benalmádena, S.A.</b> From Operations Ap.Tivoli, s/n - Arroyo de la Miel (MÁLAGA)	Water cycle management	1,310	-	1,310
<b>Empresa Municipal Aguas de Toxiria, S.A.</b> Plaza de la Constitución - Torredonjimeno (JAÉN)	Water cycle management	118	(43)	75
<b>Aigües del Segarra Garrigues, S.A.</b> C/Santa Clara, 4 - Tárrega (LÉRIDA)	Construction and operation, irrigation	309	-	309
<b>Girona, S.A.</b> Travesía del Carril, 2 - GERONA	Water cycle management	365	-	365
<b>Aqualia MACE</b> P.O.Box 105547 ABU DHABI	Water cycle management	15	-	15
<b>Nueva Sociedad de Aguas de Ibiza, S.A.</b> C/Bartolomé Rosselló, 18 - (IBIZA)	Water cycle management	28	-	28
<b>Orasqualia OYM</b> Nile City Towers - El Cairo (EGYPT)	Maintenance treatment plants	1,508	-	1,508
<b>Aquos El Realito, S.A. de C.V.</b> B.M. Avila Camacho, nº36 - 5 - Col. Lomas de Chapultepec MEXICO	Channelling and drinking water treatment	5,127	-	5,127
<b>Sera.Q.A. Duitama, S.A. - COLOMBIA</b>	Water cycle	94	(67)	27
<b>Suministros aguas de Querétaro, S.A. de C.V.</b> Santiago de Querétaro - Querétaro Arteaga (MEXICO)	Water cycle management	182	-	182
<b>AIE Aquagest Medioambiente-Aqualia</b> C/Condado de Jaruco, s.n. - Lloret de Mar (GIRONA)	Holding of shares and conducting studies	240	-	240
<b>Shariket Thalya Miyah Mostaganem</b> Cit� Abdoni Ilot, 36 - Dar el Beida (ALGERIA)	Construc. and operation desalination plants	8,308	-	8,308
<b>Shariket Miyeh Ras Djinet</b> Cit� Abdoni Ilot, 36 - Dar el Beida (ALGERIA)	Construc. and operation desalination plants	5,188	-	5,188
<b>Aguas de Langreo, S.L.</b> C/Alonso del Riesgo, 3 - Langreo (ASTURIAS)	Water cycle management	882	(25)	857
<b>A.I.E. Costa Brava Abastament Aqualia - Sorea</b> Sector Carlit, s/n� - 17487 EMPURIABRAVA (GERONA)	Wholesale water supply	78	-	78
<b>Aguas de Priego, S.L.</b> Pz. De La Constituci�n, 3 - 14800 PRIEGO (C�RDOBA)	Water cycle management	245	(245)	-
<b>Empresa Mixta de Aguas de J�dar, S.A.</b> Pz. De Espa�a, 1 - 23500 J�DAR (JAEN)	Water cycle management	73	(73)	-
<b>Empresa Mixta de Aguas de Ubrique, S.A.</b> C/JUZGADO S/N - 11600 - UBRIQUE (C�DIZ)	Water cycle management	73	-	73
<b>TOTAL</b>		<b>28,481</b>	<b>(803)</b>	<b>27,678</b>

The equity data of the balance sheet of the said companies at 31 December 2016 and 2015 are presented below. Neither of these companies is publicly traded on the stock exchange and neither has generated results from discontinued operations in 2016 and 2015.

#### ECONOMIC DATA OF ASSOCIATES 2016

(Amounts in thousands of euros)

COMPANIES	SHARE CAPITAL	Reserves and other equity items	RESULTS 2016			% OF OWNERS HIP
			Loss from Operations	Profit from continuing operations	Result	
Aguas de Archidona, S.L.	150	15	55	23	23	48.00%
Aguas de Denia, S.A. (*)	425	837	2	2	2	33.00%
Aguas de Langreo, S.L.	1,800	(17)	337	34	34	49.00%
Aguas de Narixa, S.A.	600	70	239	(5)	(5)	50.00%
Aguas de Priego, S.L.	500	(804)	(96)	(212)	(212)	49.00%
Aguas de Ubrique, S.A. (*)	120	(589)	0	0	0	49.00%
AIE Aquagest Medioambiente Aqualia (*)	400	4	6	143	143	37.50%
AIE Costa Brava Abastament Aqualia – Sorea	156	0	(0)	93	93	50.00%
AIE Costa Tropical de Granada	1,623	4,396	6	37	37	51.00%
AIE ITAM Delta de la Tordera (*)	0	(6)	(2)	10	10	50.00%
Aigües del Segarra Garrigues, S.A.	15,000	9,644	2,449	1,510	1,510	1.00%
Aigües del Tomoví, S.A. (*)	1,000	2,536	78	38	38	49.00%
Aquos El Realito, S.A. de C.V.	8,887	3,121	5,303	721	721	44.00%
Cía. de Serv. Medioambientales do Atlántico, S.A.	601	379	292	100	100	49.00%
Concesionaria de Desalación de Aguas de Ibiza, S.A.	1,850	602	1,152	414	414	50.00%
EMANAGUA - Empresa Municipal de Aguas de Níjar, S.A.	450	115	242	115	115	49.00%
Empresa Mixta de Aguas de Jódar, S.A.	150	(217)	114	47	47	49.00%
Empresa Mixta de Aguas de Ubrique, S.A.	150	38	26	6	6	49.00%
Empresa Municipal Aguas de Algeciras, S.A.	451	(40)	260	32	32	49.00%
Empresa Municipal de Aguas Benalmádena, S.A.	1,803	1,247	1,103	402	402	50.00%
Empresa Municipal de Aguas de Linares, S.A.	300	80	188	140	140	49.00%
Empresa Municipal de Aguas de Toxiria, S.A	240	(84)	13	3	3	49.00%
Girona, S.A.	1,200	5,024	195	428	428	33.61%
Nueva Sociedad de Aguas de Ibiza, S.A. (*)	60	144	68	51	51	40.00%
Orasqualia O&M	1,270	1,185	2,315	1,953	1,953	50.00%
SERA.Q.A. Duitama, S.A. (*)	40	(43)	0	0	0	30.60%
Shariket Miyeh Ras Djinet S.p.A.	17,611	30,148	8,742	6,524	6,524	25.49%
Shariket Tahlya Miyah Mostaganem S.p.A.	27,209	100,102	18,879	15,714	15,714	25.49%
Suministro de Agua de Querétaro, SA de CV	15,948	20,904	10,548	5,421	5,421	1.00%

(\*) Unaudited figures at 31 December 2016.

**ECONOMIC DATA OF ASSOCIATES 2015**  
(Amounts in thousands of euros)

COMPANIES	SHARE CAPITAL	Reserves and other equity items	RESULTS 2015			% OF OWNERS HIP
			Loss from Operations	Profit from continuing operations	Result	
Aguas de Archidona, S.L.	150	(8)	8	(9)	(9)	48.00%
Aguas de Denia, S.A. (*)	425	836	11	5	5	33.00%
Aguas de Langreo, S.L.	1,800	(51)	380	59	59	49.00%
Aguas de Narixa, S.A.	600	75	235	7	7	50.00%
Aguas de Priego, S.L.	500	(592)	139	(38)	(38)	49.00%
Aguas de Ubrique, S.A. (*)	120	(589)	(1)	(1)	(1)	49.00%
AIE Aquagest Medioambiente Aqualia (*)	400	0	24	124	124	37.50%
AIE Costa Brava Abastament Aqualia – Sorea	156	0	(0)	94	94	50.00%
AIE Costa Tropical de Granada	1,623	4,545	670	374	374	51.00%
AIE ITAM Delta de la Tordera (*)	0	(6)	(1)	17	17	50.00%
Aigües del Segarra Garrigues, S.A.	15,000	8,134	4,899	4,052	4,052	1.00%
Aigües del Tomoví, S.A. (*)	1,000	2,412	94	69	69	49.00%
Aqualia MACE	37	327	4,492	4,553	4,553	51.00%
Aquos El Realito, S.A. de C.V.	10,230	(210)	2,000	19	19	44.00%
Cía. de Serv. Medioambientales do Atlántico, S.A.	601	279	344	97	97	49.00%
Concesionaria de Desalación de Aguas de Ibiza, S.A.	1,850	803	1,758	818	818	50.00%
EMANAGUA - Empresa Mpal de Aguas de Níjar, S.A.	450	(1)	113	1	1	49.00%
Empresa Mixta de Aguas de Jódar, S.A.	150	(264)	(19)	(52)	(52)	49.00%
Empresa Mixta de Aguas de Ubrique, S.A.	150	32	50	26	26	49.00%
Empresa Municipal Aguas de Algeciras, S.A.	451	(72)	233	38	38	49.00%
Empresa Municipal de Aguas Benalmádena, S.A.	1,803	2,003	2,181	1,137	1,137	50.00%
Empresa Municipal de Aguas de Linares, S.A.	300	(60)	1,314	985	985	49.00%
Empresa Municipal de Aguas de Toxiria, S.A	240	(87)	(14)	(18)	(18)	49.00%
Generávil, S.A.	310	(8,832)	225	141	141	36.00%
Girona, S.A.	1,200	4,932	536	515	515	33.61%
Nueva Sociedad de Aguas de Ibiza, S.A. (*)	60	93	56	41	41	40.00%
Orasqualia O&M	2,814	1,235	796	1,101	1,101	50.00%
SERA.Q.A. Duitama, S.A. (*)	36	(39)	0	0	0	30.60%
Shariket Miyeh Ras Djinet S.p.A.	17,488	23,184	4,075	1,274	1,274	25.49%
Shariket Tahlya Miyah Mostaganem S.p.A.	27,020	83,139	14,129	9,015	9,015	25.49%
Suministro de Agua de Querétaro, SA de CV	18,357	25,971	12,836	6,629	6,629	1.00%

(\*) Unaudited figures at 31 December 2015.

The breakdown of income from equity investments in group companies and associates is included in Note 18.1.

## 7.2. Non-current loans to Group companies and associates

Details were as follows:

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<b>LONG-TERM LOANS TO COMPANIES</b>		
<i>(Amounts in thousands of euros)</i>		
	<b>31/12/2016</b>	<b>31/12/2015</b>
Loans to Group companies - (Note 7.2.1)	64,849	50,267
Loans to associates (Note 7.2.2)	35,969	40,031
<b>TOTAL</b>	<b>100,818</b>	<b>90,298</b>

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7.2.1 Non-current loans to Group companies The detail of the balances at 31 December 2016 and 2015 is as follows:

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<b>LOANS TO GROUP COMPANIES</b>				
<i>(Amounts in thousands of euros)</i>				
	<b>31/12/2016</b>	<b>31/12/2015</b>	<b>MATURITY</b>	<b>MATURITY</b>
Aqua Campiña, S.A.	3,907	4,797	Euribor + 1 %	2026
Aquajerez, S.L.	15,438	16,981	3 % + Variable	2038
Aquacartaya, S.L.	7,050	7,650	Euribor + 7.5 %	2018
Depurplán, S.A.U.	6,570	-	4.50	2027
Empresa Gestora de Aguas Linenses, S.L.	9,787	9,787	Euribor + 7.5 %	2019
Aguas de las Galeras, S.L.	15,374	-	10 %	2020
Aguas de las Galeras, S.L.	-	4,152	fully consolidated Legal - 1 %	2017
Aguas de Alcázar Empresa Mixta, S.A.	5,969	6,140	4 %	2024
Fomento de Construcciones y Contratas, S.A.	14	14	5.56%	2020
Sociedad Española de Aguas Filtradas, S.A.	740	746	4.25 %	2018
<b>TOTAL</b>	<b>64,849</b>	<b>50,267</b>		

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7.2.2 Loans to companies associated with long - term detailed as follows:

<b>LOANS TO ASSOCIATES</b>				
<i>(Amounts in thousands of euros)</i>				
	<b>31/12/2016</b>	<b>31/12/2015</b>	<b>INTEREST</b>	<b>MATURITY</b>
Manage. EIG Water Serv. Ciudad Real	79	79	-	2020
Emp. Municipal de Aguas de Algeciras, S.A.	3,168	3,662	EURIBOR + 1%	2045
Emp. Municipal de Aguas de Benalmádena, S.A.	6,259	7,749	EURIBOR (12) + 0.9%	2025
Emp. Municipal de Aguas de Toxiria, S.A.	504	546	EURIBOR (12) + 1%	2029
Aguas de Langreo, S.L.	4,817	5,182	EURIBOR + 1	2031
EMANAGUA - Empresa Mpal de Aguas de Nijar	4,405	4,748	EURIBOR (12) + 1.25%	2025
Aigües del Tomoví, S.A.	1	254	4%	2032
Aguas de Archidona, S.A.	519	535	T.I. LEGAL + 3%	2036
Aguas de Narixa, S.A.	4,746	4,900	EURIBOR (12) + 0.75%	2034
Aquos El Realito, S.A. de C.V.	6,113	7,037	-	2020
AIE Costa Brava Abastament Aqualia Sorea	2	2	-	2020
Aguas de Priego, S.L.	3,526	3,628	5%	2037
Empresa Mixta de Aguas de Jódar, S.A.	973	1,000	7%	2035
Orasqualia Development Waste T.Plant SAE	33	70	-	2020
Emp. Municipal de Aguas de Linares, S.A.	636	442	EURIBOR + 0.05 %	2032
Empresa Mixta de Aguas de Ubrique, S.A.	188	197	7.7 %	2039
<b>TOTAL</b>	<b>35,969</b>	<b>40,031</b>		

The balances with Aquos El Realito, S.A. de C.V. does not accrue interest because it involves funds transferred for future capital increases.

## NOTE 8 \_\_\_\_\_ FINANCIAL ASSETS BY CATEGORY

The classification of financial assets excluding shares in group companies and associates is as follows:

	FINANCIAL ASSETS BY CATEGORY					
	<i>(Amounts in thousands of euros)</i>					
	31/12/2016			31/12/2015		
	Non-current	Current	Total	Non-current	Current	Total
<b>Held-for-trading financial assets</b>						
Unlisted equity instruments (note 8.1)	10	-	10	10	-	10
<b>Loans and receivables</b>						
Loans to Group companies and associates (Notes 7.2 and 9)	100,818	464,736	565,554	90,298	372,373	462,671
Loans to third parties (Note 8.2 and 9.2)	85,387	18,398	103,785	99,467	16,823	116,290
Other financial assets to Group companies and associates (Note 8.3)	-	3,450	3,450	-	2,917	2,917
Other financial assets with third parties (note 8.3)	15,773	8,981	24,754	14,879	11,282	26,161
Trade and other receivables (Note 8.4 and 10)	-	139,260	139,260	-	148,082	148,082
<b>Total</b>	<b>201,978</b>	<b>634,825</b>	<b>836,803</b>	<b>204,644</b>	<b>551,477</b>	<b>756,121</b>
<b>TOTAL FINANCIAL ASSETS</b>	<b>201,988</b>	<b>634,825</b>	<b>836,813</b>	<b>204,654</b>	<b>551,477</b>	<b>756,131</b>

The financial assets have a fair value that does not differ significantly from their book value. The only gains and losses from financial assets relate to the impairment adjustments detailed in Note 10.3 and the finance income generated by interest on loans which totalled EUR 10,316 thousand at 31 December 2016 (EUR 12,068 thousand at 31 December 2015).

### 8.1. Unlisted equity instruments

It has the following breakdown at 31 December 2016 and 2015:

EQUITY INSTRUMENTS (Amounts in thousands of euros)	2016	2015
	Other investments	10
<b>TOTAL</b>	<b>10</b>	<b>10</b>

### 8.2. Loans to Third Parties

This caption mainly includes loans to municipalities for the execution of works and installations in the water network. These loans bear a variable interest rate based on Euribor and are recovered according to the amortisation table included in the contract, by offsetting the debts with the municipalities originating from the collection of final fees and other concepts. The portion of these with maturity of less than one year is recorded under the heading Short-term financial investments (see note 9.2).

The detail of "Other Operating Income" for the years ended 31 December 2016 and 2015 is as follows:

<b>LOANS TO THIRD PARTIES</b>				
<i>(Amounts in thousands of euros)</i>				
<b>FINAL MATURITY</b>				
	<b>31/12/2016</b>	<b>31/12/2015</b>	<b>&lt; 5 YEARS</b>	<b>&gt; 5 YEARS</b>
Agaete City Council	35	174	2018	-
Alboraya City Council	3,966	4,148		>2020
Alcalá City Council	3,680	4,452		>2020
Aller City Council	280	327		>2020
Ávila City Council	4,284	4,284		>2020
Baena City Council	156	707	2018	
Bell-Lloch City Council	8	64		>2020
Bollullos City Council	1,416	1,396		>2020
Calasparra City Council	285	340		>2020
Callosa del Segura City Council	1,603	1,615		>2020
Caravaca de la Cruz City Council	237	442		>2020
Chipiona City Council	1,204	667		>2020
Cristina City Council	89	-		>2020
El Vendrell City Council	187	208		>2020
Galdar Town Council	-	4,970		>2020
Güímar City Council	235	264		>2020
Hellín City Council	18	21		>2020
Hondón de los Frailes City Council	130	141		>2020
Jaén City Council	30,938	30,764		>2020
La Guardia City Council	443	417		>2020
La Línea Town Council	1,381	1,530		>2020
Lepe City Council	10,753	10,597		>2020
Lora del Río City Council	598	860		>2020
Magán City Council	233	257		>2020
Martos City Council	232	335		>2020
Matalascañas City Council	2,271	2,725		>2020
Medina del Campo City Council	90	97		>2020
General Menacho Military Base	153	-		>2020
Mula City Council	565	779		>2020
Ayuntamiento de Olivenza	-	680		
Puerto de la Cruz City Council	1,355	1,811		>2020
Quintanar de la Orden City Council	23	66	2018	
Ribera del Fresno City Council	341	341		>2020
Ronda City Council	2,884	3,028		>2020
San Pedro del Pinatar City Council	364	382		>2020
San Lorenzo del Escorial City Council	3,190	3,686		>2020
Sant Fost City Council	1,203	1,323		>2020
Segurilla City Council	-	4		>2020
Solana de Los Barros City Council	147	165		>2020
Talavera de la Reina City Council	-	66		>2020
Turcia City Council	9	9		>2020
Ubrique City Council	761	951		>2020
Vélez-Málaga City Council	3,586	8,252		>2020
Campo de Gibraltar District	5,293	5,380		>2020
Llanos Villamartín Irrigation Community	691	700		>2020
Watering Community	10	31		>2020
Loan to the personnel	60	11	2018	
<b>Total Loans to third parties</b>	<b>85,387</b>	<b>99,467</b>		



In 2016, the Company reclassified a total of EUR 7,000 thousand in cost and EUR 2,240 thousand in impairment from “Non-current financial assets” to “Administrative concessions” for the advance fee paid by the municipality of Gáldar (Gran Canaria) for management of the public drinking water supply service in said municipality over a 25-year period. Until 1 January 2016, this advance fee was accruing interest in the Company's favour (see Note 5.1).

During 2016, we have recorded an impairment amounting to EUR 1,036 thousand under "Impairment losses and gains on disposals of financial instruments" (Note 18.10).

### 8.3) Other financial assets

Its balance has the following breakdown at 31 December 2016 and 2015:

<b>OTHER FINANCIAL ASSETS</b>		
<i>(Amounts in thousands of euros)</i>		
<b>Non-current</b>	<b>31/12/2016</b>	<b>31/12/2015</b>
Long-term guarantees and deposits given	15,773	14,879
<b>TOTAL</b>	<b>15,773</b>	<b>14,879</b>
<b>Current</b>	<b>31/12/2016</b>	<b>31/12/2015</b>
Short-term deposits and guarantees given	8,972	11,273
Other financial assets	9	9
<b>TOTAL</b>	<b>8,981</b>	<b>11,282</b>

#### 8.3.1 Dividends receivable from Group companies and associates

The breakdown of dividends receivable from group companies and associates and the interests in outstanding receivables at 31 December 2016 and 2015 is as follows:

<b>DIVIDENDS RECEIVABLE FROM GROUP COMPANIES AND ASSOCIATES</b>		
<i>(Amounts in thousands of euros)</i>		
	<b>31/12/2016</b>	<b>31/12/2015</b>
A.I.E. ITAM Delta de La Tordera	1,532	1,526
A.I.E. Gestión de servicios hidráulicos Ciudad Real	708	618
A.I.E. Aquagest Medioambiente - Aqualia	52	54
A.I.E. Costa Tropical de Granada	19	191
A.I.E. Costa Brava Abastament Aqualia Sorea	47	47
Aigües de Tomoví, S.A.	5	-
Aquacartaya, S.L.	602	-
Colaboración, Gestión y Asistencia, S.A.	276	97
Orasqualia O&M	209	384
<b>TOTAL</b>	<b>3,450</b>	<b>2,917</b>

#### **8.4 Trade receivables (Concession Agreement, collection right)**

In 2016, the Company collected a total of EUR 13,057 thousand in relation to the collection right it had in the construction and operation of a seawater desalination plant in Santa Eulalia (Balearic Islands) based on a public works concession contract which was signed on 15 November 2005 by the Company in a Temporary Joint Venture with its subsidiary Aqualia Intech, S.A. and the Ministry of Environment of the Government of Spain, which in turn had established an agreement with the Government of the Balearic Islands so that, once the construction phase was completed, it would take over the concession during the operational phase as the beneficiary of the supply.

The accounting for this contract as a financial asset originated in the fact that the terms and conditions document established a minimum guaranteed volume of cubic meters which the Company could invoice for the period of operation of the desalination plant (15 years). Since it was estimated that the fair value of the construction services would be recovered with the said volume of guaranteed revenues, this meant that it was not considered a demand risk for the concessionaire.

The construction phase ended in December 2011 with the signing of the declaration of conformity by the Ministry, giving rise to a warranty period of 2 years, during which the UTE concessionaire performed maintenance of the plant.

During 2014, given the breach that the Company —based on its legal counsel— believes was being committed by the awarding body, the UTE concessionaire of the works requested the termination of the contract and demanded the payment thereof before the Directorate General for Water of the Ministry of Agriculture, Food and Environment.

On 4 December 2015, the Council of Ministers approved the rescission of 2 concession contracts in the Balearic Islands, including one involving the desalination plant in Sta. Eulalia on Ibiza, authorising the payment of EUR 25,600 thousand as the amount of compensation to the Concessionaire TJV. This amount was paid on 18 January 2016 and 50% corresponds to the Company.

Given the resolution by the Council of Ministers, the Company recorded financial impairment amounting to EUR 5,067 thousand at 31 December 2016 (EUR 2,559 thousand at 31 December 2015) for the difference between the amount collected and the collection right recorded in the accounts.

