



## FCC AQUALIA, S.A.

*(incorporated with limited liability under  
the laws of the Kingdom of Spain)*

### **EUR700,000,000 1.413 per cent. Senior Secured Notes due 8 June 2022 and EUR650,000,000 2.629 per cent. Senior Secured Notes due 8 June 2027**

The issue price of the EUR700,000,000 1.413 per cent. Senior Secured Notes due 8 June 2022 (the "**2022 Notes**") of FCC Aqualia, S.A. (the "**Issuer**") is 100 per cent. of their principal amount. The issue price of the EUR650,000,000 2.629 per cent. Senior Secured Notes due 8 June 2027 (the "**2027 Notes**", and together with the 2022 Notes, the "**Notes**") of the Issuer is 100 per cent. of their principal amount.

Unless previously redeemed or cancelled, the 2022 Notes will be redeemed at their principal amount on 8 June 2022 and the 2027 Notes will be redeemed at their principal amount on 8 June 2027. The Notes are subject to redemption in whole at their principal amount at the option of the Issuer at any time in the event of certain changes affecting taxation in the Kingdom of Spain. The Notes must be redeemed in whole at their principal amount in certain circumstance following a change of control in the Issuer (see "*Terms and Conditions of the Notes—Redemption and Purchase—Mandatory Redemption on Change of Control*") and may also be redeemed at the option of the Issuer, in whole or in part, at their principal amount on any date that is not earlier than 3 months prior to the Maturity Date of the relevant Notes (see "*Terms and Conditions of the Notes—Redemption and Purchase—Redemption at the option of the Issuer*").

The 2022 Notes will bear interest from 8 June 2017 at the rate of 1.413 per cent. per annum payable annually in arrear on 8 June each year commencing on 8 June 2018. The 2027 Notes will bear interest from 8 June 2017 at the rate of 2.629 per cent. per annum payable annually in arrear on 8 June each year commencing on 8 June 2018. Payments on the Notes will be made in Euro without deduction for or on account of taxes imposed or levied by the Kingdom of Spain to the extent described under "*Terms and Conditions of the 2022 Notes—Taxation*" and "*Terms and Conditions of the 2027 Notes—Taxation*" respectively.

This Offering Circular does not comprise a Prospectus for the purposes of Article 5.3 of Directive 2003/71/EC as amended (which includes the amendments made by Directive 2010/73/EU to the extent that such amendments have been implemented in a relevant Member State of the European Economic Area).

Application has been made to the Irish Stock Exchange plc (the "**Irish Stock Exchange**") for the Notes to be admitted to the Official List and to trading on the Global Exchange Market of the Irish Stock Exchange. This Offering Circular constitutes listing particulars for the purpose of such application and has been approved by the Irish Stock Exchange.

The Notes have not been, and will not be, registered under the United States Securities Act of 1933 (the "**Securities Act**") and are subject to United States tax law requirements. The Notes are being offered outside the United States by the Joint Bookrunners (as defined in "**Subscription and Sale**") in accordance with Regulation S under the Securities Act ("**Regulation S**"), and may not be offered, sold or delivered within the United States or to, or for the account or benefit of, U.S. persons except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act.

The Notes will be in bearer form and in the denomination of EUR100,000 each and integral multiples of EUR1,000 in excess thereof up to and including EUR199,000. Each series of Notes will initially be in the form of a temporary global note (each a "**Temporary Global Note**"), without interest coupons, which will be deposited on or around 8 June 2017 (the "**Closing Date**") with a common safekeeper for Euroclear Bank S.A./N.V. ("**Euroclear**") and Clearstream Banking, *société anonyme*, Luxembourg ("**Clearstream, Luxembourg**"). Each Temporary Global Note will be exchangeable, in whole or in part, for interests in a permanent global note (each, a "**Permanent Global Note**", and together with the Temporary Global Note, the "**Global Notes**"), without interest coupons, not earlier than 40 days after the Closing Date upon certification as to non-U.S. beneficial ownership. Interest payments in respect of the Notes cannot be collected without such certification of non-U.S. beneficial ownership. Each Permanent Global Note will be exchangeable in certain limited circumstances in whole, but not in part, for Notes in definitive form in the denomination of EUR100,000 each and with interest coupons attached. See "*Summary of Provisions Relating to the Notes in Global Form*".

The Notes will be rated BBB- by Fitch Ratings Limited ("**Fitch**").

Fitch is established in the European Economic Area ("**EEA**") and registered under Regulation (EU) No 1060/2009 on Credit Rating Agencies, as amended (the "**CRA Regulation**").

**A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.**

#### JOINT BOOKRUNNERS

Banco Bilbao Vizcaya Argentaria, S.A.  
Santander Global Corporate Banking

CaixaBank, S.A.

HSBC  
Société Générale Corporate & Investment  
Banking

#### CO-LEAD MANAGERS

ABANCA Corporación Bancaria, S.A.  
BANKIA

Banco Popular Español, S.A.  
Credit Suisse

Banco Sabadell  
UNICAJA

1 June 2017

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## IMPORTANT NOTICES

The Issuer accepts responsibility for the information contained in this Offering Circular and declares that, having taken all reasonable care to ensure that such is the case, the information contained in this Offering Circular to the best of its knowledge is in accordance with the facts and contains no omission likely to affect its import.

Certain information in this Offering Circular has been extracted or derived from independent sources. Where this is the case, the source has been identified. The Issuer does not accept any responsibility for the accuracy of such information, nor has the Issuer independently verified any such information. The Issuer confirms that this information has been accurately reproduced, and so far as the Issuer is aware and is able to ascertain from information available from such sources, no facts have been omitted which would render the reproduced information inaccurate or misleading. Further, certain information in this Offering Circular, including market, industry or similar data, is based upon estimates by the Issuer's management, using such independent sources where available. While the Issuer believes that such estimates are reasonable and reliable, in certain cases such estimates cannot be verified by information from independent sources.

The Issuer has confirmed to the Joint Bookrunners named under "*Subscription and Sale*" below (the "**Joint Bookrunners**") that this Offering Circular contains all information regarding the Issuer and the Notes which is (in the context of the issue of the Notes) material; such information is true and accurate in all material respects and is not misleading in any material respect; any opinions, predictions or intentions expressed in this Offering Circular on the part of the Issuer are honestly held or made and are not misleading in any material respect; this Offering Circular does not omit to state any material fact necessary to make such information, opinions, predictions or intentions (in such context) not misleading in any material respect; and all proper enquiries have been made to ascertain and to verify the foregoing.

The Issuer has not authorised the making or provision of any representation or information regarding the Issuer or the Notes other than as contained in this Offering Circular or as approved for such purpose by the Issuer. Any such representation or information should not be relied upon as having been authorised by the Issuer or the Joint Bookrunners.

Neither the Note Trustee nor any of the Joint Bookrunners nor any of their respective affiliates have authorised the whole or any part of this Offering Circular and none of them makes any representation or warranty or accepts any responsibility as to the accuracy or completeness of the information contained in this Offering Circular. Neither the delivery of this Offering Circular nor the offering, sale or delivery of any Note shall in any circumstances create any implication that there has been no adverse change, or any event reasonably likely to involve any adverse change, in the condition (financial or otherwise) of the Issuer since the date of this Offering Circular.

This Offering Circular does not constitute an offer of, or an invitation to subscribe for or purchase, any Notes.

The distribution of this Offering Circular and the offering, sale and delivery of Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Offering Circular comes are required by the Issuer, the Joint Bookrunners and the Note Trustee to inform themselves about and to observe any such restrictions. For a description of certain restrictions on offers, sales and deliveries of Notes and on distribution of this Offering Circular and other offering material relating to the Notes, see "*Subscription and Sale*".

In particular, the Notes have not been and will not be registered under the Securities Act and are subject to United States tax law requirements. Subject to certain exceptions, Notes may not be offered, sold or delivered within the United States or to or for the account of or the benefit of U.S. persons (as defined in Regulation S under the Securities Act) unless an exemption from the registration requirements of the Securities Act is available and in accordance with all applicable securities laws of any state of the United States and any other jurisdictions.

In this Offering Circular, unless otherwise specified, references to a "**Member State**" are references to a Member State of the European Economic Area, references to "**EUR**" or "**euro**" are to the currency introduced at the start of the third stage of European economic and monetary union, and as defined in

Article 2 of Council Regulation (EC) No 974/98 of 3 May 1998 on the introduction of the euro, as amended.

Certain figures included in this Offering Circular have been subject to rounding adjustments; accordingly, figures shown for the same category presented in different tables may vary slightly and figures shown as totals in certain tables may not be an arithmetic aggregation of the figures which precede them.

Words and expressions defined in the "Terms and Conditions of the Notes" below have the same meanings in this Offering Circular.

**In connection with the issue of the Notes, Société Générale (the "Stabilising Manager") (or persons acting on behalf of the Stabilising Manager) may over allot Notes or effect transactions with a view to supporting the price of the Notes at a level higher than that which might otherwise prevail. However, stabilisation may not necessarily occur. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the Notes is made and, if begun, may cease at any time, but it must end no later than the earlier of 30 days after the issue date of the Notes and 60 days after the date of the allotment of the Notes. Any stabilisation action or over-allotment must be conducted by the Stabilising Manager (or persons acting on behalf of the Stabilising Manager) in accordance with all applicable laws and rules.**

## OVERVIEW

*This overview must be read as an introduction to this Offering Circular and any decision to invest in the Notes should be based on a consideration of the Offering Circular as a whole.*

*Words and expressions defined in the "Terms and Conditions of the Notes" below or elsewhere in this Offering Circular have the same meanings in this overview.*

<b>The Issuer:</b>	FCC Aqualia, S.A.
<b>Joint Bookrunners:</b>	Banco Bilbao Vizcaya Argentaria, S.A., Banco Santander, S.A., CaixaBank, S.A., HSBC Bank plc and Société Générale
<b>Co-lead Managers</b>	Abanca, S.A., Banco de Sabadell, S.A, Banco Popular Español, S.A., Bankia SA, Credit Suisse Securities (Europe) Limited and Unicaja Banco, S.A.
<b>Note Trustee:</b>	Citicorp Trustee Company Limited
<b>Security Agent:</b>	Citibank N.A., London Branch
<b>Principal Paying Agent:</b>	Citibank N.A., London Branch
<b>The 2022 Notes:</b>	EUR700,000,000 1.413 per cent. Senior Secured Notes due 8 June 2022  The 2022 Notes shall be issued under the terms and conditions of the 2022 Notes set out on pages 34-57 of the Offering Circular (the " <b>2022 Notes Conditions</b> ").
<b>The 2027 Notes</b>	EUR650,000,000 2.629 per cent. Senior Secured Notes due 8 June 2027  The 2027 Notes shall be issued under the terms and conditions of the 2027 Notes set out on pages 58-81 of the Offering Circular (the " <b>2027 Notes Conditions</b> " and together with the 2022 Notes Conditions, the " <b>Conditions</b> "). Unless otherwise specified herein, references to a 'Condition' shall refer to such Condition in both the 2022 Notes Conditions and the 2027 Notes Conditions.
<b>Issue Price of the 2022 Notes:</b>	100 per cent. of the principal amount of the 2022 Notes.
<b>Issue Price of the 2027 Notes:</b>	100 per cent. of the principal amount of the 2027 Notes.
<b>Issue Date:</b>	Expected to be on or about 8 June 2017.
<b>Use of Proceeds:</b>	The net proceeds of the issue of the Notes will be used by the Issuer to make the following distributions to the FCC Group: (i) a dividend of EUR446,000,000, (ii) two long term subordinated loans to its parent entity in an aggregate amount of up to EUR515,841,723.49 and (iii) a repayment of its existing indebtedness with its parent entity in the principal amount of EUR385,773,241.67 plus accrued interest as of the Issue Date. Substantially all the amount received by the FCC Group will be applied to the repayment of existing FCC Group indebtedness.
<b>Interest:</b>	The 2022 Notes will bear interest from 8 June 2017 at a rate

of 1.413 per cent. per annum payable in arrears on 8 June in each year commencing 8 June 2018.

The 2027 Notes will bear interest from 8 June 2017 at a rate of 2.629 per cent. per annum payable in arrears on 8 June in each year commencing 8 June 2018.

**Status:** The Notes are direct, unconditional and unsubordinated obligations of the Issuer, are secured in the manner described in Condition 3 (*Security, Relationship with Secured Parties and Enforcement*) and the Security Documents and rank *pari passu* without any preference among themselves and (save for any obligations preferred by law) at least equally with all other unsubordinated obligations of the Issuer, from time to time outstanding.

**Form and Denomination:** The Notes will be issued in bearer form in the denomination of EUR100,000 and integral multiples of EUR1,000 in excess thereof up to and including EUR199,000.

Each series of Notes will initially be in the form of a Temporary Global Note, to be deposited on or around 8 June 2017 with a common safekeeper for Euroclear Bank S.A./N.V. ("**Euroclear**") and Clearstream Banking, *société anonyme*, Luxembourg ("**Clearstream, Luxembourg**"). Each Temporary Global Note will be exchangeable for a Permanent Global Note, which is exchangeable in whole, but not in part, for Definitive Notes, in limited circumstances.

The Temporary Global Notes and the Permanent Global Notes are to be issued in new global note form.

**Security:** The Issuer and certain of its Subsidiaries will secure its obligations in respect of the Notes pursuant to the Security Documents in favour of the Secured Creditors in the manner described in Condition 3 (*Security Relationship with Secured Creditors and Enforcement*) and the Security Documents.

**Secured Creditors:** The Security Agent, any receiver or delegate, the Note Trustee, the Paying Agents and the Noteholders.

If the Convertible Notes Accession Date (as defined in the Conditions) occurs, then from that date the Commissioner (as defined in the Conditions), the Convertible Notes Agents (as defined in the Conditions) and the holders (the "**Convertible Noteholders**") of Fomento de Construcciones y Contratas, S.A.'s EUR450,000,000 6.50 per cent. convertible notes with ISIN: XS0457172913 (the "**Convertible Notes**") shall be Secured Creditors.

Any Secured Creditor shall only be a Secured Creditor for as long as it shall have rights under the Intercreditor Agreement that have not ceased in accordance with the Intercreditor Agreement.

**Intercreditor Agreement:** The relationship between the Secured Creditors in, among other things, matters of enforcement of the Security is governed by the Intercreditor Agreement. Pursuant and subject to the terms of the Intercreditor Agreement, the recoveries received upon enforcement over Security will be applied (subject to certain costs and expenses related to the

enforcement of the Security and certain other costs, expenses and liabilities of the Security Agent, the Note Trustee, the Principal Paying Agent and/or any other Paying Agents, the Account Bank and any delegates) *pro rata* and *pari passu* in payment of liabilities in respect of the Notes then outstanding.

Subject to the terms of the Intercreditor Agreement, if such recoveries are received on or after the Convertible Notes Accession Date, then they shall also be applied (subject to certain costs and expenses related to the enforcement of the Security and certain other costs, expenses and liabilities of the Security Agent, the Convertible Notes Agents, the Commissioner and any delegates) *pro rata* and *pari passu* in payment of liabilities in respect of the Convertible Notes then outstanding.

**Enforcement of Security:**

Subject to and in accordance with the Intercreditor Agreement, and prior to the Convertible Notes Accession Date, the Security shall become enforceable if, following the occurrence and continuation of any of the events described in Condition 10 (*Events of Default*) of the 2022 Notes and the 2027 Notes, the 2022 Notes and/or the 2027 Notes have been declared immediately due and payable in accordance with their respective terms, and the Issuer has not made payment of the relevant amounts within a period of five business days from the date of receipt by the Issuer of the relevant notice which declares the 2022 Notes and/or the 2027 Notes to be immediately due and payable.

From and including the Convertible Notes Accession Date, and subject to and in accordance with the Intercreditor Agreement, the Security shall become enforceable if, following the occurrence and continuation of any of the events described in Condition 10 (*Events of Default*) of the 2022 Notes and the 2027 Notes and Condition 10 (*Events of Default*) of the Convertible Notes, the 2022 Notes and/or the 2027 Notes and/or the Convertible Notes have been declared immediately due and payable in accordance with their respective terms, and the Issuer and/or FCC, as applicable, has not made payment of the relevant amounts within a period of five business days from the date of receipt by the Issuer and/or FCC, as applicable, of the relevant notice which declares the 2022 Notes and/or the 2027 Notes and/or the Convertible Notes to be immediately due and payable.

If the Security becomes capable of enforcement, the Security Agent shall, if so instructed in writing by the Note Trustee on behalf of 2022 Noteholders and/or 2027 Noteholders and/or (on or following the Convertible Notes Accession Date) the Commissioner on behalf of the Convertible Noteholders together holding more than 65 per cent. in principal amount of the 2022 Notes, the 2027 Notes and (on or following the Convertible Notes Accession Date) the Convertible Notes then outstanding (the "**Instructing Group**"), enforce all or any of the Security, subject to and in the manner provided in the Intercreditor Agreement and the Security Documents, and provided that the Security Agent, Note Trustee and (on or following the Convertible Notes Accession Date) Commissioner shall not be required to take any action or step or proceedings without first being indemnified and/or

secured and/or prefunded to its satisfaction. Enforcement of the security shall be carried out pursuant to the rules and procedures set out in the Conditions, the Trust Deed, the Security Documents and the Intercreditor Agreement, as further described in Condition 3 (*Security, Relationship with Secured Parties and Enforcement - Enforceable Security*). In particular, pursuant to the Intercreditor Agreement, the Security Agent shall not be entitled to enforce the Security prior to the earlier of (i) the expiry of 120 days after the date on which it first received notice proposing enforcement instructions in respect of either series of Notes or the Convertible Notes, or (ii) the date on which it receives notice from the Note Trustee that both the 2022 Noteholders and 2027 Noteholders consent to the proposed enforcement instructions or (on or following the Convertible Notes Accession Date) the date on which it receives notice from the last of the Commissioner and the Note Trustee (as applicable) that the Convertible Noteholders, 2022 Noteholders and 2027 Noteholders consent to the proposed enforcement instructions.

Upon the Security having been enforced, the Secured Property will be administered by the Security Agent pursuant to the terms of the Security Documents and the Intercreditor Agreement for the benefit of the Secured Creditors. If a Notice of Acceleration and Enforcement (as defined in the Intercreditor Agreement) is not given to the Security Agent prior to 5:00 p.m. in Madrid on the date falling 120 days after the date of the Initial Enforcement Notice (as defined in the Intercreditor Agreement) in respect of any series of Notes or (on or following the Convertible Notes Accession Date) the Convertible Notes, the Note Trustee and/or the Commissioner (as the case may be) shall subject as otherwise provided in the Intercreditor Agreement automatically and unconditionally cease to be a party to the Intercreditor Agreement as Creditor Representative of the relevant series of Notes and/or (as the case may be) the Convertible Notes, and the Noteholders of such series and/or the Convertible Noteholders (as the case may be) shall from that date automatically and unconditionally cease to be Secured Creditors and shall have no claim for any Secured Obligations or other amounts received or recovered by the Security Agent in connection with the realisation or enforcement of any or all of the Security. No party shall be required to execute any documents to evidence such security release, discharge and termination, which for such purposes shall be automatic and unconditional.

**Maturity Date of the 2022 Notes:**

8 June 2022

**Maturity Date of the 2027 Notes:**

8 June 2027

**Redemption at the Option of the Issuer:**

Not earlier than 8 March 2022 (in relation to the 2022 Notes) and 8 March 2027 (in relation to the 2027 Notes), the Issuer may, having given not less than 15 and not more than 30 days' notice to the Note Trustee and to Noteholders redeem all or some only of the Notes then outstanding on any Optional Redemption Date and at their outstanding principal amount, together, if appropriate, with interest accrued to (but



excluding) the relevant Optional Redemption Date, as described in Condition 7(d) (*Redemption and Purchase - Redemption at the Option of the Issuer*).

**Tax Redemption:**

Early redemption will be permitted for tax reasons as described in Condition 7(b) (*Redemption and Purchase - Redemption for tax reasons*).

**Mandatory Redemption on Change of Control**

If a Change of Control occurs and, within the applicable Change of Control Event Period a Rating Downgrade occurs, then the Issuer will redeem, or at the option of the Issuer, purchase or procure the purchase of the Notes, in whole but not in part, at 100 per cent. of their outstanding principal amount together, if appropriate, with interest accrued to (but excluding) such date, as described in Condition 9(c) (*Redemption and Purchase – Mandatory Redemption on Change of Control*).

**Cross Default:**

Customary cross default provisions will apply as described in Condition 10 (*Event of Default*)

**Covenants**

The Issuer has covenanted in favour of the Noteholders certain limitations on indebtedness, limitations on distributions, limitations on financings and guarantees to FCC, the delivery of financial statements, limitations on its business, limitations on amendments to its cash-pooling agreements, limitations on the transfer of the Secured Property and limitations on changes to the capital structure of the Secured Property, as further set out in Condition 4 (*Covenants*).

**Rating:**

The Notes are expected to be rated BBB- by Fitch.

In general, European regulated investors are restricted from using a rating for regulatory purposes if such rating is not issued by a credit rating agency established in the EEA and registered under the CRA Regulation unless (1) the rating is provided by a credit rating agency not established in the EEA but is endorsed by a credit rating agency established in the EEA and registered under the CRA Regulation or (2) the rating is provided by a credit rating agency not established in the EEA which is certified under the CRA Regulation.

**Withholding Tax:**

The payment of interest and other amounts in respect of the Notes will be made free of withholding taxes in the Kingdom of Spain, unless such taxes are required by law to be withheld. In such case the Issuer will pay (subject to customary exceptions) additional amounts as may be necessary in order that the net amounts receivable by the Noteholder after such deduction or withholding shall equal the respective amounts which would have been receivable by such Noteholder in the absence of such deduction or withholding.

**Governing Law:**

The Notes (save for Condition 2 (*Status*)), the Trust Deed, the Intercreditor Agreement, the Agency Agreement, the Subscription Agreement, and any non-contractual obligations arising out of or in connection with the abovementioned will be governed by English law.

Condition 2 (*Status*) and the Spanish Security Documents and any non-contractual obligations arising out of or in connection with it will be governed by Spanish law. The other Security Documents and any non-contractual obligations arising out of or in connection with them, will be governed by Italian and Mexican law as applicable.

**Listing and Trading:**

Application has been made to the Irish Stock Exchange for the Notes to be admitted to the Official List and trading on the Global Exchange Market of the Irish Stock Exchange.

**Clearing Systems:**

Euroclear and Clearstream, Luxembourg.

**Selling Restrictions:**

See "*Subscription and Sale*".

**Risk Factors:**

Investing in the Notes involves risks. See "*Risk Factors*".

## RISK FACTORS

*Any investment in the Notes is subject to a number of risks. Prior to investing in the Notes, prospective investors should carefully consider risk factors associated with any investment in the Notes, the business of the Issuer and the industry(ies) in which it operates together with all other information contained in this Offering Circular, including, in particular the risk factors described below. Words and expressions defined in the "Terms and Conditions of the Notes" below or elsewhere in this Offering Circular have the same meanings in this section.*

*The following is not an exhaustive list or explanation of all risks which investors may face when making an investment in the Notes and should be used as guidance only. Additional risks and uncertainties relating to the Issuer that are not currently known to the Issuer or that it currently deems immaterial, may individually or cumulatively also have a material adverse effect on the business, prospects, results of operations and/or financial position of the Issuer and, if any such risk should occur, the price of the Notes may decline and investors could lose all or part of their investment. Investors should consider carefully whether an investment in the Notes is suitable for them in light of the information in this Offering Circular and their personal circumstances.*

### **Risks Relating to the Aqualia's Business and the Market in which it Operates**

*Aqualia's business could be adversely affected by the deterioration of global or Spanish economic conditions.*

In the past, the business performance of FCC Aqualia, S.A. (the "**Issuer**") and its subsidiaries from time to time (together with the Issuer, "**Aqualia**" or the "**Group**") has been linked, to a certain extent, to the economic cycle in the countries, regions and cities in which it operates. Normally, robust economic growth in those areas where it is located results in greater demand for its services, while slow economic growth or economic contraction adversely affects demand for its services.

The global economy significantly deteriorated beginning in 2008 as a result of an acute financial and liquidity crisis. Concerns over geopolitical issues, the availability and cost of credit, sovereign debt and the instability of the euro have contributed to increased volatility since then and diminished expectations for the global economy in the future. These factors, combined with volatile oil prices, declining global business and consumer confidence and rising unemployment, precipitated an economic slowdown and led to a recession and weak economic growth in many economies, including Spain. This crisis has had a global impact, affecting both emerging and developed economies.

Economic growth, globally and in the European Union ("**EU**"), has recovered since then but remains fragile and subject to constraints on private sector lending, concerns about future interest rate increases and continuing uncertainty about the ultimate resolution of the Eurozone crisis. While the probability of country defaults or collapse of the Eurozone has decreased since 2012, the possibility of a European sovereign default still exists. As a result, the risk that the effect of any sovereign default spreads by contagion to other EU economies including the Spanish economy remains. Continuing disruptions in the global economy and in the global markets may, therefore, have a material adverse effect on Aqualia's business, results of operations and financial condition.

Moreover, even in the absence of a market downturn, Aqualia is exposed to substantial risk stemming from volatility in areas such as consumer spending, business investment, government spending, capital markets conditions and price inflation, which affect the business and economic environment and, consequently, the size and profitability of its business. Unfavourable economic conditions could lead to lower revenues, reduced investment in the engineering, procurement and construction sector and reduced demand for the services provided by Aqualia. Furthermore, any financial difficulties suffered by Aqualia's subcontractors or suppliers could increase its costs or adversely affect its project schedules.

The sustainability of partial recovery from the global recession remains dependent on a number of factors that are not within the control of Aqualia, such as the stability of currencies, a return of job growth and investment in the private sector and the strengthening of housing sales and construction, among several other factors. Furthermore, other factors or events may affect Spanish, European and global economic conditions, such as continuing uncertainty regarding the exit of countries from the European Union (in particular, the impending expected exit from the European Union of the United Kingdom, see "*The United Kingdom's impending expected departure from the European Union could adversely affect*

*Aqualia*" below), a sharp slowdown in China, a negative market reaction to interest rate increases by the United States Federal Reserve, heightened geopolitical tensions, war, acts of terrorism, the refugee crisis, natural disasters or other similar events outside *Aqualia*'s control. A further deterioration of the economy of continental Europe, or in the other zones, could have a material adverse effect on the business, results of operations and financial condition of *Aqualia*.

***Aqualia's business is highly concentrated in Spain.***

The Issuer is a Spanish company with a nationwide footprint, and the substantial majority of *Aqualia*'s gross operating income is derived from Spain, which accounted for 75 per cent. and 75 per cent. of *Aqualia*'s gross operating income for the years ended 31 December 2016 and 2015, respectively. Given the concentration of *Aqualia*'s business in Spain, *Aqualia* may be more exposed to the performance of the Spanish economy than some of its peers.

Since 2013, the economy in Spain has progressed on a gradually improving path that enabled it to exit the contractionary phase dating back to early 2009. This came about against a background of easing tensions on financial markets, the progressive normalisation of external funding flows, and improved confidence in, and a better performance by, the labour market. However, a number of concerns remain for the Spanish economy. The bank credit shortage linked to the deleveraging process may affect the economic recovery negatively, since bank lending is the main source of finance for Spanish non-financial corporations (in particular, smaller corporations). There is consensus that, despite the expected improvement in the labour market, the unemployment rate will remain high in the years to come in Spain. The Spanish economy is particularly sensitive to economic conditions in the Eurozone, the main market for Spanish goods and services exports, so that an interruption in the recovery of the Eurozone might have an adverse effect on Spanish economic growth. Growth prospects may also be affected due to uncertainties arising from the political situation within Spain, which may slow the pace of reform or result in changes to laws, regulations and policies. This applies not only to specific Spanish regions such as Catalonia but also to the central Spanish government which will govern in minority for the next four years. Any deterioration of the Spanish economy could have a material adverse effect on the business, results of operations and financial condition of *Aqualia*.

***Aqualia's business is subject to risks related to its international operations.***

As a result of its process of diversification, a portion of *Aqualia*'s operating revenue is generated outside of Spain, in countries such as the Czech Republic, Italy, Portugal, Mexico, Chile, Uruguay, Algeria, Egypt and Saudi Arabia. The revenues of, market value of, and dividends payable by, subsidiaries within *Aqualia* are exposed to risks inherent to the countries where they operate. The operations in some of the countries where *Aqualia* is present are exposed to various risks related to investments and business, such as:

- fluctuations in local economic growth;
- changes in inflation rates;
- devaluation, depreciation or excessive valuation of local currencies;
- foreign exchange controls or restrictions on profit repatriation;
- changing interest rate environment;
- changes in financial, economic and tax policies;
- instances of fraud, bribery or corruption;
- social conflicts; and
- political and macroeconomic instability.

*Aqualia* is exposed to these risks in all of its foreign operations to some degree, and such exposure could be material to its business, results of operations and financial condition, particularly in emerging markets where the political and legal environment is less stable. *Aqualia* cannot assure that it will not be subject to

material adverse developments with respect to its international operations or that any insurance coverage it has will be adequate to compensate Aqualia for any losses arising from such risks.

***The United Kingdom's impending expected departure from the European Union could adversely affect Aqualia.***

The United Kingdom held a referendum on 23 June 2016 in which a majority of the population voted to exit the European Union ("**Brexit**"). The result of the referendum does not legally obligate the United Kingdom to exit the European Union, nevertheless, on 29 March 2017, the United Kingdom delivered the official notice of its intention to withdraw from the European Union to the European Council president under Article 50 of the Treaty of the European Union, a process that is unprecedented in European Union history and one that could involve months or years of negotiation to draft and approve a withdrawal agreement. Negotiations are expected to commence to determine the future terms of the United Kingdom's relationship with the European Union, including the terms of trade between the United Kingdom and the European Union. The effects of Brexit will depend on any agreements the United Kingdom makes to retain access to European Union markets either during a transitional period or more permanently, as well as the timing of such negotiations and agreements. Brexit could adversely affect European or worldwide economic or market conditions and could contribute to instability in global financial and foreign exchange markets, including volatility in the value of the euro. In addition, Brexit could lead to legal uncertainty and potentially divergent national laws and regulations as the United Kingdom determines which European Union laws to replace or replicate. Certain public figures in other European Union member states have called for referenda in their respective countries on exiting the European Union, raising concerns about a contagion effect whereby multiple member states seek to exit the European Union and Eurozone, damaging European political and economic institutions. Furthermore, the results of the referendum have had a significant impact on the exchange rate between the British pound and other currencies, including the euro. Any of these effects of Brexit, and others we cannot anticipate, could adversely affect the business, results of operations and financial condition of Aqualia.

***Aqualia is highly dependent on customers in the public sector. Public authorities may be able to modify or terminate its contracts unilaterally before their completion or change agreed tariff rates.***

Even though the largest portion of Aqualia's revenues comes from individual end users, these revenues are generated through concessional contracts signed with public authorities. For example, revenues from contracts with local public authorities amounted to 81 per cent. of total revenue in 2016. Depending on the jurisdiction and the specific circumstances, a public authority client may be able to unilaterally terminate its contract with Aqualia activating different compensation mechanisms depending on the local regulation that may result in compensation. Even when compensation is received it may be insufficient to cover profit lost as a result of termination. In Spain, if the public authority that granted a concession to Aqualia's core business areas terminates or takes over the concession, it typically must include, as part of the compensation payable to Aqualia, the profits it would forego through the end of the concession's term. On most contracts, however, Aqualia is typically entitled to recover only costs incurred or committed, settlement expenses and profit on work completed up to the date of termination. In Spain, Aqualia's ability to recover profits lost depends upon whether the public authority terminated the contract for cause attributable to Aqualia.

If Aqualia is unable to replace contracts that have been terminated, Aqualia may suffer a decline in revenue. Furthermore, regardless of the nature and amount of compensation Aqualia may be due under the relevant contract, Aqualia may need to resort to legal or arbitration procedures to collect any such compensation, increasing its cost of collections and delaying the receipt of the amounts due.

In addition, during the life of a concession, the relevant public authority may unilaterally impose restrictions on or modifications to agreed tariff rates charged to individual end users. For example, public authorities responding to public pressure may limit or modify the tariffs Aqualia charges, irrespective of the terms of the relevant concession contract. Aqualia cannot assure a prospective investor that any measures it may take to redress contractual breaches by a public authority or to negotiate adequate compensation or modification of concession terms to restore the economic viability of the relevant contracts, would be successful. Unilateral terminations or amendments of contracts by public authorities could adversely affect the business, results of operations and financial condition of Aqualia.

***Challenging economic conditions have led to a reduction in public expenditures in areas such as concessions and infrastructure.***

Current economic conditions have led to a sharp reduction in projects for the public sector. Economic instability and difficult economic conditions in Spain and elsewhere have also resulted in a decline in tax revenue received by Aqualia's public administration customers, which has led to a reduction in public expenditures in areas including concessions, infrastructure and construction projects. Increasing costs for social security and certain other programs in some jurisdictions can exacerbate this effect.

In addition to general budgetary considerations, many of Aqualia's customers, including public authorities, continually seek to achieve greater cost savings and improved efficiencies. These and other factors could therefore result in Aqualia's customers reducing their budgets for spending on its products and services or reducing any government subsidies that may be available. A further decrease in the spending on development and execution of public sector projects by governments and local authorities could adversely affect the business, results of operations and financial condition of Aqualia.

***Certain municipalities could decide to take over services that Aqualia currently provides.***

Urban services are affected by the decisions of current or future local governments. In certain cases, such decisions could result in the municipalisation of those services once the term of the concession contracts has expired, depriving it of future business.

***Aqualia operates in highly regulated environments which are subject to changes in regulations.***

Aqualia must comply with specific water management and treatment, and construction sector regulations, as well as general regulations in the various jurisdictions where it operates. In addition, Aqualia must comply with data protection regulation in relation to information it receives from the large number of private end-users of its services and breach of such regulations may result in large fines. As in all highly regulated sectors, any regulatory changes in these sectors could adversely affect the business, results of operations and financial condition of Aqualia.

***Aqualia is subject to environmental and hygiene regulations.***

In the countries where Aqualia operates, there are local, regional, national and EU bodies which regulate its activities and establish applicable environmental health and safety regulations. The technical requirements imposed by environmental health and safety regulations are gradually becoming more costly, complex and stringent. Aqualia has incurred, and will continue to incur, significant costs and other expenditures to comply with environmental, health and safety obligations and to manage its hygiene-related risks. In particular, these risks relate to water emissions, drinking water quality, waste processing, soil and ground water contamination, the quality of smoke emissions and gas emissions. Aqualia may be unable to recover this expenditure through higher prices.

Legal requirements, including specific precautionary and preventive measures, may obligate Aqualia to make investments and incur other expenses to ensure that the installations it operates are in compliance with applicable regulations. In cases where Aqualia has no investment obligation, it may be required to notify clients of their obligation to undertake the necessary compliance work themselves. Failure by a client to meet these obligations could be prejudicial to Aqualia as an operator and could adversely affect its reputation and capacity for growth. Furthermore, regulatory bodies have the power to launch proceedings that could lead to the suspension or cancellation of permits or authorizations that Aqualia holds, or to injunctions requiring it to suspend or cease certain activities. These measures may be accompanied by fines and civil or criminal sanctions that could have a significant and negative impact on Aqualia's business and finances.

In addition, environment regulations may impose strict liability in the event of damage to natural resources or threats to public safety and health. Strict liability may mean that Aqualia is held liable for environmental damage regardless of whether it has acted negligently, or that it owes fines whether or not effective damage exists or is proven, and Aqualia could be held jointly and severally liable with other parties.

The entry into force of new laws, the discovery of previously unknown sources of pollution, the imposition of new or more stringent requirements or a stricter application of existing regulations may increase Aqualia's costs or impose new responsibilities, leading to lower earnings and liquidity available

for its activities and the business, results of operations and financial condition of Aqualia may be materially adversely affected.

***Aqualia could be held liable for environmental damage resulting from its operations and its insurance for environmental liability may not be sufficient to cover that damage.***

Significant liability could be imposed on Aqualia for damages, clean up costs or penalties in the event of certain discharges into the environment and/or environmental contamination and damage. Aqualia's insurance for environmental liability may not be sufficient or may not apply to any particular exposure to which it may be subject resulting from the type of environmental damage in question. Any substantial liability for environmental damage could have a material adverse effect on Aqualia's business, results of operations and financial condition.

***Aqualia's operations are subject to anti-bribery and anti-corruption laws and regulations that govern and affect where and how its business may be conducted.***

Aqualia's activities are subject to a number of laws and regulations including the Spanish Criminal Code, which was modified in 2010 and sets out the criminal liability of legal persons, and to other additional anti-corruption laws in other jurisdictions. Aqualia has established systems to facilitate compliance with applicable laws and regulations and has provided training to its employees to facilitate compliance with such laws and regulations. However, there can be no assurance that Aqualia's policies and procedures will be followed at all times or that it could effectively detect and prevent all violations of the applicable laws and regulations and every instance of fraud, bribery and corruption in every jurisdiction in which one or more of its employees, consultants, agents, commercial partners, contractors, sub-contractors or joint venture partners is located. Aqualia could be subject to penalties and reputational damage if its employees, consultants, agents, suppliers, or partners violate any anti-corruption or anti-bribery laws.

***Aqualia is subject to liquidity risk.***

Aqualia conducts its operations in industry sectors, such as concessions, engineering and construction, that require a high level of financing and must be able to secure significant levels of financing to be able to continue its operations. To date, it has been able to secure adequate financing on acceptable terms, although it cannot assure prospective investors that it will be able to continue to secure financing on adequate terms, or at all, in the future. Also, in addition to seeking new funding, Aqualia may seek to refinance a portion of its existing debt through bank loans and debt offerings.

Aqualia's ability to secure financing or refinance depends on several factors, many of which are beyond its control, including general economic conditions, the availability of funds from financial institutions and monetary policy in the markets in which it operates. Exposure to adverse effects in the debt or capital markets may hinder or prevent the raising of adequate finance for Aqualia's activities. Aqualia cannot assure prospective investors that it will be able to secure new financing or renew its credit facilities on economically attractive terms or at all. An inability to secure new financing or renew these facilities on acceptable terms could adversely affect Aqualia's liquidity and its ability to fund its working capital needs. At the same time Aqualia cannot assure it will be able to maintain the current working capital structure as a result of modifications on payment and collection average periods due to legal regulation or market conditions.

In addition, a portion of the net proceeds of the issue of the Notes will be used by Aqualia to grant to FCC the Twelve-Year Subordinated Loan (as defined herein) and the Twenty-Year Subordinated Loan (as defined herein), each as a condition under the restructuring and refinancing of the FCC Existing Financing (as defined herein) and entry into the FCC Amended Financing (as defined herein). FCC intends to use the amounts loaned under the Subordinated Loans principally to repay certain indebtedness outstanding under the FCC Existing Financing as well as certain other indebtedness. In addition, Aqualia will also enter into the Afigesa Subordinated Loan (as defined herein) with Asesoría Financiera y de Gestión, S.A. ("**Afigesa**"), a subsidiary of FCC, on the Closing Date, in acknowledgement of the creditor position in favour of Aqualia that will result from the termination on the Closing Date of the cash pooling agreement entered into between FCC and certain companies of its group in 2014.

As a consequence of the Subordinated Loans, and the Afigesa Subordinated Loan, Aqualia will be exposed to credit risk relating to the creditworthiness of FCC. The Twelve-Year Subordinated Loan, in particular, unless extended in accordance with its terms, will mature prior to the maturity of the Notes. If

the FCC Amended Financing does not improve the financial condition of FCC and its subsidiaries from time to time (together, the "**FCC Group**") as envisaged or is otherwise unsuccessful, and/or if the FCC Group is unable to achieve its strategic plan to strengthen the business, FCC may be unable to meet its payment obligations under the Twelve-Year Subordinated Loan in a timely manner or at all. Moreover, in the event that FCC were to enter insolvency proceedings, FCC's obligations under the Subordinated Loans (as defined herein) will be unsecured and subordinated and will rank junior to all unsecured obligations of FCC. Any of the foregoing could have an adverse impact on Aqualia's financial condition. See "*Description of Other Material Contracts –Description of the Aqualia-FCC Subordinated Loans*".

***Aqualia is required to provide customers with performance bonds or similar guarantees.***

In Aqualia's project-related businesses, it is typically required to provide clients with performance bonds or similar instruments intended to guarantee its timely performance of contractual obligations to the defined specifications. If Aqualia cannot obtain guarantees from financial institutions on reasonable terms that are acceptable to its clients, it could be prevented from bidding for or participating in a project, or it could be required to incur significantly higher financing costs to obtain the needed guarantees. An inability to secure such guarantees could adversely affect Aqualia's liquidity and its ability to fund its working capital needs.

***Aqualia's business, financial condition and results of operations may be adversely affected if it does not effectively manage its exposure to interest rate and foreign exchange risks.***

Certain of Aqualia's indebtedness and loans to public entities bears interest at variable rates, generally linked to market benchmarks such as EURIBOR. Any increase in interest rates would increase its finance costs relating to variable rate indebtedness and increase the costs of refinancing existing indebtedness and of issuing new debt. Any decrease in interest rates would decrease the amount of interest payable to Aqualia on variable rate loans made to public entities and may result in basis risk as such interest is paid to Aqualia through the rates in the concession agreements entered into with such public entities. This interest rate fluctuation risk is particularly important in the financing of infrastructure projects and other projects, which are heavily leveraged in their early stages and the performance of which depends on possible changes in the interest rate. Aqualia enters into hedging arrangements to cover interest rate fluctuations on a portion of its debt. Any future hedging contracts entered into by Aqualia may not adequately protect its operating results from the effects of interest rate fluctuations. Aqualia is subject to the creditworthiness of, and in certain circumstances early termination of the hedging agreements by, hedge counterparties. To a lesser extent, Aqualia is exposed to exchange rate risks. There can be no assurance that future interest rate or exchange rate fluctuations will not have a material adverse effect on Aqualia's business, results of operations and financial condition.

***Aqualia faces certain risks related to deferred tax assets.***

In principle, losses that the FCC Group incurs in previous years can be carried forward and used to offset future taxable profits. This deferred tax asset reflects the FCC Group's view of the amount of tax losses that it expects to be able to use, and the deferred tax asset that it expects to recover, in light of its business plan and expected taxable profits in the future. Considering that Aqualia is part of the consolidated FCC tax group, a change in expectations about the ability to use tax deferred tax assets in the future (whether due to a change law that eliminates or limits the FCC Group's right to offset deferred tax assets or a change in its business plans or expected future profitability) could require the FCC Group to reassess the value of these assets, with a material negative effect on Aqualia's results of operations and balance sheet.

***Aqualia's ability to effectively manage its credit risk exposure may affect its business, results of operations and financial condition.***

Aqualia is exposed to the credit risk implied by default on the part of a counterparty (customer, provider, partner or financial entity), which could impact its business, results of operations and financial condition.

In spite of signs of recovery in the global economy, there is a risk of late payment in both the public and private sectors due to the effects of the global financial crisis. Payment speed from Spanish public authorities has improved since 2013 after suffering a decline following the crisis in 2008 and 2009. In addition, during the financial crisis, the Spanish government established certain stimulus measures to reduce the financial impact of the economic downturn. Aqualia cannot assure prospective investors that,



if there is another economic downturn, the public authorities will continue or increase any type of stimulus package that is currently in place.

In addition, the cost of government financing and financing of other public entities has also increased due to financial stress in Europe, and this may represent an increased risk for Aqualia's public sector clients.

Although Aqualia actively manages this credit risk, its risk management strategies may not be successful in limiting its exposure to credit risk, which could adversely affect its business, results of operations and financial condition.

***The loss of key members of Aqualia's management and technical team could have a material adverse effect on its business, results of operations and financial condition.***

Aqualia relies on certain key personnel. If, in the future, Aqualia is unable to attract and retain sufficiently qualified management and technical staff, its business development could be limited or delayed. In addition, if Aqualia were to lose key members of its senior management or technical staff, and could not find a suitable replacement in a timely manner, its business, results of operations and financial condition could be adversely affected.

***Aqualia's business, results of operations and financial condition may be adversely affected if it fails to obtain or renew, or if there are any material delays in obtaining, requisite government approvals for its projects.***

Aqualia is established in jurisdictions where the industries in which it operates may be regulated, such as in the public services industry. In order to develop and complete a project, the developer may need to obtain permits, licences, certificates and other approvals from the relevant administrative authorities at various stages of the project process. There is no assurance that Aqualia will be able to obtain or maintain such governmental approvals or fulfil the conditions required for obtaining the approvals or adapt to new laws, regulations or policies that may come into effect from time to time, without undue delay or at all. If Aqualia is unable to obtain the relevant approvals or fulfil the conditions of such approvals for a significant number of its projects in a timely manner, this could lead to delays and Aqualia's business, results of operations and financial condition may be adversely affected.

***Aqualia is subject to litigation risks.***

Aqualia is, and may in the future be, a party to judicial, arbitration and regulatory proceedings which arise in the ordinary course of business, including claims relating to defects in construction projects performed or services rendered, employment-related claims, environmental claims and tax claims. Unfavourable outcomes in these proceedings could impose significant liabilities on Aqualia, such as damages, clean-up costs or penalties in the event of spills, discharges or environmental contamination or interference in the conduct of Aqualia's business. For a summary of certain legal proceedings relating to Aqualia, see "*Description of the Issuer – Legal Proceedings*". An unfavourable outcome (including an out-of-court settlement) in one or more of such proceedings could have a material adverse effect on Aqualia's business, results of operations and financial condition.

***Risk management policies, procedures and methods may leave Aqualia exposed to unidentified or unanticipated risks.***

Aqualia has devoted significant resources to developing policies, procedures and assessment methods to manage market, credit, liquidity and operating risk and intends to continue to do so in the future. Nonetheless, Aqualia's risk management techniques and strategies may not be fully effective in mitigating its risk exposure in all market environments or against all types of risks, including risks that Aqualia fails to identify or anticipate.

Any failure to adequately identify or anticipate risk could have an adverse impact on Aqualia's business, results of operations, financial position and cash flows, with a consequent adverse impact on the market value of the Notes and/or on Aqualia's ability to pay interest on the Notes or to repay the Notes in full at their maturity.

***Risks related to information technologies and information system security.***

Information systems are indispensable tools for carrying out operational activities and managing the functional departments of Aqualia. The unavailability of the information systems due to accidents or malicious acts could have negative consequences on the quality and even continuity of services delivered internally and the availability, integrity and confidential nature of Aqualia's data and, thus, it could have an impact on its counterparties, including its customers. Such situation might adversely affect Aqualia's profitability.

***Aqualia operates in highly competitive industries.***

Aqualia, in the regulated water management market, competes against various groups and companies that may have more experience, resources or local awareness than Aqualia does. Furthermore, these groups and companies may have greater resources than Aqualia, whether material, technical or financial, or may demand lower returns on investment and be able to present better technical or economic bids compared to it.

Given this high level of competition, Aqualia may be unable to secure contracts, either directly or through its investee companies, for new projects in the geographical areas in which it operates. If Aqualia is unable to obtain contracts for new projects in order to sustain a back log in line with the current one, or if these projects are only awarded under less favourable terms, Aqualia's business, results of operations and financial condition may be adversely affected.

Aqualia, in its non-regulated activities, including both O&M and EPC (both as defined below) activities, is subject to a very competitive and low entry barrier market and, therefore, such activities may not be a reliable indicator of its future revenue or profits.

***Aqualia's insurance cover may not be adequate or sufficient.***

Aqualia benefits from insurance cover to protect against key insurable risks. The insurance policy may not be adequate to cover lost income, reinstatement costs, increased expenses or other liabilities. Moreover, there can be no assurance that if insurance cover is cancelled or not renewed, replacement cover will be available on commercially reasonable terms or at all.

Aqualia may not have, or may cease to have, insurance cover if the loss is not covered under, or is excluded from, an insurance policy including by virtue of exhaustion of applicable cover limits or a policy operating as an excess policy or if the relevant insurer successfully avails itself of defences available to it, such as breach of disclosure duties, breach of policy condition or misrepresentation.

If insurance cover is not available or proves more expensive than in the past, Aqualia's business, results of operations and financial condition may be materially adversely affected.

***Aqualia carries out many of its activities under long-term contracts. Long-term contracts can hinder Aqualia's ability to react rapidly and appropriately to new and financially unfavourable situations.***

The initial circumstances or conditions under which Aqualia may enter into a contract may change over time, with possible adverse economic consequences. These changes vary in nature, and may or may not be readily foreseeable. Aqualia cannot assure prospective investors that any contractual provisions, such as price-indexing clauses, that it may use to address such changes and restore the initial balance of the contract will be effective. Accordingly, Aqualia may be unable to adapt its compensation to reflect changes in its costs or in demand, regardless of whether this compensation consists of a price paid by the customer or a fee levied on end users based on an agreed scale.

These constraints are exacerbated by the long-term nature of many of Aqualia's contracts. In all cases, and most particularly with regard to public service management contracts, Aqualia is obligated to remain within the scope of the contract and ensure continuity of service. Aqualia cannot unilaterally and suddenly terminate a business that it believes to be unprofitable, or change its features, except, under certain circumstances, in the event of obvious misconduct by the customer.

Additionally, Law 2/2015, of 30 March, regulating the de-indexation of the Spanish economy (*Ley 2/2015, de 30 de marzo, de desindexación de la economía Española*) (the "**Spanish De-Indexing Law**"), and Royal Decree 55/2017, of 3 February, which implements the Spanish De-Indexing Law, (the "**RD**

55/2017"), permit the update of prices in new public contracts only under certain contractual circumstances and require the prices to be updated according to a formula approved by the Council of Ministers or, in the latter's absence, by each contracting authority, linking the index to real costs of the specific activity instead of the Consumer Price Index (IPC).

Although a majority of Aqualia's current public contracts already apply price updating systems (different from Consumer Price Index) linking the price to the real cost of the activity, the Spanish De-Indexing Law and RD 55/2017 may have an impact on Aqualia's future contracts only in the absence of a formula approved by Council of Ministers, depending on whether each contracting authority decides or not to establish a formula to update the contract price which will apply during the whole life of the contract. If the contracting authority decides to apply a formula, it should be established in the particular public terms for tender of the relevant contract in accordance with the criteria set out in the Spanish De-Indexing Law and RD 55/2017.

A change of circumstances or conditions under which Aqualia may enter into a contract and an inability by Aqualia to adapt its compensation under such contract may adversely impact its business, results of operations and financial condition.

***Aqualia's failure to accurately estimate risks, the availability and cost of resources and time when bidding on projects, particularly fixed fee projects, could adversely affect its profitability.***

Under fixed fee contracts, Aqualia realises a profit only if it can successfully estimate its costs and prevent cost overruns on contracts. Cost overruns can result in lower profits or operating losses on projects. Factors such as the availability and cost of materials, equipment and labour, wage inflation, unexpected project modifications, local weather conditions, unanticipated technical or geological problems including issues with regard to design or engineering of projects, changes in local laws or delays in regulatory approvals and the cost of capital maintenance or replacement of assets are highly variable, and Aqualia's actual costs in remedying or addressing them may deviate substantially from originally estimated amounts and may therefore result in a lower profit to Aqualia.

The identification of key risks, the estimation of costs and the establishment of appropriate deadlines in relation to such contracts are an inherent part of Aqualia's business. However, Aqualia's estimates can be particularly difficult to make and may turn out to be inaccurate, particularly with respect to long-term and complex projects. If Aqualia fails to identify key risks or effectively estimate costs for projects where it is exposed to the risk of cost overruns, there may be an adverse effect on its business, results of operations and financial condition.

***Aqualia may be required to bear the costs of tendering for new contracts, contract renewals and/or extensions with no control over the selection process nor certainty of winning the tender.***

A substantial portion of Aqualia's work is competitively tendered and it is difficult to predict whether Aqualia will be awarded new contracts due to multiple factors such as qualifications, experience, reputation, technology, customer relationships, financial strength, and ability to provide the relevant services in a timely, safe, and cost-efficient manner. Bidding costs associated with tendering for new contracts, extensions in the scope of work, or renewals of existing contracts can be significant and may not necessarily result in the award of a contract. Furthermore, preparation for bids occupies management and operating resources. If Aqualia fails to win a particular tender, bidding costs are generally not recoverable.

***Aqualia's joint venture and partnership operations could be adversely affected by its reliance on its partners' financial condition and performance.***

Some of Aqualia's activities are conducted through joint ventures and partnerships. The success of Aqualia's joint ventures and partnerships depends on the satisfactory performance by its partners of their obligations. If Aqualia's partners fail to satisfactorily perform their obligations as a result of financial or other difficulties, the joint venture or partnership may be unable to adequately perform contracted services. Under these circumstances, Aqualia may be required to make additional investments to ensure the adequate performance of the contracted services and Aqualia could be jointly and severally liable for both its obligations and those of its partners. In addition, in the normal course of business, Aqualia undertakes to provide guarantees and indemnities in respect of the performance of the contractual obligations of its joint venture entities and partnerships. These guarantees and obligations give rise to a

liability to the extent the respective entity fails to perform its contractual obligations. A partner may also fail to comply with applicable laws, rules, or regulations. Any of these factors may adversely impact Aqualia's business, results of operations and financial condition.

***Certain interests in Aqualia's foreign subsidiaries are held by third parties.***

Aqualia has operations in the United Arab Emirates and Saudi Arabia, among others, where local law restricts or may restrict: (i) foreign shareholders from holding a majority of the shares in either any locally registered companies or those companies which operate in certain sectors such as construction; or (ii) the ability of foreign-owned companies from participating in certain public tenders.

Consistent with the approach taken by many other foreign-owned companies operating in these jurisdictions, Aqualia, in certain cases, has addressed this foreign ownership restriction by using commonly used structures, whereby the majority of the shares in its local business is held by a locally registered company or national in that country (depending on the requirements of local law) on trust or pursuant to a management agreement or similar arrangement, for and on behalf of Aqualia. The remaining minority share capital is usually held by Aqualia through one of its locally incorporated subsidiaries. However, these arrangements may not be as effective in providing control over these entities as a direct majority ownership.

Moreover, a particular ownership structure could be unilaterally challenged before a court in one or more of these jurisdictions. If a challenge is made against the ownership structure of any of Aqualia's subsidiaries based in any jurisdiction where this foreign ownership restriction applies, Aqualia cannot foresee which approach these courts would take in applying the relevant local laws or policies to the corporate structure in question. The potential consequences of a negative judgment in relation to the corporate structure could lead to Aqualia's legal arrangements and agreements being declared void or unenforceable, or to having to change the corporate ownership structure of these businesses in these jurisdictions that may further lead to the imposition of legal penalties. Any of these factors may adversely impact Aqualia's business, results of operations and financial condition.

***Aqualia is dependent on the continued availability, effective management and performance of subcontractors and other service providers.***

In the ordinary course of Aqualia's operations, it relies on subcontractors to provide certain services. As a result, Aqualia's business, results of operations, financial condition and prospects may be adversely affected if it is not able to locate, select, monitor and manage its subcontractors and service providers effectively. Additionally, subcontractors to whom Aqualia has awarded work may become insolvent, requiring it to select a new subcontractor at the risk of delays and/or at higher cost. If Aqualia is not able to locate, select, monitor and manage subcontractors and service providers effectively, its ability to complete contracts on schedule and within forecasted costs to the requisite levels of quality could be adversely impacted and there may be a material adverse effect on its business, results of operations, financial condition and prospects.

**Risks Relating to Regulated Activities**

***Aqualia's Water Management Activities are sensitive to changes in consumption patterns.***

A decrease in the consumption of drinking water supply in some developed countries has been observed, notably because of water saving programs established by public authorities and manufacturers and the public perception that water is a resource which needs to be preserved. For example, in Spain, Aqualia estimates that the volumes of water billed have declined by roughly 1 per cent. a year on average for the last ten years (with a slight change to the consumption trend in the last two years). As of this date, Aqualia has been able to offset the effects of reduced volumes through productivity gains and negotiating contracts under which a portion of Aqualia's revenue is independent of volumes. If the volumes decrease further, these efforts may be insufficient to fully offset any such reduction Aqualia may experience and this may adversely impact Aqualia's business, results of operations and financial condition.