The movements in the year are as follows for 2016 and 2015:

<b>CONCESSION ARRANGEMENT - NON-CURRENT COLLECTION RIGHT</b>	
<i>(Amounts in thousands of euros)</i>	
<i>Changes from 1 January to 31 December 2016</i>	
<b>Balance at 31 December 2015</b>	-
Additional amounts recognised during the year	-
Third-party transfer non-current credits	-
Transfer to Concession agreement of current collection right	-
<b>Balance at 31 December 2016</b>	-
<i>Change from 01 January 2015 to 31 December 2015</i>	
<b>Balance at 31 December 2014</b>	<b>12,625</b>
Additional amounts recognised during the year	-
Third-party transfer non-current credits	-
Transfer to Concession agreement of current collection right	(12,625)
<b>Balance at 31 December 2015</b>	-

<b>CONCESSION ARRANGEMENT - COLLECTION RIGHT</b>	
<i>(Amounts in thousands of euros)</i>	
<i>Changes from 1 January to 31 December 2016</i>	
<b>Balance at 31 December 2015</b>	<b>13,057</b>
Collected during the year	(13,057)
Financial impairment	(2,507)
<b>Claimed balance receivable at 31 December 2016</b>	<b>5,067</b>
<b>Recognised impairment balance at 31 December 2016</b>	<b>(5,067)</b>
<b>Net balance</b>	-
<i>Change from 01 January 2015 to 31 December 2015</i>	
<b>Balance at 31 December 2014</b>	<b>2,637</b>
Additional amounts recognised during the year	354
Transfer from Concession agreement, Non-current collection right	12,625
Financial impairment	(2,559)
<b>Balance at 31 December 2015</b>	<b>13,057</b>

## NOTE 9 SHORT-TERM LOANS

The composition of the balance at 31 December 2016 and 2015 is:

<b>SHORT-TERM LOANS</b>		
<i>(Amounts in thousands of euros)</i>		
	<b>31/12/2016</b>	<b>31/12/2015</b>
Loans to Group companies and associates	464,736	372,373
Other loans, non-Group	18,398	16,823
<b>TOTAL</b>	<b>483,134</b>	<b>389,196</b>

9.1. Loans to group companies and associates have the following breakdown at 31 December 2016 and 2015:

<b>SHORT-TERM LOANS TO GROUP COMPANIES AND ASSOCIATES</b>		
<i>(Amounts in thousands of euros)</i>		
	<b>31/12/2016</b>	<b>31/12/2015</b>
Loans to Group companies and associates	459,121	366,314
Short Term Interests to Group companies and associates	5,615	6,059
<b>TOTAL</b>	<b>464,736</b>	<b>372,373</b>

<b>SHORT-TERM LOANS TO GROUP COMPANIES AND ASSOCIATES</b>		
<i>(Amounts in thousands of euros)</i>		
	<b>31/12/2016</b>	<b>31/12/2015</b>
A.I.E. Costa Tropical de Granada	7,862	6,703
A.I.E. ITAM La Tordera	234	234
Abast. Alta Costa Brava Emp. Mixta	1	0
Abrantaqua, S.A.	1,278	669
Acque de Caltanissetta, S.P.A.	4,943	5,749
Aguas de Alcázar Empresa Mixta, S.A.	171	153
Aguas de Archidona, S.L.	15	14
Aguas de Langreo, S.L.	732	732
Aguas de las Galeras, S.L.	2,552	3,162
Aguas de Narixa, S.A.	437	436
Aguas de Priego, S.L.	173	239
Aguas del Puerto Empresa Municipal	6	1
Aigües de Tomovi, S.A.	5	0
Aigües de Vallirana, S.A.U.	161	219
Aqua Campiña, S.A.	866	558
Aquacartaya, S.L.	893	1,063
Aquaervas - Aguas de Elvas, S.A.	1,654	1,687
Aquafundalia- Agua Do Fundao, S.A.	1,723	1,723
Aquajerez, S.L.	1,145	424
Aqualia Intech, S.A.	27,517	26,449
Aqualia Mace LLC	-	8
Aquamaior - Aguas de Campo Maior, S.A.	514	540
Asesoría Financiera y de Gestión, S.A.	381,137	289,488

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**SHORT-TERM LOANS TO GROUP COMPANIES AND ASSOCIATES**

*(Amounts in thousands of euros)*

Cartagua, Aguas do Cartaxo, S.A.	4,445	4,715
Compañía de Servicios Medioambientales Do Atlántico, S.A.	2	1
Conservación y Sistemas, S.A.	38	818
Depurplán 11, S.A.U.	-	110
Depurtebo, S.A.	-	88
EMANAGUA – Emp. Municipal de Aguas de Níjar, S.A.	339	330
Ematoxiria, S.A.	42	42
Emp. Mixta de Aguas de Jodar, S.A.	27	25
Emp. Municipal de Aguas de Benalmádena, S.A.	785	45
Emp. Municipal de Aguas de Linares, S.A.	43	27
Empresa Gestora de Aguas Linenses, S.L.	21	4,176
Empresa mixta de aguas de Ubrique, S.A.	19	18
Empresa mixta de aguas y servicios, S.A.	5	3
Empresa municipal de Aguas de Algeciras, S.A.	344	215
Entemanser, S.A.	1,613	3,493
FCC Aqualia América, S.A. Unipersonal	621	258
FCC Aqualia USA CORP	12	14
FCC Construcción, S.A.	945	876
Fomento de Construcciones y Contratas, S.A.	1,351	2,004
FS Colaboración y Asistencia, S.A.	252	106
Hidrotec Tecnología del Agua, S.L.U.	10,333	9,302
Infraestructuras y Distribución General del Agua, S.L.	3,032	1,684
Sociedad Española de Aguas Filtradas, S.A.	263	384
Shariket Miyeh Ras Djinet, S.p.a.	4	4
Shariket Tahlya Mostaganem, S.p.a.	38	37
Sociedad Ibérica del Agua, S.A.	7	2
Tratamiento Industrial de aguas, S.A.	6,136	3,345
<b>TOTAL</b>	<b>464,736</b>	<b>372,373</b>

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These loans bear interest at market rates and their balances include an amount of EUR 7,339 thousand at 31 December 2016 (EUR 7,836 thousand at 31 December 2015) for balances receivable for corporate tax from subsidiaries belonging to the FCC tax group.

- 9.2. Loans, non-Group. This caption mainly includes loans to municipalities, with short term maturity, for the execution of works and installations in the water network. The portion of these with maturity of more than one year is recorded under the heading Non-current financial investments (see note 8.2).

Such loans have the following breakdown at 31 December 2016 and 2015:

<b>OTHER LOANS</b>		
<i>(Amounts in thousands of euros)</i>		
	<b>31.12.2016</b>	<b>31.12.2015</b>
Alcalá de Henares Town Council	475	-
Aller City Council	318	267
L' Atmetlla de Mar City Council	224	20
Agaete City Council	140	120
Alboraya City Council	119	117
Ávila City Council	1,089	1,014
Baena City Council	566	566
Bollullos del Condado City Council	280	595
Callosa del Segura City Council	165	151
Calasparra City Council	53	40
Caravaca City Council	216	255
Cangas de Morrazo City Council	-	69
Cangas City Council	35	-
Chiclana de la Frontera City Council	-	184
Chipiona City Council	468	453
La Guardia City Council	36	78
Guimar City Council	29	29
Hondón de los Frailes City Council	17	22
Jaén City Council	1,892	3,612
La Línea de la Concepción City Council	208	208
Lepe City Council	1,214	1,541
Lora de Río City Council	214	123
Medina del Campo City Council	-	7
Martos City Council	103	95
Masllorenç City Council	9	15
Matalascañas City Council	506	454
Mula City Council	412	430
Orotava City Council	456	-
Oviedo City Council	380	379
Peralada City Council	189	178
Puerto de la Cruz City Council	-	435
Ribera del Fresno City Council	209	209
Ronda City Council	170	125
San Pedro Pinatar City Council	20	19
San Lorenzo del Escorial City Council	197	124
Sant Fost City Council	125	128
Santa Cristina City Council	6	6
Segurilla City Council	495	495
Solana de los Barros City Council	18	17
Tarifa City Council	-	13
Ubrique City Council	195	183
Vélez – Málaga City Council	4,088	2,968
El Vendrell City Council	21	19
General Menacho Military Base	12	-
Campo de Gibraltar District	788	312
Llanos Villamartin Irrigation Community	295	192
Elrondaguel, S.L.	3	3
Ivanyumeva, S.L.	3	3
Mercader City Council	1	3
Mdad. Tierra del Adaja	7	-
Inima Servicios Europeos	886	-
Alkhorayef Water&Power	998	-
Interest	48	547
<b>TOTAL</b>	<b>18,398</b>	<b>16,823</b>

These loans earn interest at market rates.

## NOTE 10 TRADE AND OTHER RECEIVABLES

**10.1.** The breakdown of the balance under "**Trade and services**" at 31 December is as follows:

<b>TRADE RECEIVABLES FOR SALES AND SERVICES</b>		
<i>(Amounts in thousands of euros)</i>		
	<b>31/12/2016</b>	<b>31/12/2015</b>
Production pending collection billed to customers outside the group	144,881	149,764
Non-recourse customer credit assignments, third parties	(85,410)	(97,103)
Production executed pending billing to customers outside the group	39,132	40,872
Withholdings for guarantee to customers outside the group	247	494
Impairment of clients	(29,432)	(30,207)
<b>TOTAL</b>	<b>69,418</b>	<b>63,820</b>

At 31 December 2016, EUR 18,479 thousand of the net Customer receivables balance relates to the Temporary Joint Ventures (EUR 11,194 thousand at 31 December 2015).

The heading "Production pending collection" includes the amount of the invoices issued to customers for services performed and pending collection at the balance sheet date.

The "Non-recourse customer credit assignments, third parties" item corresponds to collection rights assigned without recourse by the Company at 31 December 2016 and 2015 to a bank syndicate in which Banco Santander acts as the agent bank, based on a contract signed on 15 July 2011 for an initial period of 3 years which was renewed in June 2014 so that it now expires on the same date as the FCC Group's refinancing agreement. According to the agreement, the Company acts on its own behalf and as agent of the two subsidiaries Entemanser, S.A. and Aigues Vallirana, S.A.U., having expanded the limit at 5 May 2015, from EUR 90,000 thousand to EUR 102,000 thousand.

**10.2.** The breakdown of "**Trade Group companies and associates**" at 31 December 2016 and 2015, which mainly includes commercial operations, is as follows:

<b>TRADE RECEIVABLES FROM GROUP COMPANIES AND ASSOCIATES</b>		
<i>(Amounts in thousands of euros)</i>		
<b>GROUP COMPANIES</b>	<b>31/12/2016</b>	<b>31/12/2015</b>
Abrantaqua, S.A.	1,212	1,832
Acque di Caltanissetta, S.P.A.	7,548	7,619
Aguas de Alcázar Empresa Mixta, S.A.	348	342
Aguas de las Galeras, S.L.	29	37
Aigües de Vallirana, S.A.U.	19	48
Alfonso Benítez	-	20
Aqua Campiña, S.A.	135	328
Aquacartaya, S.L.	103	401
Aquaelvas – Aguas de Elvas, S.A.	1,005	1,131
Aquafundalia -Agua Do Fundao, S.A.	881	620
Aquajerez, S.L.	2,039	1,719
Aqualia Czech, S.L.	54	-
Aqualia Mace LLC	21	-
Aqualia Infraestructuras de México, S.A. de C.V.	48	236
Aqualia Infraestructuras, S.A.	1,356	1,462
Aqualia New Europe B.V.	217	20
Aquamaior – Aguas del Campo Maior, S.A.	116	98

## TRADE RECEIVABLES FROM GROUP COMPANIES AND ASSOCIATES

*(Amounts in thousands of euros)*

Cartagua, Aguas Do Cartaxo, S.A.	1,855	1,958
Conservación y Sistemas, S.A.	74	33
Depurplan 11, S.L.	74	152
Empresa Gestora de Aguas Linenses, S.L.	203	297
Entemanser, S.A.	93	156
FCC Aqualia USA Corp.	-	4
FCC Construcción, S.A.	362	221
FCC Medio Ambiente, S.A.	12	14
FCC Servicios Industriales y Energéticos, S.A.	20	-
Fomento de Construcciones y Contratas, S.A.	80	967
FS Colaboración y Asistencia, S.A.	36	36
Hidrotec Tecnología del Agua, S.L.	117	7
Infraestructuras y Distribución General del Agua, S.L.	18	18
Matinsa	1	-
Severomoravske Vodovody a Kanalizace Ostrava, a.s.	224	369
Sociedad Española de Aguas Filtradas, S.A.	41	37
Tratamiento Industrial de aguas, S.A.	67	-48
<b>ASSOCIATES</b>		
Aguas de Archidona, S.L.	105	300
Aguas de Langreo, S.L.	545	543
Aguas de Narixa, S.A.	655	66
Aguas de Priego, S.L.	569	552
AIE Abast. Alta Costa Brava emp. Mixta	10	11
AIE Aquagest-Aqualia	18	37
AIE Costa Brava AB. Aqualia-Sorea	28	22
AIE Costa Tropical de Granada	2,621	1727
AIE ITAM Delta de la Tordera	633	88
Aigües de Girona, Salt y Sarriá de Ter, S.A.	136	-
Aigües del Tomoví, S.A.	276	261
Aigües del Segarra Garrigues, S.A.	32	-
Aqualia Mace LLC	-	73
Compañía de Servicios Medioambientales Do Atlántico, S.A.	39	40
Concesionaria de Desalación de Ibiza, S.A.	38	300
Emp. Mixta d'Aigües de la Costa Brava	1	-
Empresa Mixta de Aguas de Jodar, S.A.	420	470
Empresa Mixta de Aguas de Ubrique, S.A.	257	250
Empresa Mixta de Aguas y Servicios, S.A.	43	3
Empresa Municipal de Aguas de Algeciras, S.A.	6,504	5,562
Empresa Municipal de Aguas de Benalmádena, S.A.	387	321
Empresa Municipal de Aguas de Linares S.A.	194	47
Empresa Municipal de Aguas de Níjar, S.A.	2,584	1,834
Empresa Municipal de Aguas de Toxiria, S.A.	391	430
Generávila, S.A.	7	6
Girona, S.A.	34	-
Nueva Sociedad de Aguas de Ibiza, S.A.	1	1
Orasqualia Devel. Water Treatment Plant. S.A.E.	400	1087
Orasqualia O&M	84	211
Shariket Miyeh Ras Djinet S.p.A.	1,804	1,508
Shariket Tahlya Miyah Mostaganem S.p.A.	1,184	1,284
<b>TOTAL</b>	<b>38,408</b>	<b>37,168</b>

The receivable balance from the companies Shariket Tahlya Miyah Mostaganem S.p.A. and Shariket Miyeh Ras Djinet S.p.A. is stated in US dollars, while the balance with Orasqualia Development Waste Water Treatment Plant, S.A.E., is stated in Egyptian pounds; the balance with Aqualia Mace LLC, is stated in UAE dirham; the balance with Aquos El Realito, S.A. de C.V. is stated in Mexican pesos and the balance of the company Severomoravské Vodovody a Kanalizace Ostrava, A.S. is stated in Czech crowns. All of them have been



converted at the closing exchange rate of each year.

**10.3** The breakdown of the balance existing under Impairment of trade receivables is as follows:

<b>WRITE-DOWN OF TRADE RECEIVABLES</b>		
<i>(Amount in thousands of euros)</i>		
	<b>31.12.2016</b>	<b>31.12.2015</b>
Customer insolvencies	29,432	30,207
Debtor insolvencies	1,410	195
<b>TOTAL</b>	<b>30,842</b>	<b>30,402</b>

**10.4** The movements under Impairment of trade receivables is as follows:

<b>WRITE-DOWN OF TRADE RECEIVABLES</b>	
<i>(Amounts in thousands of euros)</i>	
<i>Changes between 1 January 2015 and 31 December 2015</i>	
<b>Balance at 31 December 2014</b>	<b>28,650</b>
Allowance for impairment provisioned in current year	8,168
Reversal of impairment provisioned in previous years	(6,416)
<b>Balance at 31 December 2015</b>	<b>30,402</b>
<i>Changes between 1 January 2016 and 31 December 2016.</i>	
<b>Balance at 31 December 2015</b>	<b>30,402</b>
Allowance for impairment provisioned in current year	8,357
Reversal of impairment provisioned in previous years	(7,917)
<b>Balance at 31 December 2016</b>	<b>30,842</b>

The Company records under the heading "Losses, impairment and changes in trade provisions" (see Note 18.11) the net effect of that provision. In addition, it records the loss of loans considered uncollectible and other short-term provisions under the same heading for a total of EUR 3,856 thousand at 31 December 2016 (EUR 3,909 thousand at 31 December 2015).

## **NOTE 11 EQUITY**

The detail of "Equity" and of the changes therein is presented in the Statement of changes in equity.

**11.1.** The **share capital** is represented by 145,000,000 nominative shares, fully subscribed and paid up, with a par value of one euro value each. In 2001, a redenomination of the share capital to euros was performed, resulting in a restricted reserves account amounting to EUR 76 thousand, presented under "Other reserves" in the accompanying balance sheet.

**Fomento de Construcciones y Contratas, S.A.** is the majority shareholder (99.9%).

**11.2.** The **issue premium** is fully distributable at 31 December 2016 and 2015.

**11.3** The composition of **Reserves** at 31 December 2016 and 2015, is as follows:

<b>RESERVES</b>		
<i>(Amounts in thousands of euros)</i>		
	<b>31/12/2016</b>	<b>31/12/2015</b>
Legal reserve	29,000	29,000
Voluntary reserves	363,377	344,444
Special reserves	76	76
Goodwill Reserves	32,635	28,497
<b>TOTAL</b>	<b>425,088</b>	<b>402,017</b>

As of 31 December 2016, the **legal reserve** is equal to 20% of the share capital and therefore no additional amount will be earmarked for the distribution of profit for the year 2016 (see Note 3).

The part of the legal reserve balance that exceeds 10% of the already increased capital may be used to increase capital. Except for the aforementioned purpose, until it exceeds 20% of the share capital, this reserve may only be used to offset losses, provided that there are no other sufficient reserves for such purpose.

The **voluntary reserves** are freely available at 31 December 2016 and 2015.

**Goodwill Reserves.** Pursuant to the terms of article 273.4 of the consolidated text of the Spanish Companies Law valid up to 31 December 2015, the Company allocated a restricted reserve fund for the goodwill amount that appears in assets in the statement of financial position (see Note 5) for a period of 20 years, the balance of which at 31 December 2016 is EUR 32,635 thousand (EUR 28,497 thousand at 31 December 2015). This reserve is restricted.

According to the amendments introduced in the Spanish Companies Law under Act 22/2015, of 20 July, on Accounts Auditing, in periods starting 1 January 2016 the Company shall cease to contribute to this reserve for goodwill and the amount thereof shall be re-allocated to voluntary reserves, with the amount in excess of the goodwill recognised in assets on the balance sheet being available starting in this period. No amounts whatsoever were reclassified to voluntary reserves in 2016.

## **NOTE 12 GRANTS**

The changes in this section during each year were as follows:

<b>GRANTS</b>	
<i>(amounts in thousands of euros)</i>	
<i>Changes from 1 January to 31 December 2016</i>	
<b>Balance at 31 December 2015</b>	<b>4,645</b>
Additional amounts recognised during the year	388
Amount Taken to Income	(1,358)
Tax effects	243
Others	906
<b>Balance at 31 December 2016</b>	<b>4,824</b>

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**GRANTS**

*(Amounts in thousands of euros)*

*Changes from 1 January to 31 December 2015*

<b>Balance at 31 December 2014</b>	<b>5,851</b>
Additional amounts recognised during the year	14
Amount Taken to Income	(1,689)
Effect of taxes and other income/expense	469
<b>Balance at 31 December 2015</b>	<b>4,645</b>

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The income statement includes an amount of EUR 1,358 thousand relating to the charge to income of non-financial assets (EUR 1,689 thousand at 31 December 2015).

At 31 December 2016, there is an amount of EUR 1,099 thousand from the consolidation of TJVs (EUR 693 thousand at 31 December 2015). These amounts have been granted by the European Union to finance an investment plan that the company is constructing in a UTE with other companies.

The income statement includes an amount of EUR 6,143 thousand in terms of operating subsidies (EUR 10,071 thousand at 31 December 2015) relating to grants awarded to the Company by the municipalities to which it provides end-to-end water cycle services in recognition of the concessionaire's operating deficit in the concessions under the provisions of the terms and conditions and respective contract.

The outstanding amounts receivable at 31 December 2016 and 2015 for this item are indicated in Note 15.

**NOTE 13 \_\_\_\_\_ PROVISIONS**

The detail and the changes in 2016 and 2015 is as follows:

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	<b>NON-CURRENT PROVISIONS</b>					<b>BALANCE</b>
	<i>Variation between 31 December 2015 and 2016</i>					
	<b>BALANCE</b>	(+)	(+)	(-)	(+/-)	
	<b>31/12/2015</b>	<b>PROVISION</b>	<b>UPDATE</b>	<b>DISTRIBUTION</b>	<b>TRANSFERS</b>	<b>31/12/2016</b>
Provisions for pensions	106	136	-	(98)	-	144
Other provisions	32,423	2,616	371	(5,594)	-	29,816
Provisions for infrastructure developments	25,902	9,289	830	(4,765)	-	31,256
<b>TOTAL</b>	<b>58,431</b>	<b>12,041</b>	<b>1,201</b>	<b>(10,457)</b>	<b>-</b>	<b>61,216</b>

**NON-CURRENT PROVISIONS**  
*Variation between 31 December 2014 and 2015*

	<b>BALANCE</b>	(+)	(+)	(-)	(+/-)	<b>BALANCE</b>
	<b>31/12/2014</b>	<b>PROVISION</b>	<b>UPDATE</b>	<b>DISTRIBUTION</b>	<b>TRANSFERS</b>	<b>31/12/2015</b>
Provisions for pensions	132	-	-	(26)	-	106
Other provisions	29,457	5,791	549	(3,374)	-	32,423
Provisions for infrastructure developments	28,438	7,210	855	(10,601)	-	25,902
<b>TOTAL</b>	<b>58,027</b>	<b>13,001</b>	<b>1,404</b>	<b>(14,001)</b>	<b>-</b>	<b>58,431</b>

The amount allocated to “Other provisions” and “Provisions for infrastructure developments” recorded at 31 December 2016, totalling EUR 2,616 thousand, is stated with a charge to "Other current operating expenses" in the accompanying income statement, and is intended to cover contractual liabilities that may entail a probable payment obligation in the future.

The update to provisions in an amount of EUR 1,201 thousand at 31 December 2016 (EUR 1,404 thousand at 31 December 2015) is recorded under the heading "Finance costs" (see Note 18.8) in the accompanying income statement.

The long-term provisions relate to:

- a) Provisions for pensions. The Company has outsourced all its commitments in respect of supplements to Social Security pensions and retirement bonuses. The balance existing at 31 December 2016 and 2015 relates to commitments that cannot be outsourced originating from the UTE Aqualia - FCC (Vigo).
- b) Other provisions. It records the estimates performed by the Company of the contractual liabilities that may give rise to a probable payment obligation in the future.
- c) Provisions for infrastructure developments These are allocated when the Company is required to perform activities that improve the infrastructure when such activities do not give rise to increased revenue from the concession in the exchange. They have a balancing entry in “Intangible assets under concession arrangements”.

The breakdown by contract at 31 December 2016 and 2015 is as follows:

	<b>31/12/2016</b>	<b>31/12/2015</b>
Cangas (Pontevedra)	2,464	2,464
Vigo (Pontevedra)	3,303	2,053
Lleida (Lleida)	10,300	10,491
Candelaria (Santa Cruz de Tenerife)	1,300	1,426
Arico (Santa Cruz de Tenerife)	700	700
Moguer (Huelva)	973	1,132
Caspe (Zaragoza)	166	310
Lepe (Huelva)	40	45
Chiclana (Cádiz)	211	431

Azuaga (Badajoz)	302	300
San Juan del Puerto(Huelva)	-	37
Arcos de la Frontera(Cádiz)	2,990	2,920
Fraga (Huesca)	473	604
Almansa (Albacete)	3,312	-
Barbate (Cádiz)	998	1,219
Bollullos Par del Condado (Huelva)	70	215
Tordera (Barcelona)	55	90
Campo de Gibraltar Association of Municipalities	1,943	-
Talavera de la Reina (Toledo)	-	549
Denia (Alicante)	573	-
Other contracts	1,083	916
<b>TOTAL</b>	<b>31,256</b>	<b>25,902</b>

The short-term provisions include the obligations of the Company to meet future payment obligations for events that may have occurred in the course of its business and for which it is contractually or legally liable.

#### NOTE 14 \_\_\_\_\_ FINANCIAL LIABILITIES BY CATEGORY

The classification of financial liabilities at year-end 2016 and 2015 is as follows:

<b>BALANCE AT 31/12/2016 (in thousands of euros)</b>	<b>Non-current</b>	<b>Current</b>	<b>Total</b>
<b>Accounts payable</b>			
Payable to Group companies and associates (Note 14.2 and 14.3)	363,384	172,819	536,203
Obligations under finance leases	36	41	77
Other financial liabilities	34,708	5,334	40,042
Trade and other payables	-	235,510	235,510
<b>TOTAL</b>	<b>398,128</b>	<b>413,704</b>	<b>811,832</b>

<b>BALANCE AT 31/12/2015 (in thousands of euros)</b>	<b>Non-current</b>	<b>Current</b>	<b>Total</b>
<b>Accounts payable</b>			
Payable to Group companies and associates (Note 14.2 and 14.3)	361,301	164,483	525,784
Obligations under finance leases	76	39	115
Other financial liabilities	29,463	4,301	33,764
Trade and other payables	6,252	233,891	240,143
<b>TOTAL</b>	<b>397,092</b>	<b>402,714</b>	<b>799,806</b>

There are no significant differences between the fair value and the book value of the financial liabilities classified as "Debits and payables."

Net gains and losses of financial liabilities relating mainly to finance costs on debts with group companies and associates and with credit institutions amounted to EUR 23,225 and EUR 5,646 thousand, respectively, at 31 December 2016 (EUR 21,572 and EUR 5,577 thousand, respectively, at 31 December 2015).

#### 14.1. Bank borrowings

In 2014, FCC, S.A. and a group of companies including the Company signed a Refinancing Agreement with the Group's main lenders, replacing its bank borrowings with intra-group debt (see Note 14.2).

#### 14.2. Non-current financial debt with group companies.

	(thousands of euros)	
	31.12.2016	31.12.2015
Fomento de Construcciones y Contratas, S.A.	362,819	360,736
Aqualia Infraestructuras, S.A.	565	565
<b>TOTAL</b>	<b>363,384</b>	<b>361,301</b>

The long-term debts with Fomento de Construcciones y Contratas, S.A. at 31 December 2016 and 2015 show the following breakdown:

	(thousands of euros)	
	31.12.2016	31.12.2015
Participation in the refinancing agreement of the FCC Group	209,069	206,986
Participating loan	149,250	149,250
Financing of the construction of Llanera sports facilities	4,500	4,500
<b>TOTAL</b>	<b>362,819</b>	<b>360,736</b>

#### Participation in the refinancing agreement of the FCC Group

Based on the Restructuring Framework Agreement and the Financing Agreement signed by a group of companies led by FCC, S.A., including the Company, and almost all their lenders, on 26 June 2014 a loan agreement was signed between FCC and the Company.

Such loan agreement became effective through the express, irrevocable and unconditional assumption by FCC as a debtor, but with a cumulative and joint and several character with the Company, of the contractual position thereof in the affected debt.

The loan contract matures on the same date as the Financing Agreement for FCC, S.A., in other words, final maturity in June 2018. Therefore, the company has stated this loan as Non-current financial debt.

The average rate of interest was 4.38 % (4.55 % for the year 2015).

#### Participating loan

In 2006 the Company signed a loan agreement for a total of 4,800 million Czech Crown with a bank syndicate that included HVB Bank Czech Republic a.s. as the agent bank. The amount of this loan was used for the

purchase of 98.67 % of the capital of the Czech company Severomoravske vodovody a kanalizace Ostrava a.s. and it has been refinanced on several occasions, requiring, among other commitments, that the majority shareholder of FCC Aqualia grant said company a participating loan for EUR 149,250 thousand, which was considered shareholder equity for the purposes set forth in the financing agreement. The balance of this loan at 31 December 2016 comes to EUR 149,250 thousand (EUR 149,250 thousand at 31 December 2015).

The interest rate has two components, one fixed and one variable. The first of these is EURIBOR and the second is calculated based on the evolution of the return on equity of the Company compared to the Profitability of the Sector in which the Company operates. The interest rate applied in 2016 was 6.70 % (7% in 2015).

The loan was established for an indefinite term, although the lender could ask the borrower for the total or partial repayment at any time, providing at least one month's notice. In this regard, on 22 December 2016, Fomento de Construcciones y Contratas, S.A. informed the Company of its request to declare the loan due on 31 January 2017. However, Fomento de Construcciones y Contratas, S.A. and FCC Aqualia, S.A. agreed to refinance payment of the loan by including the balance of the participating loan into the ordinary loan with final maturity in June 2018 mentioned above in this note. For this reason, this liability remains classified as a non-current liability in the Company's attached statement of financial position at 31 December 2016.

**14.3. Current debts with group companies and associates** at 31 December 2016 and 2015, for financial transactions and the tax effect of consolidated taxation, are:

<i>CURRENT PAYABLES TO GROUP COMPANIES AND ASSOCIATES</i>		
<i>(Amounts in thousands of euros)</i>		
	<b>31/12/2016</b>	<b>31/12/2015</b>
Aigües de Vallirana, S.A.U.	2,630	2,654
Aguas de Tomovi, S.A.	34	124
Conservación y Sistemas, S.A.	6,840	7,971
Aguas de Archidona, S.L.	1	1
Aqua Campiña, S.A.	248	-
Aqualia Intech, S.A.	46,560	22,552
Aqualia México, S.A. de C.V.	5,739	6,607
Aquacartaya, S.L.	76	76
FCC AQUALIA América, S.A.U.	318	318
Acque Di Caltanissetta, S.P.A.	4,457	4,859
AIE Itam Delta de la Tordera	749	749
AIE Costa Tropical de Granada	2	-
Augas Municipais de Arteixo, S.A.	1	1
Empresa Gestora de Aguas Linenses , S.L.	868	4,267
Colaboración, Gestión y Asistencia, S.A.	(3)	(3)
Depurplan 11, S.A.U.	514	-
Depurtebo, S.A.U.	-	1,847
Empresa Mixta de Butarque, S.A.	166	166
Entemanser, S.A.	4,242	4,221
FCC Construcción, S.A.	115	43
Fomento de Construcciones y Contratas, S.A.	27,035	49,900
FS, Colaboración y Asistencia, S.A.	1,562	1,533
Empresa Mixta de Aguas de Ubrique, S.A.	453	314
Proactiva Group	13	13
Infraestructuras y Distribución General de Agua, S.L.	7,068	5,759
Inversora Riutort, S.L.	290	290
Hidrotec, S.L.	14,254	11,718
Proveiments D'Aigua, S.A.	1	-
Sociedad Ibérica del Agua, S.A.	203	88
Sociedad Española de Aguas Filtradas, S.A.	14,558	14,060
Tratamiento Industrial de Aguas, S.A.	33,825	24,355
<b>TOTAL</b>	<b>172,819</b>	<b>164,483</b>

At 31 December 2016, the current balance held with Fomento de Construcciones y Contratas, S.A. includes an amount of EUR 18,577 thousand (EUR 19,737 thousand at 31 December 2015) relating to the debt to be paid for the Corporate Income Tax for the year 2016 (see note 15), of which EUR 12,993 thousand (EUR 14,361 thousand at 31 December 2015) relate to FCC Aqualia and EUR 5,584 thousand (EUR 5,376 thousand at 31 December 2015) relate to other subsidiaries that are part of consolidated tax group 18/89 headed by FCC.

The average rate of interest was 4.38 % (4.55 % for the year 2015).

**14.4. The accounts payable to group companies and associates for commercial operations are as follows:**

<i>CURRENT PAYABLES TO GROUP COMPANIES AND ASSOCIATES</i>		
<i>(Amounts in thousands of euros)</i>		
	<b>31/12/2016</b>	<b>31/12/2015</b>
Aigües del Tomoví, S.A.	17	13
AIE Costa Tropical de Granada	-	17
Aquacartaya, S.L.	12	9
Aqua Campiña, S.A.	5	18
Severomoravske Vodovody A Kanal Ost	1	1
Aqualia Intech, S.A.	1,699	2,987
Aqualia México, S.A. de C.V.	187	603
Aguas de Denia, S.A.	181	491
Aguas de Vallirana, S.A.U.	62	32
Conservación y Sistemas, S.A.	151	-
Prefabricados Delta, S.A.	9	9
Emp. Gestora de Aguas Linenses, S.L.	26	-
Emp. Municipal mixta de Aguas de Nijar	697	856
Emp. Mixta de Aguas y Servicios, S.A.	26	15
Emp. Mixta de Aguas de Ubrique, S.A.	5	4
Emp. Mixta de Aguas de Langreo, S.L.	-	13
Empresa Municipal de Aguas de Algeciras, S.A.	2,241	1,259
Empresa Municipal de Aguas de Linares, S.A.	4	-
Ecoactiva Medioambiente, S.A.	8	7
Entemanser, S.A.	30	24
A.I.E. Itam Delta de la Tordera	454	271
Abrantaqua, S.A.	-	166
Cartagua, S.A.	-	9
FCC Ámbito, S.A.	19	26
FCC Construcción, S.A.	450	146
FCC Equal CEE, S.L.	2	2
Fomento de Construcciones y Contratas, S.A.	2,749	7,975
FCC Medio Ambiente, S.A.	4	10
FCC Industrial y Servicios Energéticos, S.A.	20	11
FS, Colaboración y Asistencia, S.A.	47	67
Gamasur Gibraltar, S.L.	22	25
Fedemes, S.L.	265	7
Hidrotec Tecnología del Agua, S.L.	5,312	6,490
Hormigones Calahorra, S.A.	-	2
Orasqualia Devel. Waste T.P. S.A.E.	1	21
Infraestructuras y Distribución General de Agua, S.L.	10	135
Aquajerez, S.L.	1	1
Nueva Sociedad de Aguas de Ibiza, S.A.	46	42
Proveiments D'Aigua, S.A.	11	7
Servicios Especiales de Limpieza, S.A.	83	-
Compañía de Control de Residuos, S.A.	5	7



Abastament en.alta Costa Brava Empresa Mixta, S.A.	1	1
Sociedad Española de Aguas Filtradas, S.A.	481	270
Tratamiento Industrial de Aguas, S.A.	4,201	7,512
<b>TOTAL</b>	<b>19,545</b>	<b>29,561</b>

#### 14.5. Other Financial Liabilities.

This caption mainly relates to deposits received from subscribers in water contracts and fixed asset suppliers.

#### NOTE 15 \_\_\_\_\_ TAX MATTERS

The reconciliation of the accounting loss for 31 December 2016 and 2015 to the taxable profit/tax loss for income tax purposes is as follows:

<b>RECONCILIATION OF THE ACCOUNTING PROFIT/LOSS WITH THE TAXABLE INCOME OF THE CORPORATIONS TAX</b>		
<i>(Amounts in thousands of euros)</i>		
	<b>31/12/2016</b>	<b>31/12/2015</b>
<b>Accounting profit for the year before tax</b>	<b>70,751</b>	<b>70,934</b>
<b>Permanent differences</b>	<b>10,869</b>	<b>(19,492)</b>
Permanent differences originating in the UTEs	955	201
Other permanent differences	33,059	4,949
Double taxation exemption	(31,721)	(24,701)
Non-deductible expenses	300	59
Impairment of goodwill	8,276	-
<b>Temporary differences: Advanced</b>	<b>(23,981)</b>	<b>(502)</b>
Advance temporary differences arising in UTEs	-	-
Profit/Loss Adjusted negative accounting result of UTEs charging profits following year	(1,433)	2,461
Surplus amortisation	(751)	(968)
Non-deductible provisions	(1,817)	(1,929)
Portfolio impairment	(12,376)	-
Other temporary differences	(7,604)	(66)
<b>Temporary differences: Deferred</b>	<b>(2,893)</b>	<b>(3,921)</b>
Deferred temporary differences arising in UTEs	-	-
Profit/Loss Adjusted positive accounting result of UTEs charging profits following year Next	(4,250)	(4,197)
Leases	7	7
Free amortisation	247	292
Tax provision for depreciation of portfolios in investees	1,221	-
Other temporary differences	(118)	-
Impairment of goodwill	-	(23)
<b>Taxable Profit</b>	<b>54,746</b>	<b>47,019</b>

The "Double taxation exemption" at 31 December 2016 and 2015 includes the amount of income from equity received by the Company and the results of foreign branches obtained in 2016.

"Other permanent differences" at 31 December 2016 basically includes the impairment deducted in previous years for equity instruments of group companies, joint ventures and associates totalling EUR 12,376 thousand and the recognition of write-downs and impairment of trade receivables amounting to

EUR 13,793 thousand, for which the Company did not record any associated deferred tax asset as recoverability in future periods cannot be guaranteed in the fiscal consolidation environment in which the Company operates.

Pursuant to Royal Decree Law 3/2016, of 2 December 2016, the Company reversed the amounts deducted in prior periods until 31 December 2013 for portfolio impairment and derecognised deferred tax assets on its balance sheet for this item up to 31 December 2015. Application of this standard led to recognition of an income tax expense amounting to EUR 3,094 thousand, which shall be paid to the Tax Authorities over a period of 5 years, at a rate of 20% per year.

The calculation of the accounting provision for corporations tax is as follows:

<b>CALCULATION OF THE ACCOUNTING PROVISION FOR CORPORATIONS TAX</b>		
<i>(Amounts in thousands of euros)</i>		
	<b>31/12/2016</b>	<b>31/12/2015</b>
<b>Profit/loss Before tax</b>	<b>70,751</b>	<b>70,934</b>
-Permanent differences	<b>10,869</b>	<b>(19,492)</b>
<b>Profit/loss Adjusted accounting result</b>	<b>81,620</b>	<b>51,442</b>
<b>Gross accrued corporations tax (25% in 2016 - 28% in 2015)</b>	<b>20,405</b>	<b>14,404</b>
+Deductions and credits	-	(43)
+Other restatements	261	3,052
<b>Total income tax expense</b>	<b>20,666</b>	<b>17,413</b>

The heading "other adjustments" basically includes, as of 31 December 2016 and 2015, the corporations tax recorded in the Temporary Joint Ventures and Branches with a permanent establishment abroad.

The Temporary Joint Ventures in which the Company participates are subject to the regime of fiscal transparency and therefore they charge the taxable amounts, withholdings and deductions to their partner companies in the year they are approved.

The sum corresponding to withholdings and interim payments made during 2016 amounted to EUR 694 thousand (EUR 763 thousand in 2015). Once the deductions and rebates have been considered, the net amount payable to the FCC Group for Corporate Income Tax amounts to EUR 12,992 thousand (EUR 14,361 thousand at 31 December 2015).

Since it is within FCC's 18/89 Consolidated Group, the deductions that exceed those that would have applied to the Company on an individual basis will be passed to the statement of the parent FCC, S.A. However, the Group has limited the loss carryforwards to be recognised in the individual companies, and therefore also the creation of advance payments in the year, as well as the application of deductions, as a result of the fact that the consolidated group has a negative statement.

The breakdown at 31 December 2016 and 2015 with Public Authorities is as follows:

<b>TAX RECEIVABLES</b>		
<i>(Amounts in thousands of euros)</i>		
	<b>31/12/2016</b>	<b>31/12/2015</b>
Current tax assets	(40)	(61)
Tax Authorities for long-term subsidies granted	2,243	5,284
Tax Authorities for short-term subsidies granted	16,759	15,476
VAT refundable	4,600	7,207
Other receivables from Public Authorities	340	831
<b>TOTAL</b>	<b>23,902</b>	<b>28,737</b>
<b>CURRENT PAYABLES TO PUBLIC AUTHORITIES</b>		
<i>(Amounts in thousands of euros)</i>		
	<b>31/12/2016</b>	<b>31/12/2015</b>
Current tax liabilities	1,991	2,404
VAT payable	-	5,174
Payables for withholdings and interim payments of personnel	1,977	1,877
Tax Authorities payables for interim withholdings of investment income, property	73	65
Sundry tax payables	55,508	50,760
Accruals of taxes and other duties	1,355	1,635
Invoiced Indirect Taxes	1,152	454
Payables to social security bodies	3,917	3,788
Tax Authorities payable for current deferrals of VAT	2,616	13,720
Tax Authorities payable for current deferrals of interim income tax withholdings	42	2,220
<b>TOTAL</b>	<b>68,631</b>	<b>82,097</b>
<b>NON-CURRENT PAYABLES TO PUBLIC AUTHORITIES</b>		
<i>(Amounts in thousands of euros)</i>		
	<b>31/12/2016</b>	<b>31/12/2015</b>
Tax Authorities payable for non-current deferrals of VAT	-	5,547
Payable to the Social Security, non-current	-	705
<b>TOTAL</b>	<b>-</b>	<b>6,252</b>

The heading "Tax Authorities payable for other items" mainly includes taxes collected by the Company on behalf of certain municipalities, which are outstanding at 31 December 2016 and 2015.

Deferred tax assets correspond mainly to provisions that are not tax deductible during the year, time limits on deducting depreciation of assets carried forward and tax losses from TJVs that recognise their profits in the following year, whereas deferred tax liabilities are mainly related to non-returnable grants, tax gains from TJVs that are taken to profit in the following year and capitalisation of concession arrangement finance charges.

<b>DEFERRED TAX ASSETS</b>		
<i>(Amounts in thousands of euros)</i>		
	<b>31/12/2016</b>	<b>31/12/2015</b>
Provisions	3,507	6,601
Amortisation	1,911	2,178
TJV profits recognised in following year and adjustments thereto	2,540	2,865
Other differences	-	1,901
<b>TOTAL</b>	<b>7,958</b>	<b>13,545</b>

<b>DEFERRED TAX LIABILITIES</b>		
<i>(Amounts in thousands of euros)</i>		
	<b>31/12/2016</b>	<b>31/12/2015</b>
TJV profits recognised in following year and adjustments thereto	4,848	3,807
Finance leases	44	46
For capitalisation of finance charge, concession agreement.	3,730	3,798
Impairment of goodwill	53	23
Free depreciation	481	543
Other adjustments	741	1,739
<b>TOTAL</b>	<b>9,897</b>	<b>9,956</b>

The breakdown of the income tax expense is as follows (in thousands of euros):

<b>Breakdown of income tax expense</b>		
<i>(Amounts in thousands of euros)</i>		
	<b>31/12/2016</b>	<b>31/12/2015</b>
Current tax	(20,405)	(14,361)
<i>On continuing operations</i>	(20,405)	(14,361)
Deferred taxes	(261)	(3,052)
<i>On continuing operations</i>	(261)	(3,052)
<b>Total income tax expense/income</b>	<b>(20,666)</b>	<b>(17,413)</b>

During fiscal year 2016 and 2015, no taxes for a significant amount have been recognised in equity.

Under current legislation, taxes cannot be considered to be definitively settled until the tax returns filed have been reviewed by the tax authorities or the four-year statute of limitation period has elapsed.

At 31 December 2016, the Company is subject to tax audit from 2010 to 2013 for Corporations Tax and from 2012 to 2013 for the value added tax. In these financial statements, no amount is recorded as provisions for tax assessments for these inspections, since the Company understands that if different criteria exist for interpreting the tax and accounting regulations, they will not lead to significant liabilities arising in this report. And in relation to the other taxes to which the Company is subject, the last four years remain open for all taxes, although the directors do not believe significant liabilities would arise.

#### **NOTE 16 \_\_\_\_\_ NON-CURRENT ACCRUALS AND DEFERRED INCOME**

This section of the balance sheet at 31 December 2016 and 2015 includes the amounts received as the rate for the completion of works and investments involving environmental improvements in the water supply networks during the construction phase thereof and until the start of their operation.

#### **NOTE 17 \_\_\_\_\_ COLLATERAL AND GUARANTEES**

At 31 December 2016, the Company has provided collateral primarily to ensure compliance with its contractual obligations as well as a guarantee in the submission of tenders for future contracts, amounting to EUR 364,821 thousand (EUR 210,960 thousand at 31 December 2015).

The increase in the Bank Guarantees balance in 2016 was due to the guarantees obtained for the new contracts awarded during the year, mainly the El Salitre and Barrancabermeja Wastewater Treatment Plants in Colombia.

It has also provided guarantees to third parties for the following companies in the FCC group and the following amounts (in thousands of euros):

	<b>31/12/2016</b>	<b>31/12/2015</b>
Abrantaqua	1,663	1,800
Aguas de Langreo, S.A.	1,170	1,430
Aguas de las Galeras, S.L.	727	727
Aigues del Segarra Garrigues, S.A.	60	60
Aquacartaya, S.L.	420	420
Aquafundalia - Agua do Fundao, S.A.	835	1,050
Acque di Caltanissetta, S.p.a.	2,000	-
Aigues del Tomoví, S.L.	278	-
Aqualia Intech, S.A.	15,806	-
Concesionaria de Desalación de Ibiza, S.A.	12	-
Conservación y Sistemas, S.A.	24	-
Depurplán 11, S.A.	28	-
Sociedad Española de Aguas Filtradas, S.A.	62	-
Tratamiento Industrial de Aguas, S.A.	2	-
Aqualia México, S.A. de C.V.	2,811	-
Aquamaior – Aguas de Campomaior, S.A.	2,775	2,825
Compañía Servicios Medioambientales do Atlántico, S.A.	944	1,353
Empresa Gestora de Aguas Linenses, S.L.	33	10
Fomento de Construcciones y Contratas, S.A.	3,237,357	3,701,675
Hidrotec Tecnología del Agua, S.L.	21	21
<b>TOTAL</b>	<b>3,267,028</b>	<b>3,711,371</b>

At 31 December 2016, FCC Aqualia, along with other companies in the FCC Group, is listed as the obligor and joint and several guarantor in syndicated loans signed by the Parent Company, Fomento de Construcciones y Contratas, S.A., for a total of EUR 3,237,357 thousand (EUR 3,701,675 thousand at 31 December 2015). A pledge has also been made on the shares of the Company representing its entire share capital, with the entry into force of that pledge being subject to compliance with certain conditions precedent.