***Aqualia's Water Management Activities are sensitive to weather conditions.***

Aqualia's earnings in the water sector can be affected by significant weather changes. For example, exceptional rainfalls may have a negative impact on the activity and earnings of Aqualia. For example, in Spain, during the three years 2003-2005, rainfall was less than the average rainfall for the previous ten

years with 2005 being the driest year since 1947. As a result, certain measures, including public campaigns among consumers to reduce water usage and the implementation of water optimisation plans for agriculture, among other measures, were put into place.

***By supplying drinkable water, Aqualia must ensure that the water is adequate for human consumption.***

The most significant risk associated with managing drinkable water facilities is the distribution of water that may cause health problems to end users. For example, if errors in the treatment process or acts of sabotage were to occur that affected the quality of the drinking water Aqualia supplies, Aqualia could suffer a loss of business and revenues and reputational damage. Furthermore, Aqualia can become subject to litigation, damages, and clean-up costs and this may adversely impact Aqualia's business, results of operations and financial condition.

***Natural disasters, accidents, service interruptions or systems failures, as well as other disruptive events could adversely affect profitability.***

Aqualia controls and operates utility networks and maintains the associated assets with the objective of providing a continuous service. In exceptional circumstances, electricity, gas or water shortages, or the failure of an asset, an element of a network or supporting plant and equipment, could result in the interruption of service provision or catastrophic damage resulting in loss of life, environmental damage and economic and social disruption. Accidents may occur at Aqualia's projects, which may severely disrupt the operations of Aqualia and lead to delays in the completion of projects and such delays could result in a loss of income, due to delayed receipt of proceeds from purchasers, as well as potential claims for compensation and termination of contracts by clients. Moreover, significant damage or other impediments to the waterworks facilities managed could result from (i) natural disasters floods and prolonged droughts; (ii) human-errors in operating the waterworks facilities, including multi-purpose dams and water supply systems; and (iii) industrial strikes. Any of these factors may adversely impact Aqualia's business, results of operations and financial condition.

***Any spillage of contaminated water could negatively affect Aqualia.***

Aqualia manages waste water treatment plants. One of the principal risks associated with this business activity is the risk of spillage of contaminated water in surrounding areas. In addition to errors or negligence in managing waste water treatment plants, spillage of contaminated water could occur as a result of circumstances that are out of Aqualia's control. Water supplies may be subject to interruption or contamination, including contamination from the presence of naturally occurring compounds and pollution from man-made sources or third parties' actions. In this situation, Aqualia could nonetheless be liable for damages and clean-up costs, be fined for breaches of statutory obligations, as well as suffer reputational damage. Any such occurrence may adversely impact Aqualia's business, results of operations and financial condition.

***Aqualia is exposed to risks related to prices of energy and commodities.***

Aqualia's energy expenses and the prices of other commodities (such as raw water and electrical energy), which are indispensable for its operations and essential business activities, can be subject to significant fluctuations and represent major operating expenses. The expenditures for purchases of raw water account for approximately 15 per cent. of Aqualia's total annual operating expenses, whereas the expenditures for purchases of electricity account for approximately 6 per cent. of Aqualia's total annual operating expenses. If Aqualia is unable to increase its prices sufficiently to cover such additional costs, a sustained increase in supply costs and/or related taxes could undermine its operations.

***During their initial years of operation, Aqualia's water management concessions generate little or no cash for distribution to Aqualia.***

The development and operation of infrastructure concession assets is a capital-intensive business. Newer assets are typically highly leveraged to optimise the capital structure with the objective of maximising shareholder return. The financing structure for a concession is selected based on cash flow projections that Aqualia models for that concession. A new project may be financed through a project finance structure, which involves the creation of a legally independent project company financed with debt on a non-recourse basis and with equity contributed by Aqualia and, in some cases, other investors. As a result of the high rate of leverage, during the initial years of a concession, the costs of financing consume most

of a concession's available cash flows, leaving little or no cash flows available for distribution to Aqualia. In addition, since cash flows constitute the main security for the repayment of project borrowings, credit agreements usually limit the use of funds by shareholders until certain conditions have been met, which is assessed each year. As a result, it is unlikely that cash generated from newer concessions will be available to meet the cash needs of other Group companies, including repayment of amounts due under the Notes. Furthermore, it is possible that Aqualia's cash flow projections for a concession will not be met, and that concession may take longer than expected to generate cash for its shareholders or may never do so, which could decrease the resources available to other Group companies to meet their financial obligations, including those under the Notes. Such a decrease may have a material adverse effect on the business, results of operations and financial condition of Aqualia.

***Concessions are granted for a limited period of time through public bidding and are subject to a number of conditions.***

A large portion of Aqualia's contracts are concessions granted for a limited period of time and once such contracts, and their potential contractual extensions, have expired, the Issuer may need to take part in public bidding processes in order to renew them. Upon termination of a concession, Aqualia must return the infrastructure to the competent governmental authority or owner, in an adequate state of repair, together with any assets and facilities required for operation, and receives no economic compensation whatsoever. In addition, such concessions are subject to a number of conditions and requirements, a breach of which could result in termination of any such concession. If Aqualia is unable to extend the duration of its concessions during its lifetime or is unable to secure new concessions to replace any concessions expired, terminated or recovered, this could have a material adverse effect on Aqualia's business, results of operations and financial condition.

***Difficulties in obtaining the necessary land rights could delay certain Aqualia concession projects or lead to increased development costs.***

In order to develop the infrastructure assets for the concessions in which Aqualia has an interest, it must obtain the necessary land rights to carry out such development. Aqualia may seek to obtain such land rights through market transactions, though it often relies on governmental authority to expropriate the land on which the relevant infrastructure asset is to be constructed. Aqualia may be adversely affected by changes in laws governing land transfer and land expropriation, or be exposed to the risk of compulsory purchase cost overruns. It may also incur delays in connection with the transfer of the necessary land rights or with the land expropriation process. In addition, Aqualia may in the future be subject to legal claims in connection with carrying out land expropriation orders. Delays or increases in costs for obtaining the necessary land rights could have a material adverse effect on its business, results of operations and financial condition.

***The public may react negatively to waste water and industrial waste management facilities.***

Aqualia's business may face adverse public opinion to its waste water activities near inhabited areas, the expansion of such existing facilities or the construction of new facilities in this business unit. In response to public pressure, governments may restrict the current activities of Aqualia or its plans for future expansion, which could adversely affect its business, results of operations and financial condition.

#### **Risks Relating to Non-Regulated Activities**

***If investment in public water infrastructure continues to decrease, Aqualia's results of operations may be affected.***

Investment in water infrastructure derives from both the public and private sectors and the level of investment is dependent on general economic conditions. In times of economic growth, investment levels generally increase, with levels decreasing during a recession. The majority of countries within which Aqualia operates have benefited from favourable economic conditions for several years. However, as a result of the global financial crisis, the situation has considerably deteriorated. Aqualia cannot make any assurances that the level of investment will increase in the coming years. If conditions continue to limit investment by the public sector, then the business, results of operations and financial condition of Aqualia may be adversely affected.

***Difficulties in securing private sector projects may adversely affect Aqualia's results of operations.***

Following the global financial crisis, there has been a decrease in procurement by private sector companies. In addition, private sector companies may be forced to halt projects that are already underway due to a lack of funds, or they may decide to delay or abandon studies of potential projects while they await more favourable investment conditions. Whilst standard practice in the private sector is for the construction company to be paid as the works are executed, Aqualia is exposed to loss of revenue if such works are delayed or cancelled. Reductions in project procurement and delays in the completion of projects by the private sector may adversely affect the business, results of operations and financial condition of Aqualia.

***Any failure to meet project deadlines and budgets may have a material adverse effect on the business, financial condition and results of operations of Aqualia.***

There are certain risks that are inherent to large-scale construction projects, such as shortages, and increased costs, of materials, machinery and labour. If any of Aqualia's contractors and sub-contractors fails to meet agreed deadlines and budgets, or if there are any interruptions arising from adverse weather conditions or unexpected technical or environmental difficulties, there may be resulting delays and excess construction costs. Contractor and sub-contractor liability clauses, included in most standard construction agreements entered into with contractors and sub-contractors, generally cover these situations, although they may not cover the total value of any resulting losses. In the event of construction delays, Aqualia may receive revenues later than expected and could face penalties and even contractual termination. These eventualities could increase Aqualia's expenses and reduce its income, particularly if it is unable to recover any such expenses from third parties under its concessions, in which case the business, results of operations and financial condition of Aqualia may be materially adversely affected.

***Aqualia's contracted revenues from its O&M Activities is subject to unexpected adjustments and cancellations and, therefore, may not be reliable indicator of its future revenue or profits.***

There can be no assurance Aqualia will realise earned revenue projected in its contracted revenue from its O&M Activities or, if realised, such revenue will result in profits. Project terminations, suspensions, and/or changes in project scope and schedule may occur and Aqualia cannot predict with certainty when, or if, any or all of its contracted revenue will be performed. Material delays, cancellations, or payment defaults could materially and adversely affect Aqualia's cash flows, earned revenue, business, results of operations and financial condition. A deterioration in economic conditions may result in a reduced ability to replace contracted revenue once projects are completed and/or may result in the cancellation, modification, or deferral of projects currently reflected in Aqualia's contracted revenue.

***Reduction of outsourcing and potential for insourcing may materially and adversely affect Aqualia's financial and operating performance.***

Aqualia's O&M Activities' financial performance depends on its customers continuing to outsource operations, maintenance and facilities management services to it. A decline in outsourcing in the sector in which Aqualia's customers operate may adversely affect Aqualia's revenue and profitability and its growth prospects. A reduction in outsourcing may result from a decreased availability of capital, changing economic conditions or industry trends, or changes in the specific strategies of Aqualia's customers, particularly in a capital constrained environment where customers are experiencing margin and cash cost pressures.

**Risks relating to the Security**

***From and including the Convertible Notes Accession Date, the Security will be used to secure, equally and rateably, the obligations of FCC under its outstanding Convertible Notes which are in continuing default.***

In January 2015, certain Convertible Noteholders obtained a summary judgment of the English courts holding that an event of default has occurred under the terms and conditions of the Convertible Notes, as a result of the terms of the restructuring agreement dated 14 November 2014 entered-into by FCC. In November 2016, the English appellate courts denied FCC's appeal and upheld the summary judgment.

From and including the Convertible Notes Accession Date, the Security will be used to secure, equally and rateably, the obligations of FCC under the outstanding Convertible Notes.

Pursuant to the terms and conditions of the Convertible Notes, FCC has offered to the commissioner for the Convertible Notes (the "**Commissioner**") to extend the benefit of the Security to secure all amounts payable by FCC under the Convertible Notes. The Commissioner has opted not to exercise its discretion to accept such extension of the benefit of the Security. Notwithstanding the Commissioner's decision, FCC has maintained its offer and the Intercreditor Agreement provides that the Commissioner, on behalf of itself and the Convertible Noteholders, may accede to the Intercreditor Agreement on any date (the "**Convertible Notes Accession Date**") prior to the expiry of 180 days following the Issue Date. If the Commissioner accedes to the Intercreditor Agreement in accordance with its terms, from and including the Convertible Notes Accession Date, the Security will be used to secure, equally and rateably, the obligations of FCC under the outstanding Convertible Notes.

As a consequence of the summary judgment and denial of appeal by the English courts described further above, Convertible Noteholders are currently entitled to declare the Convertible Notes immediately due and payable. Under the Intercreditor Agreement, enforcement of the Security by the Security Agent requires approval by the Creditor Representatives representing holders of the 2022 Notes and/or the 2027 Notes and/or (on or after the Convertible Notes Accession Date) the Convertible Notes holding, collectively, more than 65 per cent. (EUR877,500,000 as of the date hereof (excluding the outstanding Convertible Notes) or EUR897,195,000 as of the date hereof (including the outstanding Convertible Notes)) in aggregate principal amount outstanding. The requisite majority of holders of the 2022 Notes and/or the 2027 Notes and/or (on or after the Convertible Notes Accession Date) the Convertible Notes, may not instruct the Security Agent to begin enforcement of Security until the date falling at least five business days after the date of receipt by the Issuer and/or (on or after the Convertible Notes Accession Date) FCC (as applicable) of the relevant notice declaring the 2022 Notes and/or the 2027 Notes and/or (on or after the Convertible Notes Accession Date) the Convertible Notes (as applicable) immediately due and payable and provided further that the Issuer and/or (on or after the Convertible Notes Accession Date) FCC (as applicable) has not made payment within such five-day period of the relevant amounts declared due and payable. As of the date hereof, Convertible Notes in an aggregate principal amount of EUR30.3 million remained outstanding.

***The Security is limited to the pledges over the Secured Property and the Notes are secured only to the extent of the value of the Security; such Security may not be sufficient to satisfy the obligations under the Notes.***

The Noteholders have the benefit of the Security which consists of a series of pledges over certain Secured Property. The Security has also been granted equally and rateably over the Secured Property to secure, on a first ranking basis, the obligations of FCC to the Convertible Noteholders. (See *Risks relating to Security – The Security will be used to secure equally and rateably, the obligations of FCC under its outstanding Convertible Bonds which are in continuing default.*).

The aggregate book value of the Secured Property is substantially less than the aggregate principal amount of the Notes and of the outstanding principal amount of the Convertible Notes. Therefore, the book value of such Security does not cover the full amount of the aggregate payment obligations of the Issuer to the Noteholders and (on or after the Convertible Notes Accession Date) of FCC to the Convertible Noteholders. The rights of a Noteholder to the Security may be diluted by any increase in the debt secured by the Secured Property or a reduction of the Security securing the Notes.

If there is an Event of Default, the proceeds of any sale of the Secured Property are likely to be substantially less than amounts due under the Notes as well as other claims or debt benefiting from a *pari passu* security interest in the Secured Property, including indebtedness under the Transaction Documents. The amount of proceeds realised upon the enforcement of the security interests over the Security or in the event of liquidation will depend upon many factors, including, among others, the availability of buyers. The book value of the Secured Property should not be relied on as a measure of realisable value for such assets.

***It may be difficult to realise the value of some of the Secured Property securing the Notes.***

By its nature, some of the Secured Property does not have a readily ascertainable market value and may not be saleable or, if saleable, there may be substantial delays in its disposal. In addition, the share pledges of an entity may be of no value if that entity is subject to an insolvency or bankruptcy proceeding.



The terms of the Intercreditor Agreement provide that decisions regarding enforcement are made by the Creditor Representatives representing Noteholders and (on or after the Convertible Notes Accession Date) the Convertible Noteholders holding, collectively, more than 65 per cent. in aggregate principal amount outstanding under the 2022 Notes and/or the 2027 Notes and/or (on or after the Convertible Notes Accession Date) the Convertible Notes. As a result, Noteholders may not solely control decisions in respect to the Secured Property, including timing of enforcement and such other secured parties may have interests that are not the same as those of Noteholders. To the extent that other rights granted to other parties encumber the Secured Property, those parties have or may exercise rights and remedies with respect to the property subject to their other rights that could adversely affect the value of the Secured Property and the ability of the Security Agent, acting on behalf of the Secured Creditors to realise or enforce the Security. If the proceeds of any sale of Secured Property are not sufficient to repay all amounts due on the Notes, the Noteholders (to the extent not repaid from the proceeds of the sale of the Secured Property) would have only an unsecured claim against the Issuer's remaining assets. Each of these factors or any challenge to the validity of the Security or the Intercreditor Agreement could reduce the proceeds realised upon enforcement of the Security.

In addition, the Pledges over the Secured Property are subject to the laws of different jurisdictions (i.e. Spain, Italy and Mexico) and which may make it difficult to effectively enforce such Pledges. Moreover, the laws of other jurisdictions may be materially different from and may not be as favourable to the interests of the potential investors as the laws of other jurisdictions with which they are familiar.

***Issuer has obligations to third parties.***

Certain of the Issuer's obligations to third parties which are secured by the Security rank in right of payment ahead of the Noteholders. Such persons include, *inter alios*, the Security Agent, the Notes Trustee (in its individual capacity), the Principal Paying Agent and (on or after the Convertible Notes Accession Date) the commissioner in respect of the Convertible Notes (see "*Description of other Material Contracts—Intercreditor Agreement*"). To the extent that significant amounts are owing to any such persons, the amounts available to Noteholders will be reduced.

***The Security in the Security Documents has been granted in favour of the Secured Creditors acting through the Security Agent. Enforcement of security interests may be affected by the granting of security to the Security Agent.***

**Spanish Law**

The Spanish Law Security that secures the obligations of the Issuer under the Spanish law governed Security Documents has been granted in favour of, *inter alios*, the Noteholders acting through the relevant Security Agent who has accepted the relevant security in its name and for the benefit of, *inter alios*, the Noteholders. The Noteholders will not have any individual powers to enforce the security interests granted in respect of the Notes, except through the Security Agent, who shall enforce them following the instructions of the Instructing Group given in accordance with (and as defined in) the Intercreditor Agreement. Since Spanish law does not contemplate the concept of "security agent" or "trustee", there is some uncertainty as to whether a Spanish Court would recognise its authority and whether this could eventually cause delays in the enforcement of security or prevent its enforcement in the terms stated in the Security Documents.

Some legal scholars argue that a security agent would only be entitled to enforce its portion, if any, of the secured obligation but not that of the other secured parties. Therefore, the validity and enforceability of security interests granted in favour of the Noteholders through the Security Agent and its subsequent enforcement through the Security Agent may be subject to certain limitations.

Notwithstanding the foregoing, if enforcement of any security interest in Spain is to be carried out by the Security Agent in Spain, as applicable, it may be necessary to prove that the Security Agent is duly and expressly empowered for such purpose by means of duly notarised powers of attorney granted in favour of the Security Agent by each of the actual Secured Creditors or future Secured Creditors, if necessary, with the Apostille of The Hague Convention dated 5 October 1961. Therefore, there could be a delay in the execution of the Security in Spain while such powers are obtained.

### Mexican Law

According to Mexican law, the enforcement of the Mexican Shares Pledge may be limited or affected by statutory priorities or provisions established by (a) laws imposing federal, state or municipal taxes, including taxes or amounts payable by the corresponding guarantor that are considered as such under Mexican law, such as social security and payments of similar taxes owed to, or collectible by, a governmental agency with the power to collect fiscal contributions, (b) Mexican federal labor laws regarding compensation of any kind owed by the corresponding guarantor to persons covered by such laws, and (c) bankruptcy, *concurso mercantil*, *quiebra*, insolvency, reorganisation, moratorium or other similar laws now or hereafter in effect relating to creditors' rights generally or by the availability of the remedy of specific performance.

The Mexican bankruptcy law (*Ley de Concursos Mercantiles*) ranks the creditors in following order (according to the nature of its credits):

- (a) Singularly privileged creditors (burial expenses of the debtor and creditors in case of debtor's illness and death).
- (b) Creditors with a secured debt (mortgage and pledges).
- (c) Creditors with special privileges (personal property guarantee such as non-possessory pledges, commercial pledge, when the pledgee does not keep the possession of the assets, investment loans, and industrial mortgage over personal assets).
- (d) Common creditors (those not considered in the previous (a), (b) and (c) ranking, for example creditors with no security).
- (e) Subordinated creditors (those that convened right subordination regarding common creditors).

Notwithstanding the former: (i) the credits in favour of the employees due to salary or accrued wages in the last year and due to damages, will have preference over any other credits in case of bankruptcy, (ii) the labor credits not included in the previous number (i) and the tax credits will be paid after the singularly privileged credits and security credits but before the credits with special privilege.

### Italian Law

The Italian Law Security that secures the obligations of the Issuer under the Italian law governed Security Documents has been granted in favour of, *inter alios*, the Noteholders and the Security Agent acting also in its capacity as *rappresentante delle garanzie degli obbligazionisti* for the purposes of article 2414-bis, third paragraph of the Italian civil code (please refer to section "*The Notes and the Security are limited by applicable laws and are subject to certain limitations on enforcement or defences - Italian Law*").

***The Notes and the Security are limited by applicable laws and are subject to certain limitations on enforcement or defences.***

### Spanish Law

Under Spanish law, any guarantee, pledge or mortgage generally must guarantee or secure a primary obligation to which it is ancillary. This implies that the primary obligation must be clearly identified in the guarantee or security agreement and the nullity or termination of the primary obligation entails the nullity or termination of the ancillary guarantee or security interest. Consequently, if the primary obligation is deemed null and void, the ancillary guarantee or security interest will also be deemed null and void.

The obligations under guarantees or securities granted by any company incorporated under Spanish law shall not extend to any use of the proceeds of the Notes for the purpose of acquiring shares representing the share capital of such company or shares representing the share capital of its controlling company, or refinancing a previous debt incurred for the acquisition of shares representing the share capital of such company or shares representing the share capital of its holding company or of companies of the group and all provisions of such guarantees or securities shall be construed accordingly in the sense that, in no case can any guarantee or security given by such guarantor secure repayment of the above- mentioned funds, in light of articles 150 (for Spanish public limited companies (*sociedades anónimas*)) and 143 (for

Spanish private limited companies (*sociedades de responsabilidad limitada*) of the Spanish Capital Companies Act (*Real Decreto Legislativo 1/2010, de 2 de julio, por el que se aprueba el texto refundido de la Ley de Sociedades de Capital*) (the "**Spanish Capital Companies Act**"), as applicable.

Enforcement of the Spanish Law Security will be subject to the provisions of Spanish Procedural Law and Spanish Law 22/2003 of 9 July (the "**Spanish Insolvency Law**") (*Ley Concursal*) (where applicable) and this may entail delays in the enforcement.

Under Spanish law, claims may become time-barred or may be or become subject to the defence of set-off or counterclaim.

The terms "enforceable", "enforceability", "valid", "legal", "binding" and "effective" or any combination thereof mean that all of the obligations assumed by the relevant party under the relevant documents are of a type enforced by Spanish courts; these terms do not mean that these obligations will necessarily be enforced in all circumstances in accordance with their terms. Enforcement in the courts will in any event be subject to:

- (a) the nature of the remedies available in the courts; and
- (b) the availability of defences such as, without limitation, set-off (unless validly waived), circumvention of law (*fraude de ley*), abuse in the exercise of rights (*abuso de derecho*), misrepresentation, force majeure, unforeseen circumstances, undue influence, duress, abatement and counterclaim.

The Spanish Capital Companies Act foresees a pre-emption right in favour of the shareholders in the context of enforcement proceedings. In particular, in the case of Spanish private limited companies (*sociedades de responsabilidad limitada*), if not exercised by the quotaholders, such pre-emption right is granted to the company provided that it has been expressly foreseen in its by-laws (such as the by-laws of Aqualia Czech, S.L.). This may disincentive potential bidders to participate in execution proceedings of pledges of this type of securities.

#### Mexican Law

Under Mexican law, any judgment obtained in the courts of England, Spain or Italy arising out of or in relation to the Transaction Documents would be enforced in Mexico against the corresponding guarantor without re-examination of the merits of the action, pursuant to Article 1347-A of the Commerce Code, which provides, *inter alia*, that any judgment rendered outside Mexico may be enforced by Mexican courts, provided that:

- (a) such judgment is obtained in compliance with legal requirements of the jurisdiction of the court rendering such judgment and in compliance with all legal requirements of the Transaction Documents;
- (b) such judgment is strictly for the payment of a certain sum of money, based on an *in personam* (as opposed to an *in rem*) action;
- (c) service of process was made personally on the defendant or on the appropriate process agent;
- (d) such judgment does not contravene Mexican law, public policy of Mexico, international treaties or agreements binding upon Mexico or generally accepted principles of international law;
- (e) the applicable procedure under the laws of Mexico with respect to the enforcement of foreign judgments (including issuance of a letter rogatory by the competent authority of such jurisdiction requesting enforcement of such judgment and the certification of such judgment as authentic by the corresponding authorities of such jurisdiction in accordance with the laws thereof) is complied with;
- (f) such judgment is final in the jurisdiction where obtained;
- (g) the England courts recognize the principles of reciprocity in connection with the enforcement of Mexican judgments; and

- (h) the action in respect of which judgment is rendered is not the subject matter of a lawsuit among the same parties pending before a Mexican court and has not been resolved by a definitive judgment issued by a Mexican court.

In the event that any legal proceedings are brought in the courts of Mexico, a Spanish translation of the Transaction Documents required in such proceedings prepared by the court-approved translator would have to be approved by the court after the defendant had been given an opportunity to be heard with respect to the accuracy of the translation, and proceedings would thereafter be based upon the translated documents.

#### Italian Law

Under Italian law there is some uncertainty (a) if the beneficial owners of the Notes that are not identified as holders in the pledge agreement will be deemed to have a valid and perfected security interest under such pledge and (b) with respect to the validity of any security interest created in favour of the Italian Security Trustee, since there is no established concept of “trust” or “trustee” under Italian law and the precise nature, effect and enforceability of the duties, rights and powers of the Trustee as agent or trustee for holders of the Notes under security interests on Italian assets is debatable under Italian law.

Given the above, there is a risk that an Italian court may determine that the holders of the Notes at the time of the enforcement are not secured by the security under the Security Documents governed by Italian law and/or cannot enforce that security.

To address the above potential issue, the Italian Law Shares Pledge will be created and perfected in favour of the Security Agent acting also in its capacity as representative (*rappresentante*) pursuant to article 2414-bis, 3rd paragraph of the Italian Civil Code and legal representative of the holders of the Notes (*mandatario con rappresentanza*) under the Trust Deed and the Intercreditor Agreement. However, please note that the enforceability of Italian law security granted in favour of a person acting in such capacities has not been tested in the Italian courts and, therefore, the risk of unenforceability by the holders of the Notes of the security documents posed by Italian law cannot be eliminated or mitigated.

In addition, as the holders of the Notes are not direct party to the Trust Deed and the Intercreditor Agreement, there is the risk that the appointment of the Security Agent in its capacity as representative (*rappresentante*) of the holders of the Notes pursuant to Article 2414-bis, paragraph 3, of the Italian Civil Code is not upheld by an Italian court and that therefore an Italian court may determine that the holders of the Notes at the time of enforcement are not secured by the security under the Italian Law Shares Pledge and/or that the *rappresentante* cannot exercise the rights and enforce the Italian Law Shares Pledge also in the name and on behalf of the holders of the Notes. In addition, the provisions and the subject matter of paragraph 3 of Article 2414-bis, paragraph 3, of the Italian Civil Code are new and, as such, untested by Italian Courts and, therefore, even if the appointment of the *rappresentante* is upheld by an Italian Court, it cannot be excluded that an Italian Court may take a different view and interpretation and determine that, where the Italian Law Shares Pledge is only granted in favour of the *rappresentante*, the holders of the Notes at the time of enforcement are not secured by the Italian Law Shares Pledge and/or cannot enforce the Italian Law Shares Pledge.

Moreover, under Italian law, claims of certain categories of creditors (*creditori privilegiati*) are given statutory priority in relation to the proceeds of a debtor’s property in respect of the claims of other creditors.

Also, under Italian law, in the event that the relevant obligor enters into insolvency, liquidation or other analogous proceedings, the pledge could be subject to potential challenges by an insolvency administrator or by other creditors of such obligor under the rules of avoidance or clawback of Italian insolvency laws and the relevant law on the non-insolvency avoidance or clawback of transactions by the debtor.

***The Security may not be enforced based on a breach by the Issuer of an obligation under the Notes which is considered ancillary or complementary to the main payment obligation.***

Spanish law, as applied by competent authorities, may preclude any security being enforced in respect of an agreement (including the Notes), irrespective of its governing law, which is terminated or accelerated, (i) based on the breach of obligations, undertakings or covenants which are merely ancillary or complementary to the main payment obligations, or (ii) based on the unreasonable, inequitable or bad faith interpretation of one of its events of default.

In addition, a Spanish court may, at the time of enforcing the security, through the ordinary (non summary) enforcement proceedings refuse to carry out such enforcement when based on such terms of the Conditions of the Notes that are deemed contrary to the principles of Spanish law referred to above.

***Enforcement of the Pledges may be affected by restrictions under Spanish Insolvency Law.***

The Fourth Additional Provision (*Disposición Adicional Cuarta*) of the Spanish Insolvency Law deals with the possibility of refinancing agreements (broadly similar to the English schemes of arrangement) entered into by the debtor and creditors holding at least 51 per cent. of the financial indebtedness of the debtor being approved by the Courts, when such refinancing agreements fulfil certain conditions provided therein.

Any such refinancing agreement will be binding on all of the unsecured financial creditors of the debtor and secured financial creditors (in respect of that part of their secured claim not covered by their security interest), if approved by the following majorities: (i) creditors holding 60 per cent. of financial indebtedness where the agreement contemplates a deferral for a term less than five years and conversion of debt into a participating loan during that time; and (ii) creditors holding 75 per cent. of financial indebtedness where the agreement contemplates a deferral between five and ten years, conversion of debt into a participating loan or similar instrument for an equal term, converting the debt into capital or a participating loan or assignment of assets, or write-off.

Moreover, they will also be binding on all of the secured financial creditors of the debtor if approved by: (i) creditors holding 65 per cent. of secured financial indebtedness (the amount of each claim being regarded as nine tenths of the reasonable value of the collateral up to the face amount of the claim) where the agreement contemplates a deferral for a term less than five years and conversion of debt into a participating loan during that time; or (ii) creditors holding 80 per cent. of secured financial indebtedness (the amount of each claim being regarded as nine tenths of the reasonable value of the collateral up to the face amount of the claim) where the agreement contemplates a deferral between five and ten years, conversion of debt into a participating loan or similar instrument for an equal term, converting the debt into capital or a participating loan or assignment of assets, or write-off.

Article 5bis of the Spanish Insolvency Law states that if a debtor notifies the commercial court (*Juzgado de lo Mercantil*) that it has started negotiating with its creditors in order to obtain their approval regarding: (i) a refinancing agreement as referred to under article 71.bis.1 of the Spanish Insolvency Law; (ii) a refinancing agreement as referred to under the Fourth Additional Provision of the Spanish Insolvency Law; or (iii) an advance proposal of arrangement between creditors (*propuesta anticipada de convenio*), its obligation to file an application for volunteer insolvency shall be suspended for three months. Following those three months, the debtor will have an additional period of one month to submit such application.

As from the date of such notice and during such pre-insolvency period, no court or out-of-court enforcement proceedings of securities over any assets or rights of the debtor that are necessary for the continuity of its business may be initiated, and those legal proceedings initiated prior to such notice shall be suspended. Nevertheless, public law claims shall not be subject to this enforcement limitation.

In addition, no individual financial creditor may initiate enforcement actions against the debtor (and those already initiated shall be suspended) if creditors holding at least 51 per cent. of the financial liabilities against the debtor have expressly agreed to start negotiating with the debtor in order to arrange a refinancing agreement and have also agreed not to file or continue enforcement actions against the debtor while the debtor and its creditors are still negotiating.

Despite the foregoing, secured parties will still be entitled to bring court or out-of-court enforcement proceedings against the corresponding secured assets. However, once proceedings have been initiated, they shall be immediately suspended.

Pursuant to Article 56 of the Spanish Insolvency Law, once the debtor is declared insolvent, enforcement of security over any assets of the debtor which are necessary for the continuity of its business may not be commenced (and the procedures already initiated before the declaration opening insolvency proceedings shall be suspended) until the earliest of the following occurs: (i) the approval of an arrangement between creditors, unless such agreement is binding on those secured parties, in which case the provisions under such agreement will apply; and (ii) in case the liquidation period has not been initiated, the first

anniversary of the declaration of insolvency. Enforcement shall be suspended even if, at the time of the declaration of insolvency, the relevant notices of public auction have been published. The suspension may be lifted or the commencement of enforcement proceedings may be possible if a court resolution which considers that the charged asset is not necessary for the continuity of the debtor's business is obtained from the judge in charge of the debtor's insolvency proceedings. Although, for the purposes of such declaration, the Spanish Insolvency Law points out that those shares or participations in companies whose only activity is the holding of one asset and the liabilities deemed necessary for its financing shall not be deemed necessary for the continuity of the debtor's business, **provided that** the enforcement of securities over those shares or participations does not lead to a termination event or an amending event that allows the insolvent debtor to maintain development of the relevant asset, the interpretation of the corresponding Article of the Spanish Insolvency Law is controversial and there are multiple interpretations between scholars and the existing case law. Finally, the enforcement of the Security shall be subject to Spanish law and, in particular, to the Spanish Insolvency Law, when applicable, which may lead to delays in enforcement.

***Noteholders may lose the benefit of the Security if they have not given directions to the Note Trustee, by means of an Extraordinary Resolution, to deliver written enforcement instructions to the Security Agent***

Upon the Security having been enforced, the Secured Property will be administered by the Security Agent pursuant to the terms of the Security Documents and the Intercreditor Agreement for the benefit of the Secured Creditors. If a Notice of Acceleration and Enforcement (as defined in the Intercreditor Agreement) is not given to the Security Agent prior to 5:00 p.m. in Madrid on the date falling 120 days after the date of the Initial Enforcement Notice (as defined in the Intercreditor Agreement) in respect of any series of Notes or (on or following the Convertible Notes Accession Date) the Convertible Notes, the Note Trustee and/or the Commissioner (as the case may be) shall subject as otherwise provided in the Intercreditor Agreement automatically and unconditionally cease to be a party to the Intercreditor Agreement as Creditor Representative of the relevant series of Notes and/or (as the case may be) the Convertible Notes, and the Noteholders of such series and/or the Convertible Noteholders (as the case may be) shall from that date automatically and unconditionally cease to be Secured Creditors and shall have no claim for any Secured Obligations or other amounts received or recovered by the Security Agent in connection with the realisation or enforcement of any or all of the Security. No party shall be required to execute any documents to evidence such security release, discharge and termination, which for such purposes shall be automatic and unconditional.

### **Risks Relating to the Notes**

***The Notes may not be a suitable investment for all investors.***

The Notes are complex financial instruments. Sophisticated institutional investors generally do not purchase complex financial instruments as stand-alone investments but as a way to reduce risk or enhance yield with an understood, measured, appropriate addition of risk to their overall portfolios. Each potential investor in the Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- (a) have sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained in this Offering Circular and any applicable supplement;
- (b) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact the Notes will have on its overall investment portfolio;
- (c) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes, including if euro (the currency for principal and interest payments on the Notes) is different from the potential investor's currency;
- (d) understand thoroughly the Conditions of the Notes, the Trust Deed and the provisions of the other Transaction Documents; and

- (e) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

Prior to making an investment decision, potential investors should consider carefully, in light of their own financial circumstances and investment objectives, all the information contained in this Offering Circular.

***Modification and waivers may affect the Noteholders.***

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

The Conditions also provide that the Note Trustee may, subject to certain restrictions but without the consent of Noteholders, agree to: (i) any modification of any of the provisions of the Trust Deed, the Agency Agreement, the Account Bank Agreement, the Security Documents, the Intercreditor Agreement or the Conditions or as a Relevant Creditor under the Intercreditor Agreement to direct the Security Agent to agree a modification to the Security Documents or the Intercreditor Agreement that is, in the Note Trustee's opinion, of a formal, minor or technical nature or is made to correct a manifest error; and (ii) (other than in respect of a Reserved Matter) any modification of any of the provisions of the Trust Deed, the other Transaction Documents or the Conditions that is, in the opinion of the Note Trustee, not materially prejudicial to the interests of the Noteholders. In addition, the Note Trustee may, without the consent of the Noteholders or the Couponholders, authorise or waive any proposed breach or breach of these Conditions or the Trust Deed or the Notes or the Coupons or any other Transaction Document (other than a proposed breach or breach relating to the subject of a Reserved Matter) or determine that an Event of Default or Potential Event of Default should not be treated as such, or as a Relevant Creditor to direct the Security Agent to agree a waiver in relation to the Security Documents or the Intercreditor Agreement if, in the opinion of the Note Trustee, the interests of the Noteholders will not be materially prejudiced thereby.

Any such modification or waiver made by the Note Trustee shall be binding on all Noteholders.

***A Noteholder's ability to enforce following the occurrence of an Event of Default is limited.***

Condition 10 (*Events of Default*) provides that, following the occurrence and continuation of any events described in such Condition, the Note Trustee may, at its own discretion, and, shall if so requested in writing by holders of at least one-quarter of the aggregate principal amount of the Notes then outstanding or if so directed by an Extraordinary Resolution (in each case, as defined in the Trust Deed) (subject to it being indemnified and/or prefunded and/or secured to its satisfaction) give written notice to the Issuer declaring the Notes to be immediately due and payable. Upon the Notes being declared due and payable in accordance with Condition 10 (*Events of Default*) or in accordance with the Trust Deed and payment not having been received within five days of such declaration, and pursuant to the rules and procedures of the Trust Deed and the Intercreditor Agreement, the Security may be enforced by the Security Agent.

Noteholders have no individual rights to enforce. Accordingly, the ability of Noteholders to take enforcement action is limited and may only be effected in the circumstances described in the Conditions and the Intercreditor Agreement.

The limited ability of Noteholders to take enforcement action may impact negatively on the efficacy of any such enforcement action, for example, if action needs to be taken quickly following the occurrence of an Event of Default (e.g. upon insolvency of the Issuer).

***Legal investment considerations may restrict certain investments.***

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

***The value of the Notes may be adversely affected by movements in market interest rates.***

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

***The market price of the Notes may be volatile.***

The market price of the Notes could be subject to significant fluctuations in response to actual or anticipated variations in the Issuer's operating results, adverse business developments, changes to regulatory environment in which the Issuer operates, changes in financial estimates by securities analysts and the actual or expected sale of a large number of Notes, prevailing interest rates, the market for similar securities as well as other factors. In addition, in recent years the global financial markets have experienced significant price and volume fluctuations which, if repeated in the future, could adversely affect the market price of the Notes without regard to the Issuer's operating results, financial condition or prospects.

It is possible that the market for the Notes will be subject to disruptions. Any such disruption may have a negative effect on the Noteholders, regardless of the Issuer's prospects and financial performance. As a result, there may not be an active trading market for the Notes. If no active trading market develops, Noteholders may not be able to resell their Notes at a fair value, if at all.

***The Notes' credit rating may not accurately reflect potential risks.***

The Notes have been assigned a rating of "BBB-" by Fitch. The ratings may not reflect the potential impact of all risks related to the structure, market, additional risk factors discussed above and other factors that may affect the value of the Notes. A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency. Any adverse change in an applicable credit rating could adversely affect the trading price for the Notes.

In general, European regulated investors are restricted from using a rating for regulatory purposes if such rating is not issued by a credit rating agency established in the EEA and registered under the CRA Regulation unless (1) the rating is provided by a credit rating agency not established in the EEA but is endorsed by a credit rating agency established in the EEA and registered under the CRA Regulation or (2) the rating is provided by a credit rating agency not established in the EEA which is certified under the CRA Regulation.

***The Notes are subject to exchange rate risks and exchange controls risks.***

The Issuer will pay principal and interest on the Notes in euro. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the "**Investor's Currency**") other than the euro. These include the risk that exchange rates may significantly change (including changes due to devaluation of the euro or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. The Issuer has no control over the factors that generally affect these risks, such as economic, financial and political events and the supply and demand for applicable currencies. In recent years, exchange rates between certain currencies have been highly volatile and volatility between such currencies or with other currencies may be expected in the future. Fluctuations between currencies in the past are not necessarily indicative, however, of fluctuations that may occur in the future. An appreciation in the value of the Investor's Currency relative to the euro would decrease the Investor's Currency-equivalent yield on the Notes, the Investor's Currency-equivalent value of the principal payable on the Notes and the Investor's Currency-equivalent market value of the Notes.

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

***A change in applicable law could adversely impact the Notes.***

The structure of the transaction and, among other things, the issue of, and Conditions of the Notes, and rating assigned to the Notes are based on law (including tax law) and administrative practice in effect at the date hereof and having due regard to the expected tax treatment of all relevant entities under such law



and administrative practice. No assurance can be given as to the impact of any possible judicial decision or change to such law, tax or administrative practice after the date of this Offering Circular and as to whether any such change could materially adversely impact the value of the Notes.

***There is no active trading market for the Notes.***

There can be no assurance as to the liquidity of any market in the Notes, the ability to sell the Notes, or the prices at which the Notes may be able to be sold. The Notes are new securities which may not be widely distributed and for which there is currently no active trading market. If the Notes are traded after their initial issuance, they may trade at a discount to their initial offering price, depending upon prevailing interest rates, the market for similar securities, general economic conditions and the financial condition of the Issuer. Although applications have been made for the Notes to be admitted to listing on the Official List of the Irish Stock Exchange plc and to trading on the General Exchange Market of the Irish Stock Exchange plc, there is no assurance that such applications will be accepted or that an active trading market will develop. Accordingly, there is no assurance as to the development or liquidity of any trading market for the Notes.

***Because the Global Notes are held by or on behalf of Euroclear and Clearstream, Luxembourg, investors will have to rely on their procedures for transfer, payment and communication with the Issuer.***

The Notes will be represented by the Global Notes except in certain limited circumstances described in the Permanent Global Note. The Global Notes will be deposited with a common safekeeper for Euroclear and Clearstream, Luxembourg. Except in certain limited circumstances described in the Permanent Global Note, investors will not be entitled to receive definitive Notes. Euroclear and Clearstream, Luxembourg will maintain records of the beneficial interests in the Global Notes. While the Notes are represented by the Global Notes, investors will be able to trade their beneficial interests only through Euroclear and Clearstream, Luxembourg.

The Issuer will discharge its payment obligations under the Notes by making payments to or to the order of the common safekeeper for Euroclear and Clearstream, Luxembourg for distribution to their account holders. A holder of a beneficial interest in a Global Note must rely on the procedures of Euroclear and Clearstream, Luxembourg to receive payments under the Notes. The Issuer has no responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in the Global Notes.

Holders of beneficial interests in the Global Notes will not have a direct right to vote in respect of the Notes. Instead, such holders will be permitted to act only to the extent that they are enabled by Euroclear and Clearstream, Luxembourg to appoint appropriate proxies.

***Integral multiples of less than EUR100,000***

The Notes are in denominations of EUR100,000 and integral multiples of EUR1,000 in excess thereof up to EUR199,000. Therefore, it is possible that the Notes may be traded in amounts in excess of EUR100,000. In such a case, a Noteholder who, as a result of trading such amounts, holds a principal amount of less than EUR100,000 will not receive a definitive Note in respect of such holding (should definitive Notes be printed) and would need to purchase a principal amount of Notes such that it holds an amount equal to one or more denominations.

If definitive Notes are issued, investors should be aware that definitive Notes which have a denomination that is not an integral multiple of EUR100,000 may be illiquid and difficult to trade.

***The Notes may be redeemed prior to maturity.***

In the event that the Issuer would be obliged to increase the amounts payable in respect of any Notes due to any withholding or deduction for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of the Kingdom of Spain or any political subdivision thereof or any authority therein or thereof having power to tax, the Issuer may redeem all outstanding Notes in accordance with the Conditions. In addition the Conditions provide that the Issuer will be obliged to redeem the Notes in certain circumstance following a Change of Control Event and will have the option in certain other circumstance.

During any period when the Issuer may elect to redeem the Notes, the market value of those Notes generally will not rise substantially above the price at which they can be redeemed. This may also be true prior to the period in which the Issuer has the right to elect to redeem the Notes or is likely to become obliged to redeem the Notes due to the market's perception that the circumstances that would enable the exercise of such option have arisen or may arise. The Issuer may be expected to redeem the Notes when their cost of borrowing is lower than the interest rate on the Notes. At those times, an investor generally would not be able to reinvest the redemption proceeds in a comparable security at an effective interest rate as high as the interest rate on the Notes being redeemed and may only be able to do so at a significantly lower rate. Potential investors should consider reinvestment risk in light of other investments available at that time.

***Risks related to the Spanish withholding tax regime.***

The Issuer is required to provide certain information relating to the Notes to the Spanish tax authorities. The Issuer will withhold Spanish withholding tax from any payment in respect of any outstanding amount of the Notes as to which the required information has not been provided.

Article 44 of Royal Decree 1065/2007 sets out the reporting obligations applicable to debt instruments issued under Law 10/2014, such as the Notes.

According to the literal wording of Article 44.5 of Royal Decree 1065/2007, income derived from debt instruments to which Law 10/2014 applies originally registered with the entities that manage clearing systems located outside Spain, and are recognised by Spanish law or by the law of another Organisation for Economic Cooperation and Development ("OECD") country (such as Euroclear or Clearstream, Luxembourg), will be paid free of Spanish withholding tax **provided that** the Paying Agent appointed by the Issuer submits, in a timely manner, a statement to the Issuer, the form of which is attached as Annex I, with the following information:

- (a) identification of the securities;
- (b) income payment date (or refund if the securities are issued at discount or are segregated);
- (c) total amount of income (or total amount to be refunded if the securities are issued at discount or are segregated); and
- (d) total amount of the income corresponding to each clearing system located outside Spain.

The Paying Agent should provide the Issuer with the statement reflecting the relevant position at the close of business on the business day immediately prior to each interest payment date. In the event that on such date, an entity obliged to provide the declaration fails to do so, the Issuer or the Paying Agent on its behalf will make a withholding at the applicable rate on the total amount of the return on the relevant debt securities payable to their holders.

In the event that the currently applicable procedures are modified, amended or supplemented by, among other things, any Spanish law, regulation, interpretation or ruling of the Spanish tax authorities, the Issuer will notify the Noteholders of such information procedures and their implications, as the Issuer may be required to apply withholding tax on interest payments in respect of the Notes if the Noteholders do not comply with such information procedures.

**Risks related to Spanish Insolvency Law**

***Priority in case of insolvency proceedings; subordination risk.***

Upon the insolvency declaration of the Issuer, the Issuer's obligations under the Notes, to the extent secured, shall be classified as special privileged credits (*créditos con privilegio especial*) up to 90% of the fair value (*valor razonable*) of the charged assets under the Security minus the value of the pending debt that is preferentially secured with the same asset. Any amount which is not covered by the 90% of the fair value shall rank as appropriate under the Spanish Insolvency Law, as amended (i.e. any principal overflow shall rank as an ordinary claim against the Issuer and any interest overflow shall rank as a subordinated claim against the same).

It is generally understood that the 90% limitation shall only apply to the ranking of claims for the purposes of voting on a proposal for composition with creditors (*convenio de acreedores*) but that, in any event, secured creditors shall be entitled to receive 100% of the proceeds obtained from the sale of the charged assets to cover the full secured amount (not just 90% of the fair value).

With regard to the payment of claims under the Spanish Insolvency Law, the following rules apply:

- (a) Creditors with a special privilege (broadly speaking, the holders of pledges or mortgages), as explained, are paid out of the proceeds obtained on the sale of the charged assets or rights. To the extent their claims remain unpaid, the unpaid claims will be reclassified as appropriate.
- (b) With the proceeds obtained from the sale of the unsecured assets, the insolvency administrators must pay first the claims against the insolvency estate (*créditos contra la masa*).
- (c) Creditors with a general privilege (*créditos con privilegio general*) (certain labour and tax claims, among others) are paid out of assets remaining in the insolvency. They are paid following the order in which they appear under art. 90 of the Spanish Insolvency Law, and *pro rata* within each category.
- (d) Ordinary creditors are paid *pro rata* out of the assets remaining in the insolvency estate after the creditors with a general privilege have been paid.
- (e) Subordinated creditors cannot be paid until all ordinary claims have been paid in full.

Finally, claims against the Issuer under the Notes could be subordinated in an eventual insolvency proceeding of the Issuer to the following extent:

- (a) If they are reported late to the insolvency administrator of the Issuer.
- (b) If they are contractually subordinated to all of the Issuer's creditors.
- (c) With regard to interest, unless they are secured.
- (d) In the claims relate to monetary penalties or other monetary sanctions.
- (e) If they are held by persons that are specially related (*personas especialmente relacionadas*) (as defined under article 93 of the Spanish Insolvency Law) to the Issuer.

***Claw-back.***

Pursuant to Article 71.1 of the Spanish Insolvency Law, the courts of Spain can set aside any acts (including payments and deliveries/transfers of collateral) made by the insolvent party within the two-year period preceding the adjudication of the bankruptcy (the "**Suspect Period**") if the Insolvency Representatives can prove that such transactions were prejudicial to creditors.

When applying Article 71.1, the general procedural rule is that the burden of proof that a transaction/act is prejudicial to creditors must be borne by the insolvency receivers. However, there are several exceptions from this general rule, where damage is presumed: Article 71.3.1 of the Spanish Insolvency Law provides that actions carried out in favour of related parties (such as companies belonging to the same companies group) are presumed prejudicial unless sufficient evidence to the contrary is provided. A recent court precedent in relation to security (which is also applicable to intra-group guarantees such as the Issuer) granted by a company in order to secure the obligations *vis-a-vis* third parties of another company of the same company group as the security provider has ruled that the mere allegation of "group benefit" is not sufficient to rebut the abovementioned presumption, it being necessary for these purposes to provide evidence of the actual benefit (whether direct or indirect) to be obtained by the grantor.

## TERMS AND CONDITIONS OF THE 2022 NOTES

*The following is the text of the Terms and Conditions of the Notes which (subject to completion and amendment) will be endorsed on each Note in definitive form:*

The EUR700,000,000 1.413 per cent. Senior Secured Notes due 8 June 2022 (the "**Notes**", which expression includes any further Notes issued pursuant to Condition 16 (*Further Issues*)) of FCC Aqualia, S.A. (the "**Issuer**") are subject to, and have the benefit of, a trust deed dated 8 June 2017 (as amended or supplemented from time to time, the "**Trust Deed**") between the Issuer and Citicorp Trustee Company Limited in its capacity as trustee (the "**Note Trustee**", which expression includes all persons for the time being trustee or trustees appointed under the Trust Deed) and are the subject of a paying agency agreement dated 8 June 2017 (as amended or supplemented from time to time, the "**Agency Agreement**") between the Issuer and Citibank N.A, London Branch in its capacity as principal paying agent (the "**Principal Paying Agent**", which expression includes any successor principal paying agent appointed from time to time in connection with the Notes), the paying agents named therein (together with the Principal Paying Agent, the "**Paying Agents**", which expression includes any successor or additional paying agents appointed from time to time in connection with the Notes) and the Note Trustee.

The Issuer and certain of its Subsidiaries (as defined below) has entered into certain Security Documents (as defined in Condition 3 (*Security, Relationship with Secured Creditors and Enforcement*) below) each governed by Spanish law, other than the pledge over the shares of Acque di Caltanissetta S.p.A. which is governed by Italian law (the "**Italian Law Share Pledge**") and the pledge over the shares of Aqualia México, S.A. de C.V. which is governed by Mexican law (the "**Mexican Law Share Pledge**") with, among others, Citibank N.A., London Branch in its capacity as Security Agent (the "**Security Agent**"), pursuant to which the Issuer and certain of its Subsidiaries grant certain security to, the Security Agent on behalf of itself and the Secured Creditors.

The Note Trustee, on behalf of itself and the holders of Notes (the "**Noteholders**") as well as on behalf of the holders (the "**2027 Noteholders**") of the EUR650,000,000 2.629 per cent. Senior Secured Notes due 8 June 2027 issued by the Issuer (the "**2027 Notes**"), has entered into an intercreditor agreement (as the same may be amended or supplemented from time to time, the "**Intercreditor Agreement**") with the Issuer and the other parties named therein (the Security Agent, the Note Trustee, the Paying Agents, the Noteholders and the 2027 Noteholders, and any other secured creditor who accedes to the Intercreditor Agreement from time to time, and, in the case of any Secured Creditor, only for as long as it shall have rights under the Intercreditor Agreement that have not ceased pursuant to the Intercreditor Agreement, the "**Secured Creditors**").

On any date (the "**Convertible Notes Accession Date**") prior to the expiry of the period of 180 days from, and including, the Issue Date the commissioner (the "**Commissioner**") on behalf of itself and the holders (the "**Convertible Noteholders**") of the Fomento de Construcciones y Contratas, S.A.'s ("**FCC**") EUR450,000,000 6.50 per cent. convertible Notes with ISIN XS0457172913 (the "**Convertible Notes**") may accede to the Intercreditor Agreement by means of a Creditor Representative Accession Undertaking (as defined in the Intercreditor Agreement) by virtue of which the benefit of the Security will be extended to the Commissioner, the Convertible Notes Agents (as defined below) and the Convertible Noteholders. Concurrently therewith FCC may accede to the Intercreditor Agreement by means of a Debtor Accession Deed (as defined in the Intercreditor Agreement).

From and including the Convertible Notes Accession Date, references herein to the Secured Creditors shall include the Commissioner, the fiscal agent, registrar and other paying, transfer and conversion agent from time to time appointed in relation to the Convertible Notes (the "**Convertible Notes Agents**") and the Convertible Noteholders but only for so long as each shall have rights under the Intercreditor Agreement that have not ceased pursuant to the Intercreditor Agreement.

The Trust Deed, the Notes, the Security Documents, the Account Bank Agreement (as defined in Condition 5(f) (*Debt Service Reserve Account – Interpretation*) below) the Agency Agreement and the Intercreditor Agreement (as defined in Condition 3(b) (*Security, Relationship with Secured Creditors and Enforcement – Intercreditor Agreement*) below) are, in relation to the Notes, together referred to as the "**Transaction Documents**".

Terms not defined in these Conditions have the meanings set out in the Transaction Documents.

The Issuer will execute an *escritura pública* (the "**Public Deed**") before a Spanish notary public in relation to the issue of the Notes on or before the Closing Date. The Public Deed contains, among other information, these Conditions.

Certain statements in these Conditions are summaries of and are subject to the detailed provisions appearing on the face of the Notes (which expression shall include the body thereof) and in the Trust Deed, the Agency Agreement, the Security Documents and the Intercreditor Agreement.

Noteholders and the holders of the related interest coupons (the "**Couponholders**" and the "**Coupons**", respectively) are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed, the Security Documents and the Intercreditor Agreement, and those applicable to them of the Agency Agreement and the other Transaction Documents. Copies of the Trust Deed, the Agency Agreement, the Security Documents and the Intercreditor Agreement are available for inspection by Noteholders during normal business hours at the registered office for the time being of the Note Trustee, being at the date hereof Citigroup Centre, Canada Square, London, E14 5LB and at the Specified Offices (as defined in the Agency Agreement) of each of the Paying Agents, the initial Specified Offices of which are set out below.

1. **Form, Denomination and Title**

The Notes are serially numbered and in bearer form in the denomination of EUR100,000, and integral multiples of EUR1,000 in excess thereof up to and including EUR199,000, with Coupons attached at the time of issue. Title to the Notes and the Coupons will pass by delivery. The holder of any Note or Coupon shall (except as ordered by a court of competent jurisdiction or as otherwise required by law) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any other interest therein, any writing thereon or any notice of any previous loss or theft thereof) and no person shall be liable for so treating such holder. No person shall have any right to enforce any term or condition of the Notes or the Trust Deed under the Contracts (Rights of Third Parties) Act 1999.

2. **Status/No Compliance Monitoring**

- (a) **Status:** The Notes are direct, unconditional and unsubordinated obligations of the Issuer, are secured in the manner described in Condition 3 (*Security, Relationship with Secured Parties and Enforcement*) and the Security Documents and rank *pari passu* without any preference among themselves and (save for any obligations preferred by law) at least equally with all other unsubordinated obligations of the Issuer, from time to time outstanding.
- (b) **Note Trustee not responsible for monitoring compliance:** The Note Trustee shall not be responsible for monitoring compliance by the Issuer with any of its obligations under the Transaction Documents except by means of receipt of a certificate from the Issuer which will state, among other things, that no event of default (as set out in Condition 10 (*Events of Default*)) has occurred and is outstanding. The Note Trustee shall be entitled to rely on such certificates absolutely. The Note Trustee is not responsible for monitoring compliance by any of the parties with their respective obligations under the Transaction Documents. The Note Trustee may call for and is at liberty to accept as sufficient evidence a certificate signed by any one director or officer of the Issuer or any other party to any Transaction Document to the effect that any particular dealing, transaction, step or thing is in the opinion of the persons so certifying suitable or expedient or as to any other fact or matter upon which the Note Trustee may require to be satisfied. The Note Trustee is in no way bound to call for further evidence or be responsible to any person for any loss that may be occasioned by acting on any such certificate although the same may contain some error or is not authentic. The Note Trustee is entitled to rely upon any certificate believed by it to be genuine and will not be liable for so acting.

### 3. Security, Relationship with Secured Creditors and Enforcement

#### (a) *Security*

As continuing security (the "**Security**") for the payment or discharge of all present and future payment obligations (whether actual or contingent) of the Issuer to any of the Secured Creditors under the Transaction Documents to which it is a party (including all moneys payable in respect of the Notes, the Coupons and otherwise under the Trust Deed and any deed or other document executed in accordance with the Trust Deed and expressed to be supplemental to the Trust Deed (including the remuneration and expenses of the Note Trustee and the Security Agent appointed under the Intercreditor Agreement)) (collectively, the "**Secured Liabilities**"), the Issuer, the Issuer together with Aqualia Intech, S.A. (in respect of Aqualia México, S.A. de C.V.), Sociedad Ibérica del Agua S.A.U. (in respect of the shares of Tratamiento Industrial de Aguas, S.A., Conservación y Sistemas, S.A. and Sociedad Española de Aguas Filtradas, S.A.) and Tratamiento Industrial de Aguas, S.A. (in respect of the quota shares of Empresa Gestora de Aguas Linenses, S.L. and Aguas de las Galeras, S.L.) have entered into the following documents (together with any extension deeds, any substitution deeds and any other security documents that can be granted pursuant to these Conditions, (the "**Security Documents**") to create, as far as permitted by and subject to compliance with any applicable law, first ranking pledges (the "**Pledges**") over the following property (the "**Secured Property**") in favour of the Security Agent (on behalf of the Secured Creditors):

- (i) first ranking pledges (together, the "**Share Pledges**") over the shares or quota shares, as applicable, of the following subsidiaries of the Issuer:
  - (A) the shares (*acciones*) of the Spanish companies (i) Tratamiento Industrial de Aguas, S.A., (ii) Conservación y Sistemas, S.A., (iii) Sociedad Española de Aguas Filtradas, S.A., (iv) 97% of the share capital in Entemanser, S.A., (v) Depurplan 11, S.A.U. and (vi) Aigües de Vallirana, S.A. (the "**Spanish Law Share Pledges**");
  - (B) the quota shares (*participaciones sociales*) of the Spanish companies (i) Infraestructuras y Distribución General de Aguas, S.L., (ii) Empresa Gestora de Aguas Linenses, S.L., (iii) Aguas de las Galeras, S.L., (iv) Hidrotec Tecnología del Agua, S.L. and (v) 51% of share capital in Aqualia Czech, S.L. (the "**Spanish Law Quota Shares Pledges**");
  - (C) the shares (*azioni*) of the Italian company Acque di Caltanissetta, S.p.A., representing 98.48% of its issued share capital (the "**Italian Law Share Pledge**"); and
  - (D) the shares (*acciones*) of the Mexican company Aqualia México, S.A. de C.V. (the "**Mexican Law Share Pledge**"); and
- (ii) a first ranking pledge over any existing or future credit rights of any nature that arise or may arise directly or indirectly for any reason in favour of the Issuer *vis-à-vis* each of the banks listed in the Spanish Law Accounts Pledges (as defined below) under or in relation to the accounts listed in the Spanish Law Accounts Pledges (including the Debt Service Reserve Account (as defined below)) (the "**Spanish Accounts**") or under its respective bank account agreement in connection with each of the Spanish Accounts (the "**Spanish Law Accounts Pledges**" and, together with the Spanish Law Share Pledges and the Spanish Law Quota Share Pledges, the "**Spanish Law Security**").

Each Noteholder, by virtue of purchasing and/or holding the Notes, agrees (i) to the terms and conditions of the Security Documents, and (ii) that the Security Agent shall accept for itself and on behalf of the Noteholders and the other Secured Creditors (as defined in Condition 3(b) (*Security, Relationship with Secured Creditors and*

*Enforcement – Intercreditor Agreement*) below) the Security created pursuant to the Security Documents.

(b) ***Intercreditor Agreement***

Pursuant to the terms of the Intercreditor Agreement, recoveries received upon enforcement over Security will be applied (subject to certain costs and expenses related to the enforcement of the Security and certain other costs, expenses and liabilities of the Security Agent, the Account Bank, the Note Trustee, the Principal Paying Agent and/or any other paying agents and any delegates) *pro rata* and *pari passu* in payment of liabilities in respect of the Notes and the 2027 Notes then outstanding.

Subject to the terms of the Intercreditor Agreement, if such recoveries are received on or after the Convertible Notes Accession Date, then they shall also be applied (subject to certain costs and expenses related to the enforcement of the Security and certain other costs, expenses and liabilities of the Security Agent, the Convertible Notes Agents, the Commissioner and any delegates) *pro rata* and *pari passu* in payment of liabilities in respect of the Convertible Notes then outstanding.

The parties under the Intercreditor Agreement have, and by accepting any Note, each Noteholder will be deemed to have, irrevocably appointed Citibank N.A., London Branch to act as its security agent (the "**Security Agent**"), and as security representative of the holders, from time to time, of the Notes, the 2027 Notes and (if the Convertible Notes Accession Date has occurred) the Convertible Notes (*rappresentante delle garanzie degli obbligazionisti*) for the purposes of article 2414-bis, third paragraph of the Italian civil code in relation to the Italian Share Pledge Agreement (in this capacity the "**Italian Security Trustee**"), under the Intercreditor Agreement and the Security Documents. The parties under the Intercreditor Agreement will have, and by accepting any Note, each Noteholder will be deemed to have, irrevocably authorised the Security Agent to perform the duties and exercise the rights, powers and discretions that are specifically given to it under the Intercreditor Agreement and the Security Documents together with any incidental rights, power and discretions.

(c) ***Enforcement of Security***

The Security may not be enforced otherwise than by the Security Agent acting on the instructions of the Instructing Group as described in this Condition 3(c).

The rights of the Noteholders with respect to the Secured Property may only be exercised by the Security Agent. Noteholders may not, individually or collectively, take any direct action to enforce any rights in their favour under the Security Documents. Noteholders may only act through the Note Trustee in the manner provided in the Trust Deed, who will in turn provide instructions to the Security Agent in accordance with the provisions of the Trust Deed and the Intercreditor Agreement.

Subject to and in accordance with the Trust Deed, if the Notes have been declared immediately due and payable in accordance with Condition 10 (*Events of Default*) or the Trust Deed, then the Note Trustee as a Creditor Representative, if so directed by an Extraordinary Resolution, shall (subject to the Note Trustee having been indemnified and/or secured and/or prefunded to its satisfaction) give written enforcement instructions to the Security Agent on behalf of Noteholders as Creditor Representative subject to and in accordance with the Intercreditor Agreement.

Subject to and in accordance with the Intercreditor Agreement, and prior to the Convertible Notes Accession Date, the Security shall become enforceable if, following the occurrence and continuation of any of the events described in Condition 10 (*Events of Default*) of the Notes and the 2027 Notes, the Notes and/or the 2027 Notes have been declared immediately due and payable in accordance with their respective terms, and the Issuer has not made payment of the relevant amounts within a period of five business days from the date of receipt by the Issuer of the relevant notice which declares the Notes and/or the 2027 Notes to be immediately due and payable.

From and including the Convertible Notes Accession Date, and subject to and in accordance with the Intercreditor Agreement, the Security shall become enforceable if, following the occurrence and continuation of any of the events described in Condition 10 (*Events of Default*) of the Notes and the 2027 Notes and Condition 10 (*Events of Default*) of the Convertible Notes, the Notes and/or the 2027 Notes and/or the Convertible Notes have been declared immediately due and payable in accordance with their respective terms, and the Issuer and/or FCC, as applicable, has not made payment of the relevant amounts within a period of five business days from the date of receipt by the Issuer and/or FCC, as applicable, of the relevant notice which declares the Notes and/or the 2027 Notes and/or the Convertible Notes to be immediately due and payable.

If the Security becomes capable of enforcement, the Security Agent shall, if so instructed in writing by the Note Trustee on behalf of the Noteholders and/or the 2027 Noteholders and/or (on or following the Convertible Notes Accession Date) the Commissioner on behalf of the Convertible Noteholders together holding more than 65 per cent. in principal amount of the Notes, the 2027 Notes and (on or following the Convertible Notes Accession Date) the Convertible Notes then outstanding (the "**Instructing Group**"), enforce all or any of the Security, subject to and in the manner provided in the Intercreditor Agreement and the Security Documents, and **provided that** the Security Agent, Note Trustee and (on or following the Convertible Notes Accession Date) Commissioner shall not be required to take any action or step or proceedings that would involve any personal liability or exposure without first being indemnified and/or secured and/or prefunded to its satisfaction. In particular, pursuant to the Intercreditor Agreement, the Security Agent shall not be entitled to enforce the Security prior to the earlier of (i) the expiry of 120 days after the date on which it first received notice proposing enforcement instructions in respect of the Notes, the 2027 Notes or the Convertible Notes, or (ii) the date on which it receives notice from the Note Trustee that both the Noteholders and 2027 Noteholders consent to the proposed enforcement instructions or (on or following the Convertible Notes Accession Date) the date on which it receives notice from the last of the Commissioner and the Note Trustee (as applicable) that the Convertible Noteholders, the Noteholders and 2027 Noteholders consent to the proposed enforcement instructions.

Upon the Security having been enforced, the Secured Property will be administered by the Security Agent pursuant to the terms of the Security Documents and the Intercreditor Agreement for the benefit of the Secured Creditors. If a Notice of Acceleration and Enforcement (as defined in the Intercreditor Agreement) is not given to the Security Agent prior to 5:00 p.m. in Madrid on the date falling 120 days after the date of the Initial Enforcement Notice in respect of the Notes, the 2027 Notes or (on or following the Convertible Notes Accession Date) the Convertible Notes, the Note Trustee and/or the Commissioner (as the case may be) shall subject as otherwise provided in the Intercreditor Agreement automatically and unconditionally cease to be a party to the Intercreditor Agreement as Creditor Representative of the Notes, the 2027 Notes and/or (as the case may be) the Convertible Notes, and the Noteholders of such Notes, 2027 Notes and/or the Convertible Noteholders (as the case may be) shall from that date automatically and unconditionally cease to be Secured Creditors and shall have no claim for any Secured Obligations or other amounts received or recovered by the Security Agent in connection with the realisation or enforcement of any or all of the Security. No party shall be required to execute any documents to evidence such security release, discharge and termination, which for such purposes shall be automatic and unconditional.

The Security Agent may on the instructions of the Instructing Group agree to any release of the security interest created by the Security Documents in accordance with terms of the Intercreditor Agreement without requiring any further consent of the Noteholders.

(d) ***Application After Enforcement***

After enforcement of the Security, the Security Agent shall make payments in accordance with the order of application of proceeds set out in the Intercreditor Agreement.



#### 4. Covenants

(a) ***Limitation on Indebtedness***

Subject to the exceptions set out below, the Issuer shall not, and shall not cause or permit any of its Recourse Subsidiaries to, after the Issue Date, incur any additional Indebtedness if on the date of incurrence of such additional Indebtedness and after giving effect thereto and the application of the proceeds therefrom, the Consolidated Net Leverage Ratio for any relevant Testing Period, is greater than 5.0 to 1.0.

Notwithstanding the above, the Issuer or any Subsidiaries may incur the following Indebtedness:

- (i) Indebtedness that constitutes Non-Recourse Indebtedness;
- (ii) Indebtedness outstanding on the Issue Date;
- (iii) Indebtedness represented by or in connection with the Notes and the 2027 Notes (other than any further Notes or further 2027 Notes issued pursuant to Condition 16 (*Further Issues*));
- (iv) Indebtedness between the Issuer and any of its Subsidiaries or between any such Subsidiary and the Issuer or between such Subsidiaries;
- (v) Indebtedness incurred in respect of worker's compensation claims, self-insurance obligations, contractual insurance, bid, performance, surety and similar bonds and completion and technical guarantees and reimbursement obligations provided in the ordinary course of business;
- (vi) Indebtedness providing for indemnification, adjustment of purchase price or similar obligations in connection with the acquisition or disposition of any business, assets or capital stock of a Subsidiary after the Issue Date;
- (vii) Indebtedness arising from honoring by a bank or other financial institution of a check, draft or similar instrument drawn against insufficient funds or credit lines in the ordinary course of business **provided that** such Indebtedness is disbursed within seven days of incurrence;
- (viii) advance payments received from customers for goods and services purchased and credit periods in the ordinary course of business;
- (ix) Indebtedness constituting reimbursement obligations with respect to letters of credit, bankers' acceptances or similar instruments or obligations issued in the ordinary course of business; **provided that** upon the drawing or other funding of such letters of credit or other instruments or obligations, such drawings or fundings are reimbursed within seven days;
- (x) Indebtedness under cash pooling arrangements and hedging arrangements (with respect to currency risks, interest rate risks, commodity risks and price risks) in the ordinary course of business;
- (xi) Indebtedness which constitutes Project Subsidiary Support;
- (xii) the guarantee by the Issuer or any Subsidiary of Indebtedness that is permitted to be incurred pursuant to another provision of this "Limitation on Indebtedness" covenant; and
- (xiii) any Indebtedness that refinances any Indebtedness in compliance with this covenant.

(b) ***Limitation on Distributions***

The Issuer shall not declare or pay any dividend or make any other payment or distribution on account of, or purchase, redeem or otherwise acquire or retire for value any of, the Issuer's common equity capital (a "**Distribution**") (other than a Distribution payable in equity interests of the Issuer and the payments described under "*Use of Proceeds*" of the Offering Circular dated 1 June 2017 unless, at the time of such Distribution:

- (i) the Consolidated Net Leverage Ratio for any relevant Testing Period is equal to or lower than 5.0 to 1.0
- (ii) no Event of Default has occurred and is continuing and no Event of Default would occur as a result of such Distribution; and
- (iii) such Distribution, together with the aggregate amount of all other Distributions made by the Issuer since the Issue Date (excluding Distributions permitted by paragraphs (A) to (C) of this Condition 4(b)(ii)), is less than the sum, without duplication, of (a) 45% of the Consolidated Net Income of the Issuer for the period (taken as one accounting period) from 1 January 2017 to the end of the Issuer's most recently ended three-month period for which internal financial statements are available at the time of such Distribution, and (b) 100% of the aggregate net cash and fair market value of marketable securities received by the Issuer since the Issue Date as a contribution to its common equity capital or from the issue or sale of convertible or exchangeable debt securities of the Issuer, in each case that have been converted into or exchanged for common equity capital.

The preceding provisions will not prohibit:

- (A) the payment out of the aggregate proceeds of the Notes and the 2027 Notes of a dividend of EUR446,000,000; or
- (B) the payment of any Distribution within 60 days after the date of declaration of the Distribution or giving of the applicable notice, as the case may be, if at the date of declaration or notice, the Distribution would have complied with this covenant; or
- (C) the making of any Distribution in exchange for, or out of or with the net cash proceeds of the subsequently concurrent sale or issuance of common equity capital of the Issuer, or from the substantially concurrent contribution of common equity capital to the Issuer.

(c) ***Limitations on Financings and Guarantees to the Controlling Shareholder and its Subsidiaries***

The Issuer will not, and will not cause or permit any of its Subsidiaries to, enter into or make any credit, loan, advance or guarantee for the benefit of the Controlling Shareholder or any of its Subsidiaries or otherwise become liable for any Indebtedness of the Controlling Shareholder or any of its Subsidiaries, in each case other than (i) any such transactions between the Issuer and any of its Subsidiaries or between any such Subsidiary and the Issuer or between such Subsidiaries, (ii) with respect to any Controlling Shareholder Project Subsidiary Support, (iii) with respect to two long term subordinated loans out of the aggregate proceeds of the Notes and the 2027 Note in an aggregate amount of up to EUR515,841,723.49, and (iv) with respect to a long-term subordinated loan for a principal amount of up to EUR470,000,000 to be entered into between Aqualia and Asesoría Financiera y de Gestión, S.A. ("**Afigesa**"), a subsidiary of FCC, on the Closing Date, in acknowledgement of the creditor position in favour of Aqualia that will result from the termination on the Closing Date of the cash pooling agreement entered into between FCC and certain companies of its group in 2014.

(d) ***Financial Statements***

So long as the Notes are outstanding, the Issuer will send to the Note Trustee, as soon as practicable after their date of publication but in any event not more than 180 days after the end of each financial year, a copy in the English language of the Issuer's audited consolidated financial statements for that financial year, which shall be made available for inspection by Noteholders at the Specified Offices of the Note Trustee as soon as practicable thereafter.

(e) ***Similar Business***

The Issuer will not, and will not permit any Subsidiary to, engage in any business other than a Similar Business, except to such extent as would not be material to the Issuer and its Subsidiaries, taken as a whole.

(f) ***Cash-pooling agreement***

For so long as any Notes are outstanding, the Issuer will not terminate, novate, amend or modify the Cash Pooling Agreement.

(g) ***Limitations on Transfers of Secured Property***

For so long as any Notes are outstanding, the Issuer may not transfer, sell, assign, cede or otherwise dispose of any Secured Property other than pursuant to a Permitted Transfer.

(h) ***Limitation on Changes to Capital Structure of Secured Property***

For so long as any Notes are outstanding, neither the Issuer nor any of its Subsidiaries may carry out, or permit to be carried out, any changes to the share capital or quota share capital structure of any other Subsidiary whose shares or quota shares are the subject of a Pledge, whether by means of share capital increase, share split, issuance of quotas, distribution in kind, issuance of rights, issuance of options or otherwise except pursuant to a Permitted Share Capital Increase.

(i) ***Certificate***

The Note Trustee shall be entitled to rely absolutely on a certificate of any director or officer of the Issuer in relation to any matter relating to such covenants and to accept without liability any such certificate as sufficient evidence of the relevant fact or matter stated in such certificate.

(j) ***Interpretation:*** In these Conditions:

"**Affiliate**" means, in relation to any person, a Subsidiary of that person or a Holding Company of that person or any other Subsidiary of that Holding Company.

"**Cash Pooling Agreement**" means the cash pooling agreement (*contrato de prestación de servicios de centralización de tesorería*) entered into by FCC Aqualia, S.A. and a number of its Subsidiaries on or about 28 February 2017 and effective as from the Issue Date.

"**Calculation Date**" means the date of the event for which the particular calculation is made.

"**Consolidated Net Income**" means with respect to any specified person for any period, the aggregate of the attributable/net income (loss) from operating activities of such person and its Subsidiaries for such period, on a consolidated basis, determined in accordance with IFRS.

"**Consolidated Net Leverage**" means as at any Calculation Date, the sum of the outstanding amount of Recourse Non-subordinated Financial Debt of the Issuer and its

Recourse Subsidiaries on a consolidated basis, in each case as of such Calculation Date less any recourse cash as of such Calculation Date.

"**Consolidated Net Leverage Ratio**" means as at any Calculation Date, the ratio of (a) the Consolidated Net Leverage on such date and (b) the Recourse EBITDA for the most recently ended Testing Period. In the event that the Issuer or any of its Recourse Subsidiaries, incurs, assumes, guarantees, repays, repurchases, redeems or otherwise discharges any Recourse Non-subordinated Financial Debt subsequent to the commencement of the period for which the Consolidated Net Leverage Ratio is being calculated and on or prior to the Calculation Date, then the Consolidated Net Leverage Ratio will be calculated giving pro forma effect (as determined in good faith by the Issuer) to such incurrence, assumption, guarantee, repayment, repurchase, redemption or other discharge of any Recourse Non-subordinated Financial Debt, and the use of proceeds therefrom, as if the same had occurred at the beginning of the applicable Testing Period.

In addition, for purposes of calculating the Consolidated Net Leverage Ratio as at any Calculation Date:

- (i) acquisitions that have been made by the Issuer, any of its Recourse Subsidiaries, including through mergers, consolidations or otherwise, or any person or any of its Recourse Subsidiaries acquired by the Issuer or any of its Recourse Subsidiaries and including any related financing transactions and including increases in ownership of Recourse Subsidiaries, subsequent to the commencement of the Testing Period and on or prior to the Calculation Date, will be given *pro forma* effect (as determined in good faith by the Issuer) as if they had occurred on the first day of such Testing Period;
- (ii) any person that is a Recourse Subsidiary on the Calculation Date will be deemed to have been a Recourse Subsidiary at all times during such Testing Period; and
- (iii) any Person that is not a Recourse Subsidiary on the Calculation Date will be deemed not to have been a Recourse Subsidiary at any time during such Testing Period.

"**Controlling Shareholder**" means Fomento de Construcciones y Contratas, S.A. ("FCC"), a company incorporated under the laws of Spain, with its registered seat at Barcelona, Spain.

"**Controlling Shareholder Project Subsidiary Support**" means any Project Subsidiary Support pursuant to which the Controlling Shareholder may become liable to pay any Indebtedness of the Issuer or any Subsidiary of the Issuer.

"**Group**" means the Issuer and its Subsidiaries from time to time.

"**Holding Company**" means, in relation to a person, any other person in respect of which it is a Subsidiary.

"**IFRS**" means International Financial Reporting Standards issued by the International Standards Board as adopted by the European Union.

"**Indebtedness**" means any indebtedness, in each case without double counting, which would, except for any indebtedness referred to in paragraph (v), be in accordance with IFRS treated as debt recognised on the balance sheet of the relevant person for or in respect of:

- (i) Indebtedness for Borrowed Money;
- (ii) receivables sold or discounted (other than any receivables to the extent they are sold on a non-recourse basis);

- (iii) any indebtedness arising from any deferred payment agreements arranged primarily as a method of raising finance or financing the acquisition of an asset to the extent it is recorded on the balance sheet of the relevant person according to IFRS;
- (iv) any derivative transaction entered into in connection with protection against fluctuation in any rate or price (and, when calculating the value of any derivative transaction, only the marked to market value will be taken into account) which would, in accordance with IFRS, be treated on the balance sheet of the relevant person;
- (v) any counter-indemnity obligation in respect of a guarantee, indemnity, bond standby or documentary letter of credit or any other instrument issued by a bank or financial institution other than any given in respect of trade credit arising in the ordinary course of business;
- (vi) any other transaction (including any forward sale or purchase agreement) having the commercial effect of a borrowing, to the extent it is recorded on the balance sheet of the relevant person according to IFRS; or
- (vii) any guarantee, indemnity or similar assurance against financial loss of any person issued by the relevant person in respect of any item referred to in paragraphs (i) to (vi) (other than any given in respect of trade credit arising in the ordinary course of business),

**provided that**, any leases (or guarantees thereof) which would be considered operating leases in accordance with IFRS on the Issue Date shall (in each case) not constitute Indebtedness.

**"Indebtedness for Borrowed Money"** means, with respect to a person, at any time and without duplication:

- (i) moneys borrowed which in accordance with IFRS would be included in determining total liabilities;
- (ii) all liabilities evidenced by bonds, debentures, notes or other similar instruments;
- (iii) all liabilities appearing on its balance sheet in accordance with IFRS in respect of capital leases;
- (iv) its redemption obligations in respect of its mandatorily redeemable preference shares which in accordance with IFRS would be included in determining total liabilities; and
- (v) any guarantee of liabilities of a type described in paragraphs (i) to (iv) above.

**provided that**, any leases (or guarantees thereof) which would be considered operating leases in accordance with IFRS on the Issue Date shall (in each case) not constitute Indebtedness for Borrowed Money.

**"Issue Date"** means 8 June 2017.

**"Material Subsidiary"** means any majority owned or wholly owned subsidiary of the Issuer, the EBITDA of which (consolidated where that subsidiary itself has subsidiaries) accounts for 10% or more of the consolidated EBITDA of the Group.

**"Non-Recourse Indebtedness"** means any Indebtedness for Borrowed Money in respect of which no loan guarantee, indemnity or contractual insurance or other reimbursement arrangement has been given by another member of the Issuer's group that is not a Non-Recourse Subsidiary, other than pursuant to Project Subsidiary Support.

**"Non-Recourse Subsidiary"** means any present or future Subsidiary of the Issuer or any other entity in which the Issuer owns more than 10%:

- (i) the principal business of which is, or will be, the ownership, acquisition management, development, operation, construction, improvement, installation, design, engineering, completion, maintenance, and/or financing of an asset, project or concession (whether or not an asset, project or concession of the Issuer or any of its Subsidiaries), and/or to hold directly or indirectly the shares of one or more other Non-Recourse Subsidiaries; and
- (ii) the outstanding Indebtedness for Borrowed Money of which consists of Non-Recourse Indebtedness.

**"Original Pledgor Subsidiary"** means any Subsidiary of the Issuer who is a holder of the shares or quota shares of any other Subsidiary of the Issuer, which shares or quota shares are the subject of a Pledge in favour of the Secured Creditors;

**"Permitted Transfer"** means:

- (i) the merger, combination or other amalgamation whilst solvent (a "**Merger**") of a Subsidiary of the Issuer whose shares or quota shares are the subject of a Pledge (the "**First Subsidiary**") with another Subsidiary of the Issuer whose shares or quota shares may or may not also be the subject of a Pledge (such subsidiary together with the First Subsidiary, the "**Original Subsidiaries**") where, from and including the effective date of such Merger, the total amount of the new shares or quota shares of the entity that results from such Merger have been made the subject of a first ranking pledge in favour of the Secured Creditors on the same terms and conditions as the Pledge(s) originally granted over the shares or quota shares of the First Subsidiary or of the Original Subsidiaries, as the case may be; and
- (ii) the sale, assignment, cession or other disposal (a "**Disposal**") of shares or quota shares that are the subject of a Pledge by the Issuer or by a Subsidiary of the Issuer to the Issuer or another Subsidiary of the Issuer (the "**Acquiring Company**") where, from and including the effective date of such Disposal the Acquiring Company has been subrogated in the place of the original pledgor to all of the obligations of such pledgor in respect of the relevant Pledge.

**"Permitted Share Capital Increase"** means an issuance of newly created shares or quota shares of a Subsidiary the shares or quota shares of which are the subject of a Pledge (the "**Pledged Subsidiary**") for subscription by either:

- (i) the Issuer where, from and including the date on which the Issuer's holding of the newly issued shares is registered in the relevant share registry or quota share registry, the Pledge in respect of the Issuer's original holding of shares or quota shares in the Pledged Subsidiary has been extended to cover the full amount of the newly subscribed shares or quota shares held by the Issuer; or
- (ii) an Original Pledgor Subsidiary where, from and including the date on which such Original Pledgor Subsidiary's holding of the newly issued shares is registered in the relevant share registry or quota share registry, the Pledge in respect of such Original Pledgor Subsidiary's original holding of shares or quota shares in the Pledged Subsidiary has been extended to cover the full amount of the newly subscribed shares or quota shares held by such Original Pledgor Subsidiary; or
- (iii) any other Subsidiary of the Issuer where, from and including the date on which such Subsidiary's holding of the newly issued shares is registered in the relevant share registry or quota share registry, the total amount of newly issued shares held by such Subsidiary has been made the subject of a first ranking pledge in favour of the Secured Creditors on the same terms and conditions as the Pledge

originally granted over the shares or quota shares of the Pledged Subsidiary by the Issuer and, if applicable, any Original Pledgor Subsidiary.

**"Project Subsidiary Support"** means any guarantee, indemnity or contractual insurance or other reimbursement arrangement (a) that is related to the commercial role of the Group or a Non-Recourse Subsidiary in connection with any asset, project or concession to which the Issuer or a Subsidiary (including, but not limited to, a Non-Recourse Subsidiary) provides any goods or services, and (b) pursuant to which the Issuer or its Subsidiaries, other than Non-Recourse Subsidiaries, may become liable to pay any Indebtedness of a Non-Recourse Subsidiary in amounts which do not exceed, on a pro-rata basis, the interest, participation or ownership of the Group and/or a Non-Recourse Subsidiary in such asset, project or concession pursuant to (A) bid and performance bonds and other technical guarantees (*garantías técnicas*), or related reimbursement or indemnity agreements in favour of the issuers of such bonds or guarantees, that are customary in view of the particular risks or circumstances associated with such asset, project or concession and/or (B) any guarantee, indemnity or contractual insurance or other reimbursement obligation under which payment is contingent upon the failure of the Issuer or a Subsidiary (including, but not limited to, a Non-Recourse Subsidiary) to comply with an Obligation undertaken in connection with the management, development, operation, construction, improvement, installation, design, engineering, completion and/or maintenance of such asset, project or concession.

For the purposes of this definition:

**"Obligation"** means any obligation (and any guarantee, insurance or undertaking of a similar nature in respect thereof) of a type customarily undertaken, including, but not limited to, the timely completion of construction and payment of related customary expenses and penalties, in connection with the relevant asset, project or concession.

**"Recourse EBITDA"** means with respect to any Testing Period:

- (i) the income (loss) from operating activities of the Issuer and its Recourse Subsidiaries for such period; plus
- (ii) depreciation and amortisation of the Issuer and its Recourse Subsidiaries for such period;

in each case, on a consolidated basis and determined in accordance with IFRS; *provided that*, for purposes of the definition of Recourse EBITDA:

- (i) the income (loss) of any person that is not a Recourse Subsidiary or that is accounted for by the equity method of accounting will be included only to the extent of the amount of dividends or similar distributions paid in cash to the Issuer or a Recourse Subsidiary of the Issuer; and
- (ii) any extraordinary, exceptional or non-recurring operating gains or losses or any charges of the Issuer and its Recourse Subsidiaries (in each case as determined in good faith by the Issuer) for such period will be excluded; and
- (iii) the income (loss) from operating activities, depreciation and amortisation of Non-Recourse Subsidiaries will be excluded but the amount of dividends or distributions paid in cash to the Issuer by its Non-Recourse Subsidiaries will be included.

**"Recourse Non-Subordinated Financial Debt"** means in relation to the Issuer or any Recourse Subsidiary, (i) non subordinated long-term debt (debt with a maturity of greater than one year) incurred with credit institutions, plus (ii) non subordinated short-term debt (debt with a maturity of less than one year) incurred with credit institutions, plus (iii) non subordinated notes, obligations, promissory notes and any other such obligations or liabilities the purpose of which is to provide finance and generate a financial cost for the Issuer or its Recourse Subsidiaries, plus (iv) non-subordinated

obligations relating to guarantees of third party obligations (other than intra-group guarantees).

**"Recourse Subsidiaries"** means any present and future Subsidiary that is not a Non-Recourse Subsidiary.

**"Similar Business"** means:

- (i) the used-water capture and sewage transport, treatment and reuse business;
- (ii) the water collection, transportation, treatment, distribution and supply business; and
- (iii) the water infrastructure construction, management, operation and maintenance business,

engaged in by the Issuer or any of its Subsidiaries on or before the Issue Date, and/or other businesses necessary for and incident to, connected with, ancillary or complementary to, arising out, an extension of or developed or operated to permit or facilitate the conduct of such businesses from time to time.

**"Subsidiary"** means, in relation to any person (the **"First Person"**) at any particular time, any other person (the **"Second Person"**):

- (i) whose affairs and policies the First Person controls or has the power to control (directly or indirectly), whether by ownership of share capital, contract, the power to appoint or remove members of the governing body of the Second Person or otherwise; or
- (ii) whose financial statements are, in accordance with applicable law and generally accepted accounting principles, consolidated with those of the First Person.

**"Testing Period"** means with respect to any Calculation Date, the Issuer's most recently ended four full consecutive fiscal quarters.

## 5. **Debt Service Reserve Account**

### (a) ***Account Banks***

- (i) The Debt Service Reserve Account shall be held with the Account Bank on the terms set out in the Account Bank Agreement.
- (ii) The Account Bank shall be, at all times, an Acceptable Bank. If the Account Bank ceases to be an Acceptable Bank, the Issuer shall use its reasonable endeavours to appoint a substitute Account Bank that is an Acceptable Bank as Account Bank as soon as reasonably practicable, and in any event within 30 days after becoming aware of the previous Account Bank ceasing to be an Acceptable Bank, in accordance with the terms of the Account Bank Agreement.

- (b) ***Compliance with the Account Bank Agreement:*** The Issuer shall at all times comply with its obligations under the Account Bank Agreement.

### (c) ***Debt Service Reserve Account***

- (i) **Operation of Debt Service Reserve Account**
  - (A) The Debt Service Reserve Account will initially (on or before the Issue Date) be funded by the Issuer with cash, in an amount equal to the Initial Debt Service Reserve Account Minimum Balance; and
  - (B) the Issuer shall ensure that the aggregate amount standing to the credit of the Debt Service Reserve Account shall be not less than the Debt Service Reserve Account Minimum Balance.



- (ii) **Withdrawal from Debt Service Reserve Account**
  - (A) The Issuer shall not withdraw any amount from time to time standing to the credit of the Debt Service Reserve Account other than:
    - (B) to effect the redemption of all but not some only of the Notes in accordance with Conditions 7(b) (*Redemption for Tax Reasons*) or 7(c) (*Mandatory Redemption on Change of Control*); or
    - (C) to the extent of any excess over the amount required to stand to the credit of the Debt Service Reserve Account pursuant to Condition 5(c)(i)(B).
- (d) **Security over Debt Service Reserve Account:** The credit rights of the Issuer arising from the Debt Service Reserve Account will be secured for the benefit of the Secured Creditors.
- (e) **Payment Priorities:** Following an acceleration of the Notes and enforcement of the Security, all monies received by the Security Agent shall be held on trust by it for the benefit of all Secured Creditors and will be applied in accordance with clause 12 (*Application of Proceeds*) of the Intercreditor Agreement.
- (f) **Interpretation:** In these Conditions:
  - "**Acceptable Bank**" means a bank or financial institution which for so long as the Notes carry a credit rating has an Investment Grade Rating (as defined below) for its long-term unsecured and non credit-enhanced debt obligations, or such other rating or ratings as may be agreed by the relevant rating agency from time to time as would maintain the then current ratings of the Notes;
  - "**Account Bank**" means Banco Santander, S.A. or any replacement thereof (which shall be an Acceptable Bank);
  - "**Account Bank Agreement**" means an account bank agreement dated 8 June 2017 between the Issuer, the Account Bank and the Security Agent;
  - "**Debt Service Reserve Account**" means the debt service reserve account held by the Issuer with the Account Bank titled "FCC Aqualia S.A., Debt Service Reserve Account" (including any sub-accounts into which such account may be divided), as such account may be renewed, redesignated or renumbered from time to time;
  - "**Debt Service Reserve Account Minimum Balance**" means an amount equal to the aggregate amount of interest due and payable on all outstanding Notes during the first twelve month period immediately following each Interest Payment Date;
  - "**Initial Debt Service Reserve Account Minimum Balance**" means an amount equal to the aggregate amount of interest due and payable on all outstanding Notes in respect of the twelve month period immediately following the Issue Date of the Notes;

## 6. **Interest**

The Notes bear interest from (and including) the Issue Date at the rate of 1.413 per cent. per annum, (the "**Rate of Interest**") payable annually in arrears on 8 June in each year (each, an "**Interest Payment Date**"), subject as provided in Condition 8 (*Payments*).

Each Note will cease to bear interest from the due date for redemption unless, upon due presentation, payment of principal is improperly withheld or refused, in which case it will continue to bear interest at such rate (both before and after judgment) until whichever is the earlier of (a) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant Noteholder and (b) the day which is seven days after the Principal Paying Agent or the Note Trustee has notified the Noteholders that it has received all sums due in

respect of the Notes up to such seventh day (except to the extent that there is any subsequent default in payment).

The amount of interest payable on each Interest Payment Date shall be EUR14.13 per Calculation Amount. If interest is required to be paid in respect of a Note on any other date, it shall be calculated by applying the Rate of Interest to the Calculation Amount, multiplying the product by the relevant Day Count Fraction and rounding the resulting figure to the nearest cent (half a cent being rounded upwards) and multiplying such rounded figure by a fraction equal to the denomination of such Note divided by the Calculation Amount, where:

"**Calculation Amount**" means EUR1,000;

"**Day Count Fraction**" means, in respect of any period, the number of days in the relevant period, from (and including) the first day in such period to (but excluding) the last day in such period, divided by the number of days in the Regular Period in which the relevant period falls; and

"**Regular Period**" means each period from (and including) the Issue Date or any Interest Payment Date to (but excluding) the next Interest Payment Date.

## 7. **Redemption and Purchase**

(a) **Scheduled redemption:** Unless previously redeemed, or purchased and cancelled, the Notes will be redeemed at their principal amount on 8 June 2022, subject as provided in Condition 8 (*Payments*).

(b) **Redemption for tax reasons:** The Notes may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days' notice to the Noteholders (which notice shall be irrevocable) at their principal amount, together with interest accrued to the date fixed for redemption, if, immediately before giving such notice, the Issuer satisfies the Note Trustee that:

- (i) the Issuer has or will become obliged to pay additional amounts as provided or referred to in Condition 9 (*Taxation*) as a result of any change in, or amendment to, the laws or regulations of the Kingdom of Spain or any political subdivision or any authority thereof or therein having power to tax, any international treaty to which the Kingdom of Spain is a party to, or any change in the application or official interpretation of such laws or regulations (including a holding by a court of competent jurisdiction), which change or amendment becomes effective on or after the Issue Date; and
- (ii) such obligation cannot be avoided by the Issuer taking reasonable measures available to it;

**provided, however, that** no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer would be obliged to pay such additional amounts if a payment in respect of the Notes were then due.

Prior to the publication of any notice of redemption pursuant to this paragraph, the Issuer shall deliver to the Note Trustee:

- (A) a certificate signed by two directors or officers of the Issuer stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred; and
- (B) an opinion in form and substance satisfactory to the Note Trustee of independent legal advisers of recognised standing to the effect that the Issuer has or will become obliged to pay such additional amounts as a result of such change or amendment.

The Note Trustee shall be entitled to accept such certificate and opinion as sufficient evidence of the satisfaction of the circumstances set out in (i) and (ii) above, in which event they shall be conclusive and binding on the Noteholders.

Upon the expiry of any such notice as is referred to in this Condition 7(b), the Issuer shall be bound to redeem the Notes in accordance with this Condition 7(b).

- (c) **Mandatory Redemption on Change of Control:** If a Change of Control occurs and, within the applicable Change of Control Event Period a Rating Downgrade occurs, then the Issuer will redeem, or at the option of the Issuer, purchase or procure the purchase of the Notes, in whole but not in part, at 100 per cent. of their outstanding principal amount together, if appropriate, with interest accrued to (but excluding) such date.

Promptly upon the Issuer becoming aware that a Change of Control has occurred, the Issuer shall give notice (a "**Change of Control Notice**") to the Note Trustee and to the Noteholders in accordance with Condition 17 (*Notices*) specifying the nature of the Change of Control.

In these conditions:

A "**Change of Control**" will occur if at any time one or more individuals or legal entities (other than the Controlling Shareholder and/or any of its Affiliates) acting individually or in concert, acquires control through share ownership, acquisition of more than 50% of voting rights in the Issuer or the right to appoint more than half of the directors of the Issuer.

"**Change of Control Event Period**" means the period beginning on and including the date of the relevant Public Announcement and ending on the date falling 45 days after the Change of Control occurs or such longer period in which the Notes are under consideration (such consideration having been announced publicly within the first mentioned 45 day period) for rating review by any Rating Agency, such period not to exceed 45 days after the first public announcement of such consideration by the relevant Rating Agency.

"**Investment Grade Rating**" means a Rating of at least BBB- or Baa3 (or their respective equivalents at each Rating Agency for the time being).

"**Public Announcement**" means the date of the Change of Control Notice or any earlier date on which a public announcement or statement is made by the Issuer or FCC.

"**Rating Agency**" means any of (a) Fitch Ratings Limited, (b) Moody's Investors Service, Inc., (c) Standard & Poor's Credit Market Services Europe Limited, and (d) any other rating agency of similar international standing and (in each case) their respective affiliates and successors and Rating Agencies shall be construed accordingly.

"**Rating Downgrade**" will occur if:

- (i) in circumstances where, as at the first day of the Change of Control Event Period, the Notes have been assigned an Investment Grade Rating by at least one Rating Agency, an Investment Grade Rating assigned to the Notes by a Rating Agency is withdrawn or reduced to a rating below an Investment Grade Rating and is not, within the Change of Control Period, subsequently upgraded (in the case of a downgrade) to an investment grade rating or reinstated (in the case of a withdrawal); or
- (ii) in circumstances where, as at the first day of the Change of Control Event Period, the Notes have been assigned a rating below an Investment Grade Rating by at least one Rating Agency, any such rating is withdrawn or reduced one full rating notch (for example, Ba1 to Ba2 by Moody's or BB+ to BB by Standard & Poor's or Fitch) and is not, within the Change of Control Period, subsequently upgraded (in the case of a downgrade) to an investment grade rating or reinstated (in the case of a withdrawal),

and the relevant Rating Agency has announced or otherwise publicly confirmed (including by means of any letter or notice to the Issuer) that such downgrade or withdrawal pursuant to paragraphs (a) and (b) above is attributable to the relevant Change of Control.

- (d) **Redemption at the option of the Issuer:** Not earlier than 8 March 2022, the Issuer may, having given not less than 15 and not more than 30 days' notice to the Note Trustee and to Noteholders redeem all or some only of the Notes then outstanding on such date (the "**Optional Redemption Date**") at their outstanding principal amount, together, if appropriate, with interest accrued to (but excluding) the relevant Optional Redemption Date.

If the Notes are to be redeemed in part only on any date in accordance with this Condition 7(d) (*Redemption at the option of the Issuer*), the Notes to be redeemed shall be selected pro rata by the drawing of lots in such place as the Note Trustee approves and in such manner as the Note Trustee considers appropriate, subject to compliance with applicable law and the rules of each listing authority, stock exchange and/or quotation system (if any) by which the Notes have then been admitted to listing, trading and/or quotation, and the notice to the Note Trustee and the Noteholders referred to in this Condition 7(d) (*Redemption at the option of the Issuer*) shall specify the serial numbers of the Notes so to be redeemed.

- (e) **No other redemption:** The Issuer shall not be entitled to redeem the Notes otherwise than as provided in paragraphs (a) (*Scheduled redemption*) to (d) (*Redemption at the option of the Issuer*) above.
- (f) **Purchase:** FCC, the Issuer or any of their respective Subsidiaries may at any time purchase Notes in the open market or otherwise and at any price, **provided that** all unmatured Coupons are purchased therewith. The Notes so purchased, while held by or on behalf of FCC, the Issuer or any of their respective Subsidiaries until their cancellation in accordance with paragraph (g) (*Cancellation*) below, shall not entitle the holder to vote at any meetings of Noteholders and shall not be deemed to be outstanding for the purposes of calculating quorums at meetings of the Noteholders or for the purposes of Condition 14(a).
- (g) **Cancellation:** All Notes so redeemed or purchased by the Issuer or any of its Subsidiaries and any unmatured Coupons attached to or surrendered with them shall be cancelled and may not be reissued or resold.

## 8. **Payments**

- (a) **Principal:** Payments of principal shall be made only against presentation and (**provided that** payment is made in full) surrender of Notes at the Specified Office of any Paying Agent outside the United States by euro cheque drawn on, or by transfer to a Euro account (or other account to which euro may be credited or transferred) maintained by the payee with, a bank in a city in which banks have access to the TARGET System.
- (b) **Interest:** Payments of interest shall, subject to paragraph (g) (*Payments other than in respect of matured Coupons*) below, be made only against presentation and (**provided that** payment is made in full) surrender of the appropriate Coupons at the Specified Office of any Paying Agent outside the United States in the manner described in paragraph (a) (*Principal*) above.
- (c) **Interpretation:** In these Conditions:

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

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

and

"**TARGET System**" means the TARGET2 system.

- (d) **Payments subject to fiscal laws:** Payments will be subject in all cases to (i) any fiscal or other laws and regulations applicable thereto in the place of payment, but without prejudice to the provisions of Condition 9 and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986 (the "**Code**") or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof, or (without prejudice to the provisions of Condition 9) any law implementing an intergovernmental approach thereto.
- (e) **Deduction for unmatured Coupons:** If a Note is presented without all unmatured Coupons relating thereto, then:
- (i) if the aggregate amount of the missing Coupons is less than or equal to the amount of principal due for payment, a sum equal to the aggregate amount of the missing Coupons will be deducted from the amount of principal due for payment; **provided, however, that** if the gross amount available for payment is less than the amount of principal due for payment, the sum deducted will be that proportion of the aggregate amount of such missing Coupons which the gross amount actually available for payment bears to the amount of principal due for payment;
  - (ii) if the aggregate amount of the missing Coupons is greater than the amount of principal due for payment:
    - (A) so many of such missing Coupons shall become void (in inverse order of maturity) as will result in the aggregate amount of the remainder of such missing Coupons (the "**Relevant Coupons**") being equal to the amount of principal due for payment; **provided, however, that** where this sub-paragraph would otherwise require a fraction of a missing Coupon to become void, such missing Coupon shall become void in its entirety; and
    - (B) a sum equal to the aggregate amount of the Relevant Coupons (or, if less, the amount of principal due for payment) will be deducted from the amount of principal due for payment; **provided, however, that**, if the gross amount available for payment is less than the amount of principal due for payment, the sum deducted will be that proportion of the aggregate amount of the Relevant Coupons (or, as the case may be, the amount of principal due for payment) which the gross amount actually available for payment bears to the amount of principal due for payment.
- Each sum of principal so deducted shall be paid in the manner provided in paragraph (a) (*Principal*) above against presentation and (**provided that** payment is made in full) surrender of the relevant missing Coupons. No payments will be made in respect of void Coupons.
- (f) **Payments on business days:** If the due date for payment of any amount in respect of any Note or Coupon is not a business day in the place of presentation, the holder shall not be entitled to payment in such place of the amount due until the next succeeding business day in such place and shall not be entitled to any further interest or other payment in respect of any such delay. In these conditions, "**business day**" means, in respect of any place of presentation, any day on which banks are open for presentation and payment of bearer debt securities and for dealings in foreign currencies in such place of presentation and, in the case of payment by transfer to a Euro account as referred to above, on which the TARGET System is open.

- (g) **Payments other than in respect of matured Coupons:** Payments of interest due in respect of any Note other than on presentation and surrender of matured Coupons shall be made only against presentation and either surrender or enforcement (as appropriate) of the relevant Notes at the Specified Office of any Paying Agent outside the United States.
- (h) **Partial payments:** If a Paying Agent makes a partial payment in respect of any Note or Coupon presented to it for payment, such Paying Agent will endorse thereon a statement indicating the amount and the date of such payment.

## 9. **Taxation**

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

- (a) any Note or Coupon presented for payment by or on behalf of a holder which is liable to such taxes, duties, assessments or governmental charges in respect of such Note or Coupon by reason of its having some connection with the Kingdom of Spain other than the mere holding of the Note or Coupon; or
- (b) any Note or Coupon presented for payment by or on behalf of a holder who fails to make any necessary claim or to comply with any certification, identification or other requirements concerning the nationality, residence, identity or connection with the taxing jurisdiction of such holder, if such claim or compliance is required by statute, treaty, regulation or administrative practice of the taxing jurisdiction of the Issuer as a condition to relief or exemption from such taxes; or
- (c) any Note or Coupon presented for payment by or on behalf of an individual resident for tax purposes in the Kingdom of Spain if the Spanish tax authorities determine that payments made to such individuals are not exempt from Spanish withholding tax and require a withholding to be made; or
- (d) to, or to a third party on behalf of, a Spanish-resident legal entity subject to Spanish corporation tax if the Spanish tax authorities determine that the Notes do not comply with exemption requirements specified in the Reply to a Consultation of the Directorate General for Taxation (*Dirección General de Tributos*) dated 27 July 2004 and require a withholding to be made; or
- (e) any Note or Coupon presented for payment by or on behalf of, a holder who is a fiduciary, a partnership, a limited liability company or anything other than the sole beneficial owner of that payment, to the extent to which that payment would be required by the laws of Spain to be included in the income, for tax purposes, of a beneficiary or settlor with respect to the fiduciary, a member of that partnership, an interest holder in that limited liability company or a beneficial owner who would not have been entitled to any additional amounts had it been the holder; or
- (f) any Note or Coupon presented for payment more than 30 days after the Relevant Date except to the extent that the holder of such Note or Coupon would have been entitled to such additional amounts on presenting such Note or Coupon for payment on the last day of such period of 30 days.

In these Conditions, "**Relevant Date**" means whichever is the later of (1) the date on which the payment in question first becomes due and (2) if the full amount payable has not been received in

a city in which banks have access to the TARGET System by the Principal Paying Agent or the Note Trustee on or prior to such due date, the date on which (the full amount having been so received) notice to that effect has been given to the Noteholders.

Any reference in these Conditions to principal or interest shall be deemed to include any additional amounts in respect of principal or interest (as the case may be) which may be payable under this Condition 9 or any undertaking given in addition to or in substitution of this Condition 9 pursuant to the Trust Deed.

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

10. **Events of Default**

If any of the following events occurs and is continuing, then the Note Trustee at its discretion may and, if so requested in writing by holders of at least one quarter of the aggregate principal amount of the Notes then outstanding, or if so directed by an Extraordinary Resolution, shall (subject in each case to the Note Trustee having been indemnified and/or prefunded and/or provided with security to its satisfaction) give written notice to the Issuer declaring the Notes to be immediately due and payable, whereupon they shall become immediately due and payable at their principal amount together with accrued interest without further action or formality:

- (a) **Non-payment:** the Issuer fails to pay any amount of principal in respect of the Notes or fails to pay any amount of interest in respect of the Notes, in each case within seven days of the due date for payment thereof; or
- (b) **Breach of other obligations:** the Issuer defaults in the performance or observance of any of its other obligations under or in respect of the Notes or the Transaction Documents and such default (i) is, in the sole opinion of the Note Trustee, incapable of remedy or (ii) being a default which is, in the sole opinion of the Note Trustee, capable of remedy remains unremedied for 45 days after the Note Trustee has given written notice thereof to the Issuer; or
- (c) **Cross-default of Issuer or Material Subsidiary:**
  - (i) any Indebtedness of the Issuer or any of its Material Subsidiaries (which is not a Non-Recourse Subsidiary) is not paid when due or (as the case may be) within any originally applicable grace period;
  - (ii) any such Indebtedness becomes due and payable prior to its stated maturity otherwise than at the option of the Issuer or (as the case may be) the relevant Material Subsidiary (except a Non-Recourse Subsidiary) or (**provided that** no event of default, howsoever described, has occurred) at the option of any person entitled to such Indebtedness,  
**provided that** the amount of Indebtedness referred to in sub-paragraph (i) and/or sub-paragraph (ii) above, individually or in the aggregate, exceeds EUR30,000,000 (or its equivalent in any other currency or currencies);
- (d) **Unsatisfied judgment:** one or more final and non-appealable judgment(s) or order(s) for the payment of any amount/an amount in excess of EUR30,000,000 (or its equivalent in any other currency or currencies), whether individually or in aggregate, is rendered against the Issuer or any of its Material Subsidiaries and continue(s) unsatisfied and unstayed for a period of 30 days after the date(s) thereof or, if later, the date therein specified for payment; or
- (e) **Security enforced:** a secured party takes possession, or a receiver, manager or other similar officer is appointed, of the whole or any part of the undertaking, assets and revenues of the Issuer or any of its Material Subsidiaries (excluding Non-Recourse Subsidiaries), **provided that** the individual or aggregate value of all assets subject to the

enforcement exceeds EUR30,000,000 (or its equivalent in any other currency or currencies); or

- (f) ***Insolvency, etc.***: (i) the Issuer or any of its Material Subsidiaries becomes insolvent (*concurso*) or is unable to regularly pay its debts as they fall due, (ii) an administrator or liquidator is appointed in respect of the Issuer or any of its Material Subsidiaries or the whole or any substantial part of the undertaking, assets and revenues of the Issuer or any of its Material Subsidiaries, (iii) the Issuer or any of its Material Subsidiaries makes a general assignment or an arrangement with or for the benefit of all or a substantial part of its creditors or declares a moratorium in respect of any of its Indebtedness or any guarantee of any Indebtedness given by it or (iv) the Issuer or any of its Material Subsidiaries ceases or threatens to cease to carry on all or substantially all of its business (otherwise than, in the case of a Material Subsidiary of the Issuer, for the purposes of or pursuant to an amalgamation, reorganisation or restructuring whilst solvent); or
- (g) ***Winding up, etc.***: an order is made or an effective resolution is passed for the winding up, liquidation or dissolution of the Issuer or any of its Material Subsidiaries (otherwise than, in the case of a Material Subsidiary of the Issuer, for the purposes of or pursuant to an amalgamation, reorganisation or restructuring whilst solvent); or
- (h) ***Analogous event***: any event occurs which under the laws of the Kingdom of Spain has an analogous effect to any of the events referred to in paragraphs (d) (*Unsatisfied judgment*) to (g) (*Winding up, etc.*) above; or
- (i) ***Failure to take action, etc.***: any action, condition or thing at any time required to be taken, fulfilled or done in order (i) to enable the Issuer lawfully to enter into, exercise their respective rights and perform and comply with its obligations under and in respect of the Notes or the Transaction Documents, (ii) to ensure that those obligations are legal, valid, binding and enforceable and (iii) to make the Notes, the Coupons, the Trust Deed and the other Transaction Documents admissible in evidence in the courts of England and of the Kingdom of Spain is not taken, fulfilled or done; or
- (j) ***Unlawfulness***: it is or will become unlawful for the Issuer to perform or comply with any of its obligations under or in respect of the Notes or the Transaction Documents,

**provided that** in the case of paragraphs (b) and (e) the Note Trustee shall have certified that in its opinion such event is materially prejudicial to the interest of the Noteholders.

#### 11. **Prescription**

Claims for principal shall become void unless the relevant Notes are presented for payment within ten years of the appropriate Relevant Date. Claims for interest shall become void unless the relevant Coupons are presented for payment within five years of the appropriate Relevant Date.

#### 12. **Replacement of Notes and Coupons**

If any Note or Coupon is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the Specified Office of the Principal Paying Agent, subject to all applicable laws and stock exchange requirements, upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence, security, indemnity and otherwise as the Issuer may reasonably require. Mutilated or defaced Notes or Coupons must be surrendered before replacements will be issued.

#### 13. **Note Trustee and Paying Agents**

Under the Trust Deed, the Note Trustee is entitled to be indemnified and relieved from responsibility in certain circumstances and to be paid its fees, costs, charges, liabilities and expenses in priority to the claims of the Noteholders. In addition, the Note Trustee is entitled to enter into business transactions with the Issuer and any entity relating to the Issuer without accounting for any profit.



In the exercise of its powers and discretions under these Conditions and the Trust Deed, the Note Trustee will have regard to the interests of the Noteholders as a class and will not be responsible for any consequence for individual holders of Notes or Coupons as a result of such holders being connected in any way with a particular territory or taxing jurisdiction.

Prior to taking any action under these Conditions or any Transaction Document, as the case may be, the Note Trustee may request and rely upon an opinion of counsel or opinion of another qualified expert, at the Issuer's expense; **provided, however, that** any such opinions shall be at the expense of the relevant Noteholders, if such actions are on the instructions of the relevant Noteholders.

In acting under the Agency Agreement and in connection with the Notes and the Coupons, the Paying Agents act solely as agents of the Issuer and (to the extent provided therein) the Note Trustee and do not assume any obligations towards or relationship of agency or trust for or with any of the Noteholders or Couponholders.

The initial Paying Agents and their initial Specified Offices are listed below. The Issuer reserves the right (with the prior approval of the Note Trustee) at any time to vary or terminate the appointment of any Paying Agent and to appoint a successor principal paying agent and additional or successor paying agents; **provided, however, that** the Issuer shall at all times maintain a principal paying agent.

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

14. **Meetings of Noteholders; Modification and Waiver**

- (a) **Meetings of Noteholders:** The Trust Deed contains provisions for convening meetings of Noteholders to consider matters relating to the Notes, including the modification of any provision of these Conditions or the Trust Deed or any other Transaction Document. Any such modification may be made if sanctioned by an Extraordinary Resolution. Such a meeting may be convened by the Issuer or by the Note Trustee and shall be convened by the Note Trustee (subject to it having been indemnified, and/or prefunded, and/or provided with security to its satisfaction) upon the request in writing of Noteholders holding not less than 10 per cent. of the aggregate principal amount of the outstanding Notes. The quorum at any meeting convened to vote on an Extraordinary Resolution will be two or more persons holding or representing one more than half of the aggregate principal amount of the outstanding Notes or, at any adjourned meeting, one or more persons being or representing Noteholders whatever the principal amount of the Notes held or represented; **provided, however, that** certain proposals (including any proposal to change any date fixed for payment of principal or interest in respect of the Notes, to reduce the amount of principal or interest payable on any date in respect of the Notes, to alter the method of calculating the amount of any payment in respect of the Notes or the date for any such payment, to change the currency of payments under the Notes, or to change the quorum requirements relating to meetings or the majority required to pass an Extraordinary Resolution (each, a "**Reserved Matter**") may only be sanctioned by an Extraordinary Resolution passed at a meeting of Noteholders at which two or more persons holding or representing not less than 75 per cent. or, at any adjourned meeting, not less than 25 per cent. of the aggregate principal amount of the outstanding Notes form a quorum. Any Extraordinary Resolution duly passed at any such meeting shall be binding on all the Noteholders and Couponholders, whether present or not.