The Directors of the Company do not expect significant liabilities to arise as a result of the guarantees provided.

## NOTE 18 INCOME AND EXPENSES

18.1 The distribution of the **net turnover** by geographical location and type of business of the Company is as follows:

<b>REVENUE</b>		
<b>BY GEOGRAPHICAL LOCATION</b>		
<i>(Amounts in thousands of euros)</i>		
	<b>31.12.2016</b>	<b>31.12.2015</b>
<b>Autonomous community</b>		
Andalusia	161,877	164,934
Aragon	6,538	6,737
Asturias	28,857	29,109
Balearic Islands	36,339	32,874
Canary Islands	21,759	25,285
Cantabria	21,773	22,450
Castile-La Mancha	49,732	50,243
Castile-Leon	44,115	43,205
Catalonia	56,124	56,117
Region of Valencia	34,992	34,040
Extremadura	38,738	37,905
Galicia	54,789	37,493
Madrid	47,243	31,992
Murcia	31,241	30,260
Navarre	1,789	1,774
Basque Country	3,214	4,996
La Rioja	4,562	4,567
<b>International</b>		
United Arab Emirates	1,540	435
Algeria	10,144	12,295
Egypt	449	234
India	421	-
Italy	1,646	3,067
Mexico	65	-
Portugal	1,910	2,355
Saudi Arabia	10,100	4,601
Tunisia	3,112	788
<b>TOTAL</b>	<b>673,069</b>	<b>637,756</b>

<b>REVENUES PER BUSINESS ACTIVITY</b>		
<i>(Amount in thousands of euros)</i>		
	<b>31.12.2016</b>	<b>31.12.2015</b>
Water supply	382,263	365,400
Sanitation	94,131	83,716
Treatment	83,077	75,078
Water works	40,642	56,662
Income from equity investments	31,933	19,392
Desalination	11,326	11,969
Concession arrangement finance income	-	354
Other income	29,697	25,185
<b>TOTAL</b>	<b>673,069</b>	<b>637,756</b>

The largest increase in turnover by type of activity arises from the increase in dividends received that have been assigned according to geographic location to the Autonomous Community of Madrid in which the Company has its registered office.

The breakdown of income from equity received from group companies and associates in 2016 and 2015 is presented below:

<b>DIVIDENDS RECEIVED</b>		
<i>(Amounts in thousands of euros)</i>		
	<b>31/12/2016</b>	<b>31/12/2015</b>
Tratamiento Industrial de Aguas, S.A.	8,864	-
Colaboración, Gestión y Asistencia, S.A.	179	97
Conservación y Sistemas, S.A.	1,004	1,657
Aqualia Czech, S.L.U.	6,171	6,115
Entemanser, S. A.	11,084	3,436
Infraestructuras y Distribución General del Agua, S.A.	238	375
Depurplan 11, S.A.	133	830
Aquajerez, S.L.	363	131
Aquacartaya, S.L.	602	649
Aguas de las Galeras, S.L.	326	217
<b>TOTAL GROUP COMPANIES</b>	<b>28,964</b>	<b>13,507</b>
AIE ITAM Delta de la Tordera	5	8
AIE Ciudad Real	90	148
AIE Costa Tropical de Granada	19	191
Girona, S.A.	113	61
AIE Costa Brava Ab. Aqualia-Sorea	47	47
AIE Aquagest – Aqualia	52	46
Suministros Aguas de Querétaro S.A.C.V.	65	33
Aguas de Narixa, S.A.	-	7
Aqualia Mace LLC	1,233	4,253
Nueva Sociedad de Aguas de Ibiza , S.A.	-	40
Empresa Municipal de Aguas de Benalmádena, S.A.	568	497
Concesionaria de Desalación de Ibiza, S.A.	307	155
Orasqualia O&M	220	346
<b>TOTAL ASSOCIATES</b>	<b>2,719</b>	<b>5,832</b>
Depurtebo, S.A.	250	-
Aigües del Segarra Garrigues, S.A.	-	53
<b>TOTAL THIRD PARTIES</b>	<b>250</b>	<b>53</b>
<b>TOTAL DIVIDENDS</b>	<b>31,933</b>	<b>19,392</b>

Of the total turnover, the UTEs contribute as detailed below, in thousands of euros:

<b>JOINT VENTURE</b>	<b>31/12/2016</b>	<b>31/12/2015</b>
UTE Agua Santo Domingo	136	140
UTE Aguas de Alcalá	7,210	5,541
UTE Aigües Els Poblets	807	873
UTE Alkhorayef-FCC Aqualia	3,313	1,146
UTE Aqualia - FCC Vigo	39,417	23,068
UTE Aqualia - Riofabar Piloña	292	298
UTE Bombeo Zona Sur	1,547	68
UTE Cangas de Morrazo	-	-1
UTE Centro Deportivo Granadilla de Abona	854	665
UTE Consorcio Louro	2,628	2,010
UTE Costa Tropical	132	187
UTE Costa Tropical II	29	451
UTE Costa Tropical III	1,615	2,617
UTE Depuración Poniente Almería	1,368	1,103
UTE EDAM Santa Eulalia	561	-793
UTE EDAR A Guarda 2013	40	40
UTE EDAR Albuñol	12	-
UTE EDAR Cuerva	83	87
UTE EDAR Ranilla	468	491
UTE EDAR Reinoso	504	493
UTE EDAR San Vicente de la Barquera	385	418
UTE EDAR Valdepeñas	-	7
UTE ETAP Este	850	847
UTE Explotación ITAM Tordera	2,452	1,907
UTE FCC – Aqualia Oviedo	15,900	16,477
UTE FCC – Aqualia Salamanca	-	-1
UTE Gestión Cangas	1,211	1,197
UTE Groupement Solidaire Jerba	3,112	789
UTE Guadiana	-88	-74
UTE Hidr-Inv. Do Centr. Ace	131	880
UTE Ibiza	378	213
UTE Mancomunidad de Órbigo	161	135
UTE Mérida	6,572	5,953
UTE Nigrán	1,495	1,344
UTE OYM Cap Djinet	4,988	6,047
UTE OYM Mostaganem	5,128	6,219
UTE Redes CABB	882	858
UTE Redondela	1,897	1,794
UTE Saneamiento Canet l'Almardà	-	3
UTE Santomera	-	-3
UTE Sollanoko Ura	132	-
UTE USSA A	661	724
UTE Vigo Piscinas	1,302	1,287
<b>TOTAL</b>	<b>108,565</b>	<b>85,505</b>



18.2 Income and expenses with related parties. The following transactions have been performed with related parties in 2016 and 2015:

<b>TRANSACTIONS WITH GROUP COMPANIES IN 2016</b>				
<i>(Amounts in thousands of euros)</i>				
	<b>OPERATION</b>		<b>INSTITUTIONS</b>	
	<b>EXPENSES</b>	<b>INCOME</b>	<b>EXPENSES</b>	<b>INCOME</b>
Abrantaqua, S.A.	-	178	-	30
Acque di Caltanissetta, S.P.A.	52	1,652	-	81
Aqualia Intech, S.A.	3,835	1,727	131	15
Aquamaior - Aguas de Campo Maior, S.A.	-	39	-	14
Aqualia Infraestr. de México, S.A. de C.V.	841	99	377	-
Aquaervas - Aguas de Elvas, S.A.	-	624	-	43
Aquafundalia - Aguas do Fundao, S.A.	-	757	-	47
Aguas de Alcázar Empresa Mixta, S.A.	-	674	-	183
Aguas de Las Galeras, S.L.	-	91	-	1,114
AISA Pristina LLC	-	10	-	-
Aquajerez, S.L.	4	4,020	-	1,656
Aqualia Czech, S.L.U.	-	45	-	-
Aqualia Mace LLC	60	306	-	-
Aqualia New Europe BW	-	217	-	-
Aigües de Vallirana, S.A.U.	-	43	110	-
Aqua Campiña, S.A.	(4)	369	-	(896)
Aquacartaya, S.L.	3	259	-	517
Asesoría Financiera y de Gestión, S.A.	-	-	-	851
Cartagua, Aguas do Cartaxo, S.A.	-	427	-	167
Compañía de Control de Residuos, S.L.	18	-	-	-
Conservación y Sistemas, S.A.	151	34	355	-
Depurplan 11, S.A.	-	992	-	-
Ecoactiva de Medioambiente, S.A.	11	-	-	-
Ecoparque Mancomunidad del Este, S.A.	-	1	-	-
Empresa Gestora de Aguas Linenses, S.L.	69	405	-	712
Entemanser, S.A.	127	577	-	-
Fedemes, S.L.	1,690	-	-	-
Fomento de Construcciones y Contratas, S.A.	17,592	170	19,771	3
FCC Ámbito, S.A.	72	-	-	-
FCC Construcción, S.A.	192	517	-	-
FCC Equal CEE, S.L.	12	-	-	-
FCC Industrial e Infraestructuras Energéticas, S.A.	18	46	-	-
FCC Medio Ambiente, S.A.	11	2	-	-
F.S. Colaboración y Asistencia, S.A.	-	-	71	-
Gamasur Campo Gibraltar, S.A.	34	-	-	-
Hidrotec Tecnología del Agua, S.L.	18,526	110	263	-
Hormigones y Morteros Prep., S.A. Unipersonal	(11)	-	-	-
Infraestructuras y Distribución General de Agua, S.L.	127	67	-	-
Matinsa, S.A.	-	1	-	-
Prefabricados Delta, S.A.	11	-	-	-
Servicios Especiales de Limpieza, S.A.	69	-	-	-
Sdad. Española de Aguas Filtradas, S.A.	1,255	90	609	-
Sociedad Ibérica del Agua, S.A.U.	-	5	3	-
Severomoravske Vodovody A Kanalizace Ostrava	-	221	-	-
AS	-	-	-	-
Tratamiento Industrial de Aguas, S.A.	18,961	127	1,535	-
<b>TOTAL</b>	<b>63,726</b>	<b>14,902</b>	<b>23,225</b>	<b>4,537</b>

**TRANSACTIONS WITH GROUP COMPANIES IN 2015**
*(Amounts in thousands of euros)*

	OPERATION		INSTITUTIONS	
	EXPENS ES	INCOME	EXPENS ES	INCOME
Abrantaqua, S.A.	-	726	-	24
Alfonso Benítez, S.A.	-	17	-	-
Acque di Caltanissetta, S.P.A.	1	2,904	-	89
Aqualia Infraestructuras, S.A.	8,085	1,685	-	899
Aquamaior - Aguas de Campo Maior, S.A.	-	-	-	19
Aqualia Infraestr. de México, S.A. de C.V.	423	137	410	-
Aquaelvas – Aguas de Elvas, S.A.	-	387	-	47
Aquafundalia – Aguas do Fundao, S.A.	-	579	-	51
Aguas de Alcázar Empresa Mixta, S.A.	-	635	-	275
Aguas de Las Galeras, S.L.	-	85	-	405
Aquajerez, S.L.	4	3,715	-	1,698
Aqualia Czech, S.L.U.	834	45	-	184
Aqualia Industrial Solutions, S.A.U.	71	12	80	-
Aqualia New Europe BW	-	296	-	-
Aigües de Vallirana, S.A.U.	-	48	105	-
Aqua Campiña, S.A.	-	456	-	298
Aquacartaya, S.L.	7	1,599	-	170
Asesoría Financiera y de Gestión, S.A.	-	-	-	488
Cartagua, Aguas do Cartaxo, S.A.	-	557	-	178
Compañía de Control de Residuos, S.L.	28	-	-	-
Conservación y Sistemas, S.A.	-	27	371	-
Depurplan 11, S.A.	-	969	-	-
Ecoactiva de Medioambiente, S.A.	14	-	-	-
Ecoparque Mancomunidad del Este, S.A.	-	1	-	-
Empresa Gestora de Aguas Linenses, S.L.	3	857	-	747
Entemanser, S.A.	191	618	-	-
FCC Aqualia USA Corp.	-	6	-	-
Fedemes, S.L.	71	-	-	-
Fomento de Construcciones y Contratas, S.A.	14,918	322	19,109	244
FCC Ámbito, S.A.	31	-	-	-
FCC Construcción, S.A.	27	794	-	-
FCC Industrial e Infraestructuras Energéticas, S.A.	37	-	-	-
FCC Medio Ambiente, S.A.	21	13	-	-
F.S. Colaboración y Asistencia, S.A.	-	-	67	-
Gamasur Campo Gibraltar, S.A.	21	-	-	-
Hidrotec Tecnología del Agua, S.L.	16,960	7	53	108
Hormigones y Morteros Prep., S.A.	(21)	-	-	-
Infraestructuras y Distribución General de Agua, S.L.	126	57	-	-
Prefabricados Delta, S.A.	9	-	-	-
Ramalho Rosa Cobetar Sociedade de Construções, S.A.	1	-	-	-
Sdad. Española de Aguas Filtradas, S.A.	1,379	41	563	-
Sociedad Ibérica del Agua, S.A.U.	-	-	4	-
Severomoravske Vodovody A Kanalizace Ostrava AS	-	402	-	-
Tratamiento Industrial de Aguas, S.A.	13,176	140	810	-
<b>TOTAL</b>	<b>56,417</b>	<b>18,137</b>	<b>21,572</b>	<b>5,924</b>

### TRANSACTIONS WITH ASSOCIATES IN 2016

(Amounts in thousands of euros)

	OPERATION		INSTITUTIONS	
	EXPENSES	INCOME	EXPENSES	INCOME
Abastecimiento Alta Costa Brava emp. Mixta	1	43	-	-
Aguas de Denia, S.A.	256	-	-	-
Aguas de Archidona, S.L.	1	421	-	33
Aigües de Girona Salt i Sarria del Ter, S.A.	-	113	-	-
Aigües del Segarra Garrigues. S.A.	-	100	-	-
Aigües del Tomoví, S.A.	38	589	-	-
Aguas de Langreo, S.A.	7	58	-	244
Aguas de Narixa, S.A.	-	829	-	309
Aguas de Priego, S.L.	-	350	-	185
A.I.E. Costa Tropical de Granada	1	2,897	-	551
A.I.E. I.T.A.M. Delta de la Tordera	37	2,499	-	-
A.I.E. Aquagest-Aqualia	-	56	-	-
A.I.E. Costa Brava	-	88	-	-
Aquos El Realito, S.A. de CV	-	147	-	-
Cía. Servicios Medioambientales Atlántico, S.A.	-	127	-	-
Concesionaria Desalación Aguas de Ibiza, S.A.	-	337	-	-
Empresa Municipal de Aguas de Linares, S.A.	18	4,364	-	1
Emanagua Eª Mpal. De Aguas de Níjar, S.A.	1,068	3,941	-	61
Empresa Mixta de Aguas de Ubrique, S.A.	5	912	-	17
Empresa Mixta de Aguas y Servicios, S.A.	61	345	-	-
Empresa Mixta d'Aigües de la Costa Brava	-	3	-	-
Empresa Mixta de Aguas de Jódar, S.A.	-	588	-	71
Empresa Mpal. De Aguas de Algeciras, S.A.	2,203	9,687	-	32
Empresa Mpal. Aguas de Benalmádena, S.A.	-	1,221	-	72
Empresa Mpal. Aguas de Toxiria, S.A.	-	941	-	6
Generávila, S.L.	-	80	-	-
Girona, S.A.	-	28	-	-
Hormigones Calahorra, S.A.	6	-	-	-
Hormigones Reinares S.A.	1	-	-	-
Nueva Sociedad de Aguas de Ibiza, S.A.	179	2	-	-
Orasqualia Devel. Waste T.P. S.A.E.	33	146	-	-
Orasqualia O&M	12	84	-	-
Provements d'Aigua, S.A.	30	-	-	-
Shariket Miyeh Ras Djinet	-	4,988	-	-
Shariket Tahlya Miyah Mostaganem	-	5,128	-	-
<b>TOTAL</b>	<b>3,957</b>	<b>41,112</b>	<b>-</b>	<b>1,582</b>

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**TRANSACTIONS WITH ASSOCIATES IN 2015**
*(Amounts in thousands of euros)*

	OPERATION		INSTITUTIONS	
	EXPENSES	INCOME	EXPENSES	INCOME
Abastecimiento Alta Costa Brava emp. Mixta	1	53	-	-
Aguas de Denia, S.A.	-	15	-	-
Aguas de Archidona, S.L.	1	471	-	36
Aigües del Tomoví, S.A.	39	771	-	4
Aguas de Alcázar Empresa Mixta, S.A.	-	-	-	(27)
Aguas de Langreo, S.A.	22	71	-	260
Aguas de Narixa, S.A.	-	355	-	319
Aguas de Priego, S.L.	-	192	-	189
A.I.E. Costa Tropical de Granada	15	4,666	-	496
A.I.E. I.T.A.M. Delta de la Tordera	30	1,953	-	-
A.I.E. Aquagest-Aqualia	-	57	-	-
A.I.E. Ciudad Real	-	-	-	-
A.I.E. Costa Brava	-	84	-	-
Aqualia Mace LLC	14	435	-	-
Aquos El Realito, S.A. de CV	-	249	-	-
Cía. Servicios Medioambientales Atlántico, S.A.	-	125	-	13
Concesionaria Desalación Aguas de Ibiza, S.A.	-	315	-	-
Empresa Municipal de Aguas de Linares, S.A.	-	3,966	-	2
Emanagua E <sup>a</sup> Mpal. De Aguas de Níjar, S.A.	983	3,878	-	78
Empresa Mixta de Aguas de Ubrique, S.A.	5	882	-	27
Empresa Mixta de Aguas y Servicios, S.A.	50	339	-	-
Empresa Mixta de Aguas de Jódar, S.A.	-	489	-	73
Empresa Mpal. De Aguas de Algeciras, S.A.	2,147	9,399	-	44
Empresa Mpal. Aguas de Benalmádena, S.A.	-	2,849	-	103
Empresa Mpal. Aguas de Toxiria, S.A.	(2)	892	-	7
Generávila, S.L.	-	150	-	-
Girona, S.A.	-	7	-	-
Hormigones Calahorra, S.A.	6	-	-	-
Hormigones Reinales, S.A.	1	-	-	-
Nueva Sociedad de Aguas de Ibiza, S.A.	112	2	-	-
Orasqualia Devel. Waste T.P. S.A.E.	18	147	-	-
Orasqualia O&M	-	87	-	-
Proveiments d' Aigua, S.A.	23	-	-	-
Shariket Miyeh Ras Djinet	(9)	6,047	-	-
Shariket Tahlya Miyah Mostaganem	-	6,219	-	-
Suministros Aguas de Querétaro, SA de CV	-	-	-	-
<b>TOTAL</b>	<b>3,456</b>	<b>45,165</b>	<b>-</b>	<b>1,624</b>

Transactions with the companies Shariket Tahlya Miyah Mostaganem S.p.A. and Shariket Miyeh Ras Djinet S.p.A. are denominated in US Dollars, while those made with Orasqualia Development Waste Water Treatment Plant, S.A.E. are denominated in Egyptian pounds; those made with Aquos El Realito, S.A. de C.V. are denominated in Mexican Pesos and those with SmVak are denominated in Czech crowns.

The information on balances and transactions with members of the Board are detailed in Note 21.

18.3. Procurements It has the following breakdown at 31 December 2016 and 2015:

<b>CONSUMPTION OF GOODS</b>		
<i>(Amount in thousands of euros)</i>		
	<b>31.12.2016</b>	<b>31.12.2015</b>
Purchases of merchandise	86,262	85,991
Raw materials and other consumables purchased	76,478	75,001
Outsourced work	68,990	68,132
Change in inventories	(321)	511
<b>TOTAL</b>	<b>231,409</b>	<b>229,635</b>

18.4 Outside services It has the following breakdown at 31 December 2016 and 2015:

<b>OUTSIDE SERVICES</b>		
<i>(Amount in thousands of euros)</i>		
	<b>31.12.2016</b>	<b>31.12.2015</b>
Research and development expenditure:	-	387
Leases and royalties	51,158	48,150
Repairs and upkeep expenses	2,116	2,499
Independent professional services	7,530	5,018
Transport	326	551
Insurance premiums	3,572	3,013
Banking and similar services	5,221	5,382
Advertising, publicity and public relations	1,198	636
Utilities	2,507	2,704
Other services	46,570	47,732
<b>TOTAL</b>	<b>120,198</b>	<b>116,072</b>

18.5 The average number of employees during the years 2016 and 2015 are shown below:

<b>JOB CATEGORY</b>	<b>No. of employees</b>		<b>Male</b>		<b>Female</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
Management and advanced degree holders	167	167	144	143	23	24
Technicians and intermediate degree holders	558	573	402	407	156	166
Administrative and similar staff	689	621	228	193	461	428
Other staff on payroll	3,563	3,474	3,175	3,102	388	372
<b>TOTAL</b>	<b>4,977</b>	<b>4,835</b>	<b>3,949</b>	<b>3,845</b>	<b>1,028</b>	<b>990</b>

The number of people employed at the end of each year is shown below:

<b>JOB CATEGORY</b>	<b>No. of employees</b>		<b>Male</b>		<b>Female</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
Management and advanced degree holders	185	174	158	150	27	24
Technicians and intermediate degree holders	578	574	416	407	162	167
Administrative and similar staff	720	684	248	236	472	448
Other staff on payroll	3,580	3,449	3,181	3,069	399	380
<b>TOTAL</b>	<b>5,063</b>	<b>4,881</b>	<b>4,003</b>	<b>3,862</b>	<b>1,060</b>	<b>1,019</b>

The Company has 81 employees with disabilities equal to or greater than 33% at 31 December 2016.