In addition, a resolution in writing signed by or approved by way of electronic consent communicated through the electronic communications systems of the relevant clearing system(s), in each case, on behalf of not less than 75 per cent. of holders of Notes who for the time being are entitled to receive notice of a meeting of Noteholders under the Trust Deed will take effect as if it were an Extraordinary Resolution. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Noteholders.

- (b) **Modification and waiver:** The Note Trustee may, without the consent of the Noteholders or the Couponholders, agree (i) to any modification of these Conditions or the Trust Deed or the Notes or the Coupons or any other Transaction Document (other than in respect of a Reserved Matter) and for the purpose of being a Relevant Creditor under the Intercreditor Agreement to direct the Security Agent to agree such modification to the Intercreditor Agreement or Security Documents, which is, in the opinion of the Note Trustee, not materially prejudicial to the interests of Noteholders, and/or (ii) to any modification of these Conditions or the Trust Deed or the Notes or the Coupons or any other Transaction Document and for the purpose of being a Relevant Creditor under the Intercreditor Agreement direct the Security Agent to agree such modification to the Intercreditor Agreement or Security Documents, which is of a formal, minor or technical nature or is to correct a manifest error. In addition, the Note Trustee may, without the consent of the Noteholders or the Couponholders, authorise or waive any proposed breach or breach of these Conditions or the Trust Deed or the Notes or the Coupons or any other Transaction Document (other than a proposed breach or breach relating to the subject of a Reserved Matter) or determine that an Event of Default or Potential Event of Default should not be treated as such and for the purpose of being a Relevant Creditor direct the Security Agent to agree a waiver to the Intercreditor Agreement or Security Documents, if, in the opinion of the Note Trustee, the interests of the Noteholders will not be materially prejudiced thereby.

Unless the Note Trustee agrees otherwise, any such authorisation, waiver or modification shall be notified to the Noteholders as soon as practicable thereafter.

15. **Enforcement**

Subject to Condition 3(c) (*Enforcement of Security*) the Note Trustee may at any time, at its discretion and without notice, institute such proceedings as it thinks fit to enforce its rights under the Trust Deed in respect of the Notes, but it shall not be bound to do so unless:

- (a) it has been so directed by an Extraordinary Resolution; and
- (b) it has been indemnified and/or prefunded and/or provided with security to its satisfaction and shall have no liability for taking or refraining from taking such action.

16. **Further Issues**

The Issuer may from time to time, without the consent of the Noteholders or the Couponholders and in accordance with the Trust Deed, create and issue further Notes having the same terms and conditions as the Notes in all respects (or in all respects except for the amount, issue date and date of the first payment of interest) so as to form a single series with the Notes. The Issuer may from time to time, with the consent of the Note Trustee, create and issue other series of Notes having the benefit of the Trust Deed.

17. **Notices**

Notices to the Noteholders shall be valid if published in a leading English language daily newspaper published in London (which is expected to be the *Financial Times*) or, if the Notes are admitted to trading on the Irish Stock Exchange, a leading newspaper having general circulation in Ireland or published on the website of the Irish Stock Exchange or, in either case, if such publication is not practicable, in a leading English language daily newspaper having general circulation in Europe. Any such notice shall be deemed to have been given on the date of first publication. Couponholders shall be deemed for all purposes to have notice of the contents of any notice given to the Noteholders.

18. **Governing Law and Jurisdiction**

- (a) **Governing law:** The Notes and any non-contractual obligations arising out of or in connection with the Notes or the Coupons (save for Condition 2(a) (*Status*)) will be governed by English law. Condition 2(a) (*Status*) and any non-contractual obligations arising out of or in connection with them will be governed by Spanish law.

- (b) **Jurisdiction:** The Issuer has in the Trust Deed (i) agreed for the benefit of the Note Trustee and the Noteholders that the courts of England shall have exclusive jurisdiction to settle any dispute (a "**Dispute**") arising out of or in connection with the Notes or the Coupons (including any non-contractual obligation arising out of or in connection with the Notes or the Coupons); (ii) agreed that those courts are the most appropriate and convenient courts to settle any Dispute and, accordingly, that it will not argue that any other courts are more appropriate or convenient; and (iii) designated a person in England to accept service of any process on its behalf. The Trust Deed also states that nothing contained in the Trust Deed prevents the Note Trustee or any of the Noteholders from taking proceedings against the Issuer relating to a Dispute ("**Proceedings**") in any other courts with jurisdiction and that, to the extent allowed by law, the Note Trustee or any of the Noteholders may take concurrent Proceedings in any number of jurisdictions.

## TERMS AND CONDITIONS OF THE 2027 NOTES

*The following is the text of the Terms and Conditions of the Notes which (subject to completion and amendment) will be endorsed on each Note in definitive form:*

The EUR650,000,000 2.629 per cent. Senior Secured Notes due 8 June 2027 (the "**Notes**", which expression includes any further Notes issued pursuant to Condition 16 (*Further Issues*)) of FCC Aqualia, S.A. (the "**Issuer**") are subject to, and have the benefit of, a trust deed dated 8 June 2017 (as amended or supplemented from time to time, the "**Trust Deed**") between the Issuer and Citicorp Trustee Company Limited in its capacity as trustee (the "**Note Trustee**", which expression includes all persons for the time being trustee or trustees appointed under the Trust Deed) and are the subject of a paying agency agreement dated 8 June 2017 (as amended or supplemented from time to time, the "**Agency Agreement**") between the Issuer and Citibank N.A, London Branch in its capacity as principal paying agent (the "**Principal Paying Agent**", which expression includes any successor principal paying agent appointed from time to time in connection with the Notes), the paying agents named therein (together with the Principal Paying Agent, the "**Paying Agents**", which expression includes any successor or additional paying agents appointed from time to time in connection with the Notes) and the Note Trustee.

The Issuer and certain of its Subsidiaries (as defined below) has entered into certain Security Documents (as defined in Condition 3 (*Security, Relationship with Secured Creditors and Enforcement*) below) each governed by Spanish law, other than the pledge over the shares of Acque di Caltanissetta S.p.A. which is governed by Italian law (the "**Italian Law Share Pledge**") and the pledge over the shares of Aqualia México, S.A. de C.V. which is governed by Mexican law (the "**Mexican Law Share Pledge**") with, among others, Citibank N.A., London Branch in its capacity as Security Agent (the "**Security Agent**"), pursuant to which the Issuer and certain of its Subsidiaries grant certain security to, the Security Agent on behalf of itself and the Secured Creditors.

The Note Trustee, on behalf of itself and the holders of Notes (the "**Noteholders**") as well as on behalf of the holders (the "**2022 Noteholders**") of the EUR700,000,000 1.413 per cent. Senior Secured Notes due 8 June 2022 issued by the Issuer (the "**2022 Notes**"), has entered into an intercreditor agreement (as the same may be amended or supplemented from time to time, the "**Intercreditor Agreement**") with the Issuer and the other parties named therein (the Security Agent, the Note Trustee, the Paying Agents, the Noteholders and the 2022 Noteholders, and any other secured creditor who accedes to the Intercreditor Agreement from time to time, and, in the case of any Secured Creditor, only for as long as it shall have rights under the Intercreditor Agreement that have not ceased pursuant to the Intercreditor Agreement, the "**Secured Creditors**").

On any date (the "**Convertible Notes Accession Date**") prior to the expiry of the period of 180 days from, and including, the Issue Date the commissioner (the "**Commissioner**") on behalf of itself and the holders (the "**Convertible Noteholders**") of the Fomento de Construcciones y Contratas, S.A.'s ("**FCC**") EUR450,000,000 6.50 per cent. convertible Notes with ISIN XS0457172913 (the "**Convertible Notes**") may accede to the Intercreditor Agreement by means of a Creditor Representative Accession Undertaking (as defined in the Intercreditor Agreement) by virtue of which the benefit of the Security will be extended to the Commissioner, the Convertible Notes Agents (as defined below) and the Convertible Noteholders. Concurrently therewith FCC may accede to the Intercreditor Agreement by means of a Debtor Accession Deed (as defined in the Intercreditor Agreement).

From and including the Convertible Notes Accession Date, references herein to the Secured Creditors shall include the Commissioner, the fiscal agent, registrar and other paying, transfer and conversion agent from time to time appointed in relation to the Convertible Notes (the "**Convertible Notes Agents**") and the Convertible Noteholders but only for so long as each shall have rights under the Intercreditor Agreement that have not ceased pursuant to the Intercreditor Agreement

The Trust Deed, the Notes, the Security Documents, the Account Bank Agreement (as defined in Condition 5(f) (*Debt Service Reserve Account – Interpretation*) below) the Agency Agreement and the Intercreditor Agreement (as defined in Condition 3(b) (*Security, Relationship with Secured Creditors and Enforcement – Intercreditor Agreement*) below) are, in relation to the Notes, together referred to as the "**Transaction Documents**".

Terms not defined in these Conditions have the meanings set out in the Transaction Documents.

The Issuer will execute an *escritura pública* (the "**Public Deed**") before a Spanish notary public in relation to the issue of the Notes on or before the Closing Date. The Public Deed contains, among other information, these Conditions.

Certain statements in these Conditions are summaries of and are subject to the detailed provisions appearing on the face of the Notes (which expression shall include the body thereof) and in the Trust Deed, the Agency Agreement, the Security Documents and the Intercreditor Agreement.

Noteholders and the holders of the related interest coupons (the "**Couponholders**" and the "**Coupons**", respectively) are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed, the Security Documents and the Intercreditor Agreement, and those applicable to them of the Agency Agreement and the other Transaction Documents. Copies of the Trust Deed, the Agency Agreement, the Security Documents and the Intercreditor Agreement are available for inspection by Noteholders during normal business hours at the registered office for the time being of the Note Trustee, being at the date hereof Citigroup Centre, Canada Square, London, E14 5LB and at the Specified Offices (as defined in the Agency Agreement) of each of the Paying Agents, the initial Specified Offices of which are set out below.

1. **Form, Denomination and Title**

The Notes are serially numbered and in bearer form in the denomination of EUR100,000, and integral multiples of EUR1,000 in excess thereof up to and including EUR199,000, with Coupons attached at the time of issue. Title to the Notes and the Coupons will pass by delivery. The holder of any Note or Coupon shall (except as ordered by a court of competent jurisdiction or as otherwise required by law) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any other interest therein, any writing thereon or any notice of any previous loss or theft thereof) and no person shall be liable for so treating such holder. No person shall have any right to enforce any term or condition of the Notes or the Trust Deed under the Contracts (Rights of Third Parties) Act 1999.

2. **Status/No Compliance Monitoring**

- (a) **Status:** The Notes are direct, unconditional and unsubordinated obligations of the Issuer, are secured in the manner described in Condition 3 (*Security, Relationship with Secured Parties and Enforcement*) and the Security Documents and rank *pari passu* without any preference among themselves and (save for any obligations preferred by law) at least equally with all other unsubordinated obligations of the Issuer, from time to time outstanding.
- (b) **Note Trustee not responsible for monitoring compliance:** The Note Trustee shall not be responsible for monitoring compliance by the Issuer with any of its obligations under the Transaction Documents except by means of receipt of a certificate from the Issuer which will state, among other things, that no event of default (as set out in Condition 10 (*Events of Default*)) has occurred and is outstanding. The Note Trustee shall be entitled to rely on such certificates absolutely. The Note Trustee is not responsible for monitoring compliance by any of the parties with their respective obligations under the Transaction Documents. The Note Trustee may call for and is at liberty to accept as sufficient evidence a certificate signed by any one director or officer of the Issuer or any other party to any Transaction Document to the effect that any particular dealing, transaction, step or thing is in the opinion of the persons so certifying suitable or expedient or as to any other fact or matter upon which the Note Trustee may require to be satisfied. The Note Trustee is in no way bound to call for further evidence or be responsible to any person for any loss that may be occasioned by acting on any such certificate although the same may contain some error or is not authentic. The Note Trustee is entitled to rely upon any certificate believed by it to be genuine and will not be liable for so acting.

### 3. Security, Relationship with Secured Creditors and Enforcement

#### (a) *Security*

As continuing security (the "**Security**") for the payment or discharge of all present and future payment obligations (whether actual or contingent) of the Issuer to any of the Secured Creditors under the Transaction Documents to which it is a party (including all moneys payable in respect of the Notes, the Coupons and otherwise under the Trust Deed and any deed or other document executed in accordance with the Trust Deed and expressed to be supplemental to the Trust Deed (including the remuneration and expenses of the Note Trustee and the Security Agent appointed under the Intercreditor Agreement)) (collectively, the "**Secured Liabilities**"), the Issuer, the Issuer together with Aqualia Intech, S.A. (in respect of Aqualia México, S.A. de C.V.), Sociedad Ibérica del Agua S.A.U. (in respect of the shares of Tratamiento Industrial de Aguas, S.A., Conservación y Sistemas, S.A. and Sociedad Española de Aguas Filtradas, S.A.) and Tratamiento Industrial de Aguas, S.A. (in respect of the quota shares of Empresa Gestora de Aguas Linenses, S.L. and Aguas de las Galeras, S.L.) have entered into the following documents (together with any extension deeds, any substitution deeds and any other security documents that can be granted pursuant to these Conditions, (the "**Security Documents**") to create, as far as permitted by and subject to compliance with any applicable law, first ranking pledges (the "**Pledges**") over the following property (the "**Secured Property**") in favour of the Security Agent (on behalf of the Secured Creditors):

- (i) first ranking pledges (together, the "**Share Pledges**") over the shares or quota shares, as applicable, of the following subsidiaries of the Issuer:
  - (A) the shares (*acciones*) of the Spanish companies (i) Tratamiento Industrial de Aguas, S.A., (ii) Conservación y Sistemas, S.A., (iii) Sociedad Española de Aguas Filtradas, S.A., (iv) 97% of the share capital in Entemanser, S.A., (v) Depurplan 11, S.A.U. and (vi) Aigües de Vallirana, S.A. (the "**Spanish Law Share Pledges**");
  - (B) the quota shares (*participaciones sociales*) of the Spanish companies (i) Infraestructuras y Distribución General de Aguas, S.L., (ii) Empresa Gestora de Aguas Linenses, S.L., (iii) Aguas de las Galeras, S.L., (iv) Hidrotec Tecnología del Agua, S.L. and (v) 51% of share capital in Aqualia Czech, S.L. (the "**Spanish Law Quota Shares Pledges**");
  - (C) the shares (*azioni*) of the Italian company Acque di Caltanissetta, S.p.A., representing 98.48% of its issued share capital (the "**Italian Law Share Pledge**"); and
  - (D) the shares (*acciones*) of the Mexican company Aqualia México, S.A. de C.V. (the "**Mexican Law Share Pledge**"); and
- (ii) a first ranking pledge over any existing or future credit rights of any nature that arise or may arise directly or indirectly for any reason in favour of the Issuer *vis-à-vis* each of the banks listed in the Spanish Law Accounts Pledges (as defined below) under or in relation to the accounts listed in the Spanish Law Accounts Pledges (including the Debt Service Reserve Account (as defined below)) (the "**Spanish Accounts**") or under its respective bank account agreement in connection with each of the Spanish Accounts (the "**Spanish Law Accounts Pledges**" and, together with the Spanish Law Share Pledges and the Spanish Law Quota Share Pledges, the "**Spanish Law Security**").

Each Noteholder, by virtue of purchasing and/or holding the Notes, agrees (i) to the terms and conditions of the Security Documents, and (ii) that the Security Agent shall accept for itself and on behalf of the Noteholders and the other Secured Creditors (as defined in Condition 3(b) (*Security, Relationship with Secured Creditors and*

*Enforcement – Intercreditor Agreement*) below) the Security created pursuant to the Security Documents.

(b) ***Intercreditor Agreement***

Pursuant to the terms of the Intercreditor Agreement, recoveries received upon enforcement over Security will be applied (subject to certain costs and expenses related to the enforcement of the Security and certain other costs, expenses and liabilities of the Security Agent, the Account Bank, the Note Trustee, the Principal Paying Agent and/or any other paying agents and any delegates) *pro rata* and *pari passu* in payment of liabilities in respect of the Notes and the 2022 Notes then outstanding.

Subject to the terms of the Intercreditor Agreement, if such recoveries are received on or after the Convertible Notes Accession Date, then they shall also be applied (subject to certain costs and expenses related to the enforcement of the Security and certain other costs, expenses and liabilities of the Security Agent, the Convertible Notes Agents, the Commissioner and any delegates) *pro rata* and *pari passu* in payment of liabilities in respect of the Convertible Notes then outstanding.

The parties under the Intercreditor Agreement have, and by accepting any Note, each Noteholder will be deemed to have, irrevocably appointed Citibank N.A., London Branch to act as its security agent (the "**Security Agent**"), and as security representative of the holders, from time to time, of the Notes, the 2022 Notes and (if the Convertible Notes Accession Date has occurred) the Convertible Notes (*rappresentante delle garanzie degli obbligazionisti*) for the purposes of article 2414-bis, third paragraph of the Italian civil code in relation to the Italian Share Pledge Agreement (in this capacity the "**Italian Security Trustee**"), under the Intercreditor Agreement and the Security Documents. The parties under the Intercreditor Agreement will have, and by accepting any Note, each Noteholder will be deemed to have, irrevocably authorised the Security Agent to perform the duties and exercise the rights, powers and discretions that are specifically given to it under the Intercreditor Agreement and the Security Documents together with any incidental rights, power and discretions.

(c) ***Enforcement of Security***

The Security may not be enforced otherwise than by the Security Agent acting on the instructions of the Instructing Group as described in this Condition 3(c).

The rights of the Noteholders with respect to the Secured Property may only be exercised by the Security Agent. Noteholders may not, individually or collectively, take any direct action to enforce any rights in their favour under the Security Documents. Noteholders may only act through the Note Trustee in the manner provided in the Trust Deed, who will in turn provide instructions to the Security Agent in accordance with the provisions of the Trust Deed and the Intercreditor Agreement.

Subject to and in accordance with the Trust Deed, if the Notes have been declared immediately due and payable in accordance with Condition 10 (*Events of Default*) or the Trust Deed, then the Note Trustee as a Creditor Representative, if so directed by an Extraordinary Resolution, shall (subject to the Note Trustee having been indemnified and/or secured and/or prefunded to its satisfaction) give written enforcement instructions to the Security Agent on behalf of Noteholders as Creditor Representative subject to and in accordance with the Intercreditor Agreement.

Subject to and in accordance with the Intercreditor Agreement, and prior to the Convertible Notes Accession Date, the Security shall become enforceable if, following the occurrence and continuation of any of the events described in Condition 10 (*Events of Default*) of the Notes and the 2022 Notes, the Notes and/or the 2022 Notes have been declared immediately due and payable in accordance with their respective terms, and the Issuer has not made payment of the relevant amounts within a period of five business days from the date of receipt by the Issuer of the relevant notice which declares the Notes and/or the 2022 Notes to be immediately due and payable.

From and including the Convertible Notes Accession Date, and subject to and in accordance with the Intercreditor Agreement, the Security shall become enforceable if, following the occurrence and continuation of any of the events described in Condition 10 (*Events of Default*) of the Notes and the 2022 Notes and Condition 10 (*Events of Default*) of the Convertible Notes, the Notes and/or the 2022 Notes and/or the Convertible Notes have been declared immediately due and payable in accordance with their respective terms, and the Issuer and/or FCC, as applicable, has not made payment of the relevant amounts within a period of five business days from the date of receipt by the Issuer and/or FCC, as applicable, of the relevant notice which declares the Notes and/or the 2022 Notes and/or the Convertible Notes to be immediately due and payable.

If the Security becomes capable of enforcement, the Security Agent shall, if so instructed in writing by the Note Trustee on behalf of the Noteholders and/or the 2022 Noteholders and/or (on or following the Convertible Notes Accession Date) the Commissioner on behalf of the Convertible Noteholders together holding more than 65 per cent. in principal amount of the Notes, the 2022 Notes and (on or following the Convertible Notes Accession Date) the Convertible Notes then outstanding (the "**Instructing Group**"), enforce all or any of the Security, subject to and in the manner provided in the Intercreditor Agreement and the Security Documents, and **provided that** the Security Agent, Note Trustee and (on or following the Convertible Notes Accession Date) Commissioner shall not be required to take any action or step or proceedings that would involve any personal liability or exposure without first being indemnified and/or secured and/or prefunded to its satisfaction. In particular, pursuant to the Intercreditor Agreement, the Security Agent shall not be entitled to enforce the Security prior to the earlier of (i) the expiry of 120 days after the date on which it first received notice proposing enforcement instructions in respect of the Notes, the 2022 Notes or the Convertible Notes, or (ii) the date on which it receives notice from the Note Trustee that both the Noteholders and 2022 Noteholders consent to the proposed enforcement instructions or (on or following the Convertible Notes Accession Date) the date on which it receives notice from the last of the Commissioner and the Note Trustee (as applicable) that the Convertible Noteholders, the Noteholders and 2022 Noteholders consent to the proposed enforcement instructions.

Upon the Security having been enforced, the Secured Property will be administered by the Security Agent pursuant to the terms of the Security Documents and the Intercreditor Agreement for the benefit of the Secured Creditors. If a Notice of Acceleration and Enforcement (as defined in the Intercreditor Agreement) is not given to the Security Agent prior to 5:00 p.m. in Madrid on the date falling 120 days after the date of the Initial Enforcement Notice in respect the Notes, the 2022 Notes or (on or following the Convertible Notes Accession Date) the Convertible Notes, the Note Trustee and/or the Commissioner (as the case may be) shall subject as otherwise provided in the Intercreditor Agreement automatically and unconditionally cease to be a party to the Intercreditor Agreement as Creditor Representative of the Notes, the 2022 Notes and/or (as the case may be) the Convertible Notes, and the Noteholders of such Notes, 2022 Notes and/or the Convertible Noteholders (as the case may be) shall from that date automatically and unconditionally cease to be Secured Creditors and shall have no claim for any Secured Obligations or other amounts received or recovered by the Security Agent in connection with the realisation or enforcement of any or all of the Security. No party shall be required to execute any documents to evidence such security release, discharge and termination, which for such purposes shall be automatic and unconditional.

The Security Agent may on the instructions of the Instructing Group agree to any release of the security interest created by the Security Documents in accordance with terms of the Intercreditor Agreement without requiring any further consent of the Noteholders.

(d) ***Application After Enforcement***

After enforcement of the Security, the Security Agent shall make payments in accordance with the order of application of proceeds set out in the Intercreditor Agreement.



#### 4. Covenants

##### (a) *Limitation on Indebtedness*

Subject to the exceptions set out below, the Issuer shall not, and shall not cause or permit any of its Recourse Subsidiaries to, after the Issue Date, incur any additional Indebtedness if on the date of incurrence of such additional Indebtedness and after giving effect thereto and the application of the proceeds therefrom, the Consolidated Net Leverage Ratio for any relevant Testing Period, is greater than 5.0 to 1.0.

Notwithstanding the above, the Issuer or any Subsidiaries may incur the following Indebtedness:

- (i) Indebtedness that constitutes Non-Recourse Indebtedness;
- (ii) Indebtedness outstanding on the Issue Date;
- (iii) Indebtedness represented by or in connection with the Notes and the 2022 Notes (other than any further Notes or further 2022 Notes issued pursuant to Condition 16 (*Further Issues*));
- (iv) Indebtedness between the Issuer and any of its Subsidiaries or between any such Subsidiary and the Issuer or between such Subsidiaries;
- (v) Indebtedness incurred in respect of worker's compensation claims, self-insurance obligations, bid, performance, surety and similar bonds and completion guarantee provided in the ordinary course of business;
- (vi) Indebtedness providing for indemnification, adjustment of purchase price or similar obligations in connection with the acquisition or disposition of any business, assets or capital stock of a Subsidiary after the Issue Date;
- (vii) Indebtedness arising from honoring by a bank or other financial institution of a check, draft or similar instrument drawn against insufficient funds or credit lines in the ordinary course of business **provided that** such Indebtedness is disbursed within seven days of incurrence;
- (viii) advance payments received from customers for goods and services purchased and credit periods in the ordinary course of business;
- (ix) Indebtedness constituting reimbursement obligations with respect to letters of credit, bankers' acceptances or similar instruments or obligations issued in the ordinary course of business; **provided that** upon the drawing or other funding of such letters of credit or other instruments or obligations, such drawings or fundings are reimbursed within seven days;
- (x) Indebtedness under cash pooling arrangements and hedging arrangements (with respect to currency risks, interest rate risks, commodity risks and price risks) in the ordinary course of business;
- (xi) Indebtedness which constitutes Project Subsidiary Support;
- (xii) the guarantee by the Issuer or any Subsidiary of Indebtedness that is permitted to be incurred pursuant to another provision of this "Limitation on Indebtedness" covenant; and
- (xiii) any Indebtedness that refinances any Indebtedness in compliance with this covenant.

##### (b) *Limitation on Distributions*

The Issuer shall not declare or pay any dividend or make any other payment or distribution on account of, or purchase, redeem or otherwise acquire or retire for value

any of, the Issuer's common equity capital (a "**Distribution**") (other than a Distribution payable in equity interests of the Issuer and the payments described under "*Use of Proceeds*" of the Offering Circular dated 1 June 2017) unless, at the time of such Distribution:

- (i) the Consolidated Net Leverage Ratio for any relevant Testing Period is equal to or lower than 5.0 to 1.0;
- (ii) no Event of Default has occurred and is continuing and no Event of Default would occur as a result of such Distribution; and
- (iii) such Distribution, together with the aggregate amount of all other Distributions made by the Issuer since the Issue Date (excluding Distributions permitted by paragraphs (A) to (C) of this Condition 4(b)(ii)), is less than the sum, without duplication, of (a) 45% of the Consolidated Net Income of the Issuer for the period (taken as one accounting period) from 1 January 2017 to the end of the Issuer's most recently ended three-month period for which internal financial statements are available at the time of such Distribution, and (b) 100% of the aggregate net cash and fair market value of marketable securities received by the Issuer since the Issue Date as a contribution to its common equity capital or from the issue or sale of convertible or exchangeable debt securities of the Issuer, in each case that have been converted into or exchanged for common equity capital.

The preceding provisions will not prohibit:

- (A) the payment out of the aggregate proceeds of the Notes and the 2022 Notes of a dividend of EUR446,000,000; or
  - (B) the payment of any Distribution within 60 days after the date of declaration of the Distribution or giving of the applicable notice, as the case may be, if at the date of declaration or notice, the Distribution would have complied with this covenant; or
  - (C) the making of any Distribution in exchange for, or out of or with the net cash proceeds of the subsequently concurrent sale or issuance of common equity capital of the Issuer, or from the substantially concurrent contribution of common equity capital to the Issuer.
- (c) ***Limitations on Financings and Guarantees to the Controlling Shareholder and its Subsidiaries***

The Issuer will not, and will not cause or permit any of its Subsidiaries to, enter into or make any credit, loan, advance or guarantee for the benefit of the Controlling Shareholder or any of its Subsidiaries or otherwise become liable for any Indebtedness of the Controlling Shareholder or any of its Subsidiaries, in each case other than (i) any such transactions between the Issuer and any of its Subsidiaries or between any such Subsidiary and the Issuer or between such Subsidiaries, (ii) with respect to any Controlling Shareholder Project Subsidiary Support, (iii) with respect to two long term subordinated loans out of the aggregate proceeds of the Notes and the 2022 Note in an aggregate amount of up to EUR515,841,723.49 (iv) with respect to a long-term subordinated loan for a principal amount of up to EUR470,000,000 to be entered into between Aqualia and Asesoría Financiera y de Gestión, S.A. ("**Afigesa**"), a subsidiary of FCC, on the Closing Date, in acknowledgement of the creditor position in favour of Aqualia that will result from the termination on the Closing Date of the cash pooling agreement entered into between FCC and certain companies of its group in 2014.

- (d) ***Financial Statements***

So long as the Notes are outstanding, the Issuer will send to the Note Trustee, as soon as practicable after their date of publication but in any event not more than 180 days after the end of each financial year, a copy in the English language of the Issuer's audited

consolidated financial statements for that financial year, which shall be made available for inspection by Noteholders at the Specified Offices of the Note Trustee as soon as practicable thereafter.

(e) ***Similar Business***

The Issuer will not, and will not permit any Subsidiary to, engage in any business other than a Similar Business, except to such extent as would not be material to the Issuer and its Subsidiaries, taken as a whole.

(f) ***Cash-pooling agreement***

For so long as any Notes are outstanding, the Issuer will not terminate, novate, amend or modify the Cash Pooling Agreement.

(g) ***Limitations on Transfers of Secured Property***

For so long as any Notes are outstanding, the Issuer may not transfer, sell, assign, cede or otherwise dispose of any Secured Property other than pursuant to a Permitted Transfer.

(h) ***Limitation on Changes to Capital Structure of Secured Property***

For so long as any Notes are outstanding, neither the Issuer nor any of its Subsidiaries may carry out, or permit to be carried out, any changes to the share capital or quota share capital structure of any other Subsidiary whose shares or quote shares are the subject of a Pledge, whether by means of share capital increase, share split, issuance of quotas, distribution in kind, issuance of rights, issuance of options or otherwise except pursuant to a Permitted Share Capital Increase.

(i) ***Certificate***

The Note Trustee shall be entitled to rely absolutely on a certificate of any director or officer of the Issuer in relation to any matter relating to such covenants and to accept without liability any such certificate as sufficient evidence of the relevant fact or matter stated in such certificate.

(j) ***Interpretation:*** In these Conditions:

"**Affiliate**" means, in relation to any person, a Subsidiary of that person or a Holding Company of that person or any other Subsidiary of that Holding Company.

"**Cash Pooling Agreement**" means the cash pooling agreement (*contrato de prestación de servicios de centralización de tesorería*) entered into by FCC Aqualia, S.A. and a number of its Subsidiaries on or about 28 February 2017 and effective as from the Issue Date.

"**Calculation Date**" means the date of the event for which the particular calculation is made.

"**Consolidated Net Income**" means with respect to any specified person for any period, the aggregate of the attributable/net income (loss) from operating activities of such person and its Subsidiaries for such period, on a consolidated basis, determined in accordance with IFRS.

"**Consolidated Net Leverage**" means as at any Calculation Date, the sum of the outstanding amount of Recourse Non-subordinated Financial Debt of the Issuer and its Recourse Subsidiaries on a consolidated basis, in each case as of such Calculation Date less any recourse cash as of such Calculation Date.

"**Consolidated Net Leverage Ratio**" means as at any Calculation Date, the ratio of (a) the Consolidated Net Leverage on such date and (b) the Recourse EBITDA for the most recently ended Testing Period. In the event that the Issuer or any of its Recourse

Subsidiaries, incurs, assumes, guarantees, repays, repurchases, redeems or otherwise discharges any Recourse Non-subordinated Financial Debt subsequent to the commencement of the period for which the Consolidated Net Leverage Ratio is being calculated and on or prior to the Calculation Date, then the Consolidated Net Leverage Ratio will be calculated giving pro forma effect (as determined in good faith by the Issuer) to such incurrence, assumption, guarantee, repayment, repurchase, redemption or other discharge of any Recourse Non-subordinated Financial Debt, and the use of proceeds therefrom, as if the same had occurred at the beginning of the applicable Testing Period.

In addition, for purposes of calculating the Consolidated Net Leverage Ratio as at any Calculation Date:

- (i) acquisitions that have been made by the Issuer, any of its Recourse Subsidiaries, including through mergers, consolidations or otherwise, or any person or any of its Recourse Subsidiaries acquired by the Issuer or any of its Recourse Subsidiaries and including any related financing transactions and including increases in ownership of Recourse Subsidiaries, subsequent to the commencement of the Testing Period and on or prior to the Calculation Date, will be given *pro forma* effect (as determined in good faith by the Issuer) as if they had occurred on the first day of such Testing Period;
- (ii) any person that is a Recourse Subsidiary on the Calculation Date will be deemed to have been a Recourse Subsidiary at all times during such Testing Period; and
- (iii) any Person that is not a Recourse Subsidiary on the Calculation Date will be deemed not to have been a Recourse Subsidiary at any time during such Testing Period.

**"Controlling Shareholder"** means Fomento de Construcciones y Contratas, S.A. ("FCC"), a company incorporated under the laws of Spain, with its registered seat at Barcelona, Spain.

**"Controlling Shareholder Project Subsidiary Support"** means any Project Subsidiary Support pursuant to which the Controlling Shareholder may become liable to pay any Indebtedness of the Issuer or any Subsidiary of the Issuer.

**"Group"** means the Issuer and its Subsidiaries from time to time.

**"Holding Company"** means, in relation to a person, any other person in respect of which it is a Subsidiary.

**"IFRS"** means International Financial Reporting Standards issued by the International Standards Board as adopted by the European Union.

**"Indebtedness"** means any indebtedness, in each case without double counting, which would, except for any indebtedness referred to in paragraph (v), be in accordance with IFRS treated as debt recognised on the balance sheet of the relevant person for or in respect of:

- (i) Indebtedness for Borrowed Money;
- (ii) receivables sold or discounted (other than any receivables to the extent they are sold on a non-recourse basis);
- (iii) any indebtedness arising from any deferred payment agreements arranged primarily as a method of raising finance or financing the acquisition of an asset to the extent it is recorded on the balance sheet of the relevant person according to IFRS;
- (iv) any derivative transaction entered into in connection with protection against fluctuation in any rate or price (and, when calculating the value of any

derivative transaction, only the marked to market value will be taken into account) which would, in accordance with IFRS, be treated on the balance sheet of the relevant person;

- (v) any counter-indemnity obligation in respect of a guarantee, indemnity, bond standby or documentary letter of credit or any other instrument issued by a bank or financial institution other than any given in respect of trade credit arising in the ordinary course of business;
- (vi) any other transaction (including any forward sale or purchase agreement) having the commercial effect of a borrowing, to the extent it is recorded on the balance sheet of the relevant person according to IFRS; or
- (vii) any guarantee, indemnity or similar assurance against financial loss of any person issued by the relevant person in respect of any item referred to in paragraphs (i) to (vi) (other than any given in respect of trade credit arising in the ordinary course of business),

**provided that**, any leases (or guarantees thereof) which would be considered operating leases in accordance with IFRS on the Issue Date shall (in each case) not constitute Indebtedness.

**"Indebtedness for Borrowed Money"** means, with respect to a person, at any time and without duplication:

- (i) moneys borrowed which in accordance with IFRS would be included in determining total liabilities;
- (ii) all liabilities evidenced by bonds, debentures, notes or other similar instruments;
- (iii) all liabilities appearing on its balance sheet in accordance with IFRS in respect of capital leases;
- (iv) its redemption obligations in respect of its mandatorily redeemable preference shares which in accordance with IFRS would be included in determining total liabilities; and
- (v) any guarantee of liabilities of a type described in paragraphs (i) to (iv) above.

**provided that**, any leases (or guarantees thereof) which would be considered operating leases in accordance with IFRS on the Issue Date shall (in each case) not constitute Indebtedness for Borrowed Money.

**"Issue Date"** means 8 June 2017.

**"Material Subsidiary"** means any majority owned or wholly owned subsidiary of the Issuer, the EBITDA of which (consolidated where that subsidiary itself has subsidiaries) accounts for 10% or more of the consolidated EBITDA of the Group.

**"Non-Recourse Indebtedness"** means any Indebtedness for Borrowed Money in respect of which no loan guarantee, indemnity or contractual insurance or other reimbursement arrangement has been given by another member of the Issuer's group that is not a Non-Recourse Subsidiary, other than pursuant to Project Subsidiary Support.

**"Non-Recourse Subsidiary"** means any present or future Subsidiary of the Issuer or any other entity in which the Issuer owns more than 10%:

- (i) the principal business of which is, or will be, the ownership, acquisition management, development, operation, construction, improvement, installation, design, engineering, completion, maintenance, and/or financing of an asset, project or concession (whether or not an asset, project or concession of the

Issuer or any of its Subsidiaries), and/or to hold directly or indirectly the shares of one or more other Non-Recourse Subsidiaries; and

- (ii) the outstanding Indebtedness for Borrowed Money of which consists of Non-Recourse Indebtedness.

**"Original Pledgor Subsidiary"** means any Subsidiary of the Issuer who is a holder of the shares or quota shares of any other Subsidiary of the Issuer, which shares or quota shares are the subject of a Pledge in favour of the Secured Creditors;

**"Permitted Transfer"** means:

- (i) the merger, combination or other amalgamation whilst solvent (a **"Merger"**) of a Subsidiary of the Issuer whose shares or quota shares are the subject of a Pledge (the **"First Subsidiary"**) with another Subsidiary of the Issuer whose shares or quota shares may or may not also be the subject of a Pledge (such subsidiary together with the First Subsidiary, the **"Original Subsidiaries"**) where, from and including the effective date of such Merger, the total amount of the new shares or quota shares of the entity that results from such Merger have been made the subject of a first ranking pledge in favour of the Secured Creditors on the same terms and conditions as the Pledge(s) originally granted over the shares or quota shares of the First Subsidiary or of the Original Subsidiaries, as the case may be; and
- (ii) the sale, assignment, cession or other disposal (a **"Disposal"**) of shares or quota shares that are the subject of a Pledge by the Issuer or by a Subsidiary of the Issuer to the Issuer or another Subsidiary of the Issuer (the **"Acquiring Company"**) where, from and including the effective date of such Disposal the Acquiring Company has been subrogated in the place of the original pledgor to all of the obligations of such pledgor in respect of the relevant Pledge.

**"Permitted Share Capital Increase"** means an issuance of newly created shares or quota shares of a Subsidiary the shares or quota shares of which are the subject of a Pledge (the **"Pledged Subsidiary"**) for subscription by either:

- (i) the Issuer where, from and including the date on which the Issuer's holding of the newly issued shares is registered in the relevant share registry or quota share registry, the Pledge in respect of the Issuer's original holding of shares or quota shares in the Pledged Subsidiary has been extended to cover the full amount of the newly subscribed shares or quota shares held by the Issuer; or
- (ii) an Original Pledgor Subsidiary where, from and including the date on which such Original Pledgor Subsidiary's holding of the newly issued shares is registered in the relevant share registry or quota share registry, the Pledge in respect of such Original Pledgor Subsidiary's original holding of shares or quota shares in the Pledged Subsidiary has been extended to cover the full amount of the newly subscribed shares or quota shares held by such Original Pledgor Subsidiary; or
- (iii) any other Subsidiary of the Issuer where, from and including the date on which such Subsidiary's holding of the newly issued shares is registered in the relevant share registry or quota share registry, the total amount of newly issued shares held by such Subsidiary has been made the subject of a first ranking pledge in favour of the Secured Creditors on the same terms and conditions as the Pledge originally granted over the shares or quota shares of the Pledged Subsidiary by the Issuer and, if applicable, any Original Pledgor Subsidiary.

**"Project Subsidiary Support"** means any guarantee, indemnity or contractual insurance or other reimbursement arrangement (a) that is related to the commercial role of the Group or a Non-Recourse Subsidiary in connection with any asset, project or concession to which the Issuer or a Subsidiary (including, but not limited to, a Non-Recourse

Subsidiary) provides any goods or services, and (b) pursuant to which the Issuer or its Subsidiaries, other than Non-Recourse Subsidiaries, may become liable to pay any Indebtedness of a Non-Recourse Subsidiary in amounts which do not exceed, on a pro-rata basis, the interest, participation or ownership of the Group and/or a Non-Recourse Subsidiary in such asset, project or concession pursuant to (A) bid and performance bonds and other technical guarantees (garantías técnicas), or related reimbursement or indemnity agreements in favour of the issuers of such bonds or guarantees, that are customary in view of the particular risks or circumstances associated with such asset, project or concession and/or (B) any guarantee, indemnity or contractual insurance or other reimbursement obligation under which payment is contingent upon the failure of the Issuer or a Subsidiary (including, but not limited to, a Non-Recourse Subsidiary) to comply with an Obligation undertaken in connection with the management, development, operation, construction, improvement, installation, design, engineering, completion and/or maintenance of such asset, project or concession.

For the purposes of this definition:

**"Obligation"** means any obligation (and any guarantee, insurance or undertaking of a similar nature in respect thereof) of a type customarily undertaken, including, but not limited to, the timely completion of construction and payment of related customary expenses and penalties, in connection with the relevant asset, project or concession.

**"Recourse EBITDA"** means with respect to any Testing Period:

- (i) the income (loss) from operating activities of the Issuer and its Recourse Subsidiaries for such period; plus
- (ii) depreciation and amortisation of the Issuer and its Recourse Subsidiaries for such period;

in each case, on a consolidated basis and determined in accordance with IFRS; *provided that*, for purposes of the definition of Recourse EBITDA:

- (i) the income (loss) of any person that is not a Recourse Subsidiary or that is accounted for by the equity method of accounting will be included only to the extent of the amount of dividends or similar distributions paid in cash to the Issuer or a Recourse Subsidiary of the Issuer; and
- (ii) any extraordinary, exceptional or non-recurring operating gains or losses or any charges of the Issuer and its Recourse Subsidiaries (in each case as determined in good faith by the Issuer) for such period will be excluded; and
- (iii) the income (loss) from operating activities, depreciation and amortisation of Non-Recourse Subsidiaries will be excluded but the amount of dividends or distributions paid in cash to the Issuer by its Non-Recourse Subsidiaries will be included.

**"Recourse Non-Subordinated Financial Debt"** means in relation to the Issuer or any Recourse Subsidiary, (i) non subordinated long-term debt (debt with a maturity of greater than one year) incurred with credit institutions, plus (ii) non subordinated short-term debt (debt with a maturity of less than one year) incurred with credit institutions, plus (iii) non subordinated notes, obligations, promissory notes and any other such obligations or liabilities the purpose of which is to provide finance and generate a financial cost for the Issuer or its Recourse Subsidiaries, plus (iv) non-subordinated obligations relating to guarantees of third party obligations (other than intra-group guarantees).

**"Recourse Subsidiaries"** means any present and future Subsidiary that is not a Non-Recourse Subsidiary.

**"Similar Business"** means:

- (i) the used-water capture and sewage transport, treatment and reuse business;
- (ii) the water collection, transportation, treatment, distribution and supply business; and
- (iii) the water infrastructure construction, management, operation and maintenance business,

engaged in by the Issuer or any of its Subsidiaries on or before the Issue Date, and/or other businesses necessary for and incident to, connected with, ancillary or complementary to, arising out, an extension of or developed or operated to permit or facilitate the conduct of such businesses from time to time.

"**Subsidiary**" means, in relation to any person (the "**First Person**") at any particular time, any other person (the "**Second Person**"):

- (i) whose affairs and policies the First Person controls or has the power to control (directly or indirectly), whether by ownership of share capital, contract, the power to appoint or remove members of the governing body of the Second Person or otherwise; or
- (ii) whose financial statements are, in accordance with applicable law and generally accepted accounting principles, consolidated with those of the First Person.

"**Testing Period**" means with respect to any Calculation Date, the Issuer's most recently ended four full consecutive fiscal quarters.

## 5. **Debt Service Reserve Account**

### (a) ***Account Banks***

- (i) The Debt Service Reserve Account shall be held with the Account Bank on the terms set out in the Account Bank Agreement.
- (ii) The Account Bank shall be, at all times, an Acceptable Bank. If the Account Bank ceases to be an Acceptable Bank, the Issuer shall use its reasonable endeavours to appoint a substitute Account Bank that is an Acceptable Bank as Account Bank as soon as reasonably practicable, and in any event within 30 days after becoming aware of the previous Account Bank ceasing to be an Acceptable Bank, in accordance with the terms of the Account Bank Agreement.

- (b) ***Compliance with the Account Bank Agreement:*** The Issuer shall at all times comply with its obligations under the Account Bank Agreement.

### (c) ***Debt Service Reserve Account***

- (i) **Operation of Debt Service Reserve Account**
  - (A) The Debt Service Reserve Account will initially (on or before the Issue Date) be funded by the Issuer with cash, in an amount equal to the Initial Debt Service Reserve Account Minimum Balance; and
  - (B) the Issuer shall ensure that the aggregate amount standing to the credit of the Debt Service Reserve Account shall be not less than the Debt Service Reserve Account Minimum Balance.
- (ii) **Withdrawal from Debt Service Reserve Account**
  - (A) The Issuer shall not withdraw any amount from time to time standing to the credit of the Debt Service Reserve Account other than:



- (B) to effect the redemption of all but not some only of the Notes in accordance with Conditions 7(b) (*Redemption for Tax Reasons*) or 7(c) (*Mandatory Redemption on Change of Control*); or
  - (C) to the extent of any excess over the amount required to stand to the credit of the Debt Service Reserve Account pursuant to Condition 5(c)(i)(B).
- (d) **Security over Debt Service Reserve Account:** The credit rights of the Issuer arising from the Debt Service Reserve Account will be secured for the benefit of the Secured Creditors.
- (e) **Payment Priorities:** Following an acceleration of the Notes and enforcement of the Security, all monies received by the Security Agent shall be held on trust by it for the benefit of all Secured Creditors and will be applied in accordance with clause 12 (*Application of Proceeds*) of the Intercreditor Agreement.
- (f) **Interpretation:** In these Conditions:
- "**Acceptable Bank**" means a bank or financial institution which for so long as the Notes carry a credit rating has an Investment Grade Rating (as defined below) for its long-term unsecured and non credit-enhanced debt obligations, or such other rating or ratings as may be agreed by the relevant rating agency from time to time as would maintain the then current ratings of the Notes;
- "**Account Bank**" means Banco Santander, S.A. or any replacement thereof (which shall be an Acceptable Bank);
- "**Account Bank Agreement**" means an account bank agreement dated 8 June 2017 between the Issuer, the Account Bank and the Security Agent;
- "**Debt Service Reserve Account**" means the debt service reserve account held by the Issuer with the Account Bank titled "FCC Aqualia S.A., Debt Service Reserve Account" (including any sub-accounts into which such account may be divided), as such account may be renewed, redesignated or renumbered from time to time;
- "**Debt Service Reserve Account Minimum Balance**" means an amount equal to the aggregate amount of interest due and payable on all outstanding Notes during the first twelve month period immediately following each Interest Payment Date;
- "**Initial Debt Service Reserve Account Minimum Balance**" means an amount equal to the aggregate amount of interest due and payable on all outstanding Notes in respect of the twelve month period immediately following the Issue Date of the Notes;

## 6. Interest

The Notes bear interest from (and including) the Issue Date at the rate of 2.629 per cent. per annum, (the "**Rate of Interest**") payable annually in arrears on 8 June in each year (each, an "**Interest Payment Date**"), subject as provided in Condition 8 (*Payments*).

Each Note will cease to bear interest from the due date for redemption unless, upon due presentation, payment of principal is improperly withheld or refused, in which case it will continue to bear interest at such rate (both before and after judgment) until whichever is the earlier of (a) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant Noteholder and (b) the day which is seven days after the Principal Paying Agent or the Note Trustee has notified the Noteholders that it has received all sums due in respect of the Notes up to such seventh day (except to the extent that there is any subsequent default in payment).

The amount of interest payable on each Interest Payment Date shall be EUR26.29 per Calculation Amount. If interest is required to be paid in respect of a Note on any other date, it shall be calculated by applying the Rate of Interest to the Calculation Amount, multiplying the

product by the relevant Day Count Fraction and rounding the resulting figure to the nearest cent (half a cent being rounded upwards) and multiplying such rounded figure by a fraction equal to the denomination of such Note divided by the Calculation Amount, where:

"**Calculation Amount**" means EUR1,000;

"**Day Count Fraction**" means, in respect of any period, the number of days in the relevant period, from (and including) the first day in such period to (but excluding) the last day in such period, divided by the number of days in the Regular Period in which the relevant period falls; and

"**Regular Period**" means each period from (and including) the Issue Date or any Interest Payment Date to (but excluding) the next Interest Payment Date.

## 7. **Redemption and Purchase**

- (a) **Scheduled redemption:** Unless previously redeemed, or purchased and cancelled, the Notes will be redeemed at their principal amount on 8 June 2027, subject as provided in Condition 8 (*Payments*).
- (b) **Redemption for tax reasons:** The Notes may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days' notice to the Noteholders (which notice shall be irrevocable) at their principal amount, together with interest accrued to the date fixed for redemption, if, immediately before giving such notice, the Issuer satisfies the Note Trustee that:
  - (i) the Issuer has or will become obliged to pay additional amounts as provided or referred to in Condition 9 (*Taxation*) as a result of any change in, or amendment to, the laws or regulations of the Kingdom of Spain or any political subdivision or any authority thereof or therein having power to tax, any international treaty to which the Kingdom of Spain is a party to, or any change in the application or official interpretation of such laws or regulations (including a holding by a court of competent jurisdiction), which change or amendment becomes effective on or after the Issue Date; and
  - (ii) such obligation cannot be avoided by the Issuer taking reasonable measures available to it;

**provided, however, that** no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer would be obliged to pay such additional amounts if a payment in respect of the Notes were then due.

Prior to the publication of any notice of redemption pursuant to this paragraph, the Issuer shall deliver to the Note Trustee:

- (A) a certificate signed by two directors or officers of the Issuer stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred; and
- (B) an opinion in form and substance satisfactory to the Note Trustee of independent legal advisers of recognised standing to the effect that the Issuer has or will become obliged to pay such additional amounts as a result of such change or amendment.

The Note Trustee shall be entitled to accept such certificate and opinion as sufficient evidence of the satisfaction of the circumstances set out in (i) and (ii) above, in which event they shall be conclusive and binding on the Noteholders.

Upon the expiry of any such notice as is referred to in this Condition 77(b), the Issuer shall be bound to redeem the Notes in accordance with this Condition 77(b).

- (c) **Mandatory Redemption on Change of Control:** If a Change of Control occurs and, within the applicable Change of Control Event Period a Rating Downgrade occurs, then the Issuer will redeem, or at the option of the Issuer, purchase or procure the purchase of the Notes, in whole but not in part, at 100 per cent. of their outstanding principal amount together, if appropriate, with interest accrued to (but excluding) such date.

Promptly upon the Issuer becoming aware that a Change of Control has occurred, the Issuer shall give notice (a "**Change of Control Notice**") to the Note Trustee and to the Noteholders in accordance with Condition 17 (*Notices*) specifying the nature of the Change of Control.

In these conditions:

A "**Change of Control**" will occur if at any time one or more individuals or legal entities (other than the Controlling Shareholder and/or any of its Affiliates) acting individually or in concert, acquires control through share ownership, acquisition of more than 50% of voting rights in the Issuer or the right to appoint more than half of the directors of the Issuer.

"**Change of Control Event Period**" means the period beginning on and including the date of the relevant Public Announcement and ending on the date falling 45 days after the Change of Control occurs or such longer period in which the Notes are under consideration (such consideration having been announced publicly within the first mentioned 45 day period) for rating review by any Rating Agency, such period not to exceed 45 days after the first public announcement of such consideration by the relevant Rating Agency.

"**Investment Grade Rating**" means a Rating of at least BBB- or Baa3 (or their respective equivalents at each Rating Agency for the time being).

"**Public Announcement**" means the date of the Change of Control Notice or any earlier date on which a public announcement or statement is made by the Issuer or FCC.

"**Rating Agency**" means any of (a) Fitch Ratings Limited, (b) Moody's Investors Service, Inc., (c) Standard & Poor's Credit Market Services Europe Limited, and (d) any other rating agency of similar international standing and (in each case) their respective affiliates and successors and Rating Agencies shall be construed accordingly.

"**Rating Downgrade**" will occur if:

- (i) in circumstances where, as at the first day of the Change of Control Event Period, the Notes have been assigned an Investment Grade Rating by at least one Rating Agency, an Investment Grade Rating assigned to the Notes by a Rating Agency is withdrawn or reduced to a rating below an Investment Grade Rating and is not, within the Change of Control Period, subsequently upgraded (in the case of a downgrade) to an investment grade rating or reinstated (in the case of a withdrawal); or
- (ii) in circumstances where, as at the first day of the Change of Control Event Period, the Notes have been assigned a rating below an Investment Grade Rating by at least one Rating Agency, any such rating is withdrawn or reduced one full rating notch (for example, Ba1 to Ba2 by Moody's or BB+ to BB by Standard & Poor's or Fitch) and is not, within the Change of Control Period, subsequently upgraded (in the case of a downgrade) to an investment grade rating or reinstated (in the case of a withdrawal),

and the relevant Rating Agency has announced or otherwise publicly confirmed (including by means of any letter or notice to the Issuer) that such downgrade or withdrawal pursuant to paragraphs (a) and (b) above is attributable to the relevant Change of Control.

- (d) **Redemption at the option of the Issuer:** Not earlier than 8 March 2027, the Issuer may, having given not less than 15 and not more than 30 days' notice to the Note Trustee and to Noteholders redeem all or some only of the Notes then outstanding on such date (the "**Optional Redemption Date**") at their outstanding principal amount, together, if appropriate, with interest accrued to (but excluding) the relevant Optional Redemption Date.

If the Notes are to be redeemed in part only on any date in accordance with this Condition 7(d) (*Redemption at the option of the Issuer*), the Notes to be redeemed shall be selected pro rata by the drawing of lots in such place as the Note Trustee approves and in such manner as the Note Trustee considers appropriate, subject to compliance with applicable law and the rules of each listing authority, stock exchange and/or quotation system (if any) by which the Notes have then been admitted to listing, trading and/or quotation, and the notice to the Note Trustee and the Noteholders referred to in this Condition 7(d) (*Redemption at the option of the Issuer*) shall specify the serial numbers of the Notes so to be redeemed.

- (e) **No other redemption:** The Issuer shall not be entitled to redeem the Notes otherwise than as provided in paragraphs 7(a) (*Scheduled redemption*) to (d) (*Redemption at the option of the Issuer*) above.
- (f) **Purchase:** FCC, the Issuer or any of their respective Subsidiaries may at any time purchase Notes in the open market or otherwise and at any price, **provided that** all unmatured Coupons are purchased therewith. The Notes so purchased, while held by or on behalf of FCC, the Issuer or any of their respective Subsidiaries until their cancellation in accordance with paragraph (g) (*Cancellation*) below, shall not entitle the holder to vote at any meetings of Noteholders and shall not be deemed to be outstanding for the purposes of calculating quorums at meetings of the Noteholders or for the purposes of Condition 14(a).
- (g) **Cancellation:** All Notes so redeemed or purchased by the Issuer or any of its Subsidiaries and any unmatured Coupons attached to or surrendered with them shall be cancelled and may not be reissued or resold.

## 8. Payments

- (a) **Principal:** Payments of principal shall be made only against presentation and (**provided that** payment is made in full) surrender of Notes at the Specified Office of any Paying Agent outside the United States by euro cheque drawn on, or by transfer to a Euro account (or other account to which euro may be credited or transferred) maintained by the payee with, a bank in a city in which banks have access to the TARGET System.
- (b) **Interest:** Payments of interest shall, subject to paragraph 8(g) (*Payments other than in respect of matured Coupons*) below, be made only against presentation and (**provided that** payment is made in full) surrender of the appropriate Coupons at the Specified Office of any Paying Agent outside the United States in the manner described in paragraph (a) (*Principal*) above.
- (c) **Interpretation:** In these Conditions:

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

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

and

"**TARGET System**" means the TARGET2 system.

- (d) **Payments subject to fiscal laws:** Payments will be subject in all cases to (i) any fiscal or other laws and regulations applicable thereto in the place of payment, but without prejudice to the provisions of Condition 9 and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986 (the "**Code**") or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof, or (without prejudice to the provisions of Condition 9) any law implementing an intergovernmental approach thereto.
- (e) **Deduction for unmatured Coupons:** If a Note is presented without all unmatured Coupons relating thereto, then:
- (i) if the aggregate amount of the missing Coupons is less than or equal to the amount of principal due for payment, a sum equal to the aggregate amount of the missing Coupons will be deducted from the amount of principal due for payment; **provided, however, that** if the gross amount available for payment is less than the amount of principal due for payment, the sum deducted will be that proportion of the aggregate amount of such missing Coupons which the gross amount actually available for payment bears to the amount of principal due for payment;
  - (ii) if the aggregate amount of the missing Coupons is greater than the amount of principal due for payment:
    - (A) so many of such missing Coupons shall become void (in inverse order of maturity) as will result in the aggregate amount of the remainder of such missing Coupons (the "**Relevant Coupons**") being equal to the amount of principal due for payment; **provided, however, that** where this sub-paragraph would otherwise require a fraction of a missing Coupon to become void, such missing Coupon shall become void in its entirety; and
    - (B) a sum equal to the aggregate amount of the Relevant Coupons (or, if less, the amount of principal due for payment) will be deducted from the amount of principal due for payment; **provided, however, that**, if the gross amount available for payment is less than the amount of principal due for payment, the sum deducted will be that proportion of the aggregate amount of the Relevant Coupons (or, as the case may be, the amount of principal due for payment) which the gross amount actually available for payment bears to the amount of principal due for payment.

Each sum of principal so deducted shall be paid in the manner provided in paragraph 8(a) (*Principal*) above against presentation and (**provided that** payment is made in full) surrender of the relevant missing Coupons. No payments will be made in respect of void Coupons.

- (f) **Payments on business days:** If the due date for payment of any amount in respect of any Note or Coupon is not a business day in the place of presentation, the holder shall not be entitled to payment in such place of the amount due until the next succeeding business day in such place and shall not be entitled to any further interest or other payment in respect of any such delay. In these conditions, "**business day**" means, in respect of any place of presentation, any day on which banks are open for presentation and payment of bearer debt securities and for dealings in foreign currencies in such place of presentation and, in the case of payment by transfer to a Euro account as referred to above, on which the TARGET System is open.
- (g) **Payments other than in respect of matured Coupons:** Payments of interest due in respect of any Note other than on presentation and surrender of matured Coupons shall be made only against presentation and either surrender or enforcement (as appropriate)

of the relevant Notes at the Specified Office of any Paying Agent outside the United States.

- (h) **Partial payments:** If a Paying Agent makes a partial payment in respect of any Note or Coupon presented to it for payment, such Paying Agent will endorse thereon a statement indicating the amount and the date of such payment.

9. **Taxation**

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

- (a) any Note or Coupon presented for payment by or on behalf of a holder which is liable to such taxes, duties, assessments or governmental charges in respect of such Note or Coupon by reason of its having some connection with the Kingdom of Spain other than the mere holding of the Note or Coupon; or
- (b) any Note or Coupon presented for payment by or on behalf of a holder who fails to make any necessary claim or to comply with any certification, identification or other requirements concerning the nationality, residence, identity or connection with the taxing jurisdiction of such holder, if such claim or compliance is required by statute, treaty, regulation or administrative practice of the taxing jurisdiction of the Issuer as a condition to relief or exemption from such taxes; or
- (c) any Note or Coupon presented for payment by or on behalf of an individual resident for tax purposes in the Kingdom of Spain if the Spanish tax authorities determine that payments made to such individuals are not exempt from Spanish withholding tax and require a withholding to be made; or
- (d) to, or to a third party on behalf of, a Spanish-resident legal entity subject to Spanish corporation tax if the Spanish tax authorities determine that the Notes do not comply with exemption requirements specified in the Reply to a Consultation of the Directorate General for Taxation (*Dirección General de Tributos*) dated 27 July 2004 and require a withholding to be made; or
- (e) any Note or Coupon presented for payment by or on behalf of, a holder who is a fiduciary, a partnership, a limited liability company or anything other than the sole beneficial owner of that payment, to the extent to which that payment would be required by the laws of Spain to be included in the income, for tax purposes, of a beneficiary or settlor with respect to the fiduciary, a member of that partnership, an interest holder in that limited liability company or a beneficial owner who would not have been entitled to any additional amounts had it been the holder; or
- (f) any Note or Coupon presented for payment more than 30 days after the Relevant Date except to the extent that the holder of such Note or Coupon would have been entitled to such additional amounts on presenting such Note or Coupon for payment on the last day of such period of 30 days.

In these Conditions, "**Relevant Date**" means whichever is the later of (1) the date on which the payment in question first becomes due and (2) if the full amount payable has not been received in a city in which banks have access to the TARGET System by the Principal Paying Agent or the Note Trustee on or prior to such due date, the date on which (the full amount having been so received) notice to that effect has been given to the Noteholders.

Any reference in these Conditions to principal or interest shall be deemed to include any additional amounts in respect of principal or interest (as the case may be) which may be payable under this Condition 9 or any undertaking given in addition to or in substitution of this Condition 9 pursuant to the Trust Deed.

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

#### 10. **Events of Default**

If any of the following events occurs and is continuing, then the Note Trustee at its discretion may and, if so requested in writing by holders of at least one quarter of the aggregate principal amount of the Notes then outstanding, or if so directed by an Extraordinary Resolution, shall (subject in each case to the Note Trustee having been indemnified and/or prefunded and/or provided with security to its satisfaction) give written notice to the Issuer declaring the Notes to be immediately due and payable, whereupon they shall become immediately due and payable at their principal amount together with accrued interest without further action or formality:

- (a) **Non-payment:** the Issuer fails to pay any amount of principal in respect of the Notes or fails to pay any amount of interest in respect of the Notes, in each case within seven days of the due date for payment thereof; or
- (b) **Breach of other obligations:** the Issuer defaults in the performance or observance of any of its other obligations under or in respect of the Notes or the Transaction Documents and such default (i) is, in the sole opinion of the Note Trustee, incapable of remedy or (ii) being a default which is, in the sole opinion of the Note Trustee, capable of remedy remains unremedied for 45 days after the Note Trustee has given written notice thereof to the Issuer; or
- (c) **Cross-default of Issuer or Material Subsidiary:**
  - (i) any Indebtedness of the Issuer or any of its Material Subsidiaries (which is not a Non-Recourse Subsidiary) is not paid when due or (as the case may be) within any originally applicable grace period;
  - (ii) any such Indebtedness becomes due and payable prior to its stated maturity otherwise than at the option of the Issuer or (as the case may be) the relevant Material Subsidiary (except a Non-Recourse Subsidiary) or **(provided that** no event of default, howsoever described, has occurred) at the option of any person entitled to such Indebtedness,  
**provided that** the amount of Indebtedness referred to in sub-paragraph (i) and/or sub-paragraph (ii) above, individually or in the aggregate, exceeds EUR30,000,000 (or its equivalent in any other currency or currencies);
- (d) **Unsatisfied judgment:** one or more final and non-appealable judgment(s) or order(s) for the payment of any amount/an amount in excess of EUR30,000,000 (or its equivalent in any other currency or currencies), whether individually or in aggregate, is rendered against the Issuer or any of its Material Subsidiaries and continue(s) unsatisfied and unstayed for a period of 30 days after the date(s) thereof or, if later, the date therein specified for payment; or
- (e) **Security enforced:** a secured party takes possession, or a receiver, manager or other similar officer is appointed, of the whole or any part of the undertaking, assets and revenues of the Issuer or any of its Material Subsidiaries (excluding Non-Recourse Subsidiaries), **provided that** the individual or aggregate value of all assets subject to the enforcement exceeds EUR30,000,000 (or its equivalent in any other currency or currencies);; or
- (f) **Insolvency, etc.:** (i) the Issuer or any of its Material Subsidiaries becomes insolvent (*concurso*) or is unable to regularly pay its debts as they fall due, (ii) an administrator or

liquidator is appointed in respect of the Issuer or any of its Material Subsidiaries or the whole or any substantial part of the undertaking, assets and revenues of the Issuer or any of its Material Subsidiaries, (iii) the Issuer or any of its Material Subsidiaries makes a general assignment or an arrangement with or for the benefit of all or a substantial part of its creditors or declares a moratorium in respect of any of its Indebtedness or any guarantee of any Indebtedness given by it or (iv) the Issuer or any of its Material Subsidiaries ceases or threatens to cease to carry on all or substantially all of its business (otherwise than, in the case of a Material Subsidiary of the Issuer, for the purposes of or pursuant to an amalgamation, reorganisation or restructuring whilst solvent); or

- (g) **Winding up, etc.:** an order is made or an effective resolution is passed for the winding up, liquidation or dissolution of the Issuer or any of its Material Subsidiaries (otherwise than, in the case of a Material Subsidiary of the Issuer, for the purposes of or pursuant to an amalgamation, reorganisation or restructuring whilst solvent); or
- (h) **Analogous event:** any event occurs which under the laws of the Kingdom of Spain has an analogous effect to any of the events referred to in paragraphs (d) (*Unsatisfied judgment*) to (g) (*Winding up, etc.*) above; or
- (i) **Failure to take action, etc.:** any action, condition or thing at any time required to be taken, fulfilled or done in order (i) to enable the Issuer lawfully to enter into, exercise their respective rights and perform and comply with its obligations under and in respect of the Notes or the Transaction Documents, (ii) to ensure that those obligations are legal, valid, binding and enforceable and (iii) to make the Notes, the Coupons, the Trust Deed and the other Transaction Documents admissible in evidence in the courts of England and of the Kingdom of Spain is not taken, fulfilled or done; or
- (j) **Unlawfulness:** it is or will become unlawful for the Issuer to perform or comply with any of its obligations under or in respect of the Notes or the Transaction Documents,

**provided that** in the case of paragraphs (b) and (e) the Note Trustee shall have certified that in its opinion such event is materially prejudicial to the interest of the Noteholders.

#### 11. **Prescription**

Claims for principal shall become void unless the relevant Notes are presented for payment within ten years of the appropriate Relevant Date. Claims for interest shall become void unless the relevant Coupons are presented for payment within five years of the appropriate Relevant Date.

#### 12. **Replacement of Notes and Coupons**

If any Note or Coupon is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the Specified Office of the Principal Paying Agent, subject to all applicable laws and stock exchange requirements, upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence, security, indemnity and otherwise as the Issuer may reasonably require. Mutilated or defaced Notes or Coupons must be surrendered before replacements will be issued.

#### 13. **Note Trustee and Paying Agents**

Under the Trust Deed, the Note Trustee is entitled to be indemnified and relieved from responsibility in certain circumstances and to be paid its fees, costs, charges, liabilities and expenses in priority to the claims of the Noteholders. In addition, the Note Trustee is entitled to enter into business transactions with the Issuer and any entity relating to the Issuer without accounting for any profit.

In the exercise of its powers and discretions under these Conditions and the Trust Deed, the Note Trustee will have regard to the interests of the Noteholders as a class and will not be responsible for any consequence for individual holders of Notes or Coupons as a result of such holders being connected in any way with a particular territory or taxing jurisdiction.



Prior to taking any action under these Conditions or any Transaction Document, as the case may be, the Note Trustee may request and rely upon an opinion of counsel or opinion of another qualified expert, at the Issuer's expense; **provided, however, that** any such opinions shall be at the expense of the relevant Noteholders, if such actions are on the instructions of the relevant Noteholders.

In acting under the Agency Agreement and in connection with the Notes and the Coupons, the Paying Agents act solely as agents of the Issuer and (to the extent provided therein) the Note Trustee and do not assume any obligations towards or relationship of agency or trust for or with any of the Noteholders or Couponholders.

The initial Paying Agents and their initial Specified Offices are listed below. The Issuer reserves the right (with the prior approval of the Note Trustee) at any time to vary or terminate the appointment of any Paying Agent and to appoint a successor principal paying agent and additional or successor paying agents; **provided, however, that** the Issuer shall at all times maintain a principal paying agent.

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

14. **Meetings of Noteholders; Modification and Waiver**

- (a) **Meetings of Noteholders:** The Trust Deed contains provisions for convening meetings of Noteholders to consider matters relating to the Notes, including the modification of any provision of these Conditions or the Trust Deed or any other Transaction Document. Any such modification may be made if sanctioned by an Extraordinary Resolution. Such a meeting may be convened by the Issuer or by the Note Trustee and shall be convened by the Note Trustee (subject to it having been indemnified, and/or prefunded, and/or provided with security to its satisfaction) upon the request in writing of Noteholders holding not less than 10 per cent. of the aggregate principal amount of the outstanding Notes. The quorum at any meeting convened to vote on an Extraordinary Resolution will be two or more persons holding or representing one more than half of the aggregate principal amount of the outstanding Notes or, at any adjourned meeting, one or more persons being or representing Noteholders whatever the principal amount of the Notes held or represented; **provided, however, that** certain proposals (including any proposal to change any date fixed for payment of principal or interest in respect of the Notes, to reduce the amount of principal or interest payable on any date in respect of the Notes, to alter the method of calculating the amount of any payment in respect of the Notes or the date for any such payment, to change the currency of payments under the Notes, or to change the quorum requirements relating to meetings or the majority required to pass an Extraordinary Resolution (each, a "**Reserved Matter**") may only be sanctioned by an Extraordinary Resolution passed at a meeting of Noteholders at which two or more persons holding or representing not less than 75 per cent. or, at any adjourned meeting, not less than 25 per cent. of the aggregate principal amount of the outstanding Notes form a quorum. Any Extraordinary Resolution duly passed at any such meeting shall be binding on all the Noteholders and Couponholders, whether present or not.

In addition, a resolution in writing signed by or approved by way of electronic consent communicated through the electronic communications systems of the relevant clearing system(s), in each case, on behalf of not less than 75 per cent. of holders of Notes who for the time being are entitled to receive notice of a meeting of Noteholders under the Trust Deed will take effect as if it were an Extraordinary Resolution. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Noteholders.

- (b) **Modification and waiver:** The Note Trustee may, without the consent of the Noteholders or the Couponholders, agree (i) to any modification of these Conditions or the Trust Deed or the Notes or the Coupons or any other Transaction Document (other than in respect of a Reserved Matter) and for the purpose of being a Relevant Creditor under the Intercreditor Agreement to direct the Security Agent to agree such modification to the Intercreditor Agreement or Security Documents, which is, in the opinion of the Note

Trustee, not materially prejudicial to the interests of Noteholders, and/or (ii) to any modification of these Conditions or the Trust Deed or the Notes or the Coupons or any other Transaction Document and for the purpose of being a Relevant Creditor under the Intercreditor Agreement direct the Security Agent to agree such modification to the Intercreditor Agreement or Security Documents, which is of a formal, minor or technical nature or is to correct a manifest error. In addition, the Note Trustee may, without the consent of the Noteholders or the Couponholders, authorise or waive any proposed breach or breach of these Conditions or the Trust Deed or the Notes or the Coupons or any other Transaction Document (other than a proposed breach or breach relating to the subject of a Reserved Matter) or determine that an Event of Default or Potential Event of Default should not be treated as such and for the purpose of being a Relevant Creditor direct the Security Agent to agree a waiver to the Intercreditor Agreement or Security Documents, if, in the opinion of the Note Trustee, the interests of the Noteholders will not be materially prejudiced thereby.

Unless the Note Trustee agrees otherwise, any such authorisation, waiver or modification shall be notified to the Noteholders as soon as practicable thereafter.

15. **Enforcement**

Subject to Condition 3(c) (*Enforcement of Security*) the Note Trustee may at any time, at its discretion and without notice, institute such proceedings as it thinks fit to enforce its rights under the Trust Deed in respect of the Notes, but it shall not be bound to do so unless:

- (a) it has been so directed by an Extraordinary Resolution; and
- (b) it has been indemnified and/or prefunded and/or provided with security to its satisfaction and shall have no liability for taking or refraining from taking such action.

16. **Further Issues**

The Issuer may from time to time, without the consent of the Noteholders or the Couponholders and in accordance with the Trust Deed, create and issue further Notes having the same terms and conditions as the Notes in all respects (or in all respects except for the amount, issue date and date of the first payment of interest) so as to form a single series with the Notes. The Issuer may from time to time, with the consent of the Note Trustee, create and issue other series of Notes having the benefit of the Trust Deed.

17. **Notices**

Notices to the Noteholders shall be valid if published in a leading English language daily newspaper published in London (which is expected to be the *Financial Times*) or, if the Notes are admitted to trading on the Irish Stock Exchange, a leading newspaper having general circulation in Ireland or published on the website of the Irish Stock Exchange or, in either case, if such publication is not practicable, in a leading English language daily newspaper having general circulation in Europe. Any such notice shall be deemed to have been given on the date of first publication. Couponholders shall be deemed for all purposes to have notice of the contents of any notice given to the Noteholders.

18. **Governing Law and Jurisdiction**

- (a) **Governing law:** The Notes and any non-contractual obligations arising out of or in connection with the Notes or the Coupons (save for Condition 2(a) (*Status*)) will be governed by English law. Condition 2(a) (*Status*) and any non-contractual obligations arising out of or in connection with them will be governed by Spanish law.
- (b) **Jurisdiction:** The Issuer has in the Trust Deed (i) agreed for the benefit of the Note Trustee and the Noteholders that the courts of England shall have exclusive jurisdiction to settle any dispute (a "**Dispute**") arising out of or in connection with the Notes or the Coupons (including any non-contractual obligation arising out of or in connection with the Notes or the Coupons); (ii) agreed that those courts are the most appropriate and convenient courts to settle any Dispute and, accordingly, that it will not argue that any

other courts are more appropriate or convenient; and (iii) designated a person in England to accept service of any process on its behalf. The Trust Deed also states that nothing contained in the Trust Deed prevents the Note Trustee or any of the Noteholders from taking proceedings against the Issuer relating to a Dispute ("**Proceedings**") in any other courts with jurisdiction and that, to the extent allowed by law, the Note Trustee or any of the Noteholders may take concurrent Proceedings in any number of jurisdictions.

## SUMMARY OF PROVISIONS RELATING TO THE NOTES IN GLOBAL FORM

Each series of Notes will initially be in the form of a Temporary Global Note which will be deposited on or around the Closing Date with a common safekeeper for Euroclear and Clearstream, Luxembourg.

The Notes will be issued in new global note ("NGN") form. On 13 June 2006 the European Central Bank (the "ECB") announced that Notes in NGN form are in compliance with the "Standards for the use of EU securities settlement systems in ESCB credit operations" of the central banking system for the euro (the "Eurosystème"), **provided that** certain other criteria are fulfilled. At the same time the ECB also announced that arrangements for Notes in NGN form will be offered by Euroclear and Clearstream, Luxembourg as of 30 June 2006 and that debt securities in global bearer form issued through Euroclear and Clearstream, Luxembourg after 31 December 2006 will only be eligible as collateral for Eurosystem operations if the NGN form is used.

The Notes are intended to be held in a manner which would allow Eurosystem eligibility - that is, in a manner which would allow the Notes to be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem either upon issue or at any or all times during their life. Such recognition will depend upon satisfaction of the Eurosystem eligibility criteria.

Each Temporary Global Note will be exchangeable in whole or in part for interests in the Permanent Global Note not earlier than 40 days after the Closing Date upon certification as to non-U.S. beneficial ownership. No payments will be made under the Temporary Global Note unless exchange for interests in the Permanent Global Note is improperly withheld or refused. In addition, interest payments in respect of the Notes cannot be collected without such certification of non-U.S. beneficial ownership.

Each Permanent Global Note will become exchangeable in whole, but not in part, for Notes in definitive form ("**Definitive Notes**") in the denomination of EUR100,000 each at the request of the bearer of the Permanent Global Note against presentation and surrender of the Permanent Global Note to the Principal Paying Agent if either of the following events (each, an "**Exchange Event**") occurs: (a) Euroclear or Clearstream, Luxembourg is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business or (b) any of the circumstances described in Condition 10 (*Events of Default*) occurs.

So long as the Notes are represented by a Temporary Global Note or a Permanent Global Note and the relevant clearing system(s) so permit, the Notes will be tradeable only in the minimum authorised denomination of EUR100,000 and higher integral multiples of EUR1,000, notwithstanding that not Definitive Notes will be issued with a denomination above EUR199,000.

Whenever a Permanent Global Note is to be exchanged for Definitive Notes, the Issuer shall procure the prompt delivery (free of charge to the bearer) of such Definitive Notes, duly authenticated and with Coupons attached, in an aggregate principal amount equal to the principal amount of such Permanent Global Note to the bearer of the Permanent Global Note against the surrender of the Permanent Global Note to or to the order of the Principal Paying Agent within 30 days of the occurrence of the relevant Exchange Event.

In addition, each Temporary Global Note and each Permanent Global Note will contain provisions which modify the Terms and Conditions of the Notes as they apply to the Temporary Global Note and the Permanent Global Note. The following is a summary of certain of those provisions:

**Payments:** All payments in respect of a Temporary Global Note and a Permanent Global Note will be made against presentation and (in the case of payment of principal in full with all interest accrued thereon) surrender of the relevant Temporary Global Note or (as the case may be) the relevant Permanent Global Note to or to the order of any Paying Agent and will be effective to satisfy and discharge the corresponding liabilities of the Issuer in respect of the Notes. On each occasion on which a payment of principal or interest is made in respect of a Temporary Global Note or (as the case may be) a Permanent Global Note, the Issuer shall procure that the payment is entered *pro rata* in the records of Euroclear and Clearstream, Luxembourg.

**Payments on business days:** In the case of all payments made in respect of the Temporary Global Notes and the Permanent Global Notes "**business day**" means any day on which the TARGET System is open.

**Partial exercise of call option:** In connection with an exercise of the option contained in Condition 7(d) (*Redemption at the option of the Issuer*) in relation to some only of the Notes, the Permanent Global Note may be redeemed in part in the principal amount specified by the Issuer in accordance with the Conditions and the Notes to be redeemed will not be selected as provided in the Conditions but in accordance with the rules and procedures of Euroclear and Clearstream, Luxembourg (to be reflected in the records of Euroclear and Clearstream, Luxembourg as either a pool factor or a reduction in principal amount, at their discretion).

**Notices:** Notwithstanding Condition 17 (*Notices*), while all the Notes are represented by a Permanent Global Note (or by a Permanent Global Note and/or a Temporary Global Note) and the Permanent Global Note is (or the Permanent Global Note and/or the Temporary Global Note are) deposited with a common Safekeeper for Euroclear and Clearstream, Luxembourg, notices to Noteholders may be given by delivery of the relevant notice to Euroclear and Clearstream, Luxembourg and, in any case, such notices shall be deemed to have been given to the Noteholders in accordance with Condition 17 (*Notices*) on the date of delivery to Euroclear and Clearstream, Luxembourg.

## **USE OF PROCEEDS**

The net proceeds of the issue of the Notes will be used by the Issuer to make the following distributions to the FCC Group: (i) a dividend of EUR446,000,000, (ii) two long term subordinated loans to its parent entity in an aggregate amount of up to EUR515,841,723.49 and (iii) a repayment of its existing indebtedness with its parent entity in the principal amount of EUR385,773,241.67 plus accrued interest as of the Issue Date. Substantially all the amount received by the FCC Group will be applied to the repayment of existing FCC Group indebtedness.

## DESCRIPTION OF THE ISSUER

### Information about the Issuer

FCC Aqualia, S.A. is a limited liability company (*sociedad anónima*) incorporated on 26 May 1980 under the laws of the Kingdom of Spain, with registration number A-26019992. Its current registered office is located at Calle Federico Salmón, 13 28016 Madrid, Spain, with telephone number +34 91 357 5400.

FCC Aqualia, S.A. is a wholly-owned subsidiary (directly and indirectly) of Fomento de Construcciones y Contratas, S.A. ("**FCC**"), one of the leading services and infrastructure companies in Europe. FCC is publicly traded on the stock exchanges of Madrid, Barcelona, Bilbao and Valencia. FCC is controlled by Inversora Carso, S.A. de C.V. ("**Inversora Carso**"), which has appointed more than half of the members of FCC's board of directors, which currently hold the majority of the voting rights on FCC's board of directors.

Inversora Carso is wholly-owned, directly or indirectly, by the Trust F/125 (*Fideicomiso F/125*), which consists of Banco Inbursa, S.A., Institución de Banca Múltiple and Grupo Financiero Inbursa, among others. Different members of the Carlos Slim family are involved in the Trust F/125 (*Fideicomiso F/125*), but none of the family members or any other person or entity has control individually or by concerted action of either Trust F/125 (*Fideicomiso F/125*) or Inversora Carso.

### Aqualia Overview

FCC Aqualia, S.A. and its consolidated subsidiaries ("**Aqualia**") comprise the third largest European private water management group by population served, with over 22 million people served as of 31 December 2016. It is also the seventh largest in the world by population served according to Global Water Intelligence. Aqualia is a diversified company, focused on responding to the needs of both private and public parties at all stages of the water cycle by providing water for human, industrial and agricultural uses, encompassing everything from supplying potable water to sanitizing wastewater. It provides services both within Spain, including by Aqualia's estimates to more than 850 Spanish municipal councils as of 31 December 2016, as well as to markets outside of Spain, with projects throughout Europe, Latin America and the Middle East and North Africa. As of 31 December 2016, Aqualia had presence in more than 20 countries, with 7,752 employees globally. Furthermore, its activities in the area of infrastructure management and operation include managing approximately 66,400 kilometres of distribution networks, 2,709 water tanks, 760 wastewater purification stations, 21 seawater and brackish water purification stations, and 209 potable water treatment stations as of 31 December 2016.

Aqualia's business revenues are characterised by predictable cash flow generation and increased foreseeability of earnings due to the long-term and recurring nature of most of its contracts. Revenue visibility is supported by substantial contract backlog. As of 31 December 2016, backlog was EUR15 billion, or 15 times its annual revenues, with no significant contracts maturing in the upcoming years, as 95.8 per cent. of the backlog matures after 2019.

Aqualia's objective is to collect, purify and treat water and make it suitable for human consumption in accordance with strict quality, distribution and subsequent treatment controls, in order to return it to the environment in satisfactory volumes and in acceptable condition, using the resources and materials employed in the process in an efficient and sustainable manner. Aqualia believes itself to be the only Spanish company capable of providing integrated solutions for any water management need, for both the public and private sector, through the offering of economically viable and socially acceptable solutions. Aqualia conducts initiatives that, as part of its parent company FCC's environmental policy, aim to ensure a more efficient use of natural resources, more rational energy use and the identification of its operational risks. Aqualia makes corporate social responsibility ("**CSR**") a part of its daily operations in an attempt to ensure that the social and environmental components of its operation are not overshadowed by its business decisions.

### Group Structure

As of 31 December 2016, Aqualia was comprised of 177 entities: the Issuer itself, 42 subsidiary companies, 45 associate companies and 90 joint ventures and similar entities.

## Aqualia's Business Activities

Aqualia engages in several business activities in connection with private water management, including:

- Regulated Water Management Activities, including:
  - **Municipal Water Concessions**, which involve a municipality granting to Aqualia the management responsibility over the entire water cycle of the municipality. Such responsibilities would include (i) the collection, transportation, treatment and distribution of water from wells, catchment areas and desalination plants to urban areas through pumping systems, pipelines, distribution grids and complex water treatment facilities for purification and storage, (ii) the capturing of used water through sewer networks and (iii) the transportation of used water to treatment stations where it is treated before being returned to its natural source; and
  - **BOT Concessions**, which involve the execution of "build-operate-transfer" projects, whereby the applicable entity grants to Aqualia the right to develop and operate a long-term public works concession or facility for a certain period.
- **Non-Regulated Activities**, including both "engineering-procurement-construction" ("EPC") activities, which involve the execution of EPC projects, whereby the applicable entity grants to Aqualia the right to develop and construct water infrastructures, and "operation and maintenance" ("O&M") activities, which involve the execution of O&M projects, whereby the applicable entity grants to Aqualia the right to provide technical assistance, operation or maintenance services in connection with an existing water asset or infrastructure.

The following table sets forth a breakdown by business activity of Aqualia's revenues and EBITDA for the years ended 31 December 2016 and 2015:

	For the year ended 31 December			
	Revenues		EBITDA <sup>(1)</sup>	
	2016	2015	2016	2015
	<i>(millions of euros)</i>			
Regulated Water Management Activities.....	818.1	792.8	206.3	194.2
<i>Municipal Water Concessions</i> .....	802.9	777.9	203.1	188.9
<i>BOT Concessions</i> .....	15.2	14.9	3.2	5.3
Non-Regulated Activities.....	173.1	202.9	20.5	20.7
<b>Total</b> .....	<b>991.2</b>	<b>995.7</b>	<b>226.8</b>	<b>214.9</b>
<i>Spain</i> .....	<b>746.1</b>	<b>742.0</b>	<b>177.0</b>	<b>170.5</b>
<i>International</i> .....	<b>245.1</b>	<b>253.7</b>	<b>49.8</b>	<b>44.4</b>

Notes:

<sup>(1)</sup> "EBITDA" is net operating income, before depreciation and amortization, impairment losses and asset disposals.

The following table sets forth a reconciliation of Aqualia's consolidated EBITDA to the consolidated profit from operations for the years ended 31 December 2015 and 31 December 2014.

FCC AQUALIA CONSOLIDATED GROUP	2016	2015
<b>PROFIT FROM OPERATIONS</b> .....	139,405	135,725
Depreciation and amortization.....	91,512	81,202
Impairment and profit and loss from asset disposals.....	431	1,692
Recognition of non-financial grants and others.....	-3,593	-3,030
Other profit/loss.....	-992	-652
<b>EBITDA</b> .....	<b>226,763</b>	<b>214,937</b>

### *Regulated Water Management Activities*

Aqualia's Regulated Water Management Activities are governed by agreements involving Aqualia agreeing to perform its services through government concessions or using company-owned facilities.



These concession agreements are long-term contracts, intended to enable Aqualia to recover its considerable initial investments.

Aqualia directly bills and collects from the final customer of Regulated Water Management Activities, thus covering the entire cycle of the service. In many cases, these concession agreements also include water treatment services. Municipalities, acting as regulator, periodically adjust the prices that Aqualia charges to its consumers, with such adjustments calculated based on changes in the costs associated with providing its services, using different tariffs setting mechanisms, such as polynomial formulas, economic explanatory reports and CPIs according to the economic and financial plan relating to the service provided.

Contracts for Regulated Water Management Activities can have terms of up to 25 years, and Aqualia's average remaining life of its contracts is 15 years as of 31 December 2016. Aqualia has a high degree of success in obtaining renewals of these contracts. In 2016, Aqualia renewed in terms of revenues 98 per cent. of the contracts in Spain whose terms ended during that year and has shown a strong capacity to renew contracts over the past years (see table below). Aqualia has a low default level (0.66 per cent. on average) since it charges the end user, and accordingly, the business area's working capital is stable. Like other utilities, the providing of water generates recurrent cash flows with high future visibility.

<b>Regulated Activities: Renewal track record</b>									
<b>2016</b>			<b>2015</b>			<b>2014</b>		<b>2013</b>	
Annual revenues			Annual revenues			Annual revenues		Annual revenues	
<i>(millions of euros)</i>			<i>(millions of euros)</i>			<i>(millions of euros)</i>		<i>(millions of euros)</i>	
<i>Nº</i>			<i>Nº</i>			<i>Nº</i>		<i>Nº</i>	
Total renewed .....	73	79.7	60	30.9	48	46.7	49	49.4	
Total non renewed .....	6	1.2	4	0.4	3	0.2	12	7.6	
Concessions maturing .....	79	80.9	64	31.2	51	47.0	61	57.0	

#### *Water Quality Control*

To ensure a continuous supply of quality water, water must be treated and monitored on an ongoing basis by experts involved at each stage of the integral water cycle.

Water analysis laboratories play a fundamental role in guaranteeing and compliance with requirements stipulated in current legislation. To this end, these laboratories have been supplied with the latest technology and highly-qualified experts, as well as all controls necessary to guarantee respect for the environment.

Aqualia guarantees the quality of water supplied through more than 1,600,000 analyses of water a year.

To improve the operation of Aqualia laboratories in Spain, Aqualia has invested large sums and introduced a quality system that sets out defined working guidelines, as well as compliance with very specific scientific parameters. All of this allows the characteristics of water distributed to be monitored on a daily basis, and ensures that water distributed is of good quality.

Furthermore, Aqualia has voluntarily committed itself to a plan to secure accreditation for five of its laboratories (in Ávila, Jerez de la Frontera, Oviedo, Adeje and Lleida), introducing a quality system in accordance with UNE-EN ISO /IEC 17025 that recognises the technical competence of test laboratories.

### Principal Agreements

The following are the principal agreements in connection with Aqualia's Regulated Water Management Activities which will come to maturity during 2017-2020:

Year	Contracts >1 M EUR/Year		Contracts <1 M EUR/Year		Total Contracts		%/ Revenues 2016 <sup>(1)</sup>
	Units	Revenues 2016	Units	Revenues 2016	Units	Revenues 2016	
		(million of euros)		(million of euros)		(million of euros)	
2017.....	13	33.96	50	10.23	63	44.19	5.4%
2018.....	7	19.92	21	4.92	28	24.84	3.0%
2019.....	4	14.03	27	6.39	31	20.42	2.5%
2020.....	5	48.24	16	2.94	21	51.18	6.3%
<b>Total.....</b>	<b>29</b>	<b>116.15</b>	<b>114</b>	<b>24.48</b>	<b>143</b>	<b>140.63</b>	<b>17.2%</b>

<sup>(1)</sup> Total revenues resulting from Regulated Water Management Activities amounted to EUR818.1 million.

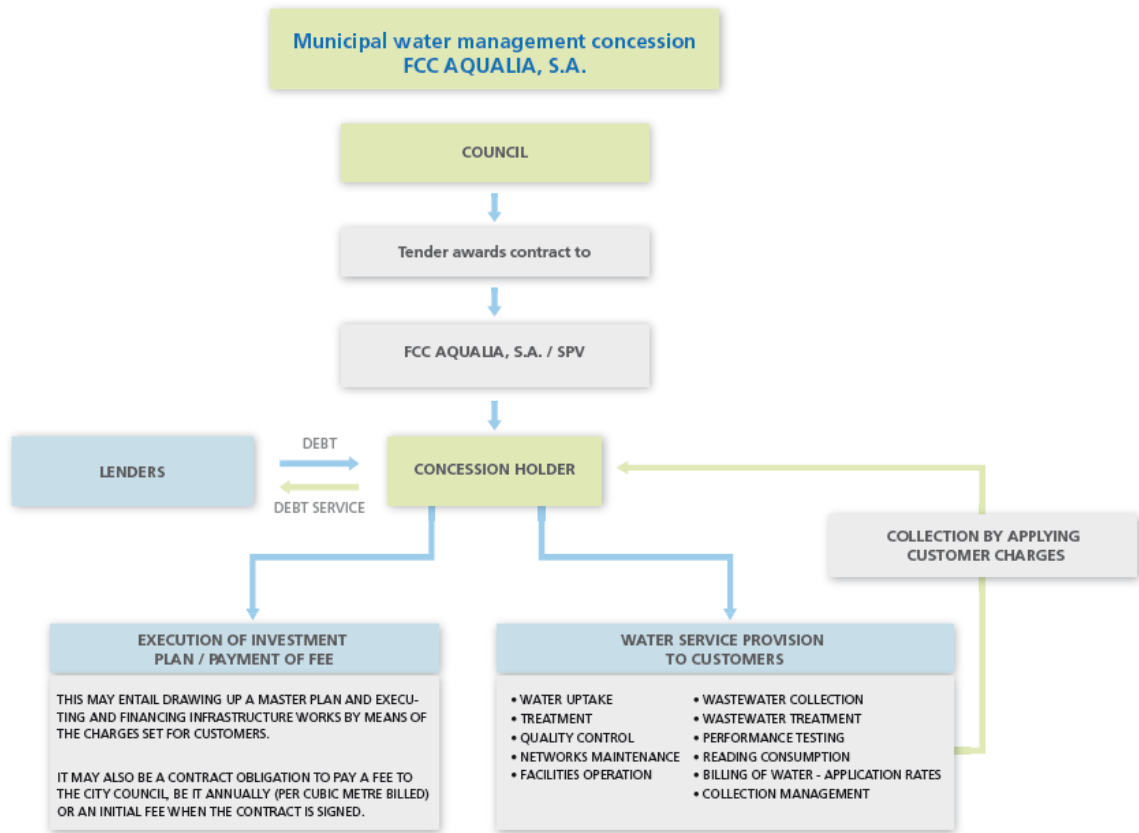
As mentioned previously, Aqualia's Regulated Water Management Activities are divided into Municipal Water Concessions and BOT Concessions.

#### Municipal Water Concessions

Aqualia's Municipal Water Concessions involve a municipality granting to Aqualia the responsibility not only for the operation and maintenance of the water assets but also for financing and managing all of the required investment according to the tender specifications, and the terms agreed between the contractual parties during the life of the concession.

Municipal Water Concessions are generally characterised as involving very strong barriers to entry and major initial investments. While Municipal Water Concessions that are full concessions usually have a long duration of operation, Municipal Water Concessions also include assets that are fully owned by Aqualia, such as Severomoravské vodovody a kanalizace Ostrava a.s. ("**SmVaK**") in the Czech Republic, which have no maturity date and are characterised by a high degree of regulatory and legal oversight.

Regarding project financing structures, the following illustrates the procedure for establishing a municipal water concession:



### *BOT Concessions*

Aqualia's BOT Concessions involve the execution of "build-operate-transfer" projects, whereby the public entity grants to Aqualia the right to develop and operate a long-term public works concession or facility for a certain period.

BOT Concessions are generally characterised as involving strong barriers to entry and major initial investments with project-specific financing structures. They are also generally characterised as involving a long duration of operation and a medium or high degree of regulatory or legal oversight.

### *Non-Regulated Activities*

Aqualia's Non-Regulated Activities involve both EPC and O&M contracts in connection with the water cycle, including the catchment, transportation, treatment of raw water; the pumping, storage, distribution and metering of drinking water; and the collection, treatment and, eventually, reuse of waste water.

Most of the EPC and O&M contracts are related to treatment plants, such as drinking water treatment plants, desalination plants and wastewater treatment plants or network systems. These activities are carried out for both the urban and industrial sectors.

### *EPC Activities*

Many of the EPC projects developed by Aqualia are in connection with O&M contracts and the capital expenditures commitments related to Regulated Water Management Activities.

In connection with EPC contracts, Aqualia takes part mainly in the engineering and procurement stages while construction activities are usually allocated to specialised constructions partners.

### *O&M Activities*

Aqualia's O&M Activities involve the execution of "operation & maintenance" projects, whereby the applicable entity grants to Aqualia the right to provide technical assistance, operation or maintenance services in connection with an existing water asset or infrastructure.

Under the agreements governing these O&M Activities, Aqualia provides services for operating and maintaining various assets linked to the water cycle, such as potable water plants, treatment plants, distribution networks, treatment networks, pumping stations, sports facilities and irrigation networks. These are short-term contracts that do not require initial investments. Aqualia bills and collects in connection with its O&M Activities from its clients, which are primarily governmental bodies and industrial enterprises. O&M Activities are generally characterised as involving little barriers to entry and investment. They are also generally characterised as involving a duration between 3 and 10 years and a low degree of regulatory or legal oversight.

### *Principal Agreements*

The following are the principal agreements in connection with Aqualia's O&M Activities which will come to maturity during 2017-2020:

Year	Contracts >1 M EUR/Year		Contracts <1 M EUR/Year		Total Contracts		
	Units	Revenues 2016	Units	Revenues 2016	Units	Revenues 2016	%/ Revenues 2016 <sup>(1)</sup>
		(millions of euros)		(millions of euros)		(millions of euros)	
2017.....	6	16.12	115	13.52	121	29.64	43.4%
2018.....	4	12.90	32	5.44	36	18.34	26.8%
2019.....	0	0.00	16	2.42	16	2.42	3.5%
2020.....	0	0.00	9	3.53	9	3.53	5.2%
<b>Total.....</b>	<b>10</b>	<b>29.02</b>	<b>172</b>	<b>24.91</b>	<b>182</b>	<b>53.93</b>	<b>78.9%</b>

<sup>(1)</sup> Total revenues for Aqualia's O&M contracts amounted to EUR68.4 million.

### **Aqualia's Geographic Footprint**

Aqualia provides services both within Spain as well as to markets outside of Spain ("**International Markets**"), with projects throughout Europe, Latin America and the Middle East and North Africa.

#### ***Spain***

In 2016, 75 per cent. of Aqualia's revenue was generated in Spain, including by Aqualia's estimates from operations to more than 850 Spanish municipalities as of 31 December 2016. Since 2015, for the first time since the onset of the economic crisis, there was a slight increase in sales volumes of water, especially in coastal areas which in recent years had been declining steadily. Aqualia restructured its organisation in Spain in 2015, giving it a national management and three zones or regional structures within which are grouped, based on territorial criteria, all integrated water cycle activity such as concessions, urban and industrial operations and maintenance, networks and technology. The outcome will be a concentration of efforts and an improvement in its market position.

The following illustrates Aqualia's presence in Spain as of 31 December 2016:



As of 31 December 2016, 90 per cent. of revenues in Spain resulted from Regulated Water Management Activities and, 10 per cent. resulted from Non-Regulated Activities.

In June 2015, new municipalities, town councils and county councils were formed. The outcome of such election has resulted in a significant change in the political orientation of many local governments, with the incorporation of new parties under various electoral groupings that are sometimes ideologically not in favor of outsourcing the management of public services. As a consequence, opportunities for new contracts since then has remained limited at the local level. Nevertheless, Aqualia estimates that a substantial portion of the Spanish market still remains under public management from parties which are not opposed to the outsourcing of public services management.

Regional governments are not offering large projects investing in water infrastructure, mainly due to the pressures of fiscal consolidation and debt reduction that these governments continue to endure, thereby increasing the deficit in connection with the renovation and expansion of infrastructure. For example, in the field of sewerage treatment, the median percentage of water treated with tertiary treatments, which allow for later reuse, according to Aqualia's estimates the median reached 67 per cent. of total treated volume in Europe, while in Spain, the country with the greatest water stress in Europe due to its climate and hydrological characteristics, the median reached only 60 per cent on average over total treated volume.

#### *Municipal Water Concessions in Spain*

In regards to municipal water concessions, changes in the management of local governments might imply some reduction in the rate of outsourcing of integral water concessions, although it is expected that the need to adapt to European and domestic environmental regulation will lead to an increase in the number of municipalities using private water management systems. Furthermore, the new bill on public sector contracts is currently in the late stage of Parliamentary processing in Spain (See "*Description of the Regulatory Regime*"). The adaptation of concession periods, the review of the causes for claiming concession-related economic imbalances and the regulation of the tariff contracts review system will have effects on the sector, particularly in connection with the solvency requirements for bidders.

### *BOT Concessions in Spain*

In regards to BOT Concessions, Aqualia estimates that private activity should increase as a result of municipalities, regional agencies and central government having to face significant challenges with reduced financial and technological resources. Climate change and resource scarcity will force investment in the optimization of existing resources, such as for example through the reuse of wastewater and the creation of new water resources using desalination technologies. After several years of relatively low investment, Aqualia estimates that it will become necessary to invest in new wastewater treatment plants and to improve existing facilities to adapt to European Union regulations and prevent possible sanctions. Such a scenario would require the existence of public-private partnerships with companies like Aqualia that are experienced in the design, construction and operation of water treatment facilities.

### *O&M Activities in Spain*

The total market size of O&M Activities in Spain is estimated to be more than EUR500 million as of 31 December 2016, with Aqualia's share being 9.7 per cent. of this amount.

Aqualia's market share, by type of client, is distributed as follows:

- 8.4 per cent of O&M Activities involving both national and regional water and environmental agencies and large public operators;
- 34.0 per cent. of O&M Activities involving municipalities; and
- 14.0 per cent. of O&M Activities involving private and industrial clients.

Furthermore, the facilities operation and maintenance sector, which includes waste water treatment plants and water treatment centres, will maintain a high level of tenders as they are not subject to the electoral cycle and, in general, are under regional and not local competence. Given the improvement in the economic situation of municipalities and publically operated utilities, a slight upturn in tenders for lower value works, where the territorial presence of Aqualia allows it to be very competitive, is expected. Aqualia will continue to devote efforts to the development of Smart Water models, which are already under development in cities managed by Aqualia, like Almería, Salamanca and Santander, which allows it to offer a competitive differentiation from other utility companies.

## ***International Markets***

In 2016, 25 per cent. of Aqualia's revenues was generated in its International Markets, and it had operations in over 19 countries as of 31 December 2016, with a focus on Europe, Latin America and the Middle East and North Africa:



As part of its strategy, Aqualia plans to continue expanding its footprint outside of Spain even further by leveraging existing platforms and selectively pursuing opportunities in the international BOT concessions markets. At present, it has contracts underway in Portugal, Italy, the Czech Republic, Serbia, Bosnia, Montenegro, Kosovo, Poland, Algeria, Tunisia, Egypt, Saudi Arabia, Abu Dhabi, Qatar, Mexico, Colombia, Uruguay and Chile.

General international growth drivers include the following:

- new public-private partnerships in developing countries aimed at improving drinking and wastewater systems, especially in Latin America and the Middle East and North Africa;
- deepening of Aqualia's current presence in the European market by taking advantage of new opportunities in municipal water concessions;
- development of new projects featuring technological solutions which add value and provide a competitive advantage for desalination, industrial and reuse systems, especially in the United States, Mexico and the Middle East and North Africa;
- prioritisation of organic growth rather than acquisitions, but not excluding taking advantage of new opportunities in emerging markets where Aqualia is already present and in certain countries where a consolidated water industry already exists; and
- moving from minority to controlling interest in currently owned Water Management Activities and O&M Activities contracts.

## ***Europe***

In 2016, 91 per cent. of revenues in Europe resulted from Regulated Water Management Activities while 9 per cent. resulted from Non-Regulated Activities. Europe accounted for 60 per cent. of Aqualia's international revenues in 2016.

### ***Municipal Water Concessions in the rest of Europe***

In Europe, Aqualia focuses its business activity in the Czech Republic, Italy and Portugal.

In Italy, the establishment of a national regulator for determining tariffs based on the full cost recovery principle is improving the perception of its business by investors in the market and will act as an incentive for new opportunities for public-private partnerships with local and regional authorities. In compliance with European Union legislation on sewerage treatment, it will accelerate the use of European Union funds to implement new infrastructure and rehabilitate or increase the capacity of existing infrastructure.

In Portugal, although the suggestion made in previous years regarding the privatization of Portugal's state water company seems to have been rejected for the next few years, local governments are looking for solutions to improve their drinking water supply distribution and sewerage infrastructure. Government concessions have been presented as a possible option.

### ***EPC Activities in Europe***

Aqualia is involved in some small and medium size EPC contracts in the Balkan countries, concerning mainly waste water treatment plants. These projects are usually financed by multilateral entities (i.e. European Investment Bank) and the EU.

## ***Latin America***

In 2016, 100 per cent. of consolidated revenues in Latin America resulted from Non-Regulated Activities. Latin America accounted for 13 per cent. of Aqualia's international revenues in 2016.

### ***BOT Concessions in Latin America***

Aqualia is involved in two BOT Concessions partnerships in Mexico:

- a 49 per cent. interest in a BOT Concession involving the design, procurement, construction, operation and maintenance of an aqueduct for the *Comisión Estatal de Aguas del Estado de San Luis Potosí*; and
- a 25 per cent. interest in a BOT Concession involving the design, procurement, construction, operation and maintenance of an aqueduct for the *Comisión Estatal de Aguas del Estado de Querétaro*.

The Mexican government is also planning to initiate a program of activities aimed at improving municipal water supplies that will enable Aqualia to increase its turnover. New water treatment projects, including desalination projects, will also be developed in Baja California. The industrial sector may also play an important role in the development of new investment with regard to mining and energy companies (e.g. Pemex).

In Central and South America, growth prospects have increased significantly due to a lack of sufficient existing water infrastructure to keep up with the growth expansion of urban and large metropolitan areas. Chile, Peru and Colombia are the countries where there will be more opportunities in the short-term, with some infrastructure programs in Paraguay and Panama anticipated to follow.

### ***EPC Activities in Latin America***

In 2016, EPC Activity was responsible for the greatest portion of revenue for Non-Regulated Activities in Latin America. During 2016 a consortium including Aqualia Intech SA (a subsidiary of the Issuer) was awarded the tender for the enlargement of El Salitre waste water treatment plant in Bogota, Colombia, at the price of EUR398.4 million. Aqualia Intech SA was also awarded the tender for a DBO project of a waste water treatment plant in San Silvestre de Barrancabermeja, Colombia.



Other major EPC projects developed in Latin America during 2016 include the building of a vast aqueduct for the Cutzamala Water System, which is managed by the National Commission for Water in Mexico (CONAGUA) and which provides drinkable water to 50 municipalities in the state of Mexico, including the capital, Mexico City. In Chile, Aqualia executed the building of an industrial water treatment plant in the Huechun metropolitan region in connection with mining activities performed by Chilean public mining company Codelco. In Uruguay, Aqualia is executing the construction of submarine outfall Punta Yeguas, which transports treated waste water from Montevideo, Uruguay to the sea.

### ***Middle East and North Africa***

In 2016, 16 per cent. of revenues in the Middle East and North Africa resulted from Regulated Water Management Activities, mainly BOT Concessions and 84 per cent. resulted from Non-Regulated Activities. Middle East and North Africa region accounted for 27 per cent. of Aqualia's international revenues in 2016.

#### ***BOT Concessions in Middle East and North Africa***

In North Africa, BOT projects in connection with the desalination of seawater and sewerage treatment have emerged as business opportunities in countries where Aqualia is already operating, such as Algeria and Egypt.

In the Gulf Countries, where population growth has reached up to 8 per cent. annually, and where standards of living and quality of services are increasing, major water infrastructure projects have been announced but will progress slowly. In Saudi Arabia, the SWCC (Saline Water Conversion Corporation), which is responsible for water production in the country, will implement a new desalination investment program and the NWC (National Water Company), responsible for the distribution of drinking water and sanitation in the major cities, also has a concessions program. Both are based on public-private financed contracts. The decrease in oil prices of recent years may lead to new opportunities with this contractual model.

#### ***O&M and EPC Activities in Middle East and North Africa***

The main driver for O&M and EPC Activities in the Middle East and North Africa is:

- water scarcity, which has led to opportunities for Aqualia in terms of cost optimization and efficiency improvements.

Currently, Aqualia is operating a sewage and waste water treatment system in Abu Dhabi through its subsidiary Aqualia Mace, some minor O&M contracts in Saudi Arabia, and executing a desalination plant in Egypt for the Ministry of Defence.

There is generally a large demand in this region for O&M Activity given a reduced number of large water management companies prepared to provide such services, given that such companies are typically focused on EPC Activities. The agreements for O&M Activities in the Middle East and North Africa are typically performance-based contracts with a relatively high profit margin and a duration of between three and ten years.

### **Group Strategy**

#### ***General Strategy***

Aqualia's strategy is aimed at achieving a position as a global leader in water management, while maintaining its current presence in selected highly profitable concessions. The strategy primarily envisages strengthening its business risk profile by emphasizing the activities characterised by stable and recurring cash flow and leveraging these as key platforms for future expansion. In addition, Aqualia maintains a constant focus on implementing efficiency measures across the organisation from both an operational and financial perspective, in order to enhance profitability and optimize the capital structure in order to pursue attractive growth opportunities.

Aqualia believes that its Regulated Water Management Activities are characterised by sustainable, long-term contractual relationships and high barriers to entry, which provide an excellent opportunity for profitable business operations with a low risk profile. Aqualia intends to continue to emphasize these in

its commercial package to ensure that they constitute the core of operations and continue to contribute to the majority of its profits. Aqualia's strategy also benefits from strong market fundamentals. Across a broad geographic spectrum, regulatory developments and environmental considerations drive long-term growth trends in water management services. Aqualia believes that the long-term outlook for this sector in its key markets is positive and that there is significant opportunity for Aqualia to grow.

### *Strategy in Spain*

In Spain, significant investments may be required to reinforce and refurbish Spain's water infrastructure. Spain has undertaken significant reforms intended to enhance productivity and is now showing signs of long-term macroeconomic recovery. Aqualia expects such reforms to be beneficial to water management volumes and profits in the long run. Aqualia aims to leverage its current position to reinforce market leadership in Spain. In particular, it seeks to further develop water concession business and believes that its incumbent position as a market leader enhances its ability to capture opportunities for creating future value both in Spain and internationally.

### *Strategy in International Markets*

In a number of emerging markets, urban areas continue to suffer from a water infrastructure gap driven by increasing congestion and size. Aqualia participates in selected jurisdictions that it believes have attractive growth opportunities. In the markets that Aqualia has recently entered, it intends to continue strengthening its business of developing, operating, and maintaining water infrastructure by allocating more resources to expand these businesses. In this context, Aqualia plans to add new business lines to further sustain its international growth. These may include providing water management consultancy services and water services for specialised industries such as oil and gas, food service, and pharmaceutical. Aqualia intends to expand its presence in Latin America, Middle East and North Africa, and enter the United States market. In the United States, as is the case in Spain, there currently exist infrastructure problems, periods of drought and local governments with a lack of funding to fully address their environmental challenges. Aqualia believes that its established positions in Central and Eastern Europe and Latin America will permit it to exploit the potential for growth of water infrastructure development and municipal concession businesses in these regions. To execute its strategy, Aqualia has appointed dedicated business development teams with strong track records in international business development, such as penetration in new markets as Chile, Tunisia, and Saudi Arabia.

### *Recent Trading*

The following table sets forth Aqualia's revenues, including a breakdown of revenues by business activity and geography, and EBITDA for the three months ended 31 March 2017 and 2016:

	<b>For the three months ended 31 March</b>	
	<b>2017</b>	<b>2016</b>
	<i>(millions of euros)</i>	
<b>Revenue</b> .....	<b>230.1</b>	<b>223.9</b>
by activity .....		
<i>Regulated Water Management Activities</i> .....	189.5	183.8
<i>Non-Regulated Activities</i> .....	40.6	40.1
by region .....		
Spain .....	173.2	164.5
International .....	56.9	59.4
<b>EBITDA</b> .....	<b>49.1</b>	<b>44.4</b>

Aqualia's contract backlog as of 31 March 2017 was €14.9 billion.

## Material Contracts

All material contracts concluded by Aqualia have been entered into in the ordinary course of business. Aqualia did not enter into any material contracts outside the ordinary course of business that could result in any member of the group being under an obligation or entitlement that is material to the Aqualia's ability to meet its obligations towards the Noteholders in connection with the notes.

## Legal Proceedings

Aqualia is involved from time to time in various claims and lawsuits, most of which arise in the ordinary course of its business.

On 11 April 2014 the city council of Arteixo claimed compensation of EUR29.39 million from Aqualia, and Aqualia granted a EUR14 million guarantee in order to suspend the collection of such claim in connection with Augarsa, which is a joint integral water cycle management company owned 51 per cent. by Aqualia and 49 per cent. by the city council of the municipality of Arteixo. Augarsa filed for dissolution and was later declared as dissolved by resolution of Augarsa's General Meeting of Shareholders on 30 January 2013. The city council of Arteixo reacted by declaring termination of the administrative contract entered into with Aqualia, related to the founding of Augarsa given the supposed breach by Aqualia of its obligation to properly execute investments and also for supposed poor maintenance of the service facilities.

On 26 October 2015, one of SmVaK's shareholders, who owned 12 shares in SmVaK (equivalent to 0.0003 per cent. of the company's capital), filed a claim seeking the annulment of the decision reached in the applicable shareholders' meeting to approve the reduction of SmVaK's capital from CZK 3,458,425,000 (equivalent to approximately EUR128 million) to CZK 1,296,909,375 (equivalent to approximately EUR48 million). The claim is based on an alleged breach of the formalities prescribed by the procedures to approve such measures. Although the Court has initially accepted the allegations included in the shareholder's claim, the counsel representing SmVaK believes that it will be possible to remedy the situation in a relatively short period of time, with the only consequence being a non-material accounting impact.