18.6. Wages, salaries and similar payments. They have the following breakdown at 31 December 2016 and 2015.

<b>WAGES AND SALARIES</b>		
<i>(Amount in thousands of euros)</i>		
	<b>31.12.2016</b>	<b>31.12.2015</b>
Wages, salaries and similar payments.	130,411	124,541
Termination benefits	1,512	1,547
<b>TOTAL</b>	<b>131,923</b>	<b>126,088</b>

18.7. Employee benefit costs They have the following breakdown at 31 December 2016 and 2015.

<b>EMPLOYEE BENEFIT COSTS</b>		
<i>(Amount in thousands of euros)</i>		
	<b>31.12.2016</b>	<b>31.12.2015</b>
Employer social security costs	40,314	38,535
Pension plan contributions	(34)	2
Other social benefit expenses	1,480	1,619
<b>TOTAL</b>	<b>41,760</b>	<b>40,156</b>

18.8. Finance costs. They have the following breakdown at 31 December 2016 and 2015:

<b>FINANCE COSTS</b>		
<i>(Amount in thousands of euros)</i>		
	<b>31.12.2016</b>	<b>31.12.2015</b>
Interests on debts to Group companies and associates (Note 18.2)	23,225	21,572
Interest payable to third parties	5,646	5,577
Interest cost relating to provisions (Note 13)	1,201	1,404
<b>TOTAL</b>	<b>30,072</b>	<b>28,553</b>

18.9. Exchange differences. They have the following breakdown at 31 December 2016 and 2015:

<b>EXCHANGE DIFFERENCES</b>		
<i>(Amount in thousands of euros)</i>		
	<b>31.12.2016</b>	<b>31.12.2015</b>
Exchange gains	3,217	3,025
Exchange losses	(2,455)	(2,126)
<b>TOTAL</b>	<b>762</b>	<b>899</b>

18.10. Impairment losses and gains or losses on disposal of financial instruments. They have the following breakdown at 31 December 2016 and 2015:

<b>IMPAIRMENT AND OTHER LOSSES</b>		
<i>(Amount in thousands of euros)</i>		
	<b>31.12.2016</b>	<b>31.12.2015</b>
Impairment of non-current holdings in Group companies and associates (Note 7.1)	(1,483)	295
Impairment of receivables (Note 8.2 and 8.4)	(3,544)	(3,595)
Gains or losses on disposals and other	130	(128)
<b>TOTAL</b>	<b>(4,897)</b>	<b>(3,428)</b>

The heading "Results from disposals and other" at 31 December 2015 includes EUR 54 thousand as a loss in the liquidation of the company Sevilla Seed Capital (see note 8.1).

18.11. Losses, impairment and changes in trade provisions.

The heading "Losses, impairment and variation of provisions for commercial operations" in the accompanying Income Statement for the year 2016 and 2015 basically includes the following:

<b>LOSSES ON, IMPAIRMENT OF AND CHANGES IN ALLOWANCES FOR TRADE RECEIVABLES</b>		
<i>(Amount in thousands of euros)</i>		
	<b>31.12.2016</b>	<b>31.12.2015</b>
Provision for bad debts (see Note 10.4)	8,357	8,168
Reversion Provision for bad debts (see Note 10.4)	(7,917)	(6,416)
Losses from unrecovered receivables	3,856	3,909
Other contributions to Short-term provisions	2,768	977
<b>TOTAL</b>	<b>7,064</b>	<b>6,638</b>

18.12. Other current operating expense.

The heading "Other current operating expenses" in the accompanying Income Statement for the year 2016 basically includes, at 31 December 2016, EUR 2,616 thousand arising from the contribution to Long-term provisions (see Note 13) (EUR 5,791 thousand for the same item at 31 December 2015).

18.13. Gains or losses on disposals and other

The heading "Profit/loss on disposals" in the accompanying income statement for the year 2016 basically includes, at 31 December 2015, EUR 1,877 thousand arising from the provision for impairment of intangible assets (see note 5.1) (EUR 2,168 thousand at 31 December 2015).

18.14. Extraordinary profit/loss

The heading "Extraordinary profit/loss" in the accompanying income statement for the year 2016 basically includes, at 31 December 2016 and 31 December 2015, extraordinary amounts collected from customers that had been regarded as uncollectible.

## NOTE 19 \_\_\_\_\_ FEES PAID TO AUDITORS

At year-end 2016 the Company auditor is Deloitte S.L.

Audit fees paid during the year for services rendered by the auditor of accounts are as follows:

<b>AUDIT SERVICES</b>		
<i>(Amount in thousands of euros)</i>		
	<b>31.12.2016</b>	<b>31.12.2015</b>
<b>Fees for audit services</b>		
Main auditor	<b>120</b>	<b>119</b>
Other auditors	-	-
<b>Fees for verification services</b>		
Main auditor	<b>13</b>	<b>18</b>
Other auditors	-	-
<b>Fees for other services</b>		
Main auditor	-	-
Other auditors	-	-
	<b>133</b>	<b>137</b>

## NOTE 20 \_\_\_\_\_ INFORMATION ON THE ENVIRONMENT

The activities that FCC Aqualia engages in are directly linked to protection of the environment, given that the underlying theme of our actions is efficient end-to-end water management, in conjunction with the different public authorities, endeavouring to guarantee the availability of water resources in a manner that enables sustainable growth for the populations where we provide services.

In the performance of our activities, a series of actions have been identified that lead to better protection of the environment, endeavouring to meet efficiency goals as part of our responsibility as public service providers. Among these actions, the following can be spotlighted:

- During 2015, the company calculated the carbon footprint of the activity related to the design and construction of treatment, purification and desalination plants and their ancillary facilities, developed by its subsidiary Aqualia Intech, recording it in the Carbon Footprint Registry of the Ministry of Agriculture, Food and Environment, with registration date of 21 April 2015 and code 2015\_00\_a062.
- Progress continued on the Carbon Footprint Reduction Plan in 2016 and the foundations were laid for development of the PIMA EMPRESA project. In addition, the carbon footprint for all of FCC Aqualia's activities was adjusted and entered in the Carbon Footprint Registry of the Ministry of Agriculture, Food and Environment, with registration date of 9 August 2016 and code 2016\_00\_a200, verified by AENOR.
- One of the fundamental aims of FCC Aqualia is continuous improvement through an Integrated Management System that includes both the quality management of the processes, products and services such as environmental management, publishing such reports in order to facilitate the verification of the GHG inventory and transparently report them to its stakeholders.
  - The main aim pursued with this initiative is to understand and assess the GHG emissions of the organization in order to identify opportunities to reduce and/or offset the carbon footprint.



- Participation in voluntary GHG programmes.
  - Make available corporate information on GHG.
  - Improve the position with stakeholders, maintaining a responsible commitment to continuous improvement.
- Similarly, in response to the entry into force in February 2016 of R.D. 56/2016 on Energy Efficiency, during the current year we have continued to implement the plan agreed upon with AENOR, which enabled us to certify the entire organization as per ISO 50001 standard. In this regard, energy audits were scheduled on 78 contracts with combined consumption of more than 293,000 MWh, which represents 85 % of the company's total consumption, as required under regulations in force, to be reported to the competent bodies of the relevant Autonomous Regions.
  - To meet the foreseen targets, we expect to conduct an exhaustive control of energy monitoring, controlling the installed capacity and the evolution of energy consumption at our production facilities. To do this, our actions should be aimed at improving the measurement, calculation of energy performance of pumps, optimization and improvement of processes, facilities and production equipment, etc.
  - The CSR Report of FCC Aqualia reached its tenth edition in 2016, maintaining the editorial line of 2015, but highlighting the different awareness activities relating to gender violence, employment integration of disabled persons and equality.
  - The report also highlighted the participation of the company in all the forums organised around human rights, as well as our participation in Smart Cities, innovation projects, the Water Footprint of Cantabria, the carbon footprint of Aqualia Infrastructure and the energy efficiency of Lleida.
  - Water quality control at the uptake as well as in distribution. In 2016, restructuring of FCC Aqualia's drinking water laboratory network began, aimed at reaching 8 laboratories accredited by the ENAC under UNE standard EN 17025 and 2 under UNE EN 9001 and UNE EN 14001.
  - Eliminating the environmental impact of wastewater dumping by implementing and properly using the latest technology applicable at the wastewater treatment stations that FCC Aqualia operates. The aim of these techniques is not only to minimise the impact of treated wastewater that is dumped into natural streams but also to minimise the impact arising from sludge extraction by recovering it for other purposes, as well as minimising the effect of odours and noise generated in the treatment process.
  - Developing R&D&i projects focusing mainly on enhancing water treatment options. Work continued in this field with progress on projects already underway for methane enrichment in treatment plants, new hypochlorite manufacturing methods for water plant disinfection and the use of ozone in the treatment process.

## **NOTE 21 \_\_\_\_\_ DUTY OF LOYALTY**

### *Board of Directors.*

In 2016 and 2015 the members of the Board of Directors, in their capacity as board members, did not receive any fixed or variable remuneration. Moreover, no advances, loans or any other type of guarantees have been granted to such members of the Board of Directors, nor are there any obligations in place regarding pensions or life

insurance for such parties.

Fomento de Construcciones y Contratas, S.A. has taken out a general liability insurance policy for the Company's directors, the cost of which is met annually by the company. At 31 December 2016, it represented an expense of EUR 397 thousand.

Furthermore, natural persons that represent the Company in the governing body of other entities received no remuneration for their positions as directors of said companies.

At year-end 2016, none of the members of the Board of Directors of FCC Aqualia, S.A. or the parties related to them as defined in the Spanish Companies Law have reported any conflicts of interest to the other members of the Board of Directors.

*Senior Management:*

The members of senior management (11 men and 2 women), 2 of whom also hold positions on the Board of Directors, as a whole have received total remuneration of EUR 2,276 thousand (EUR 2,415 thousand received by 10 men and 2 women in 2015).

**NOTE 22 \_\_\_\_\_ FINANCIAL RISK MANAGEMENT POLICIES**

The concept of financial risk refers to the changes in the financial instruments arranged by the Company as a result of political, market and other factors and the repercussion thereof on the consolidated financial statements.

The FCC Aqualia's risk management philosophy, in harmony with the philosophy followed by the FCC Group, is consistent with its business strategy, seeking maximum efficiency and solvency at all times. To this end, strict financial risk control and management criteria have been established, consisting in identifying, measuring, analysing and controlling the risks incurred in the course of the Company's operations, and the risk policy is appropriately integrated into the organisation.

Currency risk

This arises due to the different exchange rates used in investments and transactions with subsidiaries, associates and joint ventures, as well as with third parties whose business is done in a functional currency that is different from that used by the company in preparing its financial statements.

The Directors of the Company estimate that the impact of this risk will not be significant.

Credit risk.

Credit risk is the risk that a counterparty to a contract does not meet its contractual obligations, giving rise to a financial loss for the Company. The Company has adopted a policy of only trading with solvent third parties and obtaining sufficient guarantees to mitigate the risk of incurring losses in the event of non-compliance.

Its main customers are public agencies or end consumers related to the end-to-end water cycle activities, and, therefore, there is scant exposure to credit risk. Similarly, credit risk concentration is not significant.

### Solvency risk

At 31 December 2016, the net financial indebtedness of FCC Aqualia amounted to EUR 34,006 thousand (EUR 78,981 thousand in 2015), as shown in the following table:

	<b>Amounts in thousands of euros</b>	
	<b>2016</b>	<b>2015</b>
Bank borrowings	-	-
Obligations under finance leases	77	115
Non-current financial debt with group companies (Note 14)	363,384	361,301
Current financ. debts. group comp. (excluding tax effect) (note 14)	176,247	151,323
Financial debts with third parties (note 14)	40,042	33,764
Current collection rights – concession arrangements	-	(13,057)
Loans to companies (excluding tax effect) (note 9.1)	(466,603)	(371,114)
Other financial assets (Note 8.3)	(24,754)	(30,077)
Loans to third parties (Note 9.2)	(18,398)	(16,823)
Cash and cash equivalents	(35,989)	(36,451)
<b>Net interest-bearing debt</b>	<b>34,006</b>	<b>78,981</b>

### Liquidity Risk

This risk is caused by temporary lags between the resources generated by the activity and the need for funds to pay debts, working capital needs, etc.

At 31 December 2016 the Company has a working capital of EUR 193,607 thousand (EUR 111,797 thousand at 31 December 2015).

As indicated in Note 17 “Collateral and Guarantees”, the Company acts as guarantor in the syndicated loans signed by its parent, “Fomento de Construcciones y Contratas, S.A.”

## **NOTE 23 OTHER DISCLOSURES**

### **23.1. Events after the reporting period**

Regarding the Company's status as obligor and joint and several guarantor in the financing agreement held in Fomento de Construcciones y Contratas, S.A.'s name (Note 17), on 9 February 2017 a sufficient majority of the financial institutions participating in Fomento de Construcciones y Contratas, S.A.'s financing agreement agreed to raise the guarantees subject to compliance with certain conditions precedent. At the reporting date, this had not taken place. This agreement is part of the financial restructuring process implemented by the FCC Group, which is expected to be completed in the coming months.

Besides those mentioned herein above, no events have taken place subsequent to year end that significantly

affect the content of these financial statements.

### **23.2. Information on deferrals on payments made to suppliers. Additional provision three “Duty of disclosure” of Act 15/2010, of 5 July.**

Regarding the resolution of the Spanish Institute of Accounting and Auditing (ICAC) of 29 January 2016, issued pursuant to Final Provision Two of Act 31/2014, of December 3, and amending Additional Provision Three of Act 15/2010, of 5 July, on measures to combat late payment in commercial transactions, it should be noted with respect to fiscal year 2016 that the Company operates mainly in Spanish territory with public clients, such as the State, regional governments, local corporations and other public bodies which settle their payment obligations in time-frames that exceed the provisions of the Law on Public Sector Contracts, as well as Act 3/2004, of 29 December 2004, establishing measures to combat late payment in commercial transactions.

It should be noted that the provisions of paragraph 5 of Article 228 of the current Consolidated Text of the Law on Public Sector Contracts (TRLCSP), which allow contractors to arrange with suppliers time-frames that are longer than those established by the regulation, subject to certain conditions, are applicable in the contracts and supplies with third parties arising from contracts entered into by the Company and the various Public Authorities.

Owing to this circumstance, and with a view to adapting the Company’s financial policy to reasonable levels of efficiency, the usual payment periods to suppliers in the sectors in which the Company operates have been maintained throughout 2016.

The Company's supplier payment policy described in the two preceding paragraphs is thus supported by a) Payments to suppliers of agreements entered into by the Company with the Public Authorities: Article 228.5 of the TRLCSP and b) Payments to other suppliers: Transitional Provision Two of Act 15/2010 and, where applicable, the provisions of Article 9 of Act 3/2004, which does not consider "payment deferral due to objective reasons" to be abusive, taking into consideration in both case a) and case b) the usual payment period in the business sectors in which the Company operates.

In addition, the Company recognises and pays its suppliers, always in agreement with them, the default interest agreed in the contracts, providing them with negotiable means of payment that carry with them an exchange action. Such agreements, which are expressly provided for in the TRLCSP, as described above, are also allowed by Directive 2011/7/EU of 16 February, of the European Parliament and of the Council.

Additionally, the Company has signed similar agreements for reverse factoring lines with financial institutions to facilitate the advance payment to suppliers, according to which the supplier may enforce its collection right in respect of the latter, obtaining the invoiced amount net of financial discount costs and the fees charged by these institutions. The total amount of the lines contracted amounts to EUR 457 thousand, with the drawn down balance being EUR 406 thousand at 31 December 2016. Such agreements do not alter the main conditions of payment thereof (interest rate, term or amount), and as such they are classified as trade liabilities.

In compliance with the Decision mentioned above, there follows a table with information on the average payment period to suppliers.

<b>Average payment period to suppliers (thousands of euros)</b>		
	<b>2016</b>	<b>2015</b>
	<b>Days</b>	<b>Days</b>
Average payment period for suppliers	93	76
Ratio of payments made	73	71
Ratio of outstanding payments	174	91
	<b>Sum</b>	<b>Sum</b>
Total payments made in the year	302,169	245,192
Total payments outstanding	76,620	87,945

## 2016 DIRECTORS' REPORT

### WATER MANAGEMENT

#### SPAIN

In 2016, the trend that began the previous year, showing a slight recovery in revenue volumes, continued. The gap between coastal and inland areas has widened, with significant growth in consumption on the Balearic and Canary Islands and in areas of Andalusia, whereas slight drops or stagnation persists in inland regions of the Peninsula. In global terms, like-for-like sales grew by 0.62% and revenue on inherent items rose by 2.55%.

Political initiatives advocating the return of water management services to the municipalities remain active. The City Councils of Tarrasa and Valladolid, as well as certain sections of the Barcelona Metropolitan Area, are taking measures aimed at returning the water supply services to the municipality once the contracts currently in place expire.

At Aqualia, on very limited occasions, we have seen similar initiatives although the legal framework in which our contracts are implemented does not lead us to see relevant risks for our business activity in the short term. We have been awarded tenders or have extended concession agreements for end-to-end water cycle services upon expiry, with a very high loyalty rate (94.4%) from the municipalities in which we operate. The main ones are: Adeje (Tenerife), Empresa Mixta de la Costa Brava (Gerona), Yecla (Murcia), Rota (Cádiz), Ibiza (one-year extension until the next call for bids), Nigrán (Pontevedra), Santiago del Teide (Tenerife), Puebla de Don Fadrique (Granada), San Cristóbal (Segovia).

At the same time, we have made strong efforts to expand our presence in the WWTP, DWTP and SDF operation and maintenance market, and have been the successful bidders for the WWTPs in Valdebebas (Canal de Isabel II, Madrid), La Gavia (Canal de Isabel II, Madrid), Llanes (Water Consortium of the Principality of Asturias), Fraga and Huesca (Aragon Water Institute), Campiña Sur (PROMEDIO, publicly-owned water company of the Provincial Government of Badajoz) and Baix Ebre (Baix Ebre District, Tarragona), for the DWTP of Sollano (Bilbao City Council) and for management of the wholesale water supply to Zaragoza and its Metropolitan Area (ACUAES, publicly-owned water company of the Ministry of Agriculture and the Environment), to name just a few. We have focused our activity on relevant public clients, solvency and technical expertise, which acknowledge our added technological value and management enhancements, and enable us to achieve adequate returns. Neither the Central Administration nor the Regional Governments are tendering relevant projects in water infrastructure concessions, in this case mainly due to the process of fiscal consolidation and debt reduction that these Agencies continue to apply, which increases the deficit in renovation and expansion of infrastructures. By way of example, in the field of waste water treatment, the average rate of water purified using tertiary treatment (which allows subsequent reuse) in Europe reached 67%, while in Spain, the country with the highest level of water stress in Europe due to its climate and hydrological characteristics, only reaches 60%.

In 2017, concession arrangements under which we have been providing end-to-end water cycle services, representing annual revenues of €47 million, and O&M contracts totalling €30 million, expire. Renewal rates similar to this year's are expected.

Moreover, relevant contracts operated by other companies in the sector are close to expiry (Lugo, Pontevedra, San Cugat, Manises, Requena, Villareal, Fuengirola, etc.). This means that the market will likely be more active than the previous year, thus affording more contracting opportunities.

We also expect to continue progressing in the promotion of new activities that complement or are ancillary to the mainstays of our usual business activity, such as: O&M and adaptation of process and waste water plants for

industry; smart city services (remote control and management, remote meter reading. etc.). In this field, we must point out that we were contracted in 2016 to install a comprehensive remote control system for the supply network of Salamanca and to carry out fit-out work for industrial treatment in Pontevedra and Cuenca.

Continuing with the boost in the O&M sector from 2016, important opportunities are expected to arise in 2017 on Sanitation Boards in Autonomous Regions where we hope to bolster our presence (Regions of Valencia, Balearic Islands and Murcia).

In the water infrastructure field, concession activities are likely to begin in 2017 on purification infrastructure, at least in Castilla la Mancha and Extremadura, to progress toward compliance with the Wastewater Treatment Plan, which has serious shortcomings in rural areas and is subject to penalisation for breach of European Union requirements.

With the establishment of the new government in the last quarter of 2016, legislative initiatives and transfers of European Directives into domestic legislation have been reactivated. As of the reporting date, a wide-ranging amendment to the Law on Public Sector Contracts is being drafted in Parliament. This will affect the sector primarily as regards the solvency required of tenderers, the adaptation of the concession time-frames, the review of the causes of claims of concessionary economic imbalances and the regulation of the tariff revision system in the contracts. No progress has been made in the creation of a state-wide regulator, despite strong demands from all the stakeholders involved (trade unions, FEMP [Federation of Spanish Municipalities and Provinces] and AGA [Spanish association of water management companies]).

In our company's ongoing policy of seeking efficiency in operational management, we must point out the efforts made in 2016 to reduce costs. The Central Purchasing Department renegotiated power supply contracts, reviewing the contracted power terms, adjusting processing timetables (pumping, etc.) and enhancing the hydraulic performance of the uptake and distribution networks, which also led to a reduction in the volume of water purchased and power consumed.

The internal network of accredited laboratories was restructured, focusing its new distribution on the search for greater operational and financial efficiency. Likewise, measures have been put in place aimed at establishing district-wide teams for sewerage cleaning tasks, monitoring and reducing outsourced work, renegotiating bank commissions for managing direct deposit transactions on invoices, incentives and new campaigns to encourage the use of electronic billing (eliminating the use of paper and related costs) and streamlining correctional procedures related to customer fraud detected.

Furthermore, in 2016 we have furthered our social action and awareness campaigns. Numerous agreements have been signed with city councils, regulatory amendments have been proposed to prevent utility supply cuts for payment default by customers at risk of social exclusion and the sector trade association has signed an agreement with the trade union UGT to defend jobs in the sector in the public and private spheres. Two workshops were held, in Seville and in Toledo, in order to provide information about the advantages of the collaboration models and public-private management in the water sector. Our R&D&i projects and initiatives have also been widely publicised.

## **INTERNATIONAL DIVISION**

In the international sphere, FCC Aqualia has focused its activities in 2016 on Europe, North Africa, the Middle East and Latin America, with revenue reaching 24.7% and EBITDA 23.9% of the total figures.

In the Americas, the lack of water infrastructure increases the possibilities for FCC Aqualia's growth, which have multiplied significantly since FCC no longer holds interests in the capital of Proactiva, a subsidiary of the French

operator Veolia.

In Mexico, the experience attained in the Acueducto II and Realito BOT contracts is being used to consider similar projects in which more demanding technical and financial capacities place FCC Aqualia in a benchmark position. In said country, there is mounting concern regarding the efficiency of water services in certain municipalities which, compounded by the restrictions on federal subsidies, has generated an increase in the opportunities to participate in management, mainly under joint public-private set-ups. Finally, the recent energy reform has prompted the national oil company to modernise, leading to an interesting outsourcing process for its water services, in which Aqualia is currently involved.

In Colombia, where FCC Aqualia garnered two important contracts this year related to wastewater treatment plants - El Salitre WWTP in Bogota and the San Silvestre WWTP in Barrancabermeja - business opportunities have been detected for the management of end-to-end services under municipal concession schemes and for the design, construction and financing of water infrastructure for treatment of wastewater.

In Peru, the State is currently involved in assessing the efficiency of its utilities to open up those with the lowest management indicators for private initiatives.

In Chile, interesting business opportunities will arise in the mining sector, for production of desalinated water for their operations.

There are also water infrastructure programs worth mentioning in Paraguay and Panama, which the company is following closely. In Panama, in particular, certain joint construction and operation projects that include drinking water treatment and wastewater purification were already submitted in 2016 and will continue forward in 2017.

In Portugal, new calls for proposals for municipal service concessions were virtually inexistent in 2016. The concession business is set to become reactivated after municipal elections in the last quarter of 2017, spurred by the budget deficits of city councils and the need to invest in infrastructure. In addition to our concession activities, business opportunities linked to the provision of services to subsidiaries of the state-owned water company are being researched. Finally, activities relating to technology and networks under our contracts have benefited from allocation of European funds (under the POSEUR programme) for infrastructure enhancements.