On 16 July 2014, prosecutors filed criminal proceedings against Acque di Caltanissetta ("**Caltaqua**"), owned 98% by Aqualia, for alleged environmental infringements resulting from discharges of wastewater from treatment plants that were delivered by the contracting authority to Caltaqua after it was awarded the concession for the provision of integrated water cycle services in Caltanissetta, Sicily. The investigation affects several managers that are no longer working for the company, as well as some current employees. Some of these criminal proceedings are currently in the investigation phase, with a negative outcome in such criminal proceedings having the possibility to result in the imposition of fines and filing of claims for damages.

The following table set out Aqualia's provisions for expected liabilities, based on internal estimates, as of 31 December 2016 deriving from lawsuits compared with other risk and expenses covered with non-current provisions:

2016	UP TO 5 YEARS	MORE THAN 5 YEARS	BALANCE AT 31/12/2016
	<i>(thousands of euros)</i>		
Lawsuits.....	2,739	19	2,758
Other provisions for risks and expenses.....	44,533	505	45,038

## Environmental Matters and Sustainability

Aqualia's activities are subject to environmental regulation. This requires, among other requirements, that Aqualia commissions environmental impact studies for future projects and that it obtains the licences, permits and other authorisations required to construct and operate relevant projects. In recent years there has been a significant increase in environmental regulation in Spain, the European Union and other jurisdictions in which Aqualia operates. These include regulations in relation to carbon dioxide emissions and limitations on polluting emissions from large plants and facilities. See "*—Regulatory framework—Environmental regulatory framework*".

One of the fundamental objectives of Aqualia is continuous improvement through an integrated management system that includes both the management of the quality of processes, products and services as well as that of the environment, and publishes this kind of report in order to facilitate the verification of the Greenhouse gases ("**GHG**") Inventory, reporting on this in a transparent manner to its stakeholders.

The main objective pursued with this initiative is to:

- understand and evaluate the organisation's GHG emissions in order to identify opportunities to reduce and/or offset its carbon footprint;
- participate in voluntary GHG programmes;
- have corporate GHG information; and
- improve the position with stakeholders, maintaining a responsible commitment to continuous improvement.

In this regard, as a result of collaboration between Aqualia, the Botín Foundation, the Complutense University of Madrid, the Polytechnic University of Madrid, the University of Cantabria and the regional government of Cantabria's Department of the Environment, Cantabria's water footprint has been determined, the first of its kind ever conducted in Spain.

The new paradigms for the planning and integrated management of resources and the possible exchanges between different uses and qualities are conducive to carrying out a conceptual, segregated analysis that is somewhat different to the conventional one. The approaches based on virtual water and the water footprint facilitate this analysis and the determination of the most efficient and sustainable options for supplying water to citizens. Virtual water includes free water and water linked to the processes for producing goods or services. The water footprint of a territory is the entire real and virtual water used in that territory.

In addition to developing and implementing a specific work methodology, the objective of this project was to conduct a study of Cantabria's water footprint and to establish the impact of the use of water resources at the catchment basin, municipal and autonomous region levels. The relevant distinctions between green and blue water were made in an effort to identify possible trends of interest. Thus, it was possible to determine the impact of the consumption of water used in the goods and services produced and exchanged by Cantabria in order to determine the water footprint generated in the region based on the calculation of the virtual water consumed for each product, service or activity.

The study addresses a comprehensive view of water and the territory in order to clarify the relationship between blue water and green water and that among internal water, virtual water and the water footprint, and determines the corresponding values for each kind of water in the region and their flows.

The work carried out shows that the water is not only a major natural capital for the region, but also a significant economic and social asset. This is suggested by the leading role played by green water and its importance in maintaining ecosystems, as clearly the export nature of the virtual water in the autonomous region of Cantabria, whose main exponent is the sale abroad of products associated with agriculture, livestock and the food industry.

Similarly, and in response to the entry into force on 5 December 2015 of EU Directive 2012/27/EU on energy efficiency, in 2015 Aqualia agreed with AENOR an ambitious three-year adaptation plan for compliance with the directive that will allow the entire organisation to be ISO-50001 certified. Accordingly, fifteen contracts were certified during 2015, seventeen contracts were certified during 2016 and a further thirteen contracts are expected to be certified during 2017. The contracts chosen were contracts with a consumption of more than 1,300,000 kWh/year, which cover over 80 per cent. of the total consumption.

To meet the objectives established, a comprehensive control of energy monitoring is planned, supervising the installed capacity and the evolution of energy consumption in production facilities. To do so, Aqualia's actions should be aimed at:

- improving measurement;

- calculating the energy performance of pumps;
- optimising and improving production processes, facilities and equipment;
- buying more energy-efficient equipment (RD 187/2011);
- optimising the purchase of energy;
- maintaining infrastructure; and
- improving the hydraulic performance of the network.

## Research Development and Innovation

### Projects

In line with its strategic planning, innovation activity at Aqualia was further strengthened during 2016, with the addition of new European projects to the three development branches: Sustainability, Quality and Smart Management, and the creation of an additional branch: Eco-Efficiency. Details of certain recent projects are set out below.

#### *Eco-Efficiency*

In this new branch, the Renovagas and CleanWater projects, each due to complete in 2016, were extended for six months at the end of 2016:

- **Renovagas:** co-financed by the Innpacto program of the Ministry of Economy (Mineco), and led by Enagas, S.A. this project consists of the installation in October 2016 in the Jerez WWTP of a prototype to enrich methane, using CO<sub>2</sub> from the biogas and hydrogen produced with renewable electricity. Thanks to a catalytic reactor developed by Tecnalia, the quality of the biofuel will be evaluated during 2017 by the use of two vehicles, which have been supplied by SEAT for the parallel Smart Green Gas project.
- **CleanWater:** with a 50 per cent. subsidy from the EU's Eco-Innovation program, this project demonstrates a new disinfection system based on the insitu production of hypochloride, avoiding the risks involved in the use and transport of chlorous gas. In addition to an installation for the reuse of wastewater in Almeria, in early 2016, pre-oxidation began in the Denia desalination plant in September 2016. A third unit is due to start operating in Nigran.
- **Smart Green Gas,** launched by CDTI (Industrial Innovation Agency), is continuing, supported by the CIEN program (Consortios de Investigación Empresarial Nacional). Aqualia leads a consortium of 5 companies (Gas Natural Fenosa, Naturgas/EDP, Ecobiogas, Diagnostiqa, and Dimasa Grupo) in the development of an efficient infrastructure to produce and manage biomethane. The first activities of Aqualia in Jerez and Aranda del Duero showed a good control of biomethane quality to allow use in vehicles. Due to complete in 2018.

#### *Sustainability*

- **All-gas:** allowing the transformation of wastewater to biofuel with a positive energy and environmental balance, this project is entering its final demonstration phase, with the construction of 2 hectares of algae cultures and a digester of 2700 m<sup>3</sup>. During 2017, this will demonstrate the conversion of up to 2000 m<sup>3</sup>/d of municipal wastewater into biomethane to fuel up to 20 vehicles. A first car has been operating since summer 2016 with the biofuel produced from the 1000 m<sup>2</sup> prototype. Due to complete in 2018.
- **Life Biosol (Biosolar water reuse and energy recovery):** coordinated by the French SME Heliopur, is carrying out a first demonstration in the Centa Research Center (Sevilla). The new solar wastewater treatment allows water reuse and the recovery of algae biomass. A larger plant is planned in Almeria. Due to complete in 2018.

Two new projects were started in 2016, under the European H2020 program:

- **Incover:** coordinated by the technological center Aimen and with Aqualia as the largest Company within a consortium of 18 entities from 7 countries, this project creates synergies with the existing installations and the knowledge acquired within [www.all-gas.eu](http://www.all-gas.eu) to extend the use of algae biomass for higher value applications such as biofertilizers and bioplastics, and to obtain high quality reuse water. Due to complete in 2019.
- **Sabana:** coordinated by the University of Almeria, with Aqualia as main industrial partner, together with Westfalia (Germany) and the Italian food company Veronesi in a consortium of 11 entities from 5 countries (besides Spain, Germany and Italy, also Czech Republic and Hungary), the objective of the project is to build 5 hectares of algae cultures and a related biorefinery that produces biofertilizers, biopesticides and other alternatives to chemical products, to reach a safer and more sustainable agriculture for consumer and environment. Due to complete in 2020.

### *Quality*

Under the Quality branch, 5 projects continue, mainly with European co-financing:

- **Life Memory:** a 50m<sup>3</sup> reactor in Alcazar de San Juan, showing the technical and economic viability of an innovative technology, the Anaerobic Membrane Bioreactor (AnMBR). This approach allows the direct conversion of organic matter from wastewater into biogas without the conventional aerobic stage. This achieves a reduction of energy consumption and CO<sub>2</sub> emissions by up to 80%, while 25% less space is required and 50% less sludge is produced. Due to complete in 2018.
- **Biowamet BESTF2:** part of the European ERA-NET program, this project is run in collaboration with the University of Southampton and the University of Delft. In synergy with the Life Memory Project, an anaerobic membrane bioreactor (AnMBR) is being implemented in a small WWTP Baix Ebre to produce bioenergy and reuse water. Due to complete in 2017.
- **Life Methamorphosis:** this project is led by Aqualia in a consortium of 6 entities (Àrea Metropolitana de Barcelona, FCC SA, Gas Natural, Icaen and Seat). In the solid waste plant Ecoparque in Besós, managed by FCC, three new technologies which Aqualia recently developed are being implemented: AnMBR, ELAN (autotrophic elimination of nitrogen) and biogas upgrading. In this way, leachates will be converted to biomethane that can be injected in the gas grid or used as biofuel for vehicles. Due to complete in 2019.
- **Innova E3N (Energetically Efficient Elimination of Nitrogen):** is a follow up of the Innova Impactar project, co-financed by the government of Cantabria, and optimizes the pilot plant situated in a pumping station of Santander to demonstrate small decentralized and automatic WWTP. Due to complete in 2017.

Two projects focusing on more sustainable WWTP were started in 2016:

- **Pioneer:** within the European program ERA-NET Cofund Water Works and the initiative WATER JPI, this project is led by USC, and connects Aqualia with a Network of recognized universities (Verona/IT, DTU/DK y KTH/SE) to improve the removal of microcontaminants and reduce the environmental impact of new technologies such as ELAN or the recovery of nutrients by struvite precipitation. Due to complete in 2018.
- **Medrar:** co-financed by the program Conecta Peme to enhance the priorities RIS 3 identified in Galicia and supported by the European Development Fund (Feder), this project is targeted towards improving the Wastewater treatment in smaller communities. Together with two SMEs and led by USC, small compact modules will be automatized and integrated in the environment minimizing impact and cost. Due to complete in 2018.

### *Smart Management*

Under the branch of Smart Management, two European projects are ongoing:

- **Motrem:** selected in the European initiative Water JPI, this project is led by the University Rey Juan Carlos in Madrid, and supported by 3 other universities in Finland, Italy and Germany. New

technologies for the control and treatment of emerging contaminants are being evaluated to transform existing WWTP into reuse facilities. Due to complete in 2017.

- **Life Icirbus (Innovative circular businesses):** this project is led by the technological center Intramac, and brings together 8 companies to demonstrate the reuse of wastewater residuals as building materials and for biofertilizers, based on two WWTP operated by Aqualia in Extremadura. Due to complete in 2019.

### Research and Patents

During 2016, the Aqualia Research team obtained two new patents on the production and refining of biogas:

- EP 14382399.5 on optimizing feed conditions of anaerobic UASB reactors
- EP 15382087.3 on scrubbing biogás and removing H<sub>2</sub>S y CO<sub>2</sub>

A further 5 patents were filed during 2016, covering the various technologies under demonstration, such as ELAN, AnMBR, MDC, MFC and struvite cristalisation.

### **Intellectual Property**

Aqualia implements intellectual property protection policies and procedures. The measures taken by Aqualia to protect its intellectual property include the entry into confidentiality, non-disclosure and/or non-compete agreements by employees, service providers and counterparties, as appropriate, and the dissemination throughout Aqualia of an internal code of conduct.

In order to prevent third parties from being able to use and benefit from their names or internet domains, Aqualia's policy is for all affiliates and subsidiaries to: (i) register and protect their names in accordance with local legislation, (ii) register their names as commercial brands in the relevant product areas, and (iii) register their internet domains.

### **Insurance**

Under its risk management policy, Aqualia maintains insurance which provides cover against various risks, such as third party damage (environmental and civil liability, in general), construction defects, management's and employees' liability and risks to which its property, plant and equipment are subject. Aqualia's risk management policy also includes the assessment of tools for risk transfer that are alternative to insurance cover.

### **Customer Service**

During 2016, Aqualia continued to make progress on an end customer-oriented strategy, paying particular attention to the quality of its communication channels with customers. The full interactivity of these channels (face-to-face, telephone, internet), allows the customer to decide at any time through which channel he wishes to communicate in order to have his needs met in real time. In 2016 Aqualia provided its customers with a new channel of communication, Smartaqua, an app for mobile devices. This app enables customers to do everything relating to the services provided by Aqualia, whenever they want, wherever they want, in the simplest and most convenient way, providing them with an overview of their interactions with Aqualia. This new channel, like the previous, interacts in real time with computer systems, giving customers an all-channel experience in their relations with Aqualia.

The telephone helpline service, provided through the Customer Service Centre (aqualia contact) not only enables the latter to perform all the management procedures without having to travel to the offices, but it is also available 24 hours, 365 days a year and allows the response time for resolving faults in distribution networks to be reduced, with the consequent saving of water. The reduced waiting time for the customer to communicate a fault makes it possible to implement a flexible and effective action protocol to resolve any type of incident in the network, which results in improved performance of the water distribution. This customer service has received 748,000 calls during the year, and attends callers in six languages (Castilian Spanish, Galician, Catalan, English, German and French).

The third communication channel is a corporate website available in five languages. It provides an overview of Aqualia and various local websites of specific municipalities where Aqualia provides service, and they offer a more local and personalised information about the presence of Aqualia in the municipality. In addition, through the Aqualia's websites, both corporate and local, access is provided to the aqualiaOnline virtual office, through which they can carry out the same actions related to the service that can be made in person or by phone.

Since 2011, the aqualia contact and aqualiaOnline channels have had UNE-ISO 27001, "information security management systems" certification, in compliance with the safety objectives set and ensuring commitment to the security of Aqualia customers' data and the integrity, availability and confidentiality thereof.

## **Employees**

As of 31 December 2016, Aqualia was an employer of 7,752 people, including 5,874 in Spain and 1,878 in International Markets.

## **Management**

### ***Board of Directors of the Issuer***

The Board of Directors of the Issuer as at the date hereof is composed of the following 3 Directors:

<b>Name</b>	<b>Position</b>
Mr. Félix Parra Mediavilla	Vice-Chairman
Mr. Isidoro Marbán Fernández	Board Member
Mrs. Cristina López Barranco	Secretary

The business address of the members of the Board of Directors of the Issuer is Calle Federico Salmón, 13 28016 Madrid, Spain.

There are no potential conflicts of interest between the private interests or other duties of the members of the Board of Directors listed above and their duties to the Issuer.

During 2016, there were 36 meetings of the Board of Directors.

### **Management Structure of the Issuer**

The Management Team has the following composition:

<b>Name</b>	<b>Position</b>
Mr. Félix Parra	General Manager
Mr. Isidoro Marbán	CFO
Mr. Santiago Lafuente	Managing Director for Spain
Mr. Luis de Lope	Managing Director for International
Mr. Pedro Rodríguez	Studies & Operations
Mr. Javier Santiago	Water Technologies & Network
Mr. Manuel Castañedo	Utility & I.T.
Mr. Antonio Vasal'lo	Development
Ms. Carmen Rodríguez	Human Resources
Mr. Alberto Andérez	Procurement
Ms. Elena Barroso	Legal Department
Mr. Juan Pablo Merino	CSR & Communications

The business address of the members of the Management Team of the Issuer is Calle Federico Salmón, 13 28016 Madrid, Spain.

There are no potential conflicts of interest between the private interests or other duties of the members of the Management Team listed above and their duties to the Issuer.



## DESCRIPTION OF THE REGULATORY REGIME

### Introduction

The Issuer is a limited liability company (*sociedad anónima*) subject to Spanish law, and therefore governed by Royal Legislative Decree 1/2010, of 2 July, approving the consolidated text of the Spanish Companies Act (*Ley de Sociedades de Capital*) ("**Spanish Companies Act**") and its related regulations.

Other laws of general application which apply to Aqualia as a Spanish company are the Spanish data protection law (*Ley orgánica 15/1999, de 13 de diciembre, de Protección de Datos de Carácter Personal*) ("**LOPD**"), the Spanish occupational risk prevention law (*Ley 31/1995, de 8 de noviembre, de Prevención de Riesgos Laborales*), and applicable tax and labor laws.

Aqualia is affected by the specific legal provisions of the industry in which it operates, in Spain and internationally. The principal Spanish regulations are summarized below.

### Water regulatory framework

The water sector in Spain is subject to strict regulations given the existing public interests in such activities. At European level, Directive 2000/60/EC of the European Parliament and of the Council of 23 October 2000 establishing a framework for Community action in the field of water policy (the "**Water Framework Directive**"), considers water as an essential human right and determines the principles of clean and safe water as a priority.

At national level, given that the integral water cycle services are considered essential for citizens in Spain, the water sector is also subject to a comprehensive national regulatory framework. The most important regulation at national level is the consolidated text of the Water Act, approved by Royal Legislative Decree 1/2001, of 20 July (*Texto refundido de la Ley de Aguas, aprobado por el Real Decreto Legislativo 1/2001, de 20 de julio*) ("**Water Act**") and its implementing regulations, including Royal Decree 849/1986, of 11 April, approving the Public Hydraulic Domain Regulation, as amended by Royal Decree 638/2016, of 9 December (*Real Decreto 849/1986, de 11 de abril, por el que se aprueba el Reglamento del Dominio Público Hidráulico, modificado por el Real Decreto 638/2016, de 9 de diciembre*) and Royal Decree 140/2003, of 7 February, establishing sanitary standards regarding water for human consumption (*Real Decreto 140/2003, de 7 de febrero, que establece los criterios sanitarios de la calidad del agua de consumo humano*).

### Public procurement regulatory framework

In Spain, the activities related to the water sector are usually accessed through tenders called by national, regional and local authorities, depending on the activity.

Therefore, the European Union directives and national regulations on concessions and public procurement are also applicable to the water sector activities.

At European level, the current regulation on public procurement is imposed by the following European Union directives all dated 26 February 2014: Directive 2014/24/EU on public procurement, Directive 2014/23/EU on the award of concession contracts, and Directive 2014/25/EU on procurement by entities operating in the water, energy, transport and postal services sectors ("**European Directives on Procurement and Concessions**"). The European Directives on Procurement and Concessions must be transposed into Spanish law, although certain aspects could already have direct effect.

Bills on public procurement and on procurement by entities operating in the water, energy, transport and postal services sectors have been recently approved by the Government and are due to be submitted to the Spanish Parliament for final approval and publication in the Spanish Official Gazette. These bills implement the provisions of the European Directives on Procurement and Concessions into the Spanish legal system.

At national level, the current legal rules applicable to public procurement are included in Royal Legislative Decree 3/2011, of 13 November, approving the consolidated text of the law on public contracts (*Real Decreto Legislativo 3/2011, de 14 de noviembre, por el que se aprueba el texto refundido de la Ley de Contratos del Sector Público*) ("**Public Procurement Law**") and Royal Decree 1098/2001, of 12 October, approving the general regulations on public procurement (*Real Decreto 1098/2001, de 12*

de octubre, por el que se aprueba el Reglamento de la Ley de Contratos de las Administraciones Públicas), implementing and developing the Public Procurement Law. However, in this industry, since contracts are entered into for long periods of time, in some cases depending on when public contracts were awarded, provisions pre-dating the current regulations are still applicable, such as the now-repealed Law 30/2007, of 30 October, on Public Sector Contracts (*Ley 30/2007, de 30 de octubre, de Contratos del Sector Público*), Royal Legislative Decree 2/2000, of 16 June, approving the consolidated text of the law on Contracts with Public Administrations (*Real Decreto Legislativo 2/2000, de 16 de junio, por el que se aprueba el texto refundido de la Ley de Contratos de las Administraciones Públicas*), Law 13/1995, of 18 May, on Contracts with Public Administrations (*Ley 13/1995, de 18 de mayo, de Contratos de las Administraciones Públicas*), and Decree 923/1965, of 8 April, approving the articulated text of the Basic Law on State Contracts (*Decreto 923/1965, de 8 de abril, por el que se aprueba el texto articulado de la Ley de Bases de Contratos del Estado*).

In addition, Law 31/2007, of 30 October, on procurement in the areas of water, energy, transport and postal services (*Ley 31/2007, de 30 de octubre, sobre procedimientos de contratación en los sectores del agua, la energía, los transportes y los servicios postales*), applies for contracting in those sectors whenever contracting authorities are not "public authorities" as envisaged in the Public Procurement Law, and only under certain amounts.

Finally, given that local authorities in Spain hold tenders for concessions for the management of water supply and treatment, local legislation is also essential. Thus, at this level, Law 7/1985, of April, regulating the rules for local governments (*Ley 7/1985, de 2 de abril, de Bases de Régimen Local*) has to be taken into account. In addition, municipal regulations on tariff matters and own services are essential to guarantee the payment of contractors and to manage their day-to-day affairs.

It is worth noting that, as a result of the Spanish De-Indexing Law, as a general rule prices in public contracts will no longer be updated in line with general indexes, such as the Consumer Price Index, but using instead a specific sector formula that could be approved by the Council of Ministers or, in the latter's absence, a different formula to update the contract price that could be approved or not by each contracting authority. Should the contracting authority decide to apply a formula, it should be established in the particular public terms for tender of the relevant contract in accordance with the criteria set out in the Spanish De-Indexing Law and RD 55/2017.

Aqualia's regulated activities are subject to the above described public procurement regulations, as they are implemented through (i) contracts for the indirect management of public services (water management concessions) and (ii) public works concession contracts (BOT Concessions), which are different types of legal relationships foreseen under the applicable regulations on public procurement.

These contracts may be unilaterally amended or terminated by public authorities. However, they can only be amended for public interest reasons and due to new requirements or unexpected causes and by establishing a compensation mechanism in favour of the contractor.

Public contracts are also subject to the possibility of recovery (*rescate*), which is the unilateral termination of the contract by the contracting authority, based on public interest reasons, regardless of the correct management of the asset, but in any case, the contracting authority is required to provide sufficient grounds justifying that public management is more cost-efficient. In the event of a recovery, the contracting authority would be obliged to compensate the contractor for the non-amortised value of the executed works and for damages.

In relation to the terms of payment with third parties, the legal rules applicable to the commercial relationships are implemented by Law 3/2004, of 29 December, which regulates measures against default in commercial transactions (*Ley 3/2004, de 29 de diciembre, por la que se establecen medidas de lucha contra la morosidad en las operaciones comerciales*), modified by Law 15/2010, of 5 July.

### **Environmental regulatory framework**

Aqualia's activities in relation with water quality control, sanitation and wastewater treatment involve an environmental impact that is subject to national regulations on environmental matters: Royal Decree-Law 11/1995, of 28 December, establishing the rules for the treatment of urban wastewater (*Real Decreto-ley 11/1995, de 28 de diciembre, por el que se establecen las normas de tratamiento de aguas residuales urbanas*), Law 22/2011, of 28 July, on management of waste and polluted soil (*Ley 22/2011, de 28 de*

*julio, de Residuos y Suelos Contaminados*), Law 26/2007, of 23 October, on environmental responsibility (*Ley 26/2007, de 23 de Octubre, de Responsabilidad Medioambiental*) and Law 21/2013, of 9 December, on Environmental Assessment (*Ley 21/2013, de 9 de diciembre, de Evaluación Ambiental*). Likewise, the concessions held by the Issuer are subject to the relevant environmental regulations applicable in each of the autonomous regions where they are located.

## DESCRIPTION OF THE SECURITY

All capitalised terms herein not otherwise defined shall have the meaning ascribed to them in the Conditions.

### General

The Notes will constitute direct, unconditional and unsubordinated obligations of the Issuer, are secured in the manner described in Condition 3 (*Security, Relationship with Secured Parties and Enforcement*) under "*Terms and Conditions of the 2022 Notes*" and "*Terms and Conditions of the 2027 Notes*", in the Security Documents and as described below. The Notes shall at all times rank *pari passu* without any preference among themselves and (save for any obligations preferred by law) at least equally with all other unsubordinated obligations of the Issuer, from time to time outstanding.

In order to secure the full satisfaction and repayment of all of the Secured Liabilities under the 2022 Notes and the 2027 Notes, the Issuer and other Aqualia entities will create the following security interests on the Issue Date in favour of the Secured Creditors (acting through the Security Agent):

- 1.1 first ranking pledges (together, the "**Share Pledges**") over the shares or quota shares, as applicable, of the following subsidiaries of the Issuer:
  - 1.1.1 the shares (*acciones*) of the Spanish companies (i) Tratamiento Industrial de Aguas, S.A., (ii) Conservación y Sistemas, S.A., (iii) Sociedad Española de Aguas Filtradas, S.A., (iv) 97% of the share capital in Entemanser, S.A., (v) Depurplan 11, S.A.U. and (vi) Aigües de Vallirana, S.A. (the "**Spanish Law Share Pledges**");
  - 1.1.2 the quota shares (*participaciones sociales*) of the Spanish companies (i) Infraestructuras y Distribución General de Aguas, S.L., (ii) Empresa Gestora de Aguas Linenses, S.L., (iii) Aguas de las Galeras, S.L., (iv) Hidrotec Tecnología del Agua, S.L. and (v) 51% of share capital in Aqualia Czech, S.L. (the "**Spanish Law Quota Shares Pledges**");
  - 1.1.3 the shares (*azioni*) of the Italian company Acque di Caltanissetta, S.p.A. , representing 98.48% of its issued share capital (the "**Italian Law Share Pledge**"); and
  - 1.1.4 the shares (*acciones*) of the Mexican company Aqualia México, S.A. de C.V. (the "**Mexican Law Share Pledge**"); and
- 1.2 a first ranking pledge over any existing or future credit rights of any nature that arise or may arise directly or indirectly for any reason in favour of the Issuer *vis-à-vis* each of the banks listed in the Spanish Law Accounts Pledges (as defined below) under or in relation to the accounts listed in the Spanish Law Accounts Pledges (including the Debt Service Reserve Account (as defined below)) (the "**Spanish Accounts**") or under its respective bank account agreement in connection with each of the Spanish Accounts (the "**Spanish Law Accounts Pledges**" and, together with the Spanish Law Share Pledges and the Spanish Law Quota Share Pledges, the "**Spanish Law Security**").

The Share Pledges, the Spanish Law Account Pledges and any other security that can be created pursuant to the Conditions will be hereinafter jointly referred to as the "**Security**". The Security is a continuing security and shall remain in full force and effect until the Secured Liabilities have been paid in full, in spite of the insolvency ("*concurso*") or liquidation (as the case may be) or any incapacity or change in the constitution of the Issuer.

### Creation of the Security

On the Closing Date, the existing security package over certain of Aqualia's assets securing the current banking debt financing of the FCC Group (which will be restructured and refinanced effective as of the Closing Date) will be released in full and the Security will be created simultaneously and automatically upon the receipt of the proceeds of the Issue and the issue of the Notes.

## **Enforcement of the Security**

Subject to and in accordance with the Intercreditor Agreement, and prior to the Convertible Notes Accession Date, the Security shall become enforceable if, following the occurrence and continuation of any of the events described in Condition 10 (*Events of Default*) of the 2022 Notes and the 2027 Notes, the 2022 Notes and/or the 2027 Notes have been declared immediately due and payable in accordance with their respective terms, and the Issuer has not made payment of the relevant amounts within a period of five business days from the date of receipt by the Issuer of the relevant notice which declares the 2022 Notes and/or the 2027 Notes to be immediately due and payable.

From and including the Convertible Notes Accession Date, and subject to and in accordance with the Intercreditor Agreement, the Security shall become enforceable if, following the occurrence and continuation of any of the events described in Condition 10 (*Events of Default*) of the 2022 Notes and the 2027 Notes and Condition 10 (*Events of Default*) of the Convertible Notes, the 2022 Notes and/or the 2027 Notes and/or the Convertible Notes have been declared immediately due and payable in accordance with their respective terms, and the Issuer and/or FCC, as applicable, has not made payment of the relevant amounts within a period of five business days from the date of receipt by the Issuer and/or FCC, as applicable, of the relevant notice which declares the 2022 Notes and/or the 2027 Notes and/or the Convertible Notes to be immediately due and payable.

If the Security becomes capable of enforcement, the Security Agent shall, if so instructed in writing by the Instructing Group, enforce all or any of the Security, subject to and in the manner provided in the Intercreditor Agreement and the Security Documents, and provided that the Security Agent, Note Trustee and (on or following the Convertible Notes Accession Date) Commissioner shall not be required to take any action or step or proceedings without first being indemnified and/or secured and/or prefunded to its satisfaction. Enforcement of the security shall be carried out pursuant to the rules and procedures set out in the Conditions, the Trust Deed, the Security Documents and the Intercreditor Agreement, as further described in Condition 3 (*Security, Relationship with Secured Parties and Enforcement - Enforceable Security*). In particular, pursuant to the Intercreditor Agreement, the Security Agent shall not be entitled to enforce the Security prior to the earlier of (i) the expiry of 120 days after the date on which it first received notice proposing enforcement instructions in respect of the 2022 Notes, the 2027 Notes or the Convertible Notes, or (ii) the date on which it receives notice from the Note Trustee that both the 2022 Noteholders and 2027 Noteholders consent to the proposed enforcement instructions or (on or following the Convertible Notes Accession Date) the date on which it receives notice from the last of the Commissioner and the Note Trustee (as applicable) that the Convertible Noteholders, the 2022 Noteholders and 2027 Noteholders consent to the proposed enforcement instructions.

Upon the Security having been enforced, the Secured Property will be administered by the Security Agent pursuant to the terms of the Security Documents and the Intercreditor Agreement for the benefit of all Secured Creditors. After enforcement of the Security, the Security Agent shall make payments in accordance with the order of application of proceeds set out in the Intercreditor Agreement.

## DESCRIPTION OF OTHER MATERIAL CONTRACTS

### Description of the Intercreditor Agreement

On or around the Issue Date, the Issuer, the Note Trustee, the Security Agent and certain other parties will enter into the Intercreditor Agreement (and, on the Convertible Notes Accession Date, FCC and the Commissioner may accede to the Intercreditor Agreement) to establish the relative rights of certain of the creditors of the Issuer and (on and following the Convertible Notes Accession Date) FCC, including Noteholders and (on and following the Convertible Notes Accession Date) Convertible Noteholders. By accepting a Note, Noteholders will be deemed to have agreed to and accepted the terms and conditions of the Intercreditor Agreement. Capitalised terms used but not defined in this section have the meaning given to them in the Intercreditor Agreement.

The Intercreditor Agreement sets out:

- the ranking of the indebtedness under the Notes and (on and following the Convertible Notes Accession Date) the Convertible Notes (together the "**Pari Passu Liabilities**" and the creditors to whom the Pari Passu Liabilities is owed being the "**Pari Passu Noteholders**", in each case as definitively defined in the Intercreditor Agreement);
- the ranking of the Transaction Security (as defined in the Intercreditor Agreement);
- the procedure for enforcement of the Transaction Security and the allocation of proceeds resulting from such enforcement;
- the types of disposals permitted under distressed and non-distressed scenarios and the Security Agent's authority to release the Transaction Security in case of any disposal and obligations of FCC and/or the Issuer owed to the Pari Passu Noteholders in case of a distressed disposal; and
- turnover provisions.

The following description is a summary of certain provisions contained in the Intercreditor Agreement. It does not restate the Intercreditor Agreement in its entirety and, as such, we urge you to read that document (available for viewing as a document on display) because it, and not the discussion that follows, defines certain rights (and restrictions on entitlement) of the Noteholders and other Pari Passu Noteholders.

#### 1. **Priority of debts**

The Intercreditor Agreement provides that all liabilities owed under the Notes and (on and following the Convertible Notes Accession Date) the Convertible Notes will rank *pari passu* and without any preference between them.

#### 2. **Ranking of security**

The Intercreditor Agreement provides that the Transaction Security shall rank and secure the Pari Passu Liabilities *pari passu* without preference between the different categories of Pari Passu Liabilities to the extent that the Security continues to secure those Liabilities in accordance with Clause 7 of the Intercreditor Agreement.

#### 3. **Enforcement and application of proceeds**

- 3.1 The Intercreditor Agreement sets forth procedures for enforcement of the Transaction Security. If any Notes and/or (on and following the Convertible Notes Accession Date) Convertible Notes have been accelerated in accordance with their terms and any accelerated amount remains unpaid five Business Days after notice of the acceleration has been given, the Creditor Representatives representing Pari Passu Noteholders whose Pari Passu Liabilities aggregate more than 65% of the total Pari Passu Liabilities (the "**Instructing Group**") are entitled to direct the Security Agent to enforce or refrain from enforcing the Transaction Security, as they see fit. The Security

Agent may refrain from enforcing the Transaction Security unless otherwise instructed by the Instructing Group. In particular, pursuant to the Intercreditor Agreement, the Security Agent shall not be entitled to enforce the Security prior to the earlier of (i) the expiry of 120 days after the date on which it first received notice proposing enforcement instructions in respect of the Notes, the 2027 Notes or the Convertible Notes, or (ii) the date on which it receives notice from the Note Trustee that both the Noteholders and 2027 Noteholders consent to the proposed enforcement instructions or (on or following the Convertible Notes Accession Date) the date on which it receives notice from the last of the Commissioner and the Note Trustee (as applicable) that the Convertible Noteholders, the Noteholders and 2027 Noteholders consent to the proposed enforcement instructions.

Upon the Transaction Security having been enforced, the Secured Property will be administered by the Security Agent pursuant to the terms of the Security Documents and the Intercreditor Agreement for the benefit of the Secured Creditors. If a Notice of Acceleration and Enforcement (as defined in the Intercreditor Agreement) is not given to the Security Agent prior to 5:00 p.m. in Madrid on the date falling 120 days after the date of the Initial Enforcement Notice in respect of any series of Notes or (on or following the Convertible Notes Accession Date) the Convertible Notes, the Note Trustee and/or the Commissioner (as the case may be) shall subject as otherwise provided in the Intercreditor Agreement automatically and unconditionally cease to be a party to the Intercreditor Agreement as Creditor Representative of the relevant series of Notes and/or (as the case may be) the Convertible Notes, and the Noteholders of such series and/or the Convertible Noteholders (as the case may be) shall from that date automatically and unconditionally cease to be Secured Creditors and shall have no claim for any Secured Obligations or other amounts received or recovered by the Security Agent in connection with the realisation or enforcement of any or all of the Transaction Security. No party shall be required to execute any documents to evidence such security release, discharge and termination, which for such purposes shall be automatic and unconditional.

- 3.2 The proceeds of enforcement of the Transaction Security and all other amounts paid to the Security Agent under the Intercreditor Agreement shall be applied in the following order:
- (a) first, in payment of any sums (including fees, costs, expenses and liabilities) owing to (i) the Security Agent or any receiver, delegate, attorney or agent appointed under the documents granting the Transaction Security or the Intercreditor Agreement; and (ii) the Note Trustee and/or (on and following the Convertible Notes Accession Date) the Commissioner (each in their capacity as such);
  - (b) second, in payment to the relevant Paying Agent(s), the Convertible Notes Agents (on and following the Convertible Notes Accession Date), or, as applicable, Account Bank (each in their capacity as such);
  - (c) third, in payment of any liabilities incurred by any *Pari Passu* Noteholder, the Note Trustee and/or (on and following the Convertible Notes Accession Date) the Commissioner in connection with any realisation or enforcement of the Transaction Security;
  - (d) fourth, on a *pari passu* and *pro rata* basis to the Note Trustee and (on and following the Convertible Notes Accession Date) the Commissioner for application towards the discharge of amounts owed under the Notes and (on and following the Convertible Notes Accession Date) the Convertible Notes;
  - (e) fifth, if none of the debtors is under any further actual or contingent liability under any of the *Pari Passu* Liabilities documents, in payment to any person the Security Agent is obliged to pay in priority to any debtor; and
  - (f) sixth, in payment or distribution to the relevant debtor.
- 3.3 Pursuant to the Intercreditor Agreement and to the extent provided thereunder, *Pari Passu* Noteholders indemnify the Security Agent (although any payments under such indemnity shall

be reimbursed by the Company), are required to supply it with information that it may require, and generally comply with its instructions, in relation to the performance of its functions.

#### 4. **Distressed and non-distressed disposals**

- 4.1 The Security Agent is authorised (without the requirement to obtain any further consent or authorisation from any Pari Passu Noteholder) to release from the Transaction Security any asset that is the subject of a disposal permitted by the Pari Passu Liabilities documents and the Transaction Security documents and which is not a Distressed Disposal.
- 4.2 A "**Distressed Disposal**" means a disposal effected (i) by way of enforcement of the Transaction Security; or (ii) at the request of the Instructing Group in circumstances where the Transaction Security has become enforceable.
- 4.3 If to the extent permitted by applicable law a Distressed Disposal is being effected, the Security Agent is authorised (without the requirement to obtain any further consent or authorisation from any Pari Passu Noteholder or other relevant party): (i) to release the Transaction Security or any other claim over any asset subject to the Distressed Disposal; and (ii) if the asset subject to the Distressed Disposal is the shares of a debtor, to release such debtor and/or its subsidiaries from any liabilities under borrowings and/or guarantees under the Pari Passu Liabilities documents.

#### 5. **Turnover**

Subject to certain exceptions, if any creditor party to the Intercreditor Agreement (including the Security Agent, Note Trustee, Commissioner (on and following the Convertible Notes Accession Date), and the Pari Passu Noteholders) receives or recovers a payment (whether by way of direct payment, set-off or otherwise) except as permitted pursuant to the terms of the Intercreditor Agreement, such creditor shall promptly pay over such amounts to the Security Agent for application in accordance with the provision described above under "*Enforcement and application of proceeds*".

#### **Description of the Aqualia-FCC Subordinated Loans**

A portion of the net proceeds of the issue of the Notes will be used by Aqualia to grant to FCC (i) an unsecured subordinated loan for a principal amount of up to EUR425,667,763.17 with a term of twelve years (subject to extension under certain circumstances) (the "**Twelve-Year Subordinated Loan**") and (ii) an unsecured subordinated loan for a principal amount of EUR90,173,960.32 with a term of 20 years (subject to extension under certain circumstances) (the "**Twenty-Year Subordinated Loan**") and, together with the Twelve-Year Subordinated Loan, the "**Subordinated Loans**", each as a condition under the restructuring and refinancing of the FCC Group's existing syndicated financing agreement (the "**FCC Existing Financing**") pursuant to which FCC has entered into an amended and restated syndicated financing agreement (the "**FCC Amended Financing**") subject to the satisfaction of certain conditions. The Subordinated Loans are expected to be entered-into on the Closing Date and to become effective simultaneously on issue of the Notes. FCC intends to use the amounts loaned under the Subordinated Loans principally to repay certain indebtedness outstanding under the FCC Existing Financing as well as certain other indebtedness. The FCC Amended Financing is expected to become effective simultaneously on issue of the Notes.

The principal commercial features of the Twelve-Year Subordinated Loan are as follows:

- term of twelve years, subject to extension based on date of full repayment or cancellation of indebtedness under, and termination of, the FCC Amended Financing (and related finance documents);
- a single scheduled repayment of principal on the date of final maturity;
- payment-in-kind (PIK) interest at an annual rate of 2.3 per cent. accrued, at the discretion of FCC, monthly, quarterly, semi-annually or annually . After an initial period of five years during which all such interest will be capitalised, and conditional upon full repayment or cancellation of indebtedness under, and termination of, the FCC Amended Financing (and related finance



documents), FCC will make payment in cash of interest accrued during subsequent interest periods, up to a maximum amount equal to the amount of dividends distributed by Aqualia to FCC during the relevant interest period (any remainder in excess of such maximum amount being capitalised); and

- contractual subordination of Aqualia's creditor's rights under the Twelve-Year Subordinated Loan to the claims of the creditors under the FCC Amended Financing, such that no amount of principal or interest may be repaid under the Twelve-Year Subordinated Loan until all indebtedness owed under the FCC Amended Financing (and related finance documents) has been repaid or cancelled in full.

The principal commercial features of the Twenty-Year Subordinated Loan are as follows:

- term of 20 years, subject to extension based on date of full repayment or cancellation of indebtedness under, and termination of, the FCC Amended Financing (and related finance documents);
- a single scheduled repayment of principal on the date of final maturity;
- payment-in-kind (PIK) interest at an annual rate of 2.3 per cent. accrued, at the discretion of FCC, monthly, quarterly, semi-annually or annually; and
- contractual subordination of Aqualia's creditor's rights under the Twenty-Year Subordinated Loan to the claims of the creditors under the FCC Amended Financing, such that no amount of principal or interest may be repaid under the Twenty-Year Subordinated Loan until all indebtedness owed under the FCC Amended Financing (and related finance documents) has been repaid or cancelled in full. See "*Risks Relating to the Aqualia's Business and the Market in which it Operates – Aqualia is subject to liquidity risk*"

#### **Description of the Aqualia-Afigesa Subordinated Loan**

Aqualia and Afigesa, a subsidiary of FCC, expect to enter into on the Closing Date a subordinated loan for a principal amount of up to EUR470,000,000 with a term of 20 years (subject to extension under certain circumstances) (the "**Afigesa Subordinated Loan**"), in acknowledgement of the creditor position in favour of Aqualia that will result from the termination on the Closing Date of the cash pooling agreement entered into between FCC and certain companies of its group in 2014.

The principal commercial features of the Afigesa Subordinated Loan are as follows:

- term of 20 years, subject to extension based on date of full repayment or cancellation of indebtedness under, and termination of, the FCC Amended Financing (and related finance documents);
- a single scheduled repayment of principal on the date of final maturity;
- payment-in-kind (PIK) interest at an annual rate of 2.3 per cent. accrued, at the discretion of Afigesa monthly, quarterly, semi-annually or annually; and
- contractual subordination of Aqualia's creditor's rights under the Afigesa Subordinated Loan to the claims of the creditors under the FCC Amended Financing, such that no amount of principal or interest may be repaid under the Afigesa Subordinated Loan until all indebtedness owed under the FCC Amended Financing (and related finance documents) has been repaid or cancelled in full.

## TAXATION

The following is a general description of certain tax considerations relating to the Notes. It does not purport to be a complete analysis of all tax considerations relating to the Notes whether in those countries or elsewhere. Prospective purchasers of Notes should consult their own tax advisers as to the consequences under the tax laws of the country of which they are resident for tax purposes and the tax laws of the Kingdom of Spain of acquiring, holding and disposing of Notes and receiving payments of interest, principal and/or other amounts under the Notes. This summary is based upon the law as in effect on the date of this Offering Circular and is subject to any change in law that may take effect after such date.

Also investors should note that the appointment by an investor in Notes, or any person through which an investor holds Notes, of a custodian, collection agent or similar person in relation to such Notes in any jurisdiction may have tax implications. Investors should consult their own tax advisers in relation to the tax consequences for them of any such appointment

### Taxation in the Kingdom of Spain

*The following is a general description of certain Spanish tax considerations. The information provided below does not purport to be a complete summary of tax law and practice currently applicable in the Kingdom of Spain and is subject to any changes in law and the interpretation and application thereof, which could be made with retroactive effect.*

#### Introduction

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

If:

- (a) of general application, Additional Provision One of Law 10/2014, of 26 June on the management, supervision and solvency of credit institutions ("**Law 10/2014**"), as well as Royal Decree 1065/2007 ("**Royal Decree 1065/2007**"), of 27 July establishing information obligations in relation to preferential holdings and other debt instruments and certain income obtained by individuals resident in the European Union and other tax rules as amended by Royal Decree 1145/2011 of 29 July;
- (b) for individuals with tax residency in Spain who are personal income tax ("**Personal Income Tax**") tax payers, Law 35/2006, of 28 November on Personal Income Tax and on the partial amendment of the Corporate Income Tax Law, Non Resident Income Tax Law and Wealth Tax Law as amended by Law 26/2014 of 27 November and Royal Decree Law 9/2015 of 10 July (the "**Personal Income Tax Law**"), and Royal Decree 439/2007, of 30 March promulgating the Personal Income Tax Regulations as amended by Royal Decree 633/2015, of 10 July, along with Law 19/1991, of 6 June on Wealth Tax and Law 29/1987, of 18 December on Inheritance and Gift Tax;
- (c) for legal entities resident for tax purposes in Spain which are corporate income tax ("**Corporate Income Tax**") taxpayers, Law 27/2014 Corporate Income Tax Law "**CIT Law**", and Royal Decree 634/2015, of 10 July promulgating the Corporate Income Tax Regulations (the "**Corporate Income Tax Regulations**"); and
- (d) for individuals and legal entities who are not resident for tax purposes in Spain and are non-resident income tax ("**Non-Resident Income Tax**") taxpayers, Royal Legislative Decree 5/2004, of 5 March promulgating the Consolidated Text of the Non-Resident Income Tax Law as amended by Law 26/2014 of 27 November and Royal Decree 1776/2004, of 30 July promulgating the Non-Resident Income Tax Regulations, as amended by Royal Decree 633/2015 of 10 July, along with Law 19/1991, of 6 June on Wealth Tax as amended by Royal Decree-Law 13/2011 and Law 29/1987, of 18 December on Inheritance and Gift Tax.

Whatever the nature and residence of the holder of a beneficial interest in the Notes (each, a "**Beneficial Owner**"), the acquisition and transfer of the Notes will be exempt from indirect taxes in Spain, for example exempt from transfer tax and stamp duty, in accordance with the consolidated text of such tax

promulgated by Royal Legislative Decree 1/1993, of 24 September, and exempt from value added tax, in accordance with Law 37/1992, of 28 December regulating such tax.

## 1. **Individuals with Tax Residency in Spain**

### 1.1 ***Individual Income Tax (Impuesto sobre la Renta de las Personas Físicas)***

Both interest periodically received and income deriving from the transfer, redemption or repayment of the Notes constitute a return on investment obtained from the transfer of own capital to third parties in accordance with the provisions of Section 25.2 of the Personal Income Tax Law, and must be included in each investor's taxable savings and taxed at the tax rate applicable from time to time, currently 19 per cent. for taxable income up to EUR6,000, 21 per cent. for taxable income between EUR6,001 and EUR50,000, and 23 per cent. for taxable income exceeding EUR50,000. As a general rule, both types of income are subject to a withholding tax on account at the current rate of 19 per cent.

According to Section 44.5 of Royal Decree 1065/2007, of 27 July, the Issuer will make interest payments to individual holders who are resident for tax purposes in Spain without withholding **provided that** the relevant information about the Notes set out in Annex I is submitted by the Principal Paying Agent in a timely manner.

Notwithstanding the above, withholding tax at the current applicable rate of 19 per cent. may have to be deducted by other entities (such as depositaries, institutions or financial entities) **provided that** such entities are resident for tax purposes in Spain or have a permanent establishment in Spanish territory. In addition, income obtained upon transfer, redemption or repayment of the Notes may also be paid without withholding.

In any event, individual holders may credit the withholding against their Personal Income Tax liability for the relevant fiscal year.

#### ***Reporting obligations***

The Issuer will comply with the reporting obligations set out in the Spanish tax laws with respect to holders of the Notes who are individuals resident in Spain for tax purposes.

### 1.2 ***Wealth Tax (Impuesto sobre el Patrimonio)***

Individuals with tax residency in Spain are subject to Wealth Tax to the extent that their net worth exceeds EUR700,000 (subject to any exceptions provided under relevant legislation in an autonomous region (*Comunidad Autónoma*)). Therefore, they should take into account the value of the Notes which they hold as at 31 December in each year, the applicable rates ranging between 0.2 per cent. and 2.5 per cent.

In accordance with article 4 of Royal Decree-Law 3/2016, a full exemption on Net Wealth Tax will apply in 2018 unless such exemption is revoked.

### 1.3 ***Inheritance and Gift Tax (Impuesto sobre Sucesiones y Donaciones)***

Individuals with tax residency in Spain who acquire ownership or other rights over any Notes by inheritance, gift or legacy will be subject to inheritance and gift tax in accordance with the applicable Spanish regional or federal rules. The applicable rates range between 7.65 per cent. and 81.6 percent depending on the relevant factors.

## 2. **Legal Entities with Tax Residency in Spain**

### 2.1 ***Corporate Income Tax (Impuesto sobre Sociedades)***

Both interest periodically received and income deriving from the transfer, redemption or repayment of the Notes constitute a return on investments for tax purposes obtained from the transfer to third parties of own capital and must be included in profit and taxable income of legal

entities with tax residency in Spain for Corporate Income Tax ("CIT") purposes in accordance with the rules for Corporate Income Tax.

The current general tax rate according to CIT Law is 25 per cent.

In accordance with Section 44.5 of Royal Decree 1065/2007, of 27 July, there is no obligation to withhold on income payable to Spanish CIT taxpayers (which for the sake of clarity, include Spanish tax resident investment funds and Spanish tax resident pension funds). Consequently, the Issuer will not withhold on interest payments to Spanish CIT taxpayers **provided that** the relevant information about the Notes set out in Annex I is submitted by the Principal Paying Agent in a timely manner.

However, in the case of Notes held by Spanish resident entity and deposited with a Spanish resident entity acting as depositary or custodian, payments of interest under the Notes and income derived from the transfer, redemption or repayment of the Notes may be subject to withholding tax at the current rate of 19 per cent., withholding that will be made by the depositary or custodian, if the Notes do not comply with the exemption requirements specified in the ruling issued by the Spanish Tax Authorities (Dirección General de Tributos) dated 27 July 2004 and require a withholding to be made.

Notwithstanding the above, amounts withheld, if any, may be credited by the relevant investors against its final CIT liability.

### ***Reporting obligations***

The Issuer will comply with the reporting obligations set out in the Spanish tax laws with respect to holders of the Notes who are legal persons or entities resident in Spain for tax purposes.

#### **2.2 *Wealth Tax (Impuesto sobre el Patrimonio)***

Spanish resident legal entities are not subject to Wealth Tax.

#### **2.3 *Inheritance and Gift Tax (Impuesto sobre Sucesiones y Donaciones)***

Legal entities with tax residency in Spain which acquire ownership or other rights over the Notes by inheritance, gift or legacy are not subject to inheritance and gift tax and must include the market value of the Notes in their taxable income for Spanish CIT purposes.

### **3. *Individuals and Legal Entities with no Tax Residency in Spain***

#### **3.1 *Non-Resident Income Tax (Impuesto sobre la Renta de No Residentes)***

##### **(a) *Non-Spanish resident investors acting through a permanent establishment in Spain***

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

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

##### **(b) *Non-Spanish resident investors not acting through a permanent establishment in Spain***

Both interest periodically received and income deriving from the transfer, redemption or repayment of the Notes, obtained by individuals or entities who have no tax residency in Spain, and which are Non-Resident Income Tax taxpayers with no permanent establishment in Spain, are exempt from such Non-Resident Income Tax. In order for such exemption to apply it is necessary to comply with the information procedures, in

the manner detailed under "*Information about the Notes in Connection with Payments*-" as set out in article 44 of Royal Decree 1065/2007.

### ***Reporting obligations***

The Issuer will comply with the reporting obligations set out in the Spanish tax laws with respect to holders of the Notes who are individuals or legal entities not resident in Spain for tax purposes who act with respect to the Notes through a permanent establishment in Spain.

#### **3.2 *Wealth Tax (Impuesto sobre el Patrimonio)***

Individuals resident in a country with which Spain has entered into a double tax treaty in relation to the Wealth Tax would generally not be subject to such tax. Otherwise, non-Spanish resident individuals whose properties and rights located in Spain, or that can be exercised within the Spanish territory exceed EUR700,000 would be subject to Wealth Tax, the applicable rates ranging between 0.2 per cent. and 2.5 per cent.

In accordance with article 4 of Royal Decree-Law 3/2016, a full exemption on Net Wealth Tax will apply in 2018 unless such exemption is revoked.

Individuals that are not resident in Spain for tax purposes but who are resident in an EU or EEA Member State may apply the rules approved by the autonomous region where the assets and rights with more value (i) are located, (ii) can be exercised or (iii) must be fulfilled.

Non-Spanish resident legal entities are not subject to Wealth Tax.

#### **3.3 *Inheritance and Gift Tax (Impuesto sobre Sucesiones y Donaciones)***

Individuals who do not have tax residency in Spain who acquire ownership or other rights over the Notes by inheritance, gift or legacy, and who reside in a country with which Spain has entered into a double tax treaty in relation to inheritance and gift tax will be subject to the relevant double tax treaty.

If the provisions of the foregoing paragraph do not apply, such individuals will be subject to inheritance and gift tax in accordance with Spanish legislation.

However, if the deceased, heir or the donee are resident in an EU or EEA Member State, depending on the specific situation, the applicable rules will be those corresponding to the relevant autonomous regions according to the law.

Non-Spanish resident legal entities which acquire ownership or other rights over the Notes by inheritance, gift or legacy are not subject to inheritance and gift tax. They will be subject to Non-Resident Income Tax. If the legal entity is resident in a country with which Spain has entered into a double tax treaty, the provisions of such treaty will apply. In general, double-tax treaties provide for the taxation of this type of income in the country of residence of the beneficiary.

#### **4. *Information about the Notes in Connection with Payments***

As at the date of this Offering Circular, the Issuer is required by Spanish law to file an annual return with the Spanish tax authorities in which it reports on certain information relating to the Notes. In accordance with Section 44 of Royal Decree 1065/2007, for the purpose of preparing the annual return referred to above, certain information with respect to the Notes must be submitted to the Issuer before the close of business on the Business Day (as defined below) immediately preceding the date on which any payment of interest, principal or of any amounts in respect of the early redemption of the Notes is due.

Such information would be the following:

- (a) identification of the Notes (as applicable) in respect of which the relevant payment is made;

- (b) date on which relevant payment is made;
- (c) the total amount of the relevant payment; and
- (d) the amount of the relevant payment and to each entity that manages a clearing and settlement system for securities situated outside Spain.

In particular, the Principal Paying Agent must certify the information above about the Notes by means of a certificate the form of which is attached as Annex I of this Offering Circular.

In light of the above, the Issuer and the Principal Paying Agent have arranged certain procedures to facilitate the collection of information concerning the Notes. If, despite these procedures, the relevant information is not received by the Issuer by the close of business on the Business Day immediately preceding the date on which any payment of interest, principal or any amounts in respect of the early redemption of the Notes is due, the Issuer may be required to withhold at the applicable rate (as at the date of this Offering Circular, 19 per cent.) from any payment in respect of the relevant Notes as to which the required information has not been provided. In that event the Issuer will pay such additional amounts as will result in receipt by the Noteholders of such amount as would have been received by them had no such withholding been required.

For the purposes of this paragraph 4, "**Business Day**" means a day which is a TARGET Settlement Day and a day on which commercial banks and foreign exchange markets settle payments generally in the Kingdom of Spain.

*Set out below is Annex I. Sections in English have been translated from the original Spanish and such translations constitute direct and accurate translations of the Spanish language text. In the event of any discrepancy between the Spanish language version of the certificate contained in Annex I and the corresponding English translation, the Spanish tax authorities will give effect to the Spanish language version of the relevant certificate only.*

*The language of the Offering Circular is English. Any foreign language text that is included with or within this document has been included for convenience purposes only and does not form part of this Offering Circular.*

## ANNEX I

### **Anexo al Reglamento General de las actuaciones y los procedimientos de gestión e inspección tributaria y de desarrollo de las normas comunes de los procedimientos de aplicación de los tributos, aprobado por Real Decreto 1065/2007**

#### **Modelo de declaración a que se refieren los apartados 3, 4 y 5 del artículo 44 del Reglamento General de las actuaciones y los procedimientos de gestión e inspección tributaria y de desarrollo de las normas comunes de los procedimientos de aplicación de los tributos**

Annex to Royal Decree 1065/2007, of 27 July, approving the General Regulations of the tax inspection and management procedures and developing the common rules of the procedures to apply taxes

Declaration form referred to in paragraphs 3, 4 and 5 of Article 44 of the General Regulations of the tax inspection and management procedures and developing the common rules of the procedures to apply taxes

**Don (nombre), con número de identificación fiscal ( )<sup>(1)</sup>, en nombre y representación de (entidad declarante), con número de identificación fiscal ( )<sup>(1)</sup> y domicilio en ( ) en calidad de (marcar la letra que proceda):**

Mr. (name), with tax identification number ( )<sup>(1)</sup>, in the name and on behalf of (entity), with tax identification number ( )<sup>(1)</sup> and address in ( ) as (function – mark as applicable):

**(a) Entidad Gestora del Mercado de Deuda Pública en Anotaciones.**

(a) Management Entity of the Public Debt Market in book entry form.

**(b) Entidad que gestiona el sistema de compensación y liquidación de valores con sede en el extranjero.**

(b) Entity that manages the clearing and settlement system of securities resident in a foreign country.

**(c) Otras entidades que mantienen valores por cuenta de terceros en entidades de compensación y liquidación de valores domiciliadas en territorio español.**

(c) Other entities that hold securities on behalf of third parties within clearing and settlement systems domiciled in the Spanish territory.

**(d) Agente de pagos designado por el emisor.**

(d) Issuing and Paying Agent appointed by the issuer.

**Formula la siguiente declaración, de acuerdo con lo que consta en sus propios registros:**

Makes the following statement, according to its own records:

**1. En relación con los apartados 3 y 4 del artículo 44:**

1. In relation to paragraphs 3 and 4 of Article 44:

**1.1 Identificación de los valores.....**

1.1 Identification of the securities.....

**1.2 Fecha de pago de los rendimientos (o de reembolso si son valores emitidos al descuento o segregados)**

1.2 Income payment date (or refund if the securities are issued at discount or are segregated)

- 1.3 Importe total de los rendimientos (o importe total a reembolsar, en todo caso, si son valores emitidos al descuento o segregados) .....**
- 1.3 Total amount of income (or total amount to be refunded, in any case, if the securities are issued at discount or are segregated)
- 1.4 Importe de los rendimientos correspondiente a contribuyentes del Impuesto sobre la Renta de las Personas Físicas, excepto cupones segregados y principales segregados en cuyo reembolso intervenga una Entidad Gestora .....**
- 1.4 Amount of income corresponding to Personal Income Tax taxpayers, except segregated coupons and segregated principals for which reimbursement an intermediary entity is involved .....
- 1.5 Importe de los rendimientos que conforme al apartado 2 del artículo 44 debe abonarse por su importe íntegro (o importe total a reembolsar si son valores emitidos al descuento o segregados).**
- 1.5 Amount of income which according to paragraph 2 of Article 44 must be paid gross (or total amount to be refunded if the securities are issued at discount or are segregated).
- 2. En relación con el apartado 5 del artículo 44.**
2. In relation to paragraph 5 of Article 44.
- 2.1 Identificación de los valores .....**
- 2.1 Identification of the securities.....
- 2.2 Fecha de pago de los rendimientos (o de reembolso si son valores emitidos al descuento o segregados) .....**
- 2.2 Income payment date (or refund if the securities are issued at discount or are segregated) .....
- 2.3 Importe total de los rendimientos (o importe total a reembolsar si son valores emitidos al descuento o segregados) .....**
- 2.3 Total amount of income (or total amount to be refunded if the securities are issued at discount or are segregated)
- 2.4 Importe correspondiente a la entidad que gestiona el sistema de compensación y liquidación de valores con sede en el extranjero A.**
- 2.4 Amount corresponding to the entity that manages the clearing and settlement system of securities resident in a foreign country A.
- 2.5 Importe correspondiente a la entidad que gestiona el sistema de compensación y liquidación de valores con sede en el extranjero B.**
- 2.5 Amount corresponding to the entity that manages the clearing and settlement system of securities resident in a foreign country B.
- 2.6 Importe correspondiente a la entidad que gestiona el sistema de compensación y liquidación de valores con sede en el extranjero C.**
- 2.6 Amount corresponding to the entity that manages the clearing and settlement system of securities resident in a foreign country C.

Lo que declaro en.....a ... de.....de ...

I declare the above in ..... on the ... of ..... of ...



**(1) En caso de personas, físicas o jurídicas, no residentes sin establecimiento permanente se hará constar el número o código de identificación que corresponda de conformidad con su país de residencia**

(1) In case of non-residents (individuals or corporations) without permanent establishment in Spain it shall be included the number or identification code which corresponds according to their country of residence.

#### **The proposed financial transactions tax ("FTT")**

On 14 February 2013, the European Commission published a proposal (the "**Commission's proposal**") for a Directive for a common FTT in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the "**participating Member States**"). However, Estonia has since stated that it will not participate.

The Commission's proposal has very broad scope and could, if introduced, apply to certain dealings in the Notes (including secondary' market transactions) in certain circumstances.

Under the Commission's proposal, FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in the Notes where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, "established" in a participating Member State in a broad range of circumstances, including (a) by transacting with a person established in a participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a participating Member State.

However, the FTT proposal remains subject to negotiation between participating Member States. It may therefore be altered prior to any implementation, the timing of which remains unclear. Additional EU Member States may decide to participate.

Prospective holders of the Notes are advised to seek their own professional advice in relation to the FTT.

## SUBSCRIPTION AND SALE

Banco Bilbao Vizcaya Argentaria, S.A., CaixaBank, S.A., HSBC Bank plc, Banco Santander, S.A. and Société Générale (the "**Joint Bookrunners**") and ABANCA Corporación Bancaria, S.A., Banco de Sabadell, S.A, Banco Popular Español, S.A., Bankia SA, Credit Suisse Securities (Europe) Limited and Unicaja Banco, S.A. (the "**Co-lead Managers**" and, together with the Joint Bookrunners, the "**Managers**") have, in a subscription agreement dated 1 June 2017 (the "**Subscription Agreement**") and made between the Issuer and the Managers upon the terms and subject to the conditions contained therein, jointly and severally agreed to subscribe for the 2022 Notes at their issue price of 100 per cent. of their principal amount and to the 2027 Notes at their issue price of 100 per cent. of their principal amount. The Issuer has also agreed to reimburse the Managers for certain of their expenses incurred in connection with the management of the issue of the Notes. The Managers are entitled in certain circumstances to be released and discharged from their obligations under the Subscription Agreement prior to the closing of the issue of the Notes.

### **United Kingdom**

Each Manager has represented, warranted and undertaken that:

- (a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of the Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and
- (b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

### **United States of America**

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

The Notes are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. tax regulations. Terms used in this paragraph have the meanings given to them by the United States Internal Revenue Code of 1986 and regulations thereunder.

Each Manager has agreed that, except as permitted by the Subscription Agreement, it will not offer, sell or deliver the Notes, (a) as part of their distribution at any time or (b) otherwise, until 40 days after the later of the commencement of the offering and the issue date of the Notes, within the United States or to, or for the account or benefit of, U.S. persons, and that it will have sent to each dealer to which it sells Notes during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph shall have the same meanings given to them in Regulation S.

In addition, until 40 days after commencement of the offering, an offer or sale of Notes within the United States by a dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act.

### **Kingdom of Spain**

Each Manager has represented and agreed that the Notes may not be sold, offered or distributed in Spain in circumstances which constitute a public offer of securities in Spain within the meaning of the restated text of the Spanish Securities Market Act approved by legislative Royal Decree 4/2015, of 23 October (*Texto refundido de la ley de Mercado de valores aprobado por el Real Decreto Legislativo 4/2015, de 23 de octubre*) and further relevant legislation unless such sale, offer of distribution is made in compliance with the provisions of the Spanish securities laws and any other applicable legislation.

**General**

Each Manager has represented, warranted and agreed that it has complied and will comply with all applicable laws and regulations in each country or jurisdiction in which it purchases, offers, sells or delivers Notes or possesses, distributes or publishes this Offering Circular or any other offering material relating to the Notes. Persons into whose hands this Offering Circular comes are required by the Issuer, and the Manager to comply with all applicable laws and regulations in each country or jurisdiction in which they purchase, offer, sell or deliver Notes or possess, distribute or publish this Offering Circular or any other offering material relating to the Notes, in all cases at their own expense.

## GENERAL INFORMATION

### Authorisation

1. The creation and issue of the Notes has been authorised by a resolution of the Board of Directors of the Issuer dated 24 February 2017. The Issuer has obtained or will obtain from time to time all necessary consents, approvals and authorisations in connection with the issue and performance of the Notes.

### Legal and Arbitration Proceedings

2. There are no governmental, legal or arbitration proceedings, (including any such proceedings which are pending or threatened, of which the Issuer is aware), which may have, or have had during the 12 months prior to the date of this Offering Circular, a significant effect on the financial position or profitability of the Issuer and its Subsidiaries.

### Significant/Material Change

3. Since 31 December 2016 there has been no material adverse change in the prospects of the Issuer or the Issuer and its Subsidiaries nor any significant change in the financial or trading position of the Issuer or the Issuer and its Subsidiaries.

### Auditors

4. The consolidated financial statements of the Issuer have been audited without qualification for the years ended 31 December 2016 and 2015 by Deloitte, S.L.

### Documents on Display

5. Copies of the following documents may be inspected for as long as the securities are listed on the Official List of the ISE and admitted to trading on the Global Exchange Market during normal business hours at the offices of the Issuer from the date of this Offering Circular:
  - (a) the constitutive documents of the Issuer;
  - (b) the Subscription Agreement;
  - (c) the Trust Deed;
  - (d) the Agency Agreement;
  - (e) the Intercreditor Agreement;
  - (f) the Security Documents; and
  - (g) the audited consolidated financial statements of the Issuer for the years ended 31 December 2016 and 31 December 2015.

### Yield

6. On the basis of the issue price of the Notes of 100 per cent. of their principal amount, the gross real yield of the 2022 Notes is 1.413 per cent. on an annual basis and the gross real yield of the 2027 Notes is 2.629 per cent. on an annual basis.

### Legend Concerning US Persons

7. The Notes and any Coupons appertaining thereto will bear a legend to the following effect: "Any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in Sections 165(j) and 1287(a) of the Internal Revenue Code.

**ISIN and Common Code**

8. The 2022 Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The ISIN is XS1627337881 and the common code is 162733788. The 2027 Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The ISIN is XS1627343186 and the common code is 162734318.

**Listing Agent**

9. A&L Listing Limited is acting solely in its capacity as listing agent for the Issuer (and not on its own behalf) in connection with the application for admission of the Notes to the Official List of the Irish Stock Exchange and trading on its Global Exchange Market

**Managers transacting with the Issuer**

10. Certain of the Managers and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform services to, the Issuer and its respective affiliated in the ordinary course of business.

## FINANCIAL STATEMENTS AND AUDITORS' REPORTS

The audited consolidated financial statements of the Issuer for the year ended 31 December 2016, together with the auditor's reports thereon (the "**2016 Consolidated Financial Statements**") F-1

The audited consolidated financial statements of the Issuer for the year ended 31 December 2015, together with the auditor's report thereon (the "**2015 Consolidated Financial Statements**") F-141

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

Consolidated Financial Statements  
for the year ended 31 December  
2016 and Directors' Report, together  
with Independent Auditor's Report

*Translation of a report originally issued in Spanish based on our work performed in accordance with the audit regulations in force in Spain. In the event of a discrepancy, the Spanish-language version prevails.*

*Translation of a report originally issued in Spanish based on our work performed in accordance with the audit regulations in force in Spain. In the event of a discrepancy, the Spanish-language version prevails.*

## INDEPENDENT AUDITOR'S REPORT ON CONSOLIDATED FINANCIAL STATEMENTS

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

### **Report on the Consolidated Financial Statements**

We have audited the accompanying consolidated financial statements of FCC Aqualia, S.A. ("the Parent") and Subsidiaries ("the Group"), which comprise the consolidated balance sheet as at 31 December 2016, and the consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows and notes to the consolidated financial statements for the year then ended.

#### *Directors' Responsibility for the Consolidated Financial Statements*

The Parent's directors are responsible for preparing the accompanying consolidated financial statements so that they present fairly the consolidated equity, consolidated financial position and consolidated results of FCC Aqualia, S.A. and Subsidiaries in accordance with International Financial Reporting Standards as adopted by the European Union and the other provisions of the regulatory financial reporting framework applicable to the Group in Spain (identified in Note 2-a to the accompanying consolidated financial statements) and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

#### *Auditor's Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with the audit regulations in force in Spain. Those regulations require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the preparation by the Parent's directors of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

#### *Opinion*

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated equity and consolidated financial position of FCC Aqualia, S.A. and Subsidiaries as at 31 December 2016, and their consolidated results and their consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and the other provisions of the regulatory financial reporting framework applicable to the Group in Spain.



## **Report on Other Legal and Regulatory Requirements**

The accompanying consolidated directors' report for 2016 contains the explanations which the Parent's directors consider appropriate about the situation of FCC Aqualia, S.A. and Subsidiaries, the evolution of their business and other matters, but is not an integral part of the consolidated financial statements. We have checked that the accounting information in the consolidated directors' report is consistent with that contained in the consolidated financial statements for 2016. Our work as auditors was confined to checking the consolidated directors' report with the aforementioned scope, and did not include a review of any information other than that drawn from the accounting records of FCC Aqualia, S.A. and Subsidiaries.

DELOITTE, S.L.  
Registered in ROAC under no. S0692

Antonio Sánchez-Covisa Martín-González  
28 February 2017



**FCC Aqualia, S.A.  
and subsidiaries**

*Translation of financial statements originally issued in Spanish. In the event of a discrepancy, the Spanish-language version prevails.*



## **CONSOLIDATED FINANCIAL STATEMENTS**

- Consolidated financial statements

Consolidated balance sheet

Consolidated statement of profit or loss

Consolidated statement of comprehensive income

Consolidated statement of changes in equity

Consolidated statement of cash flows

Notes to the consolidated financial statements

- Appendix I: Fully consolidated subsidiaries
- Appendix II: Associates and jointly controlled undertakings (proportionally consolidated entities)
- Appendix III: Associated companies accounted for using the equity method
- Appendix IV: Joint Ventures
- Appendix V: Changes in the consolidated Group

## **CONSOLIDATED DIRECTORS' REPORT**



**FCC AQUALIA, S.A. AND SUBSIDIARIES**  
**(CONSOLIDATED GROUP)**

**CONSOLIDATED BALANCE SHEET AT 31 DECEMBER 2016 (in thousands of euros)**

ASSETS	31.21.2016	31.12.2015
<b>NON-CURRENT ASSETS</b>	<b>1,479,391</b>	<b>1,516,170</b>
<b>1. Intangible assets (Note 4)</b>	<b>883,022</b>	<b>898,994</b>
1. Concessions	789,414	808,697
2. Goodwill	85,306	85,306
3. Other intangible assets	8,302	4,991
<b>2. Property, plant and equipment (Note 5)</b>	<b>318,742</b>	<b>318,939</b>
1. Land and buildings	30,253	30,273
2. Plant and other items of property, plant and equipment	288,489	288,666
<b>4. Investments in associates and jointly controlled entities (Note 7)</b>	<b>120,711</b>	<b>125,328</b>
<b>5. Non-current financial assets (Note 9)</b>	<b>111,219</b>	<b>123,886</b>
<b>6. Deferred tax assets (Note 17)</b>	<b>45,697</b>	<b>49,023</b>
<b>CURRENT ASSETS</b>	<b>808,156</b>	<b>704,426</b>
<b>2. Inventories (Note 10)</b>	<b>27,072</b>	<b>22,600</b>
<b>3. Trade and other receivables</b>	<b>255,310</b>	<b>218,079</b>
1. Trade receivables for sales and services (note 11)	202,975	176,672
2. Other receivables (Note 11)	52,376	41,407
3. Current tax assets	(41)	-
<b>4. Other current financial assets (Note 9)</b>	<b>426,143</b>	<b>366,202</b>
<b>5. Other current assets</b>	<b>1,005</b>	<b>602</b>
<b>6. Cash and cash equivalents (Note 12)</b>	<b>98,626</b>	<b>96,943</b>
<b>TOTAL ASSETS</b>	<b>2,287,547</b>	<b>2,220,596</b>

The accompanying notes 1 to 27 and appendices I to VI are an integral part of the 2016 consolidated financial statements.



**FCC AQUALIA, S.A. AND SUBSIDIARIES**  
(CONSOLIDATED GROUP)

CONSOLIDATED BALANCE SHEET AT 31 DECEMBER 2016 (in thousands of euros)

EQUITY AND LIABILITIES	31.12.2016	31.12.2015
<b>EQUITY (Note 13)</b>	<b>849,213</b>	<b>788,388</b>
<b>1. Equity attributable to the Parent</b>	<b>803,729</b>	<b>736,921</b>
<b>1. Shareholders' equity</b>	<b>822,257</b>	<b>751,237</b>
1. Share capital	145,000	145,000
2. Share premium and reserves	606,006	569,554
4. Profit for the year attributable to the Parent	71,251	67,133
5. Interim dividend on account	-	(30,450)
<b>2. Valuation adjustments</b>	<b>(18,528)</b>	<b>(14,316)</b>
<b>2. Non-controlling interests</b>	<b>45,484</b>	<b>51,467</b>
<b>NON-CURRENT LIABILITIES</b>	<b>910,427</b>	<b>917,134</b>
<b>1. Grants (Note 18)</b>	<b>43,125</b>	<b>42,114</b>
<b>2. Long-term provisions (Note 15)</b>	<b>115,518</b>	<b>108,652</b>
<b>3. Non-current financial liabilities (Note 14)</b>	<b>696,662</b>	<b>703,722</b>
1. Debt instruments and other marketable securities	197,432	197,027
2. Bank borrowings	46,974	16,839
3. Other financial liabilities	452,256	489,856
<b>6. Deferred tax liabilities (Note 17)</b>	<b>50,612</b>	<b>51,697</b>
<b>5. Other non-current liabilities</b>	<b>4,510</b>	<b>10,949</b>
<b>CURRENT LIABILITIES</b>	<b>527,907</b>	<b>515,074</b>
<b>2. Short-term provisions (Note 15)</b>	<b>16,308</b>	<b>14,261</b>
<b>3. Current financial liabilities (Note 14)</b>	<b>50,324</b>	<b>77,740</b>
1. Debt instruments and other marketable securities	2,390	2,390
2. Bank borrowings	5,679	3,634
3. Other financial liabilities	42,255	71,716
<b>4. Trade and other payables</b>	<b>459,036</b>	<b>422,626</b>
1. Payable to suppliers	184,825	180,917
2. Other non-current payables (Note 16)	272,373	241,709
3. Current tax liabilities	1,838	-
<b>5. Other current liabilities</b>	<b>2,239</b>	<b>447</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>2,287,547</b>	<b>2,220,596</b>

The accompanying notes 1 to 27 and appendices I to VI are an integral part of the 2016 consolidated financial statements.



**FCC AQUALIA, S.A. AND SUBSIDIARIES**  
**(CONSOLIDATED GROUP)**  
**CONSOLIDATED STATEMENT OF PROFIT OR LOSS**  
**FOR THE YEAR ENDED 31 DECEMBER 2016 (in thousands of euros)**

	31.12.2016	31.12.2015
Revenue (Note 20)	991,242	995,696
In-house work on non-current assets (Note 5)	17,691	19,471
Other operating income (Note 20)	23,945	20,050
Change in inventories of finished goods and work in progress	2,516	13
Procurements (Note 20)	(369,891)	(392,484)
Staff costs (Note 20)	(248,939)	(239,102)
Other operating expenses	(189,801)	(188,707)
Amortization and depreciation (Notes 4 and 5)	(91,512)	(81,202)
Allocation to consolidated profit or loss of grants related to non-financial non-current assets and others	3,593	3,030
Impairment and gains or losses on disposals of non-current assets	(431)	(1,692)
Other gains or losses	992	652
<b>PROFIT FROM OPERATIONS</b>	<b>139,405</b>	<b>135,725</b>
Finance income (Note 20)	8,179	8,855
Finance costs (Note 20)	(43,430)	(49,401)
Change in fair value of financial instruments	(1,140)	451
Exchange differences	(8,114)	1,046
Impairment and gains or losses on disposals of financial instruments	802	(1,418)
<b>FINANCIAL LOSS</b>	<b>(43,703)</b>	<b>(40,467)</b>
Result of companies accounted for using the equity method (Note 7)	8,761	3,466
<b>PROFIT BEFORE TAX FROM CONTINUING OPERATIONS (Note 17)</b>	<b>104,463</b>	<b>98,724</b>
Income tax (Note 17)	(26,428)	(28,253)
<b>PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS</b>	<b>78,035</b>	<b>70,471</b>
<b>CONSOLIDATED PROFIT FOR THE YEAR</b>	<b>78,035</b>	<b>70,471</b>
Profit attributed to non-controlling interests (Note 13)	(6,784)	(3,338)
<b>PROFIT ATTRIBUTABLE TO THE PARENT COMPANY</b>	<b>71,251</b>	<b>67,133</b>
Basic earnings per share	0.54	0.49

The accompanying notes 1 to 27 and appendices I to VI are an integral part of the 2016 consolidated financial statements.




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**FCC AQUALIA, S.A. AND SUBSIDIARIES**  
**(CONSOLIDATED GROUP)**  
**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**  
**FOR THE YEAR ENDED 31 DECEMBER 2016 (in thousands of euros)**

	31.12.2016	31.12.2015
<b>Consolidated profit for the year</b>	<b>78,035</b>	<b>70,471</b>
<b>Income and expense recognized directly in equity</b>	<b>(9,978)</b>	<b>(353)</b>
Cash flow hedges	179	191
Translation differences	(6,761)	781
Actuarial gains or losses and other adjustments	(56)	236
Companies accounted for using the equity method	(3,661)	(1,565)
Tax effect	321	4
<b>Transfers to the consolidated statement of profit and loss</b>	<b>855</b>	<b>-</b>
Cash flow hedges	1,140	-
Tax effect	(285)	-
<b>Total comprehensive income</b>	<b>68,912</b>	<b>70,118</b>
<b>a) Attributable to the parent company</b>	<b>67,059</b>	<b>65,965</b>
<b>b) Attributable to non-controlling interests</b>	<b>1,853</b>	<b>4,153</b>

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The accompanying notes 1 to 27 and appendices I to VI are an integral part of the 2016 consolidated financial statements.



**FCC AQUALIA, S.A. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2016 (in thousands of euros)**

	Share Capital	Share premium and Reserves	Interim Dividend	Profit attributable to the Parent Company	Adjustments for changes in value	Equity attributable to the Parent Company	Minority Interests	Equity
	(Note 13)	(Note 13)	(Note 13)	(Note 13)	(Note 13)	(Note 13)	(Note 13)	
<b>Balance at 31.12.2014</b>	<b>145,000</b>	<b>532,483</b>	-	<b>62,528</b>	<b>(12,754)</b>	<b>727,257</b>	<b>56,115</b>	<b>783,372</b>
Recognised Income/(expenses)	-	393	-	67,133	(1,562)	65,964	4,154	70,118
Operations with partners or owners	-	37,010	(30,450)	(62,528)	-	(55,968)	(8,557)	(64,525)
Capital Increase/(decrease)	-	-	-	-	-	-	-	-
Dividend distribution	-	37,109	(30,450)	(62,528)	-	(55,869)	(8,756)	(64,625)
Other operations with partners or owners	-	(99)	-	-	-	(99)	199	100
Other changes in net Equity	-	(332)	-	-	-	(332)	(245)	(577)
<b>Balance at 31.12.2015</b>	<b>145,000</b>	<b>569,554</b>	<b>(30,450)</b>	<b>67,133</b>	<b>(14,316)</b>	<b>736,921</b>	<b>51,467</b>	<b>788,388</b>
Recognised Income/(expenses)	-	(55)	-	71,251	(4,137)	67,059	1,853	68,912
Operations with partners or owners	-	66,957	-	(67,133)	-	(176)	(7,960)	(8,136)
Capital Increase/(decrease)	-	-	-	-	-	-	1,219	1,219
Dividend distribution	-	67,393	-	(67,133)	-	260	(7,955)	(7,695)
Other operations with partners or owners	-	(436)	-	-	-	(436)	(1,224)	(1,660)
Other changes in net Equity	-	(30,450)	30,450	-	(75)	(75)	124	49
<b>Balance at 31.12.2016</b>	<b>145,000</b>	<b>606,006</b>	-	<b>71,251</b>	<b>(18,528)</b>	<b>803,729</b>	<b>45,484</b>	<b>849,213</b>

The accompanying notes 1 to 27 and appendices I to VI are an integral part of the 2016 consolidated financial statements.





**FCC AQUALIA, S.A. AND SUBSIDIARIES**  
**(CONSOLIDATED GROUP)**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE YEAR ENDED 31 DECEMBER 2016 (in thousands of euros)**

	<b>31.12.2016</b>	<b>31.12.2015</b>
<b>Profit before tax from continuing operations</b>	<b>104,463</b>	<b>98,724</b>
<b>Adjustments for:</b>	<b>124,261</b>	<b>111,861</b>
Amortization and depreciation charges (Notes 4 and 5)	91,512	81,202
Other adjustments to profit or loss (net)	32,749	30,659
<b>Changes in working capital</b>	<b>17,184</b>	<b>9,037</b>
<b>Other cash flows from operating activities</b>	<b>(35,871)</b>	<b>(28,948)</b>
Dividends received	2,849	6,586
Income tax recovered/(paid)	(29,254)	(34,030)
Other proceeds/(payments) relating to operating activities	(9,466)	(1,504)
<b>TOTAL CASH FLOWS FROM OPERATING ACTIVITIES</b>	<b>210,037</b>	<b>190,674</b>
<b>Payments due to investment</b>	<b>(55,550)</b>	<b>(69,398)</b>
Group companies, associates and business units	(4,249)	(4,817)
Property, plant and equipment and intangible assets	(48,733)	(57,740)
Other financial assets	(2,568)	(6,841)
<b>Proceeds from disposals</b>	<b>407</b>	<b>346</b>
Property, plant and equipment and intangible assets	411	346
Other financial assets	(4)	-
<b>Other cash flows from investing activities</b>	<b>(66,362)</b>	<b>(84,348)</b>
Interest Income	6,243	5,034
Other proceeds/(payments) relating to investing activities	(72,605)	(89,382)
<b>TOTAL CASH FLOWS FROM INVESTING ACTIVITIES</b>	<b>(121,505)</b>	<b>(153,400)</b>
<b>Proceeds and payments relating to equity instruments</b>	<b>34</b>	<b>3,999</b>
Issues/(Redemptions)	34	3,999
<b>Proceeds and payments relating to financial liability instruments</b>	<b>(36,658)</b>	<b>7,131</b>
Issues	43,931	197,027
Repayments and redemptions	(80,589)	(189,896)
<b>Dividends and returns paid on other equity instruments</b>	<b>(7,426)</b>	<b>(30,450)</b>
<b>Other cash flows from financing activities</b>	<b>(36,236)</b>	<b>(38,756)</b>
Interest paid	(37,742)	(49,401)
Other proceeds/(payments) relating to financing activities	1,506	10,645
<b>TOTAL CASH FLOWS FROM FINANCING ACTIVITIES</b>	<b>(80,286)</b>	<b>(58,076)</b>
<b>EFFECT OF FOREIGN EXCHANGE RATE CHANGES AND OTHERS</b>	<b>(6,563)</b>	<b>(2,813)</b>
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>1,683</b>	<b>(23,615)</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<b>96,943</b>	<b>120,558</b>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR (note 12)</b>	<b>98,626</b>	<b>96,943</b>

The accompanying notes 1 to 27 and appendices I to VI are an integral part of the 2016 consolidated financial statements.



## NOTES TO THE 2016 CONSOLIDATED FINANCIAL STATEMENTS

### 1. GROUP ACTIVITIES

FCC Aqualia, S.A. (hereinafter the Parent or FCC Aqualia) was incorporated in Logroño on 26 May 1980 under the name Seragua, S.A. In June 1988 it moved its registered office to Madrid, and in July 2002 it changed its name to Aqualia Gestión Integral del Agua. The Parent's name was again changed to FCC Aqualia, S.A. in accordance with a resolution formalized in a public deed 2 April 2014.

The FCC Aqualia Group comprises the Parent and a number of Spanish and international investees, whose principal activities are related with end-to-end water cycle management, as follows:

- End-to-end water cycle management comprises capture of water from ground wells, river basins and desalination plants, and its transportation, treatment and distribution to towns and cities using pumping systems, pipelines, supply networks and complex drinking water purification and storage facilities. Waste water is collected via sewerage systems and removed to treatment plants, where it is processed before being returned to the natural environment.

The end-to-end water cycle management involves upkeep and maintenance of water supply and sewerage networks, and purification and treatment plants, as well as maintenance and repair of electrical, electronic, plumbing installations, among other activities. All of the tasks concerned are designed to detect leaks in systems and ensure optimum use of water.

The process is completed by technical, administrative and IT tasks involved in customer management, such as metering, billing and managing the collection of receipts issued to subscribers, and by the work of the customer service office.

- Construction, installation, operation, maintenance, management, repair, purchase, sale and development of water treatment, recovery, waste disposal and purification stations, plants and equipment, and of all facilities required to operate the same, on behalf of both the Group and third parties.

The FCC Aqualia Group participates in Joint Ventures engaged in the same activities. They are listed in APPENDIX IV.

The Parent also holds interests in other undertakings with similar corporate purpose and activities to its own. Fully and proportionally consolidated companies, and equity accounted undertakings are listed in APPENDICES I, II and III respectively.

The Group forms part of the FCC Integrated Water Management Division, the Parent of which is Fomento de Construcciones y Contratas, S.A., a public limited company with registered office at Calle Balmes 36, Barcelona. The 2016 consolidated financial statements of the FCC Group will be



prepared by the Directors of Fomento de Construcciones y Contratas, S.A. at the Board meeting convened for such purpose, for subsequent filing in the Barcelona Companies Registry.

## **2. LEGISLATIVE FRAMEWORK, BASIS OF PRESENTATION, BASIS OF CONSOLIDATION AND ACCOUNTING POLICIES**

### **a) Basis of presentation**

The accompanying consolidated financial statements and the notes thereto, which comprise the statutory consolidated financial statements for 2016 were prepared in accordance with the International Financial Reporting Standards (IFRS) adopted by the European Union (IFRS-EU) at the year end, in accordance with Regulation (EC) No. 1606/2002 of the European Parliament and of the Council of 19 July 2002, and with all related implementing provisions and interpretations.

2015 consolidated financial statements were approved by the shareholders of FCC Aqualia, S.A. at the Annual General Meeting held on 20 April 2016.

The 2016 consolidated annual accounts were prepared from the accounting records of FCC Aqualia, S.A. and its subsidiaries. These records, which are kept in accordance with local legislation applicable in each case, were adapted to IFRS for each of the companies forming part of the Group following the operational procedures and systems established by the Parent to justify and support the consolidated financial statements prepared pursuant to current international accounting regulations.

The consolidated annual accounts of the FCC Aqualia Group were prepared to fairly its equity and financial position at 31 December 2016, and its consolidated results, changes in equity and consolidated cash flows in the year then ended.

Accounting harmonization criteria were applied to the individual financial of the companies included within the scope of consolidation in order to present the various items comprising these consolidated financial statements on a uniform basis. In general, the reporting date for the financial statements of the consolidated companies was the same as that of the Parent, which is 31 December.

The 2016 consolidated financial statements include comparative figures for 2015.

The 2016 consolidated financial statements do not include any changes to accounting estimates or corrections of significant errors referring to prior years.

The consolidated financial statements are expressed in thousands of euros, which is the principal currency used in the region where the Group operates.

### **b) Changes in accounting policies**

### New accounting standards coming into force in 2016

The following obligatory standards and interpretations adopted by the European Union came into force in 2016 and, where applicable, they have been applied by the Group in the preparation of these consolidated financial statements:

#### (1) Mandatory new standards, amendments and interpretations applicable as of 1 January 2016

<b>Adopted by the European Union</b>		<b>Obligatory application commencing:</b>
Amendment of IAS 19 – Defined Benefits Schemes: Employee Contributions (published November 2013)	The amendment was issued to allow contributions to be recognized as a reduction in the service cost in the period in which the related service is rendered, subject to certain requirements.	1 February 2015 <sup>(1)</sup>
Improvements to IFRS 2010-2012 Cycle (published December 2013)	Minor amendments to a series of standards	1 February 2015 <sup>(1)</sup>
Clarification of IAS 16 and IAS 38 Acceptable methods of depreciation and amortization (published May 2014)	Clarification of acceptable methods of depreciation and amortization of property, plant and equipment and intangible assets, not including revenue based methods	1 January 2016
Amendment of IFRS 11 – Acquisition of an interest in a joint operation (published May 2014)	Guidance on how to account for the acquisition of a joint operation that constitutes a business.	1 January 2016
Amendment of IAS 16 and IAS 41 for bearer plants (published June 2014)	Bearer plants will henceforth be measured at cost rather than fair value.	1 January 2016
Improvements to IFRS 2012-2014 Cycle (published September 2014)	Minor amendments to a series of standards	1 January 2016
Amendment of IAS 27 – Equity method in separate financial statements (published August 2014)	The amendment reinstates the equity method as an accounting option in an investor's individual financial statements.	1 January 2016
Amendments of IAS 1 – Disclosure initiative (published December 2014)	Clarifications related with disclosures (materiality, aggregation, order of notes, etc.).	1 January 2016
Amendments of IFRS 10, IFRS 12 and IAS 28 – Investment entities (published December 2014)	Clarification of the consolidation exception for investment entities.	1 January 2016

(1) IASB standard in force since 1 July 2014.

Application of the aforementioned new standards had no material impact on the Group.

#### (2) Obligatory new standards, amendments and interpretations applicable subsequent to the calendar year which commenced on 1 January 2016 (applicable in 2017 and thereafter)

At the date of preparation of these consolidated financial statements, the main standards and interpretations published by the IASB but not yet in force, either because the effective date is beyond



the reporting date for the consolidated annual accounts or because they have not yet been adopted by the European Union:

<b>Adopted by the European Union</b>		<b>Obligatory commencing:</b>	<b>application</b>
IFRS 15 – Revenue on contracts with customers (published May 2014)	New revenue recognition standard (replacing IAS 11, IAS 18, IFRIC 13, IFRIC 15, IFRIC 18 and SIC 31)	1 January 2018	
IFRS 9 – Financial instruments (last phase published July 2014)	Replaces the classification, measurement, recognition and derecognition requirements for financial assets and liability, hedge accounting and impairment established by IAS 39.	1 January 2018	

Not adopted by the European Union		Obligatory application commencing:
Clarifications of IFRS 15 (published April 2016)	Clarifications concerning identification of performance obligations, principal vs agent guidance, customer licences and revenue recognition at a point in time or over time, and certain clarifications of transition rules.	1 January 2018
IFRS 16 – Leases (published in January 2016)	Replaces IAS 17 and associated interpretations. The new standard proposes a single lessee accounting model requiring lessees to recognize assets and liabilities for all leases (subject to certain exceptions) with a similar impact to existing rules for finance leases (asset depreciation for use rights and financial cost in respect of amortized cost of the liability).	1 January 2019
Amendment of IAS 7 – Disclosure initiative (published January 2016)	Additional disclosure requirements to improve the information provided to users.	1 January 2017
Amendment of IAS 12 – Recognition of deferred tax assets for unrealized losses (published January 2016)	Clarification of guidelines applicable to the recognition of deferred tax assets for unrealized losses.	1 January 2017
Amendment of IFRS 2 – Classification and measurement of share based payment (published June 2016)	Narrow-scope amendments clarifying specific issues such as accounting for cash-settled share based payment transactions that include a performance condition, classification of share based payments settled net of tax withholdings, and certain aspects of changes to the settlement basis for share based payment transactions.	1 January 2018
Amendment of IFRS 4 - Insurance contracts (published September 2016)	Allows the option of applying IFRS 9 (overlay approach) within the scope of IFRS 4, or temporary extension.	1 January 2018
Amendment of IAS 40 – Reclassification of investment property (published December 2016)	The amendment clarifies that reclassification of an investment from or to investment property is permitted only when there is an evident change of use.	1 January 2018
Improvements to IFRS 2014-2016 Cycle (published December 2016)	Minor amendments to a series of standards	1 January 2018
IFRIC 22 – Foreign currency transactions and advance consideration (published December 2016)	The interpretation establishes the “transaction date” to be used to determine the exchange rate applicable to foreign currency transactions with advance consideration.	1 January 2018
Amendment of IFRS and IAS 28 – Sales or contributions of assets between and investor and its associate/joint venture (published September 2014)	Clarification in relation to the results of transactions depending whether they involve businesses or assets.	No date yet set

(1) IASB standard in force since 1 July 2014.

The Group plans to adopt the standards, modifications and interpretations issued by the IASB but not yet obligatory in the European Union at the date of preparation of these consolidated financial statements when the same come into force, if applicable. The Group is currently examining their impact. Based on the analyses performed to date, the Group considers that first-time application would not have a material impact on the consolidated financial statements, except in the case of IFRS 15 and IFRS 16.

### c) Basis of consolidation



### Subsidiaries

The subsidiaries listed in Appendix I are fully consolidated. FCC Aqualia, S.A. exercises control over these companies, having power to direct their financial and operational policies whether directly or via other undertakings which it likewise controls.

The share of non-controlling interests in the equity of the subsidiaries is presented in the accompanying consolidated balance sheet under “Non-controlling interests” and their share in the subsidiaries’ profits is presented under “Profit attributable to non-controlling interests” (Note 13.e) in the accompanying consolidated income statement.

Where applicable, goodwill is determined as indicated in Note 2.d.2 below.

### Joint arrangements

The Group participates in joint arrangements through investments in joint ventures controlled jointly by one or more FCC Aqualia Group companies with other non-Group undertakings, and by participating in joint operations via unincorporated temporary joint ventures (Spanish UTE) and other similar entities.

In accordance with IFRS 11 – Joint Arrangements, interests in joint ventures are accounted for using the equity method and are recognized in the accompanying consolidated balance sheet under “Investments accounted for using the equity method”. The share in after-tax profit or loss for the year of these undertakings is recognized under “Result of companies accounted for using the equity method” in the accompanying consolidated statement of profit or loss.

Joint operations were included in the accompanying consolidated financial statements in proportion to the Group’s percentage interest in the assets, liabilities, income and expenses arising from the transactions performed by these entities, while reciprocal asset and liability balances, and income and expenses not realized with third parties were eliminated.

Appendix II lists the proportionally consolidated joint arrangements, and the principal amounts recognized in the consolidated balance sheet and statement of profit or loss are disclosed in Note 8.

### Associates

The companies listed in Appendix III, in which FCC Aqualia does not exercise control but does have significant influence, are equity accounted and included in the accompanying consolidated balance sheet under “Investments accounted for using equity method”. The contribution of these undertakings to after profit for the year is recognized in the accompanying consolidated statement of profit or loss under “Results of companies accounted for using the equity method” (Note 7). Companies accounted for using the equity method are listed in Appendix III.



#### Transactions between Group companies

Gains or losses arising on transactions between consolidated companies are eliminated on consolidation and deferred until they are realized with non-Group third parties.

Group work on non-current assets is recognized at production cost, and any intragroup results are eliminated.

All reciprocal receivables and payables between subsidiaries and the proportional part of balances between subsidiaries and joint ventures were eliminated from the consolidated financial statements, together with internal income and expenses of the consolidated undertakings.

#### Harmonization

The companies included within the scope of consolidation were consolidated based on their individual financial statements prepared, in the case of undertakings registered in Spain, in accordance with the Spanish General Chart of Accounts, or in the case of foreign undertakings, pursuant to legislation applicable locally. All significant adjustments needed to bring said individual financial statements into line with International Financial Reporting Standards and/or harmonize the same with the Group's accounting policies were performed in the course of the consolidation process.

#### Changes in the scope of consolidation

Appendix V shows changes in the fully consolidated companies and companies accounted for using the equity method in 2016 and 2015. The results of these companies are included in the consolidated statement of profit or loss from the effective date of acquisition to the year end, or from the beginning of the year to the effective date of disposal or derecognition, as appropriate. The effects of changes in the scope of consolidation in 2016 and 2015 were not material.

The effects of inclusion of companies in the scope of consolidation, or of exclusion, are shown in the relevant notes to the consolidated financial statements under the heading "Changes in the scope of consolidation".

### **d) Accounting policies**

The principal accounting policies applied in the preparation of the FCC Aqualia Group's consolidated financial statements were as follows:

#### d. 1 Service concession arrangements





Concession contracts are arrangements between a public sector grantor and FCC Aqualia Group companies to provide public services such as the supply of drinking water, construction and operation of water infrastructure and so forth. Revenue earned on the provision of services may be received directly users or, sometimes, through the concession grantor itself, which regulates the prices at which the service is provided.

The concession arrangement generally confers a monopoly right to provide the service on the operator for a given period of time, after which the infrastructure assigned to the concession as required to provide the service is returned to the concession grantor, generally for no consideration. Accordingly, the concession arrangement must provide for management or operation of the infrastructure. A further common feature is the existence of obligations to acquire or construct all facilities necessary to provide the service contracted over the term of the concession.

Concession arrangements are accounted for in accordance with IFRIC 12 – Service Concession Arrangements, which distinguishes between two clearly differentiated phases: one in which the concession operator provides construction or upgrade services, which are recognized as intangible or financial assets by reference to the stage of completion, pursuant to IAS 11 – Construction Contracts; and another, in which the concession operator provides a series of services consisting of maintenance and/or operation of the infrastructure, which are recognized in accordance with IAS 18 – Revenue.

An intangible asset is recognized when the demand risk is assumed by the concession operator, and a financial asset is recognized when the demand risk assumed by the concession grantor. Intangible assets are also recognized in respect of amounts paid in respect of royalties for the award of concessions.

In concessions classified as intangible assets, provisions for dismantling, removal and restoration, and any work required to upgrade or increase the capacity of the infrastructure are capitalized at the start of the concession, and these assets are amortized and the finance costs of the provisions are recognized through profit and loss. Also, provisions to replace and repair infrastructure are systematically recognized in profit and loss in line with the obligations incurred.

Borrowing costs arising from financing of infrastructure are recognized in the period in which they are incurred. Such costs are capitalized during the construction phase until the infrastructure enters service, but only in the intangible asset model.

The intangible assets recognized are amortized on the straight-line basis over the term of the concession.

Concessions classified as a financial asset are recognized at the fair value of the construction and upgrade services provided. In accordance with the amortized cost method, the related income is recognized as revenue in profit and loss based on the effective interest rate resulting from the expected cash inflows and outflows on the concession.



#### d.2 Business combinations and goodwill

The assets and liabilities of the companies and sub-groups acquired are recognized in the consolidated balance sheet at fair value together with the related deferred taxes. However, in accordance with the applicable legislation, the initial measurement of the assets and liabilities and their allocation to the relevant balance sheet headings may be reviewed within the twelve months following the acquisition date, should it be necessary to consider new information.

The date of inclusion in the scope of consolidation is the date on which effective control of the company is obtained, which normally coincides with the acquisition date.

Goodwill is recognized as the excess of (a) the aggregate of the fair value of the consideration paid for the equity interest acquired and the acquisition-date fair value of the previously held equity interests where control is achieved in stages, over (b) the percentage interest acquired divided by the fair value of identifiable assets and liabilities.

Non-controlling interests are measured in proportion to their share in the assets and liabilities of the undertaking acquired.

In a business combination where control is acquired in stages involving more than one transaction (successive purchases), the difference between the acquisition-date fair value of the previously held equity interest and the carrying amount of such equity interest is recognized as a result from operations.

Once control of an investee is obtained, and provided it is not lost, the difference between the amount of any additional equity interest acquired or sold and its carrying amount is recognized in equity.

Goodwill is not amortized. However, it is tested for impairment at least at the end of each reporting period in order to recognize it at the lower of the recoverable amount, estimated based on expected cash flows, and acquisition cost less any accumulated impairment losses. The accounting policies used to determine impairment losses are explained in Note 2.d.5, and the assumptions utilized in the impairment testing calculations are disclosed in Note 4.

#### d.3 Intangible assets

This point refers to other intangible assets aside from those covered by the preceding policies concerning service concession arrangements and goodwill.



These intangible assets include computer software applications, which were recognized at acquisition cost less the amount of accumulated amortization and impairment losses, if any. The assets are amortized on the straight-line basis over their estimated useful life of 4 years.

d.4 Property, plant and equipment

Property, plant and equipment are recognized at acquisition cost, less the amount of accumulated depreciation and impairment losses, if any. The cost of property, plant and equipment includes the estimated present value of costs to dismantle and remove items, while assets acquired through business combinations are initially recognized at their acquisition-date fair values.

Upkeep and maintenance expenses incurred in respect of property, plant and equipment are recognised in profit or loss as incurred. However, the cost of upgrades is capitalized where they increase capacity or efficiency, or lengthen the useful lives of the assets concerned.

Where the construction and start-up of non-current assets require a substantial period of time, the costs capitalized borrowing costs incurred over said period as charged by the supplier or incurred on loans or other purpose specific or general borrowings directly attributable to the acquisition or production of the assets.

Group work on non-current assets is measured at accumulated production cost, which is calculated as external costs plus in-house costs, determined on the basis of in-house consumption of materials consumption, direct labour costs and general manufacturing overheads calculated based on hourly absorption rates similar to those applied in the measurement of inventories.

Property, plant and equipment are depreciated by the straight-line method at annual rates based on the estimated useful lives of the respective assets, as follows:

<b>ESTIMATED YEARS OF USEFUL LIFE</b>	
Buildings	33 – 50
Plant and machinery	10 – 25
Other installations, equipment and furniture	7 – 10
Other items of property, plant and equipment	4 – 6

The residual value, useful lives and depreciation of the Group’s property, plant and equipment are reviewed periodically to ensure that the depreciation method applied is consistent with the pattern of economic benefits derived from operation of the assets.

The Group companies assess any indications that any item of property, plant and equipment or group of assets might be impaired on a regular basis and at least at the end of each reporting period, so that an impairment loss can be recognized or reversed in order to adjust the carrying amounts of assets to their value in use. Under no circumstances may the amount of reversals recognized in these circumstances exceed that of previously recognized impairment losses.



#### d.5 Impairment of intangible assets and property, plant and equipment

Intangible assets with finite useful lives and property, plant and equipment are tested for impairment where there is any indication that the assets might have become impaired in order to adjust their carrying amounts to their value in use, if lower.

Goodwill and intangible assets with indefinite useful lives must be tested for impairment at least once each year in order to recognize possible impairment losses.

Impairment losses recognized in prior years on assets other than goodwill may be reversed if the estimates used in the impairment tests show a recovery in the value of the assets. The carrying amount of assets whose recoverable amount must in no case exceed the carrying amount that would have been determined had no impairment loss been recognized in prior years.

The recognition or reversal of impairment losses on assets is charged or credited to income under "Impairment and gains or losses on disposals of non-current assets".

To determine the recoverable amount of the assets tested for impairment, an estimate was made of the present value of the net cash flows arising from the cash generating units (CGUs) to which the assets belong, except for cash inflows and outflows from financing activities and income tax payments, and cash inflows and outflows arising from scheduled improvements or upgrades of assets belonging to the cash generating units in question. To discount the cash flows, a pre-tax discount rate was applied that reflects current market estimates of the time value of money and the risks specific to each cash generating unit.

The estimated cash flows were obtained from projections prepared by management of each CGU, which in general, cover periods of five years, except when the characteristics of the business call for longer periods. Accordingly, to calculate the recoverable amount of Group concession assets, the remaining concessional periods are considered, and only if the Group has contractual compensation obligations, which are likely to materialise, additional rollover. In the same way, they include growth rates based on the different business plans approved, which are revised periodically. Zero growth rates are applied to periods after the years projected in said business plans. In addition, sensitivity analyses are prepared in relation to revenue growth, operating margins and discount rates in order to forecast the impact of future changes on these variables.

Flows from CGUs established abroad were calculated in the functional currency of these cash generating units and were discounted at rates taking into consideration the risk premiums relating to each currency. The present value of the net flows so obtained was translated to euros at the year-end exchange rate applicable to each currency.

#### d.6 Leases



Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the leased asset to the lessee. All other leases are classified as operating leases.

### ***Finance leases***

In finance leases, the Group acts solely as the lessee. In the accompanying consolidated balance sheet, the Group recognizes the cost of the leased assets and simultaneously recognizes a liability for the same amount. This amount is the lower of the fair value of the leased asset and the present value of the agreed minimum lease payments at the inception of the lease, including the price of the purchase option when it is reasonably certain that it will be exercised. The minimum lease payments do not include contingent rent, costs for services and taxes to be paid by and reimbursed to the lessor. The total finance charges arising under the lease are allocated to the consolidated statement of profit or loss for the year in which they are incurred using the effective interest method. Contingent rent is recognized as an expense for the year in which it is incurred.

Assets held under finance leases are depreciated based on their nature using similar criteria to those applied to property, plant and equipment.

The Group companies normally exercise the purchase option on the expiry of finance leases. The lease arrangements do not impose any restrictions affecting the exercise of this option or contain any renewal or escalation clauses.

### ***Operating leases***

Expenses incurred under operating leases are recognized in the consolidated statement of profit or loss in the year in which they are incurred.

An amount received or a payment made on entering into or acquiring a leasehold that is accounted for as an operating lease represents prepaid lease income or payments which are allocated to profit or loss over the lease term in accordance with the pattern of benefits provided or received in respect of the leased asset.

#### **d.7 Investments accounted for using the equity method**

Investments in associates and joint ventures are initially recognized at cost of acquisition and are subsequently revalued to take into account the share of these undertakings' results not distributed in the form of dividends. Also, the value of investments is adjusted to reflect the proportion of changes in the undertakings' equity which is not recognized through their statements of profit or loss.

The Group makes the necessary valuation adjustments wherever there is any indication of impairment (i.e. where the recoverable amount of an investment is less than its carrying amount).



#### d.8 Financial assets

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

- **Loans and receivables:** financial assets arising from the sale of goods or the rendering of services in the ordinary course of the Group companies' business, or financial assets which, not having commercial substance, are not equity instruments or derivatives, have fixed or determinable payments and are not traded in an active market. This category includes accounts receivable arising from the application of IFRIC 12 – Concession Arrangements (Note 2.d.1).
- **Held-to-maturity investments** comprise debt securities with fixed maturity and determinable payments which are traded in an active market and which the Group has the positive intention and ability to hold until the maturity date.
- **Available-for-sale financial assets** comprise debt securities and equity instruments of other companies that are not classified in any other category.

##### *Initial recognition*

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

##### *Subsequent measurement*

- Loans and receivables and held-to-maturity investments are measured at amortized cost.
- Available-for-sale financial assets are measured at fair value, and the gains and losses arising from changes in such fair value are recognized in consolidated equity until the asset is disposed of or it is determined that it has become permanently impaired, at which time the cumulative gains or losses previously recognized are taken to consolidated profit or loss for the year. In this regard, assets are deemed to become permanently impaired if the market value of the asset has fallen by more than 40% over a period of one and a half years without any recovery in value.
- At least at each reporting date the Company tests financial assets not measured at fair value through profit or loss for impairment. Objective evidence of impairment is considered to exist when the recoverable amount of the financial asset is lower than its carrying amount. When this occurs, the impairment loss is recognized in the statement of profit or loss.
- In particular, the following criteria apply to trade and other accounts receivable:
  - 1) The Parent calculates the necessary valuation adjustments as follows:



- Overdue balances receivable from private parties are fully provided for.
- Overdue balances receivable from private parties are provided for based on a percentage allowance established in view of historic default rates.
- Overdue balances receivable from public entities are provided for based on a specific analysis.

2) The other Group companies calculate the necessary valuation adjustments, if any, based on specific analyses of the default risk inherent in each account receivable.

- Interest income from financial assets is recognized using the effective interest method and dividend income is recognized when the shareholder's right to receive payment has been established. Interest and dividends from financial assets accrued after the date of acquisition are recognized as income in the consolidated statement of profit or loss.

### ***Classification***

Current and non-current financial assets are classified based on the remaining term to maturity at the balance sheet date, so that assets maturing within twelve months of the year end are treated as current and those maturing beyond said period are treated as non-current.

### ***Derecognition of financial assets***

The Group derecognizes a financial asset when it expires or when the rights to the cash flows from the financial asset 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 Group does not retain any material credit or interest rate risk, sales of financial assets under an agreement to repurchase them at fair value and the securitization of financial assets in which the transferor does not retain any subordinate debt, provide any kind of guarantee or assume any other kind of risk.

However, the Group does not derecognize financial assets and recognizes 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 bill discounting, with-recourse factoring, sales of financial assets subject to fixed-price repurchase arrangements or to repurchase at the sale price plus a lender's return, and the securitization of financial assets in which the transferor retains subordinate debt or provides any other kind of guarantee covering substantially all potential losses.

## d.9 Inventories



Inventories are stated at the lower of acquisition or production cost and net realizable value. Trade discounts, rebates, other similar items and interest included in the face value of the related payables are deducted in determining acquisition cost.

Production cost includes the cost of materials consumed and, where applicable, direct labour and production overheads.

Net realizable value is the estimated selling price less the estimated costs of completion and costs expected to be incurred in marketing, selling and distribution.

The Group makes the appropriate valuation adjustments by recognizing an expense in the consolidated statement of profit or loss when the net realizable value of inventories is lower than the acquisition or production cost of the items concerned.

d.10 Foreign currency

The functional currency of the FCC Aqualia Group is the euro.

**Translation differences**

The financial statements of foreign subsidiaries denominated in other currencies were translated to euros at closing exchange rates, with the exception of:

- Share capital and reserves, which were translated at historical exchange rates.
- Profit or loss items of foreign undertakings, which were translated at the average exchange rates for the year.

Translation differences arising due to the application of the year-end exchange rate method are included net of taxes under “Equity” in the accompanying consolidated balance sheet.

**Exchange differences**

Balances receivable and payable in foreign currencies are translated to euros at the exchange rates prevailing at the date of the consolidated balance sheet, and any differences arising are taken to profit or loss.

Differences resulting from fluctuations in the exchange rates between the date on which a collection or payment was made and the date on which the related transaction took place, or the related amount was discounted, are allocated to profit or loss for the year.





Also, exchange rate differences arising in relation to the financing of investments in foreign undertakings (where both the investment and the financing are denominated in the same currency) are recognized directly in equity as translation differences.

d.11 Grants

Grants are recognized according to their nature.

**Capital grants**

Capital grants are awards which involve the acquisition or construction of assets. They are measured at the amount received or the fair value of the asset received. They are recognized as deferred income on the liability of the accompanying consolidated balance sheet, and they are recognized in profit or loss in line with depreciation charged on the assets to which they relate.

**Income-related grants**

Income-related grants comprise awards which differ from those described above in that they do not relate directly to any asset or group of assets. These grants are accounted for as income for the amount received when the award is made.

d.12 Provisions and contingencies

In preparing the consolidated financial statements the directors of the Parent made a distinction between:

- a) **Provisions** defined as credit balances covering present obligations arising from past events, settlement of which is likely to require an outflow of resources embodying economic benefits that is uncertain as to its amount and/or timing.
- b) **Contingent liabilities** defined as possible obligations arising from past events, the existence of which will be confirmed only by the occurrence or non-occurrence of one or more future events not wholly within the Group's control.

The consolidated financial statements include all provisions with respect to which it is considered more likely than not that the obligation will have to be settled. Contingent liabilities are not recognized in the consolidated financial statements but rather are disclosed in the accompanying notes, unless the possibility of an outflow in settlement is considered remote.

Provisions are measured at the present value of the best possible estimate of the amount required to settle or transfer the obligation, taking into account the information available on the event and its consequences. Where discounting is used, adjustments made to provisions are recognized as an interest cost on an accrual basis.



The compensation to be received from a third party on settlement of the obligation is recognized as an asset, provided that there are no doubts that the reimbursement will take place, unless there is a legal relationship whereby a portion of the risk has been externalized as a result of which the Group is not liable. In this situation, the compensation receivable will be taken into account for the purpose of estimating the amount of the provision that should be recognized.

Provisions for dismantling, removal or restoration, and environmental provisions are recognized by increasing the value of the related assets by the present value of the expenses that will be incurred when the Group ceases to operate the assets. The impact on profit and loss arises when the asset concerned is depreciated (as described in previous sections of this Note) and when the provisions are discounted to present value (as described in the previous paragraph).

Provisions as classified as short-term or long-term in the accompanying consolidated balance sheet based on the estimated time to maturity of the obligations covered. Long-term provisions are considered to be those covering a liability maturing in a period exceeding the average cycle involved in the activity giving rise to the provision.