In Italy, completion of the regulatory system to determine rates following the principle of full-cost recovery is improving how the business is perceived by investors present in the market and will act to spur new opportunities for public-private partnership with Local and Regional Authorities. New concessions are on the horizon in northern Italy (Piacenza and Rimini) and water management is expected to be concentrated around large geographic units. Compliance with Community legislation on sewage treatment will speed up the allocation of EU funds to implement new infrastructure, or rehabilitate or increase the capacity of existing infrastructure. Thus, the country's public water companies have put out calls for proposals for the construction and operation of their infrastructures.

In the Czech Republic, the new regulatory framework has eliminated the tariff incentives applied up to now on investments by the companies owning the assets, although the impact of this could be partially offset by recognition, for tariff purposes, of all the costs related to the increased effort made in preventive maintenance of the water infrastructure owned by the operators. Calls for proposals are expected in relation to contracts for private management of water and sanitation services in relevant communities of Northern Bohemia and in the Southern area of the Czech Republic. Tenders for new service provision contracts that do not include investments to be met by the operator are also foreseeable.

In France, activity is expected to be strong in upcoming years as the contracts traditionally managed by major



French water companies expire. Breaking the traditional barrier to entry into this market is considered a complex task, but the high prices currently charged for water services by traditional operators may encourage local corporations to seek to change operators. Furthermore, the local structure for organising public service management into hubs has prompted a new, more transparent and efficient, political setting, which is prone to draw new operators for management.

In the United Kingdom, water and sanitation service management is done by private companies that own the assets, mainly controlled by financial investors. Entry into this market will be geared toward the provision of high added value services to these asset-owning companies, such as the contract relating to a pilot plant for nutrient removal in the sludge dehydration process for Thames Water.

In the Balkans, the most widely spread business model is the construction contract sponsored by European funds aimed at meeting European standards on urban water treatment. There is also some talk now of private investment for financing water infrastructure although we expect that there is a long way to go before this is ultimately implemented.

In North Africa, the desalination of seawater and wastewater treatment are emerging as business opportunities in the countries in which Aqualia already has a presence. Such is the case of Tunisia and Egypt.

In Egypt in particular, Aqualia has been awarded the contract for the design, construction and operation of the El Alamein desalination plant, with a capacity of 150,000 m<sup>3</sup>/day and contract conditions that ensure implementation will be unaffected by the economic upheaval currently seen in this country.

The trade and tax deficits, high interest and inflation rates, and restrictions on access to strong currency in Egypt have forced the Egyptian government to adopt severe economic measures such as reducing public spending and floating the Egyptian pound. As a result of these measures, their currency has been devalued by more than 100% and foreign investing in the country has become somewhat stagnated.

In this regard, the project involving construction, financing and operation of the Abu Rawash treatment plant, awarded to a consortium in which FCC Aqualia participates through its subsidiary, in which the EBRD has ownership interests, is likely to be converted into an EPC contract project, increasing the scope of implementation but funded through the state budget. Moreover, water scarcity in Egypt has caused the Ministry of Defence to tender large desalination plants to supply water to the population in the Mediterranean and the Red Sea, and the expansion of the Suez Canal and creation of new industrial and mining areas suggests that water demand for the development thereof will continue to rise.

In the Middle East, where population growth is reaching up to 8% per year in some countries, the sharp drop in oil income is forcing the Gulf countries to eliminate subsidies and resort to private initiatives to develop their water infrastructure projects.

In Saudi Arabia, the SWCC —responsible for the production of water in the kingdom— is launching a new desalination plan under a BOT system and the National Water Company —responsible for the distribution of drinking water to major cities— will complete some of the concession projects that it has been designing for a number of years.

Oman will also continue developing its desalination plan through public-private initiatives and in the UAE tenders are expected to be issued for operation and maintenance contracts and contracts for construction of desalination plants under this type of model.

In 2016, FCC Aqualia bolstered its market research activities in the United States, particularly in Florida,

California and Texas. Water shortages, obsolete water infrastructure and the limited number of private operators in the sector are the main drivers of growth in these states.

## PROCUREMENTS DIVISION

In the domestic market, municipal concessions activities were low, partly due to the presence on city councils of groups opposed to public-private partnership systems and also because of the political uncertainty generated by the delay in forming the central government. However, tenders for operation and maintenance services remained at usual levels. Despite this situation, the following contracts can be highlighted:

- Madrid (Madrid), service of operation and maintenance of the La Gavia WWTP awarded by Canal de Isabel II for a period of 4 years and a contract worth EUR 11.5 million.
- Madrid (Madrid), service of operation and maintenance of the Valdebebas WWTP (lot II) awarded by Canal de Isabel II for a period of 4 years and a contract worth EUR 6.3 million.
- Zalla (Vizcaya), service of operation, maintenance and upkeep of the Sollano-Zalla WWTP, Ibarra (Zalla) pumping station and Berrón pumping station awarded by the Bilbao City Council for a period of 4 years and a contract worth EUR 4.6 million.
- Puebla de Don Fabrique (Granada), municipal water supply, sewerage and wastewater treatment service concession for a period of 20 years and a portfolio worth EUR 4.6 million.
- San Cristóbal de Segovia (Segovia), municipal concession for the integrated management of the water service for a period of 15 years and a contract worth EUR 4.5 million.
- Llanes and Ribadedeva (Asturias), service of operation, maintenance and upkeep of the public sanitation systems awarded by the consortium for water supply and sanitation of the Principality of Asturias (CADASA) for a period of 4 years and a contract worth EUR 3.9 million.

Regarding domestic renewals, expansions and extensions of contracts already managed by FCC Aqualia, the following are of particular note:

- La Adrada (Ávila), municipal drinking water supply and sanitation service concession for a period of 15 years and a contract worth EUR 8.3 million.
- Guijuelo (Salamanca), construction and operation of municipal infrastructure for a period of 21 years amounting to EUR 13.0 million, awarded by the Guijuelo City Council.
- Corredor del Ebro (Zaragoza), wholesale water supply operation services in the province of Zaragoza: Zaragoza and the Ebro River corridor and lower Ebro River in Aragon, awarded by Aguas de las Cuencas de España, S.A., for a period of 2 years and a contract worth EUR 2.9 million.
- Vigo (Pontevedra), facility maintenance and operation of the Traviesas, Lavadores, Teis and Valadares indoor pools owned by Vigo City Council for a period of 1 year with a contract worth EUR 2.8 million, awarded to a TJV in which FCC Aqualia has a 50% stake.
- Costa Brava (Gerona), treatment services awarded by the Costa Brava Consortium to a TJV in which FCC Aqualia has a 37.5% interest for a period of 2 years and a contract worth EUR 26.2 million.

- Ibiza (Balearic Islands), municipal water supply and sewerage service concession for a period of 1.2 years and a contract worth EUR 11.1 million.
- Nigrán (Pontevedra), management of the municipal water supply and sanitation service for a period of 5 years and a contract worth EUR 10.0 million.
- Rota (Cádiz), management of the municipal water supply service for a period of 4.2 years and a contract worth EUR 9.5 million.
- Santiago del Teide (Santa Cruz de Tenerife), management of the municipal water supply service for a period of 5 years and a contract worth EUR 9 million.
- Yecla (Murcia), management of the municipal water supply service for a period of 4 years and a contract worth EUR 4.9 million.
- Pola de Lena (Asturias), integrated management of the municipal supply and sanitation service for a period of 5 years and a contract worth EUR 4.2 million.
- Sant Antoni de Portmany (Balearic Islands), management of the municipal water supply and sewerage service for a period of 1 year and a contract worth EUR 3.9 million.
- Santa Eulària des Riu (Balearic Islands), management of the municipal water supply and sewerage service for a period of 1 year and a contract worth EUR 3.2 million.

In the international market, FCC Aqualia has maintained significant activity in international tenders in different areas, notably:

- Within the European market, it won the contract for management of the sanitation and treatment service for the municipality of Dolni Lutyne in the Czech Republic for a period of 5 years through its subsidiary SmVaK and it was also awarded the contract for construction of the sanitation system and wastewater treatment plant in the city of Berane, Montenegro, for a total of EUR 10.9 million.
- In North Africa, FCC Aqualia, through its subsidiary Aqualia Intech S.A., was awarded a contract from the Egyptian Ministry of Defence to design and build a reverse osmosis desalination plant in El Alamein, for a total of EUR 114.6 million.
- In the Middle East, a contract was garnered to modify the water networks and services affected by the construction of Line 6 of the Riyadh city Metro system in Saudi Arabia, which involves a contract worth EUR 12.6 million. Bids have also been submitted in Bahrain, Oman and United Arab Emirates, which have yet to be awarded as of the reporting date.

In Latin America, FCC Aqualia has achieved significant awards in Colombia, Ecuador, Mexico and Chile. The most relevant contracts are:

- The contract for the design, construction, supply and installation of equipment and assisted operation of the El Salitre wastewater treatment plant expansion in Bogota, with a contract worth EUR 377.4 million awarded to a consortium in which FCC Aqualia participates through its subsidiary Aqualia Intech SA,

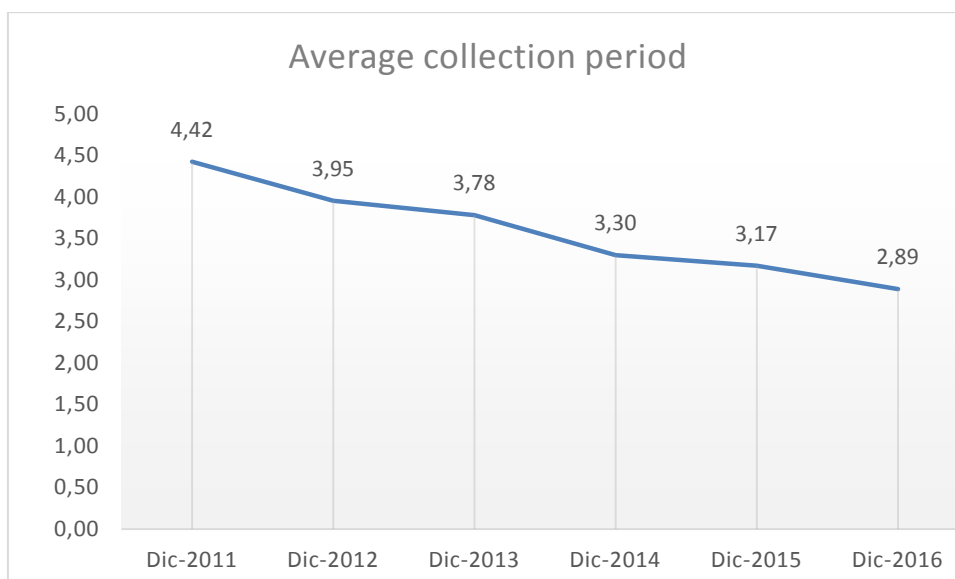
with a 30% interest.

- The contract for the design, construction and operation of the San Silvestre wastewater treatment plant in Barrancabermeja (Colombia) for a total of EUR 33.9 million. FCC Aqualia holds a 50% interest in the consortium, also through its subsidiary Aqualia Intech SA.
- In Ecuador, a contract has been awarded for the construction of the Ambato wastewater treatment plant and the collector system for a total of EUR 23.4 million, in which the Company holds a 60% interest in the consortium, through its subsidiary Aqualia Intech SA.
- In Texcoco (Mexico), a contract totalling EUR 4.7 million has been awarded, also through its subsidiary Aqualia Intech SA, for the refurbishing, commissioning and operation of the Contracorriente WWTP.

## CUSTOMER MANAGEMENT DIVISION

During 2016, FCC Aqualia has continued to make progress in a strategic approach geared to the end customer, with special attention being paid to the quality of our communication channels with the same.

In the customer management division we have implemented the Balanced Scorecard management tool, which enables us to link key strategies and goals to performance and results. This has allowed us to constantly improve our processes, reaching an average collection period of 2.89 months, progressing as follows:



In 2016 we implemented a campaign to promote the use of the electronic invoice to replace invoices printed on paper, which has enabled us to increase the number of customers that help us in our fight to save the environment by 73.9%, reaching 122,014 customers that have chosen to receive their invoices in digital format.

In our efforts to minimise the difference between the amount of water supplied to the network and that actually consumed, we not only continually renovate the networks to prevent water leaks as much as possible, but we

also design plans to detect fraudulent actions or drinking water use. Thus, 9,359 cases of fraud were detected this year, totalling EUR 2.9 million. We also renewed 143,496 meters.

Aware of the fact that our customers have increasingly high expectations concerning the quality of their interaction with the company, at FCC Aqualia we moved beyond the concept of multi-channel customer support in 2016 to offer all our customers an omni-channel experience in their relationship with the company.

We have integrated the face-to-face office and online channels, the contact centre and mobile device so that they are all inter-related in real time and any customer who has entered into communication by one means of interaction may, if so desired, continue by another means without changing their experience as an FCC Aqualia customer.

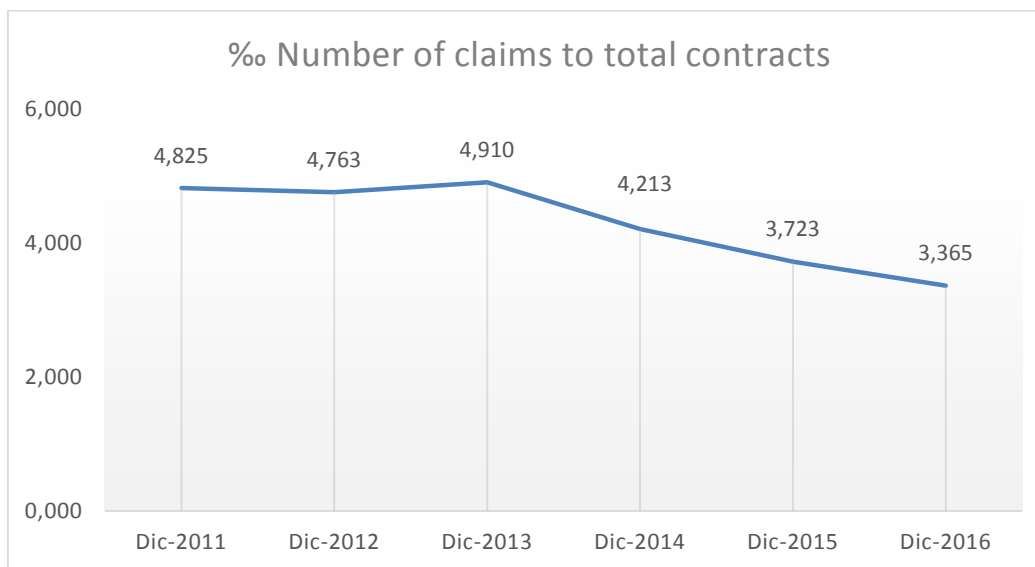
The telephone care service, through the Customer Care Centre (Aqualia Contact), not only enables customers to perform all their transactions without having to travel to the company's offices, but since it is available 24 hours a day, 365 days a year, it also minimises the response time for resolving faults in distribution networks, with the consequent savings of water. The short time that customers wait when reporting a leak makes it possible to implement a fast and effective protocol for action in order to solve any type of incident in the network, which leads to enhanced water distribution yields. This customer support service received 729,282 calls last year and provided assistance in 6 different languages: Castilian, Galician, Catalan, English, German and French. During this year, we have conducted surveys of 235,242 customers who have used Aqualia Contact and of this total, 170,308 rated the assistance as excellent, 36,234 as very good, and 18,399 as good, bringing the satisfaction rate to 95.62%.

The third communication channel is a corporate website available in 5 languages, which offers general information about the company, and several local websites for certain towns in which FCC Aqualia provides services, offering more specific local and customised information about the company's presence in the relevant towns. Furthermore, through both the corporate and local FCC Aqualia websites access is offered to the virtual office, aqualiaOnline, through which users can perform the same procedures related to the service as if requested on the phone or locally.

The aqualia contact and aqualiaOnline channels have been certified under UNE- ISO 27001 "Information Security Management Systems" since 2011, meeting the security targets set and guaranteeing the security commitment regarding our customers' data, as well as the integrity, availability and confidentiality thereof.

During 2016, FCC Aqualia placed a new means of communication with the company at its customers' disposal: Smartaqua, an application for mobile devices that allows customers to manage all actions relating to services provided by the company whenever they want, wherever they want, in a quick and convenient manner, giving them a comprehensive view of their interaction with us. Like the others, this new channel interacts with our systems in real time, giving our customers an omni-channel experience in their relationship with the company.

The efficiency of these communication channels has once again prompted a reduction in the number of customer complaints in 2016, bringing this number to historic lows.



The average response time is 16 days.

The average time between new customer registration and meter installation is 7 days.

Although the Administration is the only body authorised to set rates and regulate the provision of services in the end-to-end water cycle in Spain, FCC Aqualia actively promotes social action mechanisms for rates and solidarity funds for disadvantaged customers. In addition, we have also improved our cooperation with the social services of City Councils to protect customers at risk of social exclusion. In December 2015, FCC Aqualia signed an agreement with Spanish Caritas to support Caritas' initiatives aimed at fighting against poverty and inequality, among others, and improving the living conditions of people in situations of vulnerability or exclusion in every town in which both organisations are present.

In 2016, FCC Aqualia renegotiated the bank commissions on direct deposit billing with the main Spanish banks, attaining a 57.9 % discount on average. The lower costs on bank commissions will be reflected in the financial statements for the coming year.

## **SUSTAINABLE MANAGEMENT**

One of FCC Aqualia's priority goals is to support the company's strategy concerning compliance with the UN Sustainable Development Goals, mainly those that affect our sector and stakeholders:

- No 3. Promoting general well-being.
- No 6. Clean water and sanitation.
- No 8. Promoting sustained economic growth.
- No 9. Building resilient infrastructures.
- No 11. Creating sustainable cities.
- No 12. Guaranteeing sustainable production and consumption.
- No 13. Adopting urgent measures to fight against climate change.
- No 14. Preserving sustainable marine resources.
- No 15. Fighting against desertification and protecting biodiversity.

Likewise, we intend to continue with the strategy of Creating Shared Value, meeting the expectations of our stakeholders and gaining deeper knowledge of the tools that enable us to discern and gauge our social and environmental impacts, in addition to creating economic value and increasing our competitiveness (calculating our social and environmental footprints).

Specifically, work was done on the following aspects in 2016:

- Adaptation of the Management System to the structure of the new versions of ISO 9001 and ISO 14001 standards, published in 2015.
- The concepts of leadership, context, stakeholders, risks, life cycle, biodiversity and climate change have been added and adapted to the Management System.
- Adaptation of the Management System to the company's new functional and territorial organisational structure.
- The Management System has been adapted to the company's new organisational structure.
- The governance model under the Management System has been amended in line with the company's new organisational structure and the established geographic areas.

Climate Change.

Carbon Footprint Calculation.

- Calculation and verification of FCC Aqualia's carbon footprint in Spain for 2015.
- Registration of FCC Aqualia in the Carbon Footprint Registry of the Ministry of Agriculture, Food and Environment (MAGRAMA) for 2015.

Reduction of Carbon Footprint.

- FCC Aqualia Carbon Footprint Reduction Plan (2015 – 2016).
- The foundations have been laid for development of a PIMA EMPRESA or CLIMA project (for reducing the carbon footprint).

Carbon Footprint Offsetting.

- The company is ready to implement a Carbon Footprint Offsetting Project, which also has an important social aspect.

Energy Management.

- Implementation of the Energy Management System in Spain pursuant to RD 56/2016, which led to energy audits being conducted on 85% of the company's consumption, reaching 78 contracts with total consumption of more than 293,000 MWh.

Environmental Management.

- Establishment of the environmental system in Caltaqua with implementation and certification as per ISO 14001 standard at a pilot facility.
- Business Continuity.
- Analysis of the advisability of implementation and integration of applicable standards: ISO 31000 (risks), ISO 27001 (information security), ISO 22301 (business continuity), ISO 55001 (assets), ISO 22000 (food products), EN 15975-1 (water crisis), EN 15975 (water risks), and Water Safety Plans Model (PSA, OMS-IWA).
- Analysis of applicable legislation: Critical infrastructures, water consumption directives, data protection law, etc.

Participation on Standardisation Committees and Expert Panels: AENOR, CEN/PC 420 Standardisation Committee on Service Excellence Model. AEN/CTN 309 Horizontal Service Standards and the AEC's Customer Experience Committee.



In 2016 the carbon footprint for all of Aqualia's activities was adjusted and entered in the Carbon Footprint Registry of the Ministry of Agriculture, Food and Environment, with registration date of 9 August 2016 and code 2016\_00\_a200, verified by AENOR.

The Greenhouse Gas report prepared was done according to the requirements of the Standard UNE-EN ISO 14064-1: "Greenhouse Gases. Part 1: Specification with guidance at the organization level for quantification and reporting of greenhouse gas emissions and removals".

One of the fundamental aims of FCC Aqualia is continuous improvement through an Integrated Management System that includes both the quality management of the processes, products and services such as environmental management, publishing such reports in order to facilitate the verification of the GHG inventory and transparently report them to its stakeholders.

The main aim pursued with this initiative is:

- Understand and assess the GHG emissions of the organization in order to identify opportunities to reduce and/or offset the carbon footprint.
- Participation in voluntary GHG programmes.
- Make available corporate information on GHG.
- Improve the position with stakeholders, maintaining a responsible commitment to continuous improvement.

Similarly, in response to the entry into force in February of R.D. 56/2016 on Energy Efficiency, during the current year we have continued to implement the plan agreed upon with AENOR to adapt in order to comply with said law, which enabled us to certify the entire organization as per ISO 50001 standard. In this regard, energy audits were scheduled on 78 contracts with combined consumption of more than 293,000 MWh, which represents 85% of the company's total consumption, as required under regulations in force, to be reported to the competent bodies of the relevant Autonomous Regions.

To meet the foreseen targets, we expect to conduct an exhaustive control of energy monitoring, controlling the installed capacity and the evolution of energy consumption at our production facilities. To do so, our actions should be aimed at:

- Improved measurement.
- Calculation of energy performance of pumps.
- Optimization and improvement of processes, facilities and production equipment.
- Purchase of more energy-efficient equipment (RD 187/2011).
- Optimization of energy purchasing.
- Infrastructure maintenance.
- Improvements to hydraulic performance of the network.

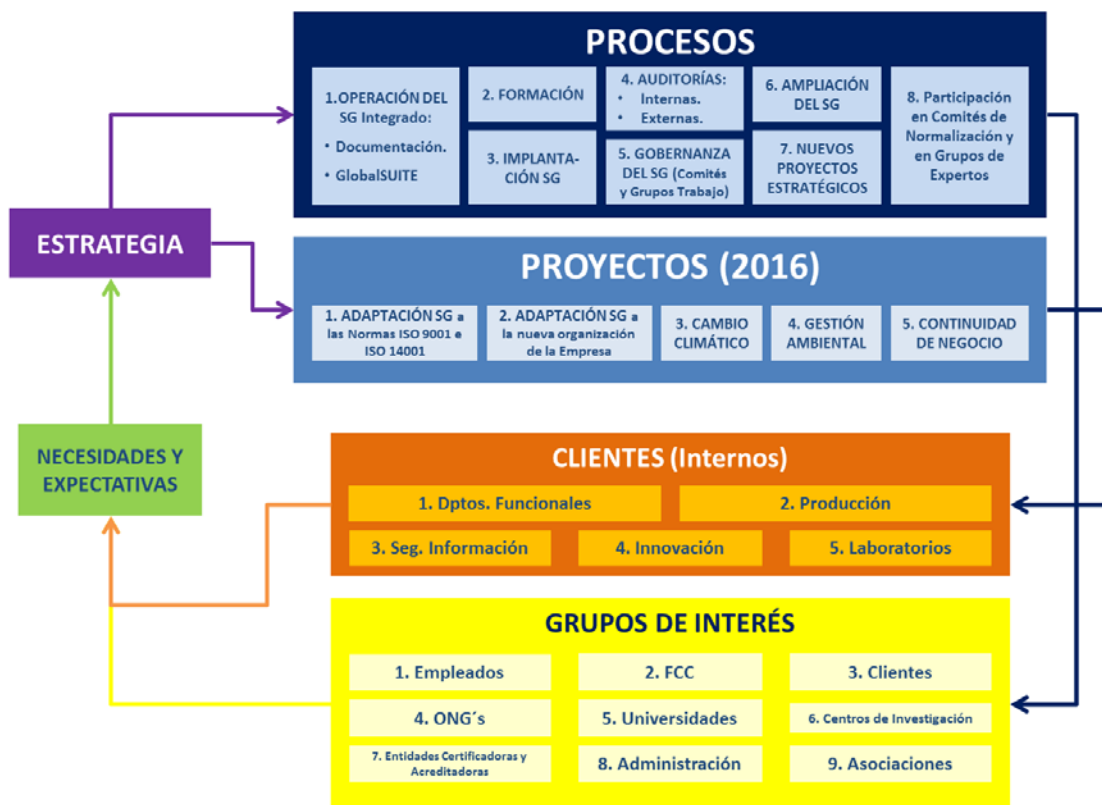
In addition to the foregoing, a strategy has been set with the company's stakeholders, consisting in including treatment of Aqualia's stakeholders in its Management System as a requirement of the new standards and to support the company's other departments (Customer care, CSR, Communication, etc.) in their daily work.

- Employees.
- Shareholders.
- Clients.
- NGOs.
- Universities.



- Research Centres.
- Certification and Accreditation Entities.
- Public Authorities.
- Associations.

A general overview is given below of the relationships between the processes and projects conducted and the corresponding customers and stakeholders:



	PROCESSES				
STRATEGY	1. OPERATION OF THE	2. TRAINING	4. AUDITS	6. EXPANSION OF THE MS	8. Participation

	INTEGRATED MS: <ul style="list-style-type: none"> <li>• Documentation</li> <li>• GlobalSUIITE</li> </ul>		<ul style="list-style-type: none"> <li>• Internal</li> <li>• External</li> </ul>		on Standardisation Committees and Expert Panels
		3. MS IMPLEMENTATION	5. MS GOVERNANCE (Committees and Working Groups)	7. NEW STRATEGIC PROJECTS	
PROJECTS (2016)					
NEEDS AND EXPECTATIONS	1. ADAPTATION OF MS TO ISO 9001 and ISO 14001 standards	2. ADAPTATION OF MS to new company organisation	3. CLIMATE CHANGE	4. ENVIRONMENTAL MANAGEMENT	5. BUSINESS CONTINUITY
CLIENTS (internal)					
	1. Functional depts.		2. Production		
	3. Information Mon.	4. Innovation	5. Laboratories		
STAKEHOLDERS					
	1. Employees	2. FCC	3. Clients		
	4. NGOs	5. Universities	6. Research Centres		
	7. Certification and Accreditation Entities	8. Administration	9. Associations		

## ENERGY MANAGEMENT

In December 2015, the cross-disciplinary Energy Efficiency Working Group was set up in response to procedure GE-301 of the Energy Management System, which establishes that one of the duties of the Operations Department is to draft a “Best Energy Practices Guide” for dissemination within the organisation.

Along these lines, in 2016, projects have been undertaken aimed, on the one hand, at energy efficiency of drinking water pumping stations, which represent 40% of the company's electricity consumption, and, on the other, at efficiency of wastewater treatment stations, which use 38% of all the energy consumed by the company.

The first of these projects endeavours to draft a complete practical guide for assessment of energy losses that may be detected in each component of a lifting station, from the power outlet to final delivery, considering

thermal, electrical and hydraulic losses. Once it is published and distributed, the Head of Service or staff in charge of the facility will have a manual available to them to assess the facility's condition and capacity for improvement in a comprehensive and organised manner.

The second project aims to analyse the situation in order to discern the use, operation and features of the pieces of equipment involved in wastewater treatment processes (pumping, mixing, aeration, lighting, etc.), the conditions of their components, their energy consumption and specific weight in the electricity costs of the operation with a view to:

- Enhancing efficiency and energy savings of systems
- Adjusting and adapting these facilities to valid regulations, where appropriate
- Achieving financial savings based on the observations made
- 

To sum up, the aspects to be developed in the tasks identified in the sections above are:

- Performance of energy audits
- Analysis of processes and systems at facilities
- Proposals for improvement aimed at energy optimisation at the facilities
- 

In 2016, a study was conducted on the treatment stations of Estiviel (Toledo), Ávila, Santa Catalina (Jaén), Las Galeras (Puerto de Santa María) and Huesca.

As a result of these initial studies, capacity for savings amounting to some €620K has been detected, and each case must be analysed to discern the opportunity for implementing the proposed enhancements.

This is a multi-year project in which many other facilities, including certain ones in the International Division, will be added to the portfolio in 2017.

## **REORGANISATION OF FCC AQUALIA'S NETWORK OF LABORATORIES**

In May 2016, the “Restructuring Plan of FCC Aqualia's Drinking Water Laboratory Network” was launched.

The plan calls for reducing the network from 27 laboratories, 5 of which are accredited by ENAC under UNE standard EN 17025 and 22 of which are certified under the UNE EN 9001 and UNE EN 14001 management system, to a network of 8 accredited laboratories and 2 certified ones.

The new network will have a much greater accreditation scope than the current one, with accredited “Control” and “Tap” analysis production capacity for 3.7 times more samples than at present and 30% greater in terms of capacity to perform “Complete” analyses. The new network will also have capacity to perform new analytical techniques performed by external laboratories up to now, including radioactivity testing, the costs of which are particularly high when performed by external laboratories.

With this new organisation, the company's laboratory network will be in a position to comply with the Commission Directive (EU) 2015/1787, which establishes in Annex II that all drinking water analysis methods must be accredited as per the standard EN ISO/IEC 17025.

## **INNOVATION AND TECHNOLOGY**

Following its strategic planning, the innovation activity of FCC Aqualia has been expanded in 2016, adding a new Eco-Efficiency line to the three previous areas of development: Sustainability, Quality and Intelligent

Management, thanks to three new European projects in the H2020 program.

The new line has integrated two projects that were extended for six months at the end of 2016 to consolidate the following outcomes:

- Renovagas, co-funded by the Innpacto Mineco programme and under the leadership of Enagas, installed a methane enrichment prototype at the Jerez WWTP in October 2016, using the CO<sub>2</sub> from biogas and hydrogen generated with renewable electricity. Thanks to a catalytic reactor developed by Tecnalia, the quality of the biofuel produced for two vehicles that were delivered with a parallel project (Smart Green Gas) will be demonstrated in 2017.
- CleanWater, 50 % of which is subsidised by the EU's Eco-Innovation programme, has demonstrated a new way of manufacturing hypochlorite on-site for disinfection at water plants, thus avoiding the risks of use and transport of chlorine gas. In addition to the facility in Almeria installed in early 2016 for wastewater reuse, in September, the pre-oxidation unit at the desalination plant in Denia went into operation. A third machine will be commissioned in Nigran in early 2017. Also within the area of Eco-Efficiency, the multi-year Smart Green Gas project in the CDTI programme of Consortia of National Business Research (CIEN) is ongoing. FCC Aqualia is the leader of a consortium of 5 companies (Gas Natural Fenosa, Naturgas/EDP, Ecobiogas, Diagnostiqa, Dimasa Grupo) in the development of an efficient infrastructure for production and management of biomethane networks. Aqualia's first undertakings in Jerez and in Aranda del Duero have demonstrated sufficient biomethane quality control to fuel vehicles.
- In relation to sustainability, the European project All-gas (bio-energy production from wastewater treatment) has entered its final phase of large-scale demonstration with the construction of 2 hectares of algae culture and a 2700 m<sup>3</sup> digester. In 2017, the processing of up to 2000 m<sup>3</sup>/d of municipal effluent into biomethane to fuel 20 vehicles will be shown. The first vehicle has been running since summer 2016 with biomethane produced based on the 1000 m<sup>2</sup> prototype.

In the area of quality, five projects continue, most of which have European co-funding:

- The Life Memory project has commissioned a 50 m<sup>3</sup> reactor in Alcázar de San Juan, which demonstrates the technical and economic viability of innovative technology, an Anaerobic Bioreactor Membrane (SAnMBR) that enables the conversion of organic matter contained in wastewater into biogas. Without the conventional aerobic stage, a reduction in energy consumption and CO<sub>2</sub> emissions of up to 80% is achieved, 25% less space is required and a reduction of sludge production is reduced by around 50%.
- Life Biosol (Biosolar water reuse and energy recovery), led by the French SME Heliopur, finished the first demonstration stage in Centa (Seville). The new solar wastewater treatment process enables water to be reused and organic waste to be recovered. Large-scale implementation at the Almeria WWTP is being assessed.
- Biowamet BESTF2 is developed under the European programme ERANET and brings together the universities of Southampton and Delft. In synergy with the Life Memory project on anaerobic reactors with membranes, it is being implemented at a small WWTP in Baix Ebre to obtain bioenergy and water for reuse.
- Life Methamorphosis. Aqualia leads a consortium of 6 entities (Metropolitan Area of Barcelona, FCC SA, Natural Gas, Icaen and Seat). Three recently developed technologies are being built at Ecoparque



de Besós, managed by the FCC Group: the AnMBR, ELAN (autotrophic Nitrogen removal) and a biogas cleaning system. The final product would be biomethane that can be injected into the natural gas grid or used as automotive fuel.

- Innova E3N (energy-efficient nitrogen removal) is a continuation of the Innova Impactar project funded by the government of Cantabria, which optimises the pilot project implemented in the sewerage network of Santander to demonstrate compact decentralised treatment plants.

In the area of Intelligent Management, two European projects are underway:

- Motrem, selected in the Water JPI initiative, is led by the King Juan Carlos University in Madrid, along with 3 other universities in Finland, Italy and Germany. The project assesses new technologies for emerging contaminant control and treatment in the current municipal wastewater treatment plant streams, placing special emphasis on water reuse.
- Life Icirbus (Innovative Circular Businesses), led by Intromac technology centre, brings together 8 companies to demonstrate the reuse of waste from water treatment plants in building materials and the generation of bio-fertilizers, at two Aqualia plants in Extremadura.

During 2016, FCC Aqualia has initiated six new projects:

In the area of Sustainability, there are two projects under the European H2020 programme:

- Incover, a project led by the Aimen technological centre in which Aqualia is the largest company in a consortium of 18 entities from 7 countries. The project builds synergy between existing facilities and the knowledge attained at All-gas to expand the use of algal biomass in higher value products such as bio-fertilizers and bio-plastics, and to improve the production of water for reuse.
- Sabana, led by the University of Almeria, with Aqualia as the main industrial partner together with Westphalia (Germany) and the Italian Veronesi food product group, in a consortium of 11 entities from 5 countries (the others are the Czech Republic and Hungary). The goal is to install a 5 ha culture and a bio-refinery to produce new alternative bio-fertilizers and bio-pesticides to replace chemical products through the use of microalgae, in order to make farming "safer" for consumers and the environment.

In the area of Quality, two projects are focused on more sustainable treatment plants:

- The Pioneer project, which is part of the European ERA-NET Cofund Water Works programme under the WATER JPI initiative and is led by the USC, brings Aqualia together with a network of prestigious universities (Verona/IT, DTU/DK and KTH/SE) to improve micro-pollutant removal and reduce the environmental impact of purification through technologies such as ELAN and struvite precipitation.
- Medrar, co-funded by the Conecta Peme programme to promote the RIS 3 priorities identified in Galicia and with support from the European Regional Development Fund (ERDF), aims to improve purification processes in small communities. Along with two SMEs and led by the USC, automated compact modules are developed and integrated into the rural landscape for minimal impact and cost.

In the area of Eco-Efficiency, two European projects focus on the development of new bioelectrochemical processes:

- The H2020 Mides project, the aim of which is to revolutionise desalination, reducing energy costs by up to a factor of 10 compared to conventional reverse osmosis. The technology used, the microbial desalination cell, or MDC, was developed with Imdea Agua (under IISIS, a previous project) and makes it possible to use organic waste (from effluents) to activate bacteria that displace salts through membranes without adding external energy. The project has mobilised 11 partners from 7 countries to implement the technology and set up three demonstration units on three continents (in Spain, Africa and America).
- The Life Answer project is led by Mahou, with participation from the University of Alcalá de Henares, which developed the microbial cell technology for purification (fluidised MFC) in a previous project - Itaca. The goal is to demonstrate the technology at the brewery in Guadalajara to achieve energy savings, and combine it with electrocoagulation pre-treatment in order to recycle aluminium.

Sostenibilidad	Eco-eficiencia	Calidad	Gestión inteligente
<ul style="list-style-type: none"> <li>✓ CDTI Sólidos Sostenibles (2012*)</li> <li>✓ FP7 SWAT (2013*)</li> <li>✓ CENIT VIDA (2014*)</li> <li>✓ IDEA Regenera (2015*)</li> <li>✓ INNPACTO Downstream (2015*)</li> <li>✓ FP7 All-gas (2018)</li> <li>✓ LIFE Biosol water recycling (2018)</li> <li>✓ H2020 Incover (2019)</li> <li>✓ H2020 Sabana (2020)</li> </ul>	<ul style="list-style-type: none"> <li>✓ ECO Inno Cleanwater (2016)</li> <li>✓ RETOS Renovagas (2016)</li> <li>✓ CIEN SmartGreenGas (2018)</li> <li>✓ H2020 Mides (2020)</li> <li>✓ LIFE Answer (2019)</li> </ul>	<ul style="list-style-type: none"> <li>✓ MIMAM MBBR Hybacs (2010*)</li> <li>✓ INCITE MBR Trainasa (2012*)</li> <li>✓ INCITE ELAN Trainasa (2012*)</li> <li>✓ CDTI ELAN Vigo aqualia (2013*)</li> <li>✓ INNPACTO Filene (2014*)</li> <li>✓ ININTERCONECTA Alegría (2014*)</li> <li>✓ INNPRONTA ITACA (2014*)</li> <li>✓ LIFE Remembrane (2015*)</li> <li>✓ INNOVA Inpactar (2015*)</li> <li>✓ CDTI BESTF2 Biowamet (2017)</li> <li>✓ INNOVA E3N (2017)</li> <li>✓ LIFE Memory (2018)</li> <li>✓ CONECTA PEME Medrar (2018)</li> <li>✓ WATERWORKS Pioneer (2018)</li> <li>✓ LIFE Methamorphosis (2019)</li> </ul>	<ul style="list-style-type: none"> <li>✓ MEC Mantenimiento Predictivo (2012*)</li> <li>✓ INNPRONTA IISIS (2014*)</li> <li>✓ ININTERCONECTA Smartic (2014*)</li> <li>✓ FP7 UrbanWater (2015*)</li> <li>✓ CDTI WATER JPI Motrem (2017)</li> <li>✓ LIFE Icirbus4industries (2019)</li> </ul> <p>(*) Proyectos terminados</p> <p><b>Actualización Diciembre 2016:</b>  <b>Concluidos 18</b>  <b>En Marcha 17</b></p>

Sustainability	Eco-efficiency	Quality	Intelligent management
			(*) Completed projects
			December 2016 update 18 completed 17 ongoing

Throughout 2016, the team of researchers from FCC Aqualia was granted two new patents on biogas production and refining:

- EP 14382399.5 on UASB anaerobic reactor feeding
- EP 15382087.3 on biogas cleaning and removal of H2S and CO2

During the year, five patents were also requested on several technologies in the demonstration stage such as ELAN, AnMBR, MDC, MFC and struvite crystallisation.

In relation to publications and participation at relevant conferences and scientific events, the organisation of the IWA Leading Edge Technology event in Jerez in June must be highlighted. 450 participants from 45 countries

were there, with area managers from Aqualia actively participating in the programme to present the latest progress from their work.

Furthermore, Aqualia was also invited to participate in numerous international events:

Biogaz Europe, Nantes (FR) in January  
EIP European Innovation Partnership, Leeuwarden (NL) in February  
WEX Global Water Energy Exchange, Lisbon (PT) in March  
IWA Wastewater Pond Technology, Leeds (UK) in March  
EU Algae Roadmap Conference, Olhao (PT) in April  
IWA ECO Stp, Cambridge (UK) in June  
Watec Italy, Venice (IT) in September  
World Water Technology Summit, Toronto (ON, CA) in October  
Latin American Congress on Desalination, Santiago (Chile) in October  
Algae Biomass Summit, Phoenix (AZ, USA) in October  
Hyundai Engineering and Construction Conference, Seoul (SK) in November  
GWI American Water Summit, Miami (FL, USA) in December

## **COLLECTIVE BARGAINING AND ADMINISTRATION OF PERSONNEL**

Collective bargaining and labour relations:

As regards collective bargaining, the sector has remained stable throughout 2016 with the consolidation of the 5th State Water Agreement, facilitating relations with the representatives of the main trade unions through application of an extensive conventional regulation that has reduced the number of conflicts at the work centres where it is applied. Likewise, as a result of the consolidation of the 5th State Water Agreement signed by several work centres, the number of applicable agreements has dropped by 5% compared to the total number of agreements applied/valid in 2015.

In terms of negotiating wage increases under the agreements, the terms of the Agreement on Employment and Collective Bargaining have been followed as a reference framework and agreements were reached without any disputes with workers' legal representatives.

In relation to labour disputes that ended in lawsuits and the corresponding labour reconciliation processes, the results found that the number of claims resulting in lawsuits has dropped by 12.5% since 2015 and just 10.71 % of these cases resulted in a judgment against the company in a trial court. Of these, 23.81% received judgments in favour of the company in an appeal and agreements were reached with the claimants in 32.14% of the cases. The figures indicate a steady drop in labour disputes and satisfactory outcomes in resolving claims in court.

As for conflicts resulting in strikes, 2 strikes were announced in 2016 (3 in 2015), 1 of which was resolved through an agreement reached with the workers, resulting in 0 days of actual strike, and in the other case, 1 day of strike (24 days in 2015). The cause was not related to the company's actions, given that it was a strike in the telephone operator sector followed by a minority of the workers (just 5% of workers at the centre, including the workers' legal representative) arising from the sector-wide negotiations of the applicable collective agreement.

Personnel Administration:

Diverse activities have been carried out in this area, aimed at continuing the process of decentralisation and optimisation of administrative procedures that began in 2015.

These include the redistribution of personnel administration tasks that were performed by service operation

managers and are now the responsibility of HR department staff. This releases production staff from performing these tasks, giving them more time for the main operation tasks related to services and assignment of these tasks to more specialised staff members. In addition, the number of Incorpora/SAP software licences currently held is gradually optimised, leading to added financial savings.

The current jobs/duties map has been expanded and updated, standardising and extending it to identify and classify all the staff members currently at the company with greater functional efficiency. This leads to an improvement in the available information and a better assessment of current staff in each area, regarding which there was no detailed information available up to this time.

Regarding Social Security issues, the move from the current contribution and affiliation system to the new “Cret@” system has been highly effective. This system change required under Social Security regulations entails, among other changes, precise matching of the company's and the Social Security administration's information and a change in contribution and personnel administration management criteria, which was implemented to excellent results, reaching an adaptation rate of 100% (0% errors) in the new system.

#### **SELECTION - TRAINING - DEVELOPMENT & EQUALITY**

This year FCC Aqualia continued implementing its second Equal Opportunities Plan (for the period from 2015 to 2018) in which both Aqualia and the leading trade unions at the state level reiterated their commitment to equal opportunities between men and women.

In addition, FCC Aqualia continues to apply equal opportunities policies in terms of gender.

This year, the Second Mentoring Programme was developed to promote female talent, aimed at continuing to foster female talent in the organisation, showcase talented women at the company and facilitate their professional careers.

In 2016, the first Female Talent Session was held at Aqualia, which brought together mentors and mentees with successful female executives who shared their personal and professional experience. With this type of actions, Aqualia looks to contribute to creating and fostering a business culture that is committed to gender equality.

This year, three workshops were also held to raise awareness about “Work-life balance, a new paradigm in people management”. The purpose of these one-hour sessions was to raise awareness and motivate directors and middle managers regarding the importance of a personal-professional balance and co-responsibility.

Also, for the third consecutive year, it has conducted training on equal opportunities for employees as part of the training on job-specific risks.

Similarly, the recruitment process at FCC Aqualia continues to be performed according to the recruitment model by skill sets, based on which the interview questions are drawn from an analysis of the position and the same questions are asked of all candidates. This method makes it possible to compare, ensure equality and prevent discrimination.

FCC Aqualia maintains its "Equality in Business" Label, extended in 2014 for a period of three years. This label is a recognition by the Ministry of Health, Social Services and Equality of the company's commitment to diversity and equal opportunities for men and women.

Furthermore, FCC Aqualia continues to show its commitment against gender violence through its participation in various campaigns.



Aqualia also participated in activities related to diversity:

- Adecco Foundation Family Plan, focusing on the children of employees with certified disabilities equal to or greater than 33%.
- The collaboration agreement signed by the subsidiary Hidrotec and the Prevent Foundation to promote non-professional internships for persons at risk of social exclusion.
- Awareness workshops at the Customer Care Centre about working with persons at risk of social exclusion.
- Inclusion of people with intellectual disabilities in work teams through the Down Syndrome Foundation.

Moreover, during 2016 we held the third edition of the Otto Walter series, a program aimed at middle managers and geared to continuing the transformation of the leadership style at FCC Aqualia towards a more participatory people management model, as a talent catalyst that strengthens team cohesion and is backed by a common language shared by all.

In 2016, FCC Aqualia maintained its Accession to the Alliance for Dual Professional Training. Within this alliance, FCC Aqualia has signed new collaboration agreements with:

- San Juan de la Cruz secondary school in Madrid, to develop the Dual Higher Level Training Course in Environmental Health under an alternating system.
- The Department of Education of the Regional Government of Catalonia, to develop the Dual Higher Level Training Course in Sports and Recreational Activity Work under an alternating system at Andreu Nin secondary school in El Vendrell.
- Torre Vicens secondary school in Lérida, which teaches the Higher Level Training Course in Building Construction Projects.
- Thus, the collaboration agreement signed in 2015 between FCC Aqualia and Pere Martell Institute of Tarragona to promote, encourage and develop, under an alternating system including Dual Professional Training, the Mid-Level Training Course on Networks, Facilities and Water Treatment Plants.
- As for the training, FCC Aqualia is still committed to the training and professional development of its workers.
- In 2016, 464 courses were arranged and 3,329 employees received 68,062 hours of training.
- It is worth noting that 57% of male employees and 66% of female employees received training.
- 90% of employees attended training courses (6,172 participants in 2016), and the employees' commitment to and involvement in their training is noteworthy.
- The aims of training at Aqualia are linked to the strategic aims of the company, to the improvement of the performance of the functions of the workers and to ensuring occupational health and safety. Similarly, we are working on the development of training paths for specific and critical groups of the organization (department heads, laboratory staff and customer management staff).

## **2016 ACTION REPORT REGARDING OCCUPATIONAL HEALTH AND SAFETY**

In line with the corporate policies of the FCC Group, in 2016, in accordance with the strategic plan designed in 2015 on the concept of "healthy company", a study was conducted to provide an initial assessment and a series of dissemination and promotion features were designed to accompany the activities in 2017.

The psychosocial risk assessment project has begun for the entire company, the aim of which is to attain further

knowledge on this topic, as one of the elements for furthering the concept of occupational health. Up to now, the following activities have taken place:

- An awareness workshop was held for 20 people with participation by prevention technicians, human resources managers and workers' representatives.
- A study was conducted to discern the “analysis units”, which will aid in more effectively focusing the assessment surveys.
- The assessment method to be used has been defined.
- Certification of the Occupational Health and Safety Management System was once again renewed at global, domestic and international levels, until November 2017.
- Mid-year, the web portal containing the Prevention of Risks at Work Management digital tool was launched. As with all processes of this kind, some experience and time for improvement is needed, but it has provided us with information about the contract-level management rate, which shall, in turn, represent a monitoring and control tool for the hierarchical line.

As for external relations, the Company has received three new awards for its work towards the safety and health of its workers:

- Finalist in the 8th edition of the ATLANTE awards, in the occupational risk prevention integration elements category.
- Finalist in the 2016 edition of the awards sponsored by Asepeyo for the Improvement in Preventive Culture project.
- Winner of the FCC 2016 award in the prevention management category.
- In relation to external communications, the company collaborated with the Administration at two training events about the risks in the end-to-end water cycle management sector.
- Also, during 2016 we have continued the work being developed as part of the Charter for Occupational Health of Aqualia, in which representatives of major trade unions and the management of the Company collaborate in improving the safety conditions through dialogue and drafting of best practices at global level.

The accident frequency rate in 2016 (12.05) showed a slight upturn compared to the previous year (11.56), mainly due to the increase in accidents in the first half of the year, which could not be offset by the improvements seen in the second half. As regards the reduction of absenteeism due to work-related risks, a package of measures was implemented in 2016, aimed at reducing this situation:

- Programme of visits to contracts with high accident rates: this is a measure held over from previous years, which led us to visit and prepare specific improvement programmes in 2016 for 21 selected contracts throughout Spain.
- Implementation of the Action Plan for Improvement designed as part of the Preventive Culture project began. The four activities launched in 2016 were:
- Safety visits by management: around one hundred visits were made by general management and zone and local managers in order to transmit to employees the concept of greater visibility regarding management's commitment to health and safety.
- Refresher training: starting in September, the occupational risk prevention technicians taught training sessions on workplace risks through the use of new audio-visual materials and a new teaching method geared toward learning from, engaging with and seeking a commitment from workers.
- Safety observations: similarly, starting in September the prevention technicians modified their traditional safety inspection methodology, moving from a prescriptive attitude toward one that seeks the same goals as mentioned in the preceding paragraph.
- Safety talks: a guide was drafted and a workshop taught about a tool that will gradually be used by

heads of service. The aim of these talks is to encourage worker participation and standardise the frequent handling of safety issues at each work centre.

- Three activities established in the Road Safety Campaign have been launched:
- Statement of compliance on driving capacity: a statement concerning driver training received shall be furnished by workers that operate vehicles, especially as regards the availability of points on their driving licences.
- Information has been gathered on traffic accidents in order to assess the frequency thereof.
- A new Health and Safety Policy was signed that includes the company's commitment to Road Safety.

## **COMMUNICATION, MARKETING AND CSR**

### **Communication**

The 2016 Communication Plan (PCom), a document explaining the actions planned for the year, indicated that its main challenge was “to position Aqualia's activities in the media and in new channels”. The goal was to showcase the company's work in the regions where it does business. In this regard, a considerable increase was seen in informative, educational and citizen awareness activity by the company in 2016. Throughout the year, the media, particularly sector-specific and local media, published nearly 10,000 news pieces on Aqualia's activity, 70% of which appeared in the digital media.

In 2016, special emphasis was placed on the relationships with local newspapers, which are the leaders in the geographic areas in which Aqualia carries out its work. Thus, numerous meetings and events were held, in which the company's viewpoint on current affairs in the sector was communicated and the media were informed about the most relevant aspects of each service or office.

In our efforts to inform the press in particular, and society in general, about our viewpoint on the importance of proper, specialised management of the end-to-end water cycle for the development and well-being of society, the 1st Aqualia Journalism Prize in “Water Management in Municipalities” was awarded in December 2016. The winner was Tomás Díaz, for his article, “Sanitation Levy to Increase by 50% and Make Water Bills More Expensive”, published in the Water and Environment supplement of *El Economista* on 13/01/2015. The competition was highly successful, both for the quality of work submitted and for the number of projects - 48 - published in all types of media outlets: print and digital, local and regional circulation and general information outlets as well as water sector publications. This initiative will continue in 2017.

Likewise, intense work has been done on internal training and communication campaigns that focus on perfecting and fostering structured and effective use of communication tools by our agents to respond to topics linked to the sector with the utmost assurance of reliable, verified contents. Subjects such as the human right to water and sanitation, water ownership, setting rates, supply cuts and explanations of bills are just a few of the fifteen topics discussed and analysed in depth to provide clear and concise information. The second major communication goal focuses on “making Aqualia a benchmark in terms of technique, innovation, sustainability and communication”. In this regard, the desire to communicate more and better is not a goal that is exclusive to Aqualia, but rather, it is a first level need for all the companies that operate in this sector. Proof of this is that even trade associations such as the Spanish Association of Water Supply and Sanitation (AEAS) and the Water and Sanitation Supply Association of Andalusia (ASA) have created their own working groups focused on the Communication field. In 2016 these groups worked toward the goal of establishing clear, stable and easy to understand policies that enable them to transmit the sector's messages to journalists and to the Administration and the public. Aqualia participates in both groups, which have arranged the sector's presence at events such as the 13th National Congress of the Environment (CONAMA) held from 28 November to 1 December and the 34th AEAS Conferences held in Tarragona from 24 to 26 May 2017.

In addition to the usual activities (press conferences and releases, articles, interviews, reports, etc.), Aqualia drafted and distributed co-branding contents in 2016. In this type of activity, brands work together to increase the perceived value and positive returns of each of them. In other words, on certain occasions we have shared centre stage with other reputable brands in different cutting-edge business sectors. One example of this is the application of IBM's cognitive technology at the Lleida treatment plant to optimise plant efficiency. This strategy was also used in cooperation with two global automotive leaders, Volkswagen and Seat, with which the company worked closely to report the progress made in the All-gas and Smart Green Gas projects that aim to obtain biogas from wastewater. Reporting in the social and academic fields took place in collaboration with Caritas and IESE through projects entailing the struggle against poverty and social inequality and establishing best practices and standards in public-private partnerships.

The efforts that Aqualia has made in the field of Communication are reflected in the ranking published each year by iAgua, a leading publication in the sector in Spain and Latin America. At year-end 2016, as regards communication, Aqualia stood in 2nd place among the most influential entities in the sector in Spain and Latin America.

## Marketing

The 2016 Communication Plan (PCom) included the two-fold goal of ensuring that citizens see us as a company that adds value to their regions while also ensuring that institutions feel happy working with Aqualia as a benchmark in technology, innovation, sustainability and communication. To achieve this, the company focused on positioning itself in the minds of citizens in a different area to that of the competition: people.

From a highly local perspective, the street marketing plan in Lora del Río (Seville), for example, met two goals because, through this innovative campaign, awareness was raised about the value of the water service by actively collaborating with the city council. Another example is the launch of a responsible use campaign on Ibiza and Formentera under the umbrella of the Alliance for Sustainable Water Management, which is composed of representatives of public institutions, private entities, civil society and the agriculture industry. Its main general goal is promotion of comprehensive management of fresh water on the Pityusic Islands.

The 14th edition of the International Digital Children's Drawing Contest presented on 22 March, World Water Day, is another example of activities aimed at accomplishing strategic goals. As in previous years, in an effort to foster children's skills in the use of new technologies and contribute to sustainable development by avoiding the use of paper, the contest took place over the microsite [www.elciclodelaguaparavalientes.es](http://www.elciclodelaguaparavalientes.es) where children could create their compositions while at the same time testing their knowledge about each of the phases of the end-to-end water cycle. Furthermore, the educational nature of the contest was highlighted in 2016 through the creation of the story, "The Water Cycle, an Adventure for the Brave". This year, the message was transmitted to more than 160,000 people in our target audiences: 150,000 school children, 6,800 teachers, 2,000 employees, 1,000 local councils and 850 media outlets.

This effective educational and informative action has also had an internal version. Thus, 178 children, grandchildren and nieces and nephews of employees of Aqualia took part in the seventh edition of Pequeartistas, an activity also conducted entirely online. It is worth noting that this year children from Spain, Portugal and Uruguay participated in this initiative.

In relation to the actions for World Water Day (March 22), Aqualia has appeared in the pages reserved by the main local and regional newspapers for commemorating this date. To this end, we have designed and managed the publication of advertising graphics for fifty newspapers and *ad hoc* editorial content for around thirty media outlets.

In 2016, several campaigns linked to sales and awareness targets took place that offered support to communication in order to ensure that the public understands and appreciates the company's activities. The “Change to e-billing” electronic billing promotional activity, the Aqualia “Smartaqua” mobile application promotional campaign, and the “Don't flush it” information and awareness campaign about proper toilet use are clear examples of this.

In response to attacks by public water management platforms that clearly intend to exclude companies like Aqualia, an information campaign was launched, aimed at explaining certain realities that help dispel false myths ingrained in society regarding the management of the end-to-end water cycle and the role of operators.

The campaign is based on the website [www.informacionrealdelagua.com](http://www.informacionrealdelagua.com) and the approach is reflected in all the formats and channels: advertising graphics, pamphlets, banners, back pages of bills, social networks, the Smartaqua app (campaigns menu option) and in the 2017 calendar. Here, 12 false myths concerning the end-to-end water cycle are explained and arguments and actual facts are given to dispel them. The aim of this campaign is to spread the concept among different audiences –company, administration, citizens and the media– that, beyond the ideological and political debate on water management models, what matters to citizens is that they have excellent, high quality service for everyone, regardless of who provides the service.

Also during 2016, we have worked to strengthen the perception of Aqualia as a global company (global management with a strong local commitment), a company that provides local value, while at the same time being international and open to new cultures. In 2016, Aqualia bolstered its presence at numerous strategic forums and events of international relevance in pursuit of its goal to position itself in the sector as a benchmark for innovative solutions, rising to future challenges or responding to new public-private partnership models. Such is the case of the iWater International Trade Fair held in Barcelona, the IWA LET Conference in Jerez, EXPO APA held in Bucharest, the second edition of Oman Energy & Water, the Watec Italy conference, the Latin American Congress on Desalination and Water Reuse (DESAL) held in Santiago, Chile, the 12th META Meeting (a discussion forum in which the main representatives from the public and private sector and the academic field meet), the 9th International AEDyR Conference, the IDA International Energy and Environment Forum and the 7th edition of the American Water Summit held in Miami. Furthermore, in June, the celebration of the 20th anniversary of the company Aguas y Servicios de la Costa Tropical de Granada offered an opportunity to showcase the excellent experience in public-private cooperation in water service management.

Finally, 2016 was a year in which Aqualia's activities were awarded on several occasions for the “global” work done. iAgua, the reference media outlet in the water sector in Spain and Latin America, recognised Aqualia's good practices in the field of communications. The company has received two prizes, one for Best Contract, for the award of the El Salitre water treatment plant in Bogota (Colombia), and another for Best Campaign, for the awareness campaign *#nolotires* (about the proper use of the toilet). In addition, the work done by Aqualia in the city of Mérida, in Extremadura, was recognised by AESPE, the Spanish Association of Portable Ecological Toilets, with the ‘Golden Drop’ prize. This prize is an acknowledgement of Aqualia's commitment to the environment and its initiatives focused on achieving more efficient management of natural resources, more rational energy consumption and identification of the risks linked to the company's activity. Moreover, Aqualia was the first water sector company to be a finalist in the International Kids Communication Festival “El Chupete”.

At international level, Aqualia was recognised as the best water operator in Saudi Arabia as part of the Saudi Water & Electricity Forum (SWEF) event held in Riyadh from 6 to 9 February. This award acknowledges the work done by Aqualia over the last five years in the sectioning and leakage project in the city of Riyadh, completed with the acceptance of the Operation and Maintenance contract for the treatment plants in Mecca (Hadda and Arana) mid-year. With this award, Aqualia bolsters its presence in the Middle East, where the

company has been at the forefront in terms of managing major contracts.

### Corporate Social Responsibility

Social Responsibility is a driving force in the dynamics and development of Aqualia's activities. In our task of awareness-raising and commitment to the communities in which we provide our services, in 2016 the company has undertaken several awareness-raising campaigns on gender violence, the employment integration of disabled persons and equality. In addition, and linked to our daily activity, Aqualia has launched several actions to raise awareness about responsible water use and care of our environment.

This year, we joined the PPP For Cities project, an initiative sponsored by the UN through its UNECE Regional Commission and its programme "International Centre of Excellence on PPPs" (ICoE), hosted in Spain by IESE business school. The company is the leader of the Water Management area, contributing its vast experience in the development of PPP projects. The project goal is to be a leader and international benchmark in preparing best practices and standards in PPP and providing aid to governments when needed for implementation in each country.

Gender Violence and Equality. This year the Ministry of Health, Social Services and Equality showed its support for the 5th follow-up annual report issued by Aqualia for the "Equality in Business" label. The company presented the measures implemented under the umbrella of this label, granted by the Ministry in 2010, and the progress of the activities carried out since 2013, when the label was granted an extension, in its 5th follow-up report.

Within this context, the awareness campaigns carried out by Aqualia on occasion of International Women's Day on 8 March, the fight against breast cancer, and the fight against gender-based violence on 25 November, in addition to training activities on the subject of equality, are of note. Particularly relevant are the activities promoting an increase in the number of women in managerial positions, such as the Executive Development Program for Women with High Potential and the Mentoring Programme, now in its second year, to promote female talent and help foster a cultural change at the company that emphasises gender equality, focusing and facilitating the professional careers of female employees with potential.

The conference held on the Day against Gender Violence represented one of the biggest successes of internal mobilization of Aqualia employees. This year the company developed the website [www.aqualiacontigo.com](http://www.aqualiacontigo.com), in which all the members were invited to participate in this charitable initiative and join forces with a big heart, the campaign symbol.

In addition, the Ávila City Council recognised Aqualia as a "Company that is Socially Committed to Equality". As a result, on 9 March a moving event was held to showcase individuals, institutions and companies that work toward effective equality between men and women.

Aqualia has furthered its commitment to fighting against inequality by participating in forums that discuss the main challenges that companies face in achieving gender equality. This is the case of Aqualia's participation in the workshop "Toward Gender Equality in Company Management: Opportunities and Challenges" held on 31 March, organised by the Secretary of State for Social Services of the Ministry of Health, Social Services and Equality, EEA Grants (the financial mechanism of the European Economic Area in which Norway, Island and Liechtenstein participate) and the "More Women, Better Companies" initiative.

Sustainability and awareness. Aqualia took part in and arranged several workshops in which it transmitted its commitment to sustainability with messages linked to the public nature of water and the fact that both public and private management must be efficient and sustainable (socially, financially and environmentally), thereby enhancing the attributes of closeness, commitment and professionalism. The "Water as a Driver of Jobs and

Sustainability” workshops held in Seville, Toledo and Chiclana are an example of this approach. The goal was to analyse the situation in the sector by means of several debates that dealt with topics such as management models, the legal and employment framework of the sector, collective bargaining and social sustainability.

Along these lines, Aqualia also arranged a meeting in Santa Eulària des Riu, Ibiza, between company representatives, island and local administration, experts and scholars to discuss the topic of “Water on the Pityusic Islands. We are all Responsible”. This meeting was devoted to analysing the severe water shortages sustained on the islands, particularly in summer, when the largest influx of visitors occurs. Proposals were also introduced at the event to raise awareness among residents and visitors and to establish the necessary measures to meet the island's needs in a sustainable manner.

For Aqualia, efficient management of natural resources, especially water, is essential. The innovation projects highlighted this year in Lleida, Jerez and Chiclana, in collaboration with leading companies such as SEAT and IBM, consolidate the company's commitment to energy optimisation, which leads to significant cost savings and also provides the large cities where they are implemented with greater autonomy and sustainability, to the benefit of the citizens living there.

On 22 March, at local level, diverse awareness campaigns were also organised in which Aqualia played a leading role. The most relevant of these are: participation in the presentation of the Alliance for Sustainable Water Management in Ibiza and Formentera, events in cities such as Vigo, Santander, Dénia (Alicante), Nájera (La Rioja), Molins de Rei (Barcelona), Sant Antoni de Portmany (Ibiza), and others nationwide. The diverse events that took place at the facilities of the company SmVak in the Czech Republic are also worth noting.

In addition, in 2016 more than 100 open-door workshops were held with different groups (housewives, retirees, journalists), as well as receiving more than 50 visits from a total of 15,000 school children. Visitors have been informed of the way in which the management of the end-to-end water cycle is undertaken in a company such as Aqualia and have been trained in the proper use of the resource: responsible use, use of the toilet, management of oils, etc. with the aim of caring for the environment with a clear environmental commitment.

In other matters, one of Aqualia's goals is to ensure a safe and healthy work environment for its employees, and therefore raising awareness is essential. In 2016, the company launched its “Safety Walks” as part of the Aqualia Preventive Culture Improvement Plan 2015-2018 under the leadership of the Health and Safety Service, aimed at enhancing the company's preventive climate. This is an initiative that is commonly implemented at top-notch companies in preventive management and it focuses on highlighting management's commitment to prevention. No monitoring or inspections take place, but rather there is a strategic focus on a culture of safety and leadership in prevention issues.

Society. The task and effort of Aqualia during 2016 has consisted in taking another step in contributing to the welfare of the people who rely on us as their water company. This has taken the shape of several actions.

As regards the social measures that public water service providers have launched, the 1st “Social Action Measures in the Water Sector” workshop was held on 28 January in Seville. This event, organised by the trade association of Andalusia, ASA, in conjunction with the Andalusian Federation of Municipalities and Provinces (FAMP), brought together around a hundred representatives of public administrations, operators, consumer associations and social workers. One of the discussion panels was composed of water operators, in which the service in Almeria explained the social action measures that are applied in the Municipal Water Service of the capital city of Almeria. Among other measures, we could highlight restraints on rates, more than 500 custom payment plans per year and coordination amongst different social agents such as the city council department of social affairs, the Agency for Housing and Restoration of Andalusia and organisations such as Caritas, the Red Cross and neighbourhood associations.

As a company dedicated to managing a public asset such as water, Aqualia has an added responsibility to society, and therefore this year it has collaborated with various associations for disabled persons in Segovia, Ibiza and Oviedo, among others.

In addition, Aqualia has renewed an agreement with Spanish Caritas under which it undertakes to collaborate in the care of people in situations of vulnerability or exclusion, in matters related to the water cycle, through the Municipal Social Services. It also undertook to make an annual donation equivalent to the figure paid for the water services of the Caritas centres in cities where Aqualia provides its services.

In this regard, moreover, Aqualia entered into an agreement with the Council of Vigo, in conjunction with Social Services, to help prevent water cuts to families lacking financial resources. The initiative enables the Municipal Water Service, managed by Aqualia, to recognise cases in which payment is indeed impossible and to seek out the most effective solution, thus also enabling the city council to fulfil its commitment to promoting cohesion and social justice.

In its commitment to society, the over one hundred cultural, sporting and environmental contributions must also be highlighted, which reflect the efforts made by the company to be acknowledged as an agent of change and involvement in the territory by establishing relationships with citizens to create a more just society.

Publications. Aqualia has published the tenth edition of its Report on Corporate Social Responsibility (CSR) summarizing the main economic, social and environmental benchmarks developed by the Company throughout 2015 in a very visual way and reflecting the key aspects of the company's relationship with its stakeholders: employees, citizens, the media and Public Authorities, among others. You can view the report on Aqualia's website ([www.aqualia.com](http://www.aqualia.com)).

In 2016, Aqualia collaborated in the publication of the book “La Regulación de los Servicios Urbanos de Agua. Experiencias a analizar desde España” [The Regulation of Urban Water Services. Experiences to analyse from Spain], which analyses the experience and effort of several countries regarding the regulation of urban water services: It was written in collaboration with the Polytechnic University of Valencia (UPV), its group specialised in urban water management (ITA), and the International Water Association (IWA). The book analyses how the relationship between public administrations, operators of urban water management services and the users of this service is regulated in Germany, Australia, the United Kingdom, Portugal and Denmark.

## **OTHER DISCLOSURES**

The Company's exposure to financial risks is detailed in Note 22 of the attached report.

As explained in Note 23.2 of the report, the Company has exceeded the maximum average period for payment to suppliers. The Company has established measures aimed at adjusting this maximum period, namely:

- Review of internal procedures related to the payment process (receipt of invoices and internal approval processes).
- Optimisation of working capital management, reducing average collection and payment periods.
- Assessing and, where appropriate, implementing electronic billing processes.

As for treasury share transactions, the Company has not purchased any treasury shares, nor does it plan to in the future.





Any events that may have occurred after 31 December 2016 are described in Note 23.1 of the attached report.



The Company's Financial Statements and Directors' Report for FCC Aqualia, S.A. corresponding to the year ended 31 December 2016 were prepared by the directors of the company on 21 February 2017 and are issued on 61 sheets of duty-stamped paper printed on both sides, series 0M, numbers 6224085 to 6224145, inclusive, signed in approval on the duty-stamped sheet of paper, series 0M, number 6224145.

**Vice-Chairman**

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Mr Félix Parra Mediavilla

**Director**

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Mr Isidoro Marbán Fernández

**Secretary**

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Ms. Cristina López Barranco