#### d.13 Financial liabilities

Financial liabilities are initially recognized at the fair value of the consideration received, adjusted by the directly attributable transaction costs. These liabilities are subsequently measured at amortised cost.

Finance costs are recognized in the consolidated statement of profit or loss on the accrual basis applying the effective interest rate method and are added to the cost of the instrument concerned to the extent that they may not be settled in the period in which they arise.

Bank borrowings and other current and non-current financial liabilities are classified based on their remaining term to maturity at the balance sheet date, so that assets maturing within twelve months of the year end are treated as current and those maturing beyond said period are treated as non-current.

#### d.14 Financial derivatives and hedge accounting

A financial derivative is a financial instrument or other contract whose value varies in response to changes in certain variables, such as an interest rate, the price of a financial instrument, foreign exchange rate, credit rating or other credit index, or any other variable.

Apart from giving rise to gains or losses, financial derivatives may, under certain conditions, wholly or partially offset foreign currency, interest rate risks or the value associated with balances and transactions. Hedges are accounted for as follows:



- **Cash flow hedges.** In hedges of this kind, changes in the fair value of the hedged instrument are temporarily recognized in equity and are allocated to consolidated profit or loss upon materialization of the hedged risk.
- **Hedges of net investments in foreign operations.** Hedges of this kind are used to cover exchange rate risk. They are accounted for on a similar basis to cash flow hedges.

Pursuant to IAS 39 – Financial Instruments: Recognition and Measurement, a financial derivative must meet the following conditions to qualify for hedge accounting:

- Formal designation and documentation of the hedging relationship and its purpose at inception, as well as the Group's strategy with respect to the hedge.
- Documentation identifying the hedged item, the hedging instrument and the nature of the risk hedged.
- Prospective evidence of the effectiveness of the hedge.
- Objective, viable ex-post measurements.

Changes in the fair value of financial derivatives that do not qualify for hedge accounting are recognized in the consolidated statement of profit or loss as they arise.

The measurement of financial derivatives is performed by experts who are independent of the Group and of the institutions financing the same.

This measurement was made using the zero-coupon yield curve determined by means of a bootstrapping process based on settlements for each period. This zero-coupon curve was used to obtain the discount factors for the measurements.

IFRS 13, which came into force on 1 January 2013, established explicit guidelines for the measurement of fair value and, specifically, for the inclusion of a credit risk adjustment as part of the fair value measurement of a derivative instrument. For these purposes, adjustments were made for counterparty credit risk and for the company's own credit risk applying techniques involving simulation of future scenarios.

Also, effective is assessed by prospectively and retrospectively testing whether changes in the fair value of the cash flows on the derivative instruments offset changes in the fair value of the hedged risk.

The hedged risks is quantified using the hypothetical hedge simplification approach to model the risk by isolating the hedged risk from other factors affecting the expected cash flows.

Changes in the fair value of cash flows on a derivative designated as a hedging instrument are compared retrospectively with the hypothetical derivative modelling the hedged risk to calculate the following ratio:



$$\text{Hedge ratio} = \frac{\text{FV (Real Derivative)}_i - \text{FV (Real Derivative)}_0}{\text{FV (Hypothetical Derivative)}_i - \text{VR (FV (Hypothetical Derivative))}_0}$$

A hedge is considered to be highly effective when changes in the fair values of actual cash flows on the real derivatives offset between 80 and 120% of changes in the cash flows on the hypothetical derivative.

The same analysis is also performed prospectively by simulating two scenarios of changes in the estimated interest rate curve.

Scenario 1: - 25 basis points  
Scenario 2: + 100 basis points

Certain hedging instruments are recognized as speculative, but this is done for accounting purposes only, because all of the hedges contracted by the Company are supported by a financial transaction for financial and management purposes, which they are arranged exclusively to hedge.

This situation arises when a hedge fails the effectiveness test, which requires that changes in fair value or the cash flows on the hedged item directly attributable to the hedged risk be offset by changes in fair value or the cash flows on the hedging instruments within a range of 80-120%. Where this does not occur, changes in value are allocated to the consolidated statement of profit or loss.

Note 22 to the consolidated financial statements reports the financial derivatives arranged by the FCC Aqualia Group and other related matters.

#### d.15 Income tax

The FCC Group, of which the FCC Aqualia Group forms part, files consolidated Corporate Income Tax returns as Tax Group 18/89, which includes all of the group companies meeting the conditions established by prevailing tax legislation.

Tax expense (tax income) comprises current tax expense (current tax income) and deferred tax expense (deferred tax income).

The current income tax expense is the amount payable by each Group company as a result of income tax settlements for a given year calculated at the applicable tax rate in accordance with the legislation prevailing in each jurisdiction. Tax credits and other tax benefits, excluding tax withholdings and pre-payments, and tax loss carryforwards from prior years effectively offset in the current year reduce the current income tax expense.



The deferred tax expense or income relates to the recognition and derecognition of deferred tax assets and liabilities. These include temporary differences measured at the amount expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities and their tax bases, and tax loss and tax credit carryforwards. These amounts are measured at the tax rates that are expected to apply in the period when the asset is realized or the liability settled.

The income tax expense incurred by companies filing returns under the consolidated is calculated taking into account the following items in addition to the parameters applicable to individual taxation as explained above:

- Temporary and permanent differences arising as a consequence of elimination of results on transactions between members of the Tax Group in order to determine consolidated taxable income.
- Deductions and benefits applicable to each member of the Tax Group filing the consolidated return. For these purposes, tax deductions and benefits are allocated to the company which carried out the activity or obtained the return necessary to generate the right to apply the deduction or benefit in question.
- Tax losses incurred by any members of the Tax Group and offset by the rest of the Group companies generate reciprocal credits and debits between the companies generating and those offsetting the same. Where any tax loss may exist which cannot be offset by the other members of the Tax Group, the result loss carryforwards are recognized as deferred tax assets following the relevant recognition criteria and treating the Group as the taxpayer.
- The Parent of the FCC Group recognizes the total amount payable (or recoverable) in respect of consolidated Corporate Income Tax, which it debits (credits) to accounts receivable from or payable to the member companies of the Tax Group.

Deferred tax liabilities are recognized for all taxable temporary differences, except for those arising from the initial recognition of goodwill or of other assets and liabilities in a transaction that is not a business combination and affects neither accounting profit (loss) nor taxable profit (tax loss).

Deferred tax assets are recognized to the extent that it is considered probable that the Group will have taxable profits in the future against which the deferred tax assets can be utilized.

The deferred tax assets recognized are reassessed at the end of each reporting period and the appropriate adjustments are made to the extent that there are doubts as to their future recoverability. Also, unrecognized deferred tax assets are reassessed at the end of each reporting period and are recognized in the consolidated balance sheet to the extent that it has become probable that they will be recovered through future taxable profits.

Upon closing their accounts in December 2015 and 2016, the companies filing tax returns in Spain applied the changes in the tax rate established by the Corporate Income Tax Act (Law



27/2014) as of 1 January 2015, which reduced the tax rate from the existing 30% to 28% in 2015, and again to 25% in 2016. Accordingly, deferred tax assets and liabilities were measured at the new tax rates established by the aforementioned Act at 31 December 2015 and 2016.

Deferred tax assets and liabilities are recognized as non-current assets or liabilities in the consolidated balance sheet regardless of the expected date of realization or settlement without any kind of present value restatement.

d.16 Operating income and expenses

The Group recognizes income on water supply contracts at the sale prices established for cubic metres delivered to subscribers. The sale price is fixed for each contract based on rates approved by town councils and published in the Official Journals of the respective provinces.

In construction activities, the Group recognizes results by reference to the stage of completion determined by measuring the construction work performed in the period and construction costs, which are recognized on the accrual basis. Revenues are recognized at the sale price of the completed construction work covered by a principal contract entered into with the owner.

In the case of service concession arrangements, the FCC Aqualia Group recognizes interest income arising from the related receivables under the financial asset model as an operating result, as the value of the financial asset includes both construction services and upkeep and maintenance services, which from an operational standpoint are identical to those represented by the intangible asset model. Consequently, it is considered that this criterion ensures fair representation because both models relate to the Group's operating activity (see Note 2.d.1).

Other income and expenses are recognized on the accrual basis, i.e. when the actual flow of the related goods and services occurs, regardless when the resulting monetary or financial flow arises.

d.17 Accounting estimates

Certain estimates were made in preparing the Group's consolidated financial statements for 2016, in order to measure certain assets, liabilities, income, expenses and obligations reported herein. These estimates relate basically to the following:

- Distribution of the cost of business combinations (Notes 2.d.2 and 4)
- Impairment losses on certain assets (Notes 4, 5, 7, 9, 10 and 11)
- Useful lives of property, plant and equipment and intangible assets (Notes 4 and 5)
- Amount of some provisions (Note 15)
- Market value of certain derivatives (Note 22)
- The recoverability of deferred tax assets (Note 17)



- The taxable income which the Company will declare and will be taxed in future, and which were taken as the basis for the recognition of tax balances in these consolidated financial statements (Note 17)
- The stage of completion of construction activities (Note d.16)

Although estimates were based on the best information available at the reporting date with regard to the matters analysed, future events may make it necessary to change these estimates (upwards or downwards) in coming years. Changes in accounting estimates would be recognized prospectively.

d.18 Related-party transactions

The Group performs all transactions with related parties on an arm's length basis.

d.19 Pension and similar obligations

In general, the Spanish Group companies have not established pension plans to supplement Social Security retirement benefits. In accordance with the amended Pension Plans and Funds Regulation Act, however, the Group companies externalize pension commitments and similar obligations with their employees in the specific cases where obligations of this kind exist.

Also, certain foreign Group companies have entered into commitments to supplement retirement benefits and similar obligations with their employees. Accrued obligations and, where applicable, the assets tied to pension plans were measured by independent actuaries employing generally accepted actuarial methods and techniques. These amounts are recognized in the accompanying consolidated balance sheet under "Long-term provisions" as "Provisions for long-term employee benefit obligations", in accordance with IFRS criteria (Note 15).

d.20 Fair value hierarchy

Financial assets and liabilities measured at fair value are classified by level based on the following hierarchy established in IFRS 7:

Level 1: quoted prices (unadjusted) for identical instruments in active markets

Level 2: Inputs other than quoted prices (Level 1) observable for the financial instrument, whether directly (i.e. prices) or indirectly (i.e. derived from prices)

Level 3: Inputs for the financial instrument that are not based on observable market data

At 31 December 2016 and 2015, the Group held only Level 2 financial assets and liabilities measured at fair value in accordance with the criteria indicated in Note d.14 "Financial derivatives and hedge accounting".



d.21 Environmental activities

In general, environmental activities are defined as operations carried out with the principal purpose of preventing, reducing or repairing harm to the environment.

Investments relating to environmental activities are measured at acquisition cost and are recognized as an increase in the cost of non-current assets in the year in which they are incurred.

Costs incurred in measures taken by the Group to protect and improve the environment are expensed through the income statement.

d.22 Consolidated statement of cash flows

The consolidated statement of cash flows is prepared using the indirect method, using the following terms with the meanings specified:

- Cash flows are inflows and outflows of cash and cash equivalents, the latter being understood as highly liquid current financial instruments with a low risk of fluctuations in value.
- Operating activities the normal activities of the Group, as well as any other activities that cannot be classed as investing or financing activities.
- Investing activities relate to the acquisition, sale or disposal in any other way of long-term assets or other investments not included in cash and cash equivalents.
- Financing activities are activities that result in changes in the size and composition of the equity and borrowings of the Group companies that are not operating activities.

d.23 Termination benefits

Under current legislation, the Group companies are required to pay termination benefits to employees terminated under certain conditions.

The Directors of the Parent understand the possible liability in respect of severance pay due in respect of possible terminations of employees on fixed contracts in the future would not be material, and no allowance for termination benefits has therefore been made in the 2016 financial statements.

d.24 Earnings per share

Pursuant to IAS 33, basic earnings per share are calculated by dividing the net profit attributable to the Parent by the weighted average number of ordinary shares outstanding during the period, without including average number of Parent Company shares held by the Group companies.





Meanwhile, diluted earnings per share are calculated by dividing the net profit for the period attributable to ordinary shareholders adjusted by the effect attributable to dilutive potential ordinary shares and the weighted average number of ordinary shares outstanding in the period, adjusted by the weighted average number of ordinary shares that would be issued if all potential ordinary shares were converted into ordinary shares of the Parent Company. For these purposes, it is assumed that such conversion takes place at the start of the period or at the date of issue of the potential ordinary shares, if issued during the period.

Meanwhile, the scope of application of IAS 33 comprises consolidated financial statements prepared by a parent meeting one of the following conditions:

- Its ordinary shares and/or potential ordinary shares are publicly traded (whether in a domestic or foreign stock market, or in an over-the-counter market, including local and regional markets); or
- It has taken steps to register, or is in the process of registering, its financial statements with a securities market commission or other regulatory agency with a view to issuing a financial of any kind to the public.

The Directors of the Parent consider that basic earnings per share are equal to diluted EPS at 31 December 2016 and 2015, given that neither of the above conditions holds.

### 3. DISTRIBUTION OF PROFIT

The proposed distribution of the profit for 2016 which the Parent's Board of Directors will submit for approval by the shareholders at the Annual General Meeting is as follows:

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

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#### 4. INTANGIBLE ASSETS

The carrying amounts of intangible assets at 31 December 2016 and 2015 were as follows:

(thousands of euros)	Cost	Accumulated amortization	Impairment	Net carrying amount
<b>2016</b>				
Concessions (note 6)	1,450,901	(646,159)	(15,328)	789,414
Goodwill	85,331	-	(25)	85,306
Other intangible assets	23,455	(15,109)	(44)	8,302
<b>TOTAL</b>	<b>1,559,687</b>	<b>(661,268)</b>	<b>(15,397)</b>	<b>883,022</b>
<b>2015</b>				
Concessions (note 6)	1,332,816	(512,307)	(11,812)	808,697
Goodwill	85,331	-	(25)	85,306
Other intangible assets	19,867	(13,839)	(1,037)	4,991
<b>TOTAL</b>	<b>1,438,014</b>	<b>(526,146)</b>	<b>(12,874)</b>	<b>898,994</b>

None of the intangible assets recognized was generated internally, and all of them except goodwill have finite useful lives and are subject to straight-line amortization over the period in which they are expected to generate income, as follows:

	<u>Estimated useful life</u>
Concessions	5 – 50 years
Other intangible assets	4 years

The carrying amount of intangible assets located outside Spain was EUR 78,255 thousand at 31 December 2016 (EUR 78,138 thousand at 31 December 2015).

The Group has no further investment commitments in addition to those already recognized in the terms and conditions of concessions, which have been provided for under “Long-term provisions” in the accompanying consolidated balance sheet (see Note 13).



### Changes in intangible assets

Changes in this caption of the consolidated balance sheet in 2015 and 2016 were as follows:

(thousands of euros)	Concessions	Goodwill	Other intangible assets	Amortization	Impairment	TOTAL
<b>Balance at 31.12.14</b>	<b>1,302,526</b>	<b>85,331</b>	<b>18,701</b>	<b>(470,560)</b>	<b>(11,214)</b>	<b>924,784</b>
Additions	28,629	-	1,093	-	-	29,722
Charge for the year	-	-	-	(54,911)	(2,168)	(57,079)
Reversals	-	-	-	-	516	516
Disposals	(106)	-	(125)	137	-	(94)
Transfers	13	-	-	(6)	-	7
Translation differences	-	-	198	(172)	-	26
Change in the scope of consolidation	1,754	-	-	(634)	(8)	1,112
<b>Balance at 31.12.15</b>	<b>1,332,816</b>	<b>85,331</b>	<b>19,867</b>	<b>(526,146)</b>	<b>(12,874)</b>	<b>898,994</b>
Additions	23,750	-	4,044	-	-	27,794
Charge for the year	-	-	-	(64,803)	(1,878)	(66,681)
Reversals	-	-	-	-	1,594	1,594
Disposals	(1,560)	-	(182)	1,365	-	(377)
Transfers	7,526	-	(274)	47	(2,239)	5,060
Translation differences	-	-	-	-	-	-
Change in the scope of consolidation	88,369	-	-	(71,731)	-	16,638
<b>Balance at 31.12.16</b>	<b>1,450,901</b>	<b>85,331</b>	<b>23,455</b>	<b>(661,268)</b>	<b>(15,397)</b>	<b>883,022</b>

### Government concessions

Government concessions are defined as arrangements whereby a concession grantor awards the concessionaire (FCC Aqualia Group) the contract to construct and operate, or only to operate, the infrastructure needed to provide public services of an economic nature for a given period.

The concessionaire is required to build and operate the public infrastructure comprising the concession at its own exclusive risk, assuming all economic risks inherent therein.

The Group recognizes amounts contributed under the terms and conditions of contracts in accordance with the undertakings made upon entering into concession arrangements, as well as costs incurred to win concessions for water supply and treatment services, as government concessions.

In 2016, the Company recognized additions to concessions totalling EUR 23,750 thousand, mainly in respect of the following contracts:



- Vigo (Pontevedra): EUR 6,911 thousand in respect of investments made to extend the concession arranged with Vigo City Council.
- Province of Caltanissetta (Italy): EUR 3,745 thousand in respect of investments made to upgrade the network in municipalities covered by the concession, comprising basically the towns of Caltanissetta, Gela, Butera and San Cataldo.
- Almansa (Albacete): EUR 3,443 thousand in respect of a commitment to make investments in the town's water supply and sewerage network.
- Commonwealth of municipalities in Campo de Gibraltar (Cadiz): EUR 2,534 thousand in respect of a commitment to make investments in sewerage networks.
- Municipalities in the Costa Tropical of Granada: EUR 1,652 thousand to upgrade and modernize the water supply and sewerage networks in various towns, chiefly Motril and Almuñecar.
- Adeje (Santa Cruz de Tenerife) The service was renewed for a period of 5 years in 2017. Under the terms of the concession arrangement, the service is tacitly renewable for periods of five years subject to agreement between the parties, and the contractual commitment to compensate the concessionaire for the net book value of work carried out if the concession is not renewed.

Transfers recognized in 2016 related basically to the reclassification of EUR 7,000 thousand from “Non-current financial assets” to “Government concessions” in respect of the royalty advanced to the municipality of Gáldar (Gran Canaria) in respect of the concession to manage the public drinking water supply for a term of 25 years. The royalty advance earned interest for the Group until 1 January 2016.

Changes in the scope of consolidation involving a cost of EUR 88,369 thousand and accumulated amortization of EUR 71,731 thousand relate basically to changes in the investments held in the following temporary joint ventures:

- Vigo (Pontevedra): cost of EUR 85,612 and accumulated amortization of EUR 70,599 thousand due to the acquisition of a 49% interest in the joint venture managing the service in addition to the 50% interest held until 1 January 2016. This contract has been provided by UTE FCC Aqualia – FCCSA since 1991.
- Mérida (Badajoz): cost of EUR 1,926 and accumulated amortization of EUR 936 thousand due to the acquisition of a 9% interest in the joint venture managing the service in addition to the 90% interest held until 1 January 2016. The other partner in this joint venture is Fomento de Construcciones y Contratas, S.A.

The change in impairments in 2016 was due to the following:



- Recognition of impairments totalling EUR 1,878 thousand due to recovery of the Monóvar (Alicante) concession by the town council in prior years, which has been appealed by the Company through the courts.
- The reduction in impairments recognized in prior years was due to amortization of concessions impaired in prior years where the Company has continued to provide the service.
- The transfer recognized was related to impairment of prior years' interest accruals on the royalty advanced to the municipality of Gáldar (Gran Canaria), which was presented as impairment of non-current financial assets until 31 December 2015.

The main government concessions held by the Group at 31 December 2016 and 2015 were as follows:

2016

CONTRACT	Government concessions			Intangible assets, concession arrangements			Advances for intangible assets, concession arrangements		TERM
	COST	Acc. Amort.	IMPAIRMENT	COST	Acc. Amort.	IMPAIRMENT			
Alcalá de Henares (Madrid)	8,040	(4,040)	-	8,434	(3,645)	-	-	-	25 years
Algeciras (Cadiz)	460	(263)	-	15,619	(5,168)	-	-	-	50 years
Almansa (Albacete)	5,754	(923)	-	3,480	(162)	-	-	-	25 years
Almería (Almería)	10,780	(6,314)	-	17,838	(6,110)	-	-	-	40 years
Arcos de la Frontera (Cadiz)	7,937	(1,346)	-	3,250	(537)	-	-	-	25 years
Badajoz (Badajoz)	15,436	(8,721)	-	37,359	(14,582)	-	-	-	50 years
Barbate (Cadiz)	4,189	(768)	-	3,029	(550)	-	-	-	25 years
Cabezo Torres (Murcia)	-	-	-	6,314	(4,172)	-	-	-	40 years
Calahorra (Rioja)	6,391	(3,395)	-	106	(84)	-	-	-	25 years
Chipiona (Cádiz)	2,131	(1,004)	-	4,923	(1,852)	-	-	-	25 years
Denia (Alicante)	-	-	-	11,568	(5,491)	-	-	-	35 years
Galdar (Gran Canarias)	10,802	(1,392)	-	2,118	(582)	-	-	-	25 years
Jaén (Jaén)	9,538	(6,070)	-	57	(55)	-	-	-	30 years
L'Ametlla de Mar (Tarragona)	8,415	(4,023)	-	592	(301)	-	-	-	25 years
La Línea de la Concepción (Cadiz)	8,712	(6,521)	-	2,534	(134)	-	-	-	40 years
La Nucia (Alicante)	29	(29)	-	21,804	(8,651)	-	-	-	30 years
La Solana (C. Real)	3,461	(1,256)	-	2,052	(712)	-	-	-	35 years
Llanera (Asturias)	1,248	(1,220)	(3,727)	8,296	(2,836)	-	-	-	25 years
Lleida (Lleida)	38,098	(4,683)	-	11,179	(1,459)	-	-	-	25 years
Lloret de Mar (Girona)	22,253	(9,791)	(3,375)	299	(172)	-	-	-	25 years
Los Alcázares (Murcia)	7,946	(5,674)	-	312	(261)	-	-	-	20 years
El Girasol Commonwealth of Municipalities (Cuenca)	3,689	(2,214)	-	4,166	(1,652)	-	-	-	25 years
Mérida (Badajoz)	17,207	(8,898)	-	3,981	(2,133)	-	-	-	30 years
Moguer (Huelva)	5,739	(1,491)	-	1,674	(413)	-	-	-	30 years
Oviedo (Asturias)	17,945	(7,143)	-	19,131	(6,723)	(130)	-	-	50 years
Salamanca (Salamanca)	6,961	(2,452)	-	43	(15)	-	-	-	25 years
San Lorenzo de El Escorial	2,543	(450)	-	3,968	(1,050)	-	-	-	30 years
Sanlúcar de Barrameda (Cadiz)	17,268	(4,297)	-	-	-	-	-	-	40 years
Sant Feliu (Gerona)	6	(6)	-	6,928	(4,001)	-	-	-	50 years
Sant Josep (Ibiza)	-	-	-	11,576	(4,900)	-	-	-	28 years
Santander (Cantabria)	72,632	(31,150)	-	13,718	(5,826)	-	-	-	25 years
Soller (Mallorca)	68	(17)	-	6,571	(2,026)	-	-	-	30 years
Talavera de la Reina (Toledo)	16,516	(11,434)	-	11,838	(3,375)	-	-	-	25 years
Valverde del Camino (Huelva)	5,701	(969)	-	505	(85)	-	-	-	25 years
Vélez – Málaga (Malaga)	6,750	(3,235)	-	1,134	(104)	-	-	-	20 years
Vigo (Pontevedra)	32,380	(30,657)	-	147,504	(121,729)	-	-	-	30 years
Adeje (Tenerife)	53,528	(29,867)	-	63,963	(30,908)	-	-	-	5 – 50 years
Ecija (Seville)	9,560	(5,887)	-	25	(19)	-	-	-	25 years
Jerez de la Frontera (Cadiz)	83,406	(12,397)	-	18,580	(2,762)	-	-	-	25 years
Cartaya (Huelva)	8,521	(973)	-	176	(70)	-	-	-	25 years
La Línea de la Concepción (Cádiz)	9,880	(1,658)	-	135	(11)	-	211	-	12 years
Puerto de Santa María (Cadiz)	2,000	(207)	-	-	-	-	-	-	25 years
Alcázar de San Juan (Ciudad Real)	1,855	(171)	-	10,843	(2,323)	-	-	-	25 years
EDAR municipalities (Teruel)	-	-	-	16,618	(6,276)	-	-	-	21 years
Costa Tropical municipalities, Granada	501	(222)	-	21,463	(9,455)	-	-	-	25 years
Abrantes (Portugal)	-	-	-	9,851	(2,743)	-	-	-	25 years
Campo Maior (Portugal)	-	-	-	4,032	(1,189)	-	-	-	30 years
Elvas (Portugal)	-	-	-	5,783	(1,478)	-	-	-	30 years
Cartaxo (Portugal)	10,177	(2,204)	-	10,143	(1,738)	-	-	-	35 years
Fundao (Portugal)	2,000	(378)	-	5,132	(722)	-	-	-	30 years
Caltanissetta (Italy)	-	-	-	41,752	(10,860)	-	9,625	-	30 years
Other, less than 5 million	184,204	(96,640)	(8,089)	95,704	(41,607)	(7)	308	-	5 – 50 years
<b>TOTAL</b>	<b>742,657</b>	<b>(322,450)</b>	<b>(15,191)</b>	<b>698,100</b>	<b>(323,709)</b>	<b>(137)</b>	<b>10,144</b>		

**2015**

CONTRACT	Government concessions			Intangible assets, concession arrangements			Advances for int. assets, concession arrangements	TERM
	COST	ACC. AMORT	IMPAIRMENT	COST	ACC. AMORT	IMPAIRMENT		
Alcalá de Henares (Madrid)	8,040	(3,718)	-	8,434	(3,262)	-	-	25 years
Algeciras (Cadiz)	460	(256)	-	15,619	(4,852)	-	-	50 years
Almansa (Albacete)	5,754	(692)	-	57	(57)	-	-	25 years
Almería (Almería)	10,780	(6,035)	-	17,838	(5,377)	-	-	40 years
Arcos de la Frontera (Cadiz)	7,937	(1,032)	-	3,250	(268)	-	-	25 years
Badajoz (Badajoz)	15,436	(8,479)	-	37,359	(13,761)	-	-	50 years
Calahorra (Rioja)	6,391	(3,043)	-	106	(79)	-	-	20 years
Cabezo Torres (Murcia)	-	-	-	6,314	(3,646)	-	-	40 years
Denia (Alicante)	-	-	-	10,995	(4,912)	-	-	35 years
Ingenio (Gran Canaria)	6,138	(3,225)	-	-	-	-	-	35 years
Jaén (Jaén)	9,135	(5,643)	-	57	(54)	-	-	30 years
L' Ametlla de Mar (Tarragona)	8,415	(3,685)	-	592	(278)	-	-	25 years
La Línea de la Concepción (Cádiz)	8,712	(6,271)	-	-	-	-	-	40 years
La Nucia (Alicante)	29	(29)	-	21,804	(7,712)	-	-	30 years
Llanera (Asturias)	1,248	(1,218)	(30)	12,513	(2,930)	(3,829)	-	25 years
Lleida (Lleida)	38,098	(3,077)	-	11,179	(959)	-	-	25 years
Lloret de Mar (Girona)	22,253	(8,901)	(3,616)	299	(163)	-	-	25 years
Los Alcázares (Murcia)	7,946	(5,253)	-	312	(251)	-	-	20 years
Mérida (Badajoz)	15,642	(7,539)	-	3,619	(1,817)	-	-	30 years
Moguer (Huelva)	5,739	(1,261)	-	1,674	(344)	-	-	30 years
Oviedo (Asturias)	17,945	(6,779)	-	19,131	(6,306)	-	-	50 years
Puente Genil (Córdoba)	3,324	(3,160)	-	2,016	(143)	-	-	30 years
Salamanca (Salamanca)	6,961	(2,001)	-	43	(13)	-	-	25 years
Ronda (Malaga)	4,584	(2,442)	-	257	(12)	-	-	25 years
Sanlúcar de Barrameda (Cadiz)	17,268	(3,609)	-	-	-	-	-	40 years
Santander (Cantabria)	72,632	(28,239)	-	13,718	(5,272)	-	-	25 years
Santa María de Guía (Gran Canaria)	-	-	-	5,682	(5,136)	-	-	20 years
Sant Feliu (Gerona)	5	(5)	-	6,791	(3,907)	-	137	50 years
Sant Josep (Ibiza)	-	-	-	11,576	(4,569)	-	-	28 years
Soller (Mallorca)	68	(13)	-	6,571	(1,685)	-	-	30 years
Talavera de la Reina (Toledo)	16,985	(10,776)	-	11,838	(2,812)	-	-	25 years
Valverde del Camino (Huelva)	5,701	(741)	-	500	(65)	-	-	25 years
Vélez – Málaga (Malaga)	6,750	(2,978)	-	208	(9)	-	-	20 years
Vigo (Pontevedra)	16,353	(15,048)	-	71,278	(57,046)	-	-	30 years
Adeje (Tenerife)	53,467	(27,187)	-	63,658	(27,336)	-	-	2 years
Ecija (Seville)	9,560	(5,504)	-	-	-	-	-	25 years
Jerez de la Frontera (Cadiz)	83,406	(9,056)	-	18,580	(2,018)	-	-	25 years
Cartaya (Huelva)	8,521	(630)	-	176	(65)	-	-	25 years
La Línea de la Concepción (Cádiz)	9,880	(829)	-	-	-	-	195	12 years
Puerto de Santa María (Cadiz)	2,000	(127)	-	-	-	-	-	25 years
Alcázar de San Juan (Ciudad Real)	1,855	(97)	-	10,843	(1,954)	-	-	25 years
EDAR municipalities (Teruel)	-	-	-	16,618	(5,401)	-	-	21 years
Costa Tropical municipalities, Granada	501	(213)	-	19,795	(9,041)	-	-	25 years
Abrantes (Portugal)	-	-	-	9,851	(2,405)	-	-	25 years
Campo Maior (Portugal)	-	-	-	4,032	(1,054)	-	-	30 years
Elvas (Portugal)	-	-	-	5,783	(1,285)	-	-	30 years
Cartaxo (Portugal)	10,177	(1,926)	-	10,143	(1,448)	-	-	35 years
Fundao (Portugal)	2,000	(311)	-	5,132	(540)	-	-	30 years
Caltanissetta (Italy)	-	-	-	24,387	(8,398)	-	23,245	30 years
Other, less than 5 million	187,626	(86,776)	(4,195)	102,689	(35,861)	(142)	200	5 – 50 years
<b>TOTAL</b>	<b>715,722</b>	<b>(277,804)</b>	<b>(7,841)</b>	<b>593,317</b>	<b>(234,503)</b>	<b>(3,971)</b>	<b>23,777</b>	

Other intangible assets



Other intangible assets mainly comprise software applications acquired from third parties, which are amortized on the straight-line basis over four years, and other assets associated with concession arrangements.

### Goodwill

The goodwill carried (net of impairments) in the consolidated balance sheet at 31 December 2016 and 2015 is as follows:

Expressed in thousands of euros	31.12.2016	31.12.2015
Depurplan 11, S.A.	18	18
Aqualia Intech, S.A.	2,523	2,523
Merger goodwill	82,765	82,765
<b>TOTAL</b>	<b>85,306</b>	<b>85,306</b>

Merger goodwill arose in 2002 and 2011 on the absorption by the Parent of various affiliates, generating goodwill on the difference between the acquisition cost of the absorbed companies and the fair value of their identifiable net assets.

On 21 March 2013, Aqualia Industrial Solutions, S.A.U. (sole shareholder company) (formerly Graver Española, S.A.U.) merged (as the absorbing company) with Nilo Medioambiente, S.L. and Chemipur Químicos, S.L. (as the absorbed company).

On 23 November 2015, Aqualia Industrial Solutions, S.A. absorbed Aqualia Intech, S.A. (both affiliates of FCC Aqualia). The merger was effected by integration of all items and en bloc transfer of the absorbed company's assets and liabilities to the absorbing company at consolidated values.

The main issues arising in relation to the estimates made and sensitivity analyses performed in the course of impairment testing of goodwill were as follows:

- Merger goodwill. The Parent was treated as a single overall cash generating unit for the purposes of the assumptions applied to estimate cash flows. The main assumptions utilized were as follows:
  - Annual revenue growth: 5% in the first year and between 1% and 2% in the following years
  - Perpetual income growth: zero
  - After-tax discount rate: 3.43 %.
  - Current cash flow projections do not display significant sensitivity, supporting increments of more than 15% in the discount rate, as well as a diminution of cash flows of as much as 80% without impairment.





- Goodwill of Aqualia Industrial Solutions. Sales and profit assumptions were estimated by treating the company and Aqualia Infraestructuras as a cash generating unit, given that the two companies merged in 2015. Assumptions utilized:
  - Annual revenue growth: 44% in the first year and between 30% and 40% in the following years. The contracts won by Aqualia Intech in Egypt and Colombia in 2016 are important in this regard.
  - Perpetual income growth: zero
  - Discount rate: 3.43%
  - Current cash flow projections do not display significant sensitivity, supporting increments of more than 50% in the discount rate, as well as a diminution of cash flows of as much as 90% without impairment.

## 5. PROPERTY, PLANT AND EQUIPMENT

The carrying amounts of property, plant and equipment at 31 December 2016 and 2015 were as follows:

(thousands of euros)	Cost	Accumulated amortization	Impairment	Net carrying amount
<b>2016</b>				
<b>Land and buildings</b>	<b>51,178</b>	<b>(20,925)</b>	-	<b>30,253</b>
Land and natural resources	6,390	(37)	-	6.353
Constructions for own use	44,788	(20,888)	-	23.900
<b>Plant and other items of property, plant and equipment</b>	<b>698,644</b>	<b>(410,116)</b>	<b>(39)</b>	<b>288,489</b>
Technical installations	516,304	(273,963)	-	242.341
Machinery and vehicles	102,472	(81,484)	-	20.988
Fixed assets in course of construction	11,800	-	-	11.800
Other items of property, plant and equipment	68,068	(54,669)	(39)	13.360
<b>TOTAL</b>	<b>749,822</b>	<b>(431,041)</b>	<b>(39)</b>	<b>318,742</b>
<b>2015</b>				
<b>Land and buildings</b>	<b>50,243</b>	<b>(19,970)</b>	-	<b>30,273</b>
Land and natural resources	6,366	(36)	-	6.330
Constructions for own use	43,877	(19,934)	-	23.943
<b>Plant and other items of property, plant and equipment</b>	<b>684,214</b>	<b>(395,548)</b>	-	<b>288,666</b>
Technical installations	500,749	(257,558)	-	243.191
Machinery and vehicles	99,705	(79,514)	-	20.191
Fixed assets in course of construction	11,533	-	-	11.533
Other items of property, plant and equipment	72,227	(58,476)	-	13.751
<b>TOTAL</b>	<b>734,457</b>	<b>(415,518)</b>	-	<b>318,939</b>



Changes in property, plant and equipment in 2015 and 2016 were as follows:

(thousands of euros)	Land and natural resources	Constructions for own use	Land and buildings	Plant	Machinery and vehicles	Assets under construction	Other items of property, plant and equipment	Plant and other items of property, plant and equipment	DEPRECIATION	IMPAIRMENT	TOTAL
<b>Balance at 31.12.14</b>	<b>6,203</b>	<b>43,214</b>	<b>49,417</b>	<b>471,777</b>	<b>96,112</b>	<b>13,039</b>	<b>68,789</b>	<b>649,717</b>	<b>(383,703)</b>	-	<b>315,431</b>
Additions		17	17	1,415	1,319	16,440	4,418	23,592	-	-	23,609
Charge for the year	-	-	-	-	-	-	-	-	(26,291)	-	(26,291)
Reversals	-	-	-	-	-	-	-	-	-	-	-
Disposals	(3)	(125)	(128)	(300)	(936)	(17)	(489)	(1,742)	1,618	-	(252)
Transfers	27	(43)	(16)	16,977	1,387	(17,805)	(556)	3	6	-	(7)
Translation differences	139	789	928	10,880	1,821	309	189	13,199	(7,266)	-	6,861
Change in scope of consolidation	-	25	25	-	1	(433)	(123)	(555)	118	-	(412)
<b>Balance at 31.12.15</b>	<b>6,366</b>	<b>43,877</b>	<b>50,243</b>	<b>500,749</b>	<b>99,704</b>	<b>11,533</b>	<b>72,228</b>	<b>684,214</b>	<b>(415,518)</b>	-	<b>318,939</b>
Additions	1	321	322	3,394	2,643	17,058	2,999	26,094	-	-	26,416
Charge for the year	-	-	-	-	-	-	-	-	(26,709)	(147)	(26,856)
Reversals	-	-	-	-	-	-	-	-	-	-	-
Disposals	(4)	(288)	(292)	(702)	(3,388)	-	(7,589)	(11,679)	11,828	-	(143)
Transfers	27	878	905	13,368	2,327	(16,791)	199	(897)	(112)	-	(104)
Translation differences	-	-	-	-	41	-	1	42	(213)	108	(63)
Change in scope of consolidation	-	-	-	(505)	1,145	-	230	870	(317)	-	553
<b>Balance at 31.12.16</b>	<b>6,390</b>	<b>44,788</b>	<b>51,178</b>	<b>516,304</b>	<b>102,472</b>	<b>11,800</b>	<b>68,068</b>	<b>698,644</b>	<b>(431,041)</b>	<b>(39)</b>	<b>318,742</b>



The Group companies have arranged the insurance policies considered necessary to cover the possible risks to which its property, plant and equipment are exposed.

At 31 December 2016, the net carrying amount of property, plant and equipment owned outside Spain, mainly in the European Union and Mexico, was EUR 285,579 thousand (EUR 283,485 thousand at 31 December 2015).

The value of fully depreciated items of property, plant and equipment still in good condition for productive use was EUR 143,210 thousand at 31 December 2016 (EUR 128,248 thousand at 31 December 2015).

Interest of EUR 1,000 was capitalized in 2016 (EUR 26,000 in 2015), and the cumulative balance of capitalized interest totals EUR 3,836 thousand at 31 December 2016 (EUR 3,835 thousand at 31 December 2015).

#### Assets subject to restricted title

In the course of its activities, the Group acquires or builds certain non-current assets which will revert to town councils at the end of concessions.

The Group companies consider that the periodic maintenance plans applied to their plant and equipment, the costs of which are expensed in the year incurred, are sufficient to ensure that assets are returned in good condition for use at the end of the concession terms and, therefore, that the reversion of assets does not result in material costs.

#### Commitments to acquire property, plant and equipment

All of the FCC Aqualia Group companies engaging in the concessions business enter into firm commitments to acquire items of property, plant and equipment in the course of their activity (see Note 6).

#### In-house work on non-current Group assets

Specialist undertakings belonging to the FCC Aqualia Group are currently building facilities and infrastructure associated with water contracts mainly in the Czech Republic which are not returnable to the town councils granting the concessions. The amount capitalized in this respect at 31 December 2016 was EUR 17,691 thousand (EUR 19,471 thousand at 31 December 2015).



Finance leases

The net carrying amount of vehicles acquired by the Group at 31 December 2016 was EUR 76 thousand (EUR 114 thousand at 31 December 2015).

The reconciliation of the minimum future lease payments and the present value thereof is as follows (in thousands of euros):

	31.12.2016	31.12.2015
<b>Minimum future payments</b>	<b>81</b>	<b>116</b>
Unaccrued finance charges	(5)	(2)
<b>Present value (Note 14.c)</b>	<b>76</b>	<b>114</b>

The FCC Aqualia Group companies normally exercise the purchase option on the expiry of finance leases, and the lease arrangements do not impose any restrictions affecting the exercise of this option.

The finance leases entered into by the Group companies do not include any payments determined on the basis of future economic events or indices, and no expense was therefore incurred during the year in respect of contingent payments.

Operating leases

The operating lease payments recognized by the Group in its capacity as lessee in 2016 amounted to EUR 25,278 thousand (EUR 24,999 thousand in 2015). These payments were made mainly in respect of leased machinery used in the Group's activities and the lease of constructions for own use.

At 31 December 2016, the Group companies had non-cancellable future payment commitments under operating leases referring to office premises, vehicles and other assets for a total of EUR 205,901 thousand (EUR 196,247 thousand at 31 December 2015).

	2016	2015
Within one year	31,184	29,409
One to five years	123,030	116,457
More than five years	51,687	50,381
	<b>205,901</b>	<b>196,247</b>



## 6. SERVICE CONCESSION ARRANGEMENTS

This note presents an overview of the Group's investments in concession arrangements, which are recognized under various asset captions of the accompanying consolidated balance sheet.

The following chart shows the total assets owned by the Group under concession arrangements, which are recognized as intangible assets, non-current financial assets and investments in companies accounted for using the equity method in the accompanying balance sheet at 31 December 2016 and 2015.

CONCESSIONS AT 31.12.2016 (thousands of euros)	Intangible assets (Note 4)	Current claim receivable under concession contract (Note 9.b)	Loans to joint venture concession operators (Note 7)	Carrying amount of joint venture concession operators (Note 7)	Total investments
Cost	1,450,901	5,118	54,875	65,836	1,576,730
Amortization	(646,159)	-	-	-	(646,159)
Impairments	(15,328)	(5,118)	-	-	(20,446)
<b>TOTAL</b>	<b>789,414</b>	<b>-</b>	<b>54,875</b>	<b>65,836</b>	<b>910,125</b>

CONCESSIONS AT 31.12.2015 (thousands of euros)	Intangible assets (Note 4)	Current claim receivable under concession contract (Note 9.b)	Loans to joint venture concession operators (Note 7)	Carrying amount of joint venture concession operators (Note 7)	TOTAL investments
Cost	1,332,816	31,231	54,246	71,082	1,489,375
Amortization	(512,307)	-	-	-	(512,307)
Impairments	(11,812)	(5,118)	-	-	(16,930)
<b>TOTAL</b>	<b>808,697</b>	<b>26,113</b>	<b>54,246</b>	<b>71,082</b>	<b>960,138</b>

The concession operators controlled by the Group are required under the concession contracts to acquire or build items of property, plant and equipment associated for a total of EUR 61,990 thousand at 31 December 2016 (EUR 57,866 thousand at 31 December 2015).



## 7. INVESTMENTS IN ASSOCIATES AND JOINTLY CONTROLLED ENTITIES

This caption presents the carrying amounts of investments in companies accounted for using the equity method, which include both interests held and non-current loans extended to these associates and the jointly controlled entities accounted for using the equity method as indicated in Note 2.c).

No impairment losses arose in the years ended 31 December 2016 and 2015, as market values equalled or exceeded the carrying amounts calculated on the basis described in the preceding paragraph.

Appendix III lists companies accounted for using the equity method and provides details of the investments made by company. Changes in 2016 and 2015 were as follows:

(thousands of euros)	Investments in associates (Note 6)	Unpaid shares (Note 6)	Long-term Loans (Note 6)	TOTAL
<b>Balance at 31.12.14</b>	<b>78,256</b>	<b>(50)</b>	<b>51,989</b>	<b>130,195</b>
Acquisitions	1	-	-	1
Share in profits	3,466	-	-	3,466
Dividend distributions	(7,835)	-	-	(7,835)
Sales	(469)	-	-	(469)
Unpaid shares	-	-	-	-
Translation differences	(3,128)	-	-	(3,128)
Loans granted/(repaid)	-	-	4,817	4,817
Impairment charge/(reversal)	-	-	(2,560)	(2,560)
Other	838	3	-	841
<b>Balance at 31.12.15</b>	<b>71,129</b>	<b>(47)</b>	<b>54,246</b>	<b>125,328</b>
Acquisitions	-	-	-	-
Share in profits	8,761	-	-	8,761
Dividend distributions	(2,044)	-	-	(2,044)
Sales	-	-	-	-
Unpaid shares	-	-	-	-
Translation differences	(10,672)	-	-	(10,672)
Loans granted/(repaid)	-	-	(1,080)	(1,080)
Impairment charge/(reversal)	-	-	1,709	1,709
Other	(1,297)	6	-	(1,291)
<b>Balance at 31.12.16</b>	<b>65,877</b>	<b>(41)</b>	<b>54,875</b>	<b>120,711</b>

The change in translation differences in 2016 was due mainly to the devaluation of the Egyptian pound in the month of December.

The assets, liabilities, revenues and profit or loss for 2016 and 2015 of each associate or jointly controlled undertaking are presented below in proportion to the percentage equity interest held in each based on the information included in their respective financial statements.



	(thousands of euros)	
	2016	2015
<b>Balance sheet</b>		
Non-current assets	181,794	202,350
Current assets	75,179	69,919
Non-current liabilities	139,495	160,051
Current liabilities	57,743	51,768
<b>Profit or Loss</b>		
Revenue	78,619	88,809
Profit from operations	16,774	10,834

The FCC Aqualia Group had extended guarantees to banks in relation to investments accounted for using the equity method for a total EUR 2,109 thousand at 31 December 2016 (EUR 2,843 thousand at 31 December 2015) by way of security for their continued participation in the share capital of affiliates throughout the term of loans.

## 8. JOINTLY CONTROLLED OPERATIONS

The Group companies conduct a part of their activity through participation in businesses in which the FCC Aqualia Group exercises joint control with other external partners of the Group, normally via unincorporated temporary joint ventures (Spanish UTE) and economic interest groupings (EIGs). These operations were proportionally consolidated, as explained in Note 2 above.

The key figures of jointly controlled operations at 31 December 2016 and 2015 were as follows:

<b>Temporary joint ventures</b>		
(in thousands of euros)	2016	2015
Revenue	130,088	107,834
Profit from operations	28,949	26,638
Net profit from operations	16,166	20,681
Non-current assets	66,051	66,965
Current assets	26,732	25,183
Non-current liabilities	29,947	26,600
Current liabilities	52,526	54,900

Appendix II presents proportionally consolidated undertakings and Appendix IV presents operations operated jointly with non-Group third parties under temporary joint venture and other arrangements.

The operations are managed via joint ventures require the partners are jointly liable for the activities undertaken.



## 9. NON-CURRENT FINANCIAL ASSETS AND OTHER CURRENT FINANCIAL ASSETS

The main items recognized in the consolidated balance sheet under “Non-current financial assets” and “Other current financial assets” were as follows:

### a) Non-current financial assets

Non-current financial assets are as follows:

<i>(expressed in thousands of euros)</i>	<b>2016</b>	<b>2015</b>
Non-current loans	110,889	123,721
Held-to-maturity investments	165	165
Non-current financial derivatives	165	-
<b>Total</b>	<b>111,219</b>	<b>123,886</b>

### Non-current loans

The maturities established for the non-current loans granted by Group companies to third parties and to companies belonging to the FCC Group are as follows:

31 December 2016

<b>Expressed in thousands of euros</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022 and thereafter</b>	<b>Total</b>
Non-commercial loans	8,822	7,721	7,306	6,873	63,445	94,167
Guarantee deposits	621	45	23	1	16,032	16,722
<b>Total</b>	<b>9,443</b>	<b>7,766</b>	<b>7,329</b>	<b>6,874</b>	<b>79,477</b>	<b>110,889</b>

31 December 2015

<b>Expressed in thousands of euros</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021 and thereafter</b>	<b>Total</b>
Non-commercial loans	16,834	11,662	6,602	1,728	71,055	107,881
Guarantee deposits	645	6	-	8	15,181	15,840
<b>Total</b>	<b>17,479</b>	<b>11,668</b>	<b>6,602</b>	<b>1,736</b>	<b>86,236</b>	<b>123,721</b>

Non-commercial loans are classified as follows:

<b>Expressed in thousands of euros</b>	<b>2016</b>	<b>2015</b>
Non-current loans to FCC Group companies	15	15
Non-current loans to public entities	94,091	107,856
Non-current guarantee deposits	16,722	15,840
Non-current loans to staff	61	10





<b>TOTAL NON-COMMERCIAL LOANS</b>	<b>110,889</b>	<b>123,721</b>
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At 31 December 2014 a balance of EUR 25,251 thousand was recognized under “Non-current claim receivable under concession contract” and EUR 5,273 thousand under “Current claim receivable under concession contract”. These headings were used by the Group to recognize the balance receivable arising from the construction and operation of a seawater desalination plant in Santa Eulalia (Balearic Islands) under a public works concession entered into on 15 November 2005 by the joint venture UTE FCC Aqualia – Aqualia Infraestructuras, S.A. with the Spanish Ministry of Environment, which had in turn made an agreement with the Regional Government of the Balearic Islands whereunder the latter would take over the concession upon completion of the construction phase, as it would be the beneficiary of the water supplied in the operating phase.

This arrangement was recognized as a Financial asset because the terms and conditions of the concession established a minimum volume of guarantee cubic metres of water which the Company could bill during the operating period for the desalination plant (15 years). On this basis, it was considered that the fair value of construction services would be recovered via the aforementioned volume of guaranteed billings, so that the concession was not considered to entail any demand risk for the concessionaire.

The construction phase was completed in December 2011, when the Ministry of Environment certified its conformity and the 2-year guarantee period began, during which the joint venture concession operator carried out maintenance work on the plant.

In view of the concession grantor’s failure to perform its obligations in the judgment of the Parent supported by the advice of its legal counsel, the joint venture managing the works concession moved to terminate the contract and demanded payment from the Directorate General of Water at the Ministry of Agriculture, Food and Environment.

At 31 December 2015, the Parent reclassified the total amount due to “Current claim receivable under concession contract” (Note 9.b) in view of the expected resolution of the matter in the first quarter of 2016, given that the Council of Ministers had approved the termination of two concessions in the Balearic Islands on 4 December 2015, one of them being the contract for the Santa Eulalia Desalination Plant in Ibiza, authorizing the payment of EUR 26,113 to the joint venture concession holder by way of compensation plus interest. Payment was received on 18 January 2016.

In view of the Council of Ministers’ decision, the Group recognized financial impairment for a total of EUR 5,118 thousand in respect of the difference with the carrying amount of the claim, adjusting the amount booked as recoverable at 31 December 2015 to EUR 26,113 thousand. At 31 December 2016, an amount of EUR 5,118 thousand was recognized under the heading “Current claim receivable under concession contract”, which was treated as fully impaired.



Non-current loans to public entities basically comprise loans granted to town councils to finance water network works and facilities. These loans earn interest at floating rates based on Euribor and are recovered basically through the rates established in the associated concession arrangements.

<b>NON-CURRENT LOANS TO PUBLIC ENTITIES</b>		
<b>(expressed in thousands of euros)</b>		
	<b>2016</b>	<b>2015</b>
Adeje Town Council	-	120
Agaete Town Council	35	174
Alboraya Town Council	3,966	4,148
Alcalá Town Council	3,680	4,452
Aller Town Council	280	327
Ávila City Council	4,284	4,284
Baena Town Council	156	707
Bell-Lloch Town Council	8	64
Bollullos Town Council	1,416	1,396
Calasparra Town Council	285	340
Callosa del Segura Town Council	1,603	1,615
Caravaca de la Cruz Town Council	237	442
Chipiona Town Council	1,204	667
Cristina Town Council	89	-
El Vendrell Town Council	187	208
Galdar Town Council	-	4,970
Güímar Town Council	235	264
Hellín Town Council	18	21
Hondón de los Frailes Town Council	130	141
Jaén City Council	30,938	30,764
La Guardia Town Council	443	417
La Línea de la Concepción Town Council	1,381	1,530
La Tordera Town Council	26	126
Lepe Town Council	10,753	10,597
Lora del Río Town Council	598	860
Magán Town Council	233	257
Martos Town Council	232	335
Matalascañas Town Council	2,271	2,725
Medina del Campo Town Council	90	97
Mula Town Council	565	779
Olivenza Town Council	-	680
Puerto de la Cruz Town Council	1,355	1,811
Quintanar de la Orden Town Council	23	66
Ribera del Fresno Town Council	341	341
Ronda Town Council	2,884	3,028
San Lorenzo del Escorial Town Council	3,190	3,686
San Pedro del Pinatar Town Council	364	382
Sant Fost Town Council	1,203	1,323
Segurilla Town Council	-	4



<b>NON-CURRENT LOANS TO PUBLIC ENTITIES</b>		
<b>(expressed in thousands of euros)</b>		
	<b>2016</b>	<b>2015</b>
Solana de Los Barros Town Council	147	165
Talavera de la Reina Town Council	-	66
Turcia Town Council	9	11
Ubrique Town Council	761	951
Vélez-Málaga Town Council	3,586	8,252
Menacho Army Base	153	-
Campo de Gibraltar District Council	5,294	5,380
Llanos Villamartín Irrigation Community	691	700
Irrigation Community	10	31
Commonwealth of Costa Tropical municipalities, Granada	8,737	8,152
<b>TOTAL</b>	<b>94,091</b>	<b>107,856</b>

The guarantee deposits made relate basically to legal and contractual obligations assumed in the course of the Group companies' activities, and in particular to deposits made with public entities in respect of guarantees received from water supply service customers.

**b) Other current financial assets**

Other current financial assets at 31 December 2016 and 2015 were as follows:

<b>Expressed in thousands of euros</b>	<b>2016</b>	<b>2015</b>
<b>Other receivables</b>	<b>414,103</b>	<b>354,503</b>
Short-term loans to companies accounted for using the equity method	4,641	4,824
Short-term loans to FCC Group companies	387,245	301,221
Current claim receivable under concession contract (Note 9.a)	-	26,113
Short-term loans to non-Group third parties	19,755	18,784
Dividends receivable from joint arrangements and associates	65	5
Dividends receivable from companies accounted for using the equity method	2,389	3,548
Dividends receivable from non-Group companies	8	8
<b>Guarantee deposits</b>	<b>12,040</b>	<b>11,699</b>
<b>TOTAL</b>	<b>426,143</b>	<b>366,202</b>

The balance of "Short-term loans to FCC Group companies" rose as a result of the increase in the loan granted by FCC Aqualia to Asesoría Financiera y de Gestión, S.A. to a total of EUR 381,137 thousand at 31 December 2016 (EUR 289,488 thousand at 31 December 2015). Meanwhile, the loan granted by the FCC



Aqualia to FCC, S.A. decreased to EUR 369 thousand at 31 December 2016 (EUR 7,243 thousand at 31 December 2015).

The average return earned on these items in 2016 was 0.25% (0.25% in 2015).

There are no restrictions on disposability except in the case of “Guarantee deposits” comprising deposits made by way of security for certain contracts which will be recovered upon maturity of the same.

## 10. INVENTORIES

Inventories at 31 December 2016 and 2015 were as follows:

<i>(Expressed in thousands of euros)</i>	<b>2016</b>	<b>2015</b>
Raw materials and other supplies	11,906	11,347
Advances on inventories	12,649	11,252
Impairments	(20)	(20)
Ancillary work	40	21
Initial project expenses	2,497	-
<b>TOTAL</b>	<b>27,072</b>	<b>22,600</b>

Raw materials and other supplies include spare parts, fuel and other materials required in activities.



## 11. TRADE AND OTHER RECEIVABLES

### a) Trade receivables for sales and services

The balance of trade receivables for sales and services comprised the following items and amounts at 31 December 2016 and 2015:

(thousands of euros)	2016	2015
Certified production receivable and trade receivables	200,708	205,325
Trade receivables factoring without recourse, third parties	(90,784)	(100,717)
Completed production pending certification	94,731	82,819
Guarantee withholdings	1,854	1,717
Receivables for production billed to FCC Group companies	36,948	32,749
Provisions for bad debts	(40,482)	(45,221)
<b>TRADE RECEIVABLES FOR SALES AND SERVICES</b>	<b>202,975</b>	<b>176,672</b>

“Certified production receivable and trade receivables” reflects the amount of certificates of work and services completed issued to customers and receivable at the date of the consolidated balance sheet. This caption does not include any significant balance that are more than two years old, and more than 50% of the total balances reflected in the above chart are less than six months old.

The difference between the balance of production recognized on each works project, valued on the basis explained in Note d.16) “Operating income and expenses”, and the amount certified in each project is shown under “Completed production pending certification”.

“Trade receivables factoring without resource, third parties” reflects accounts receivable factored by the Group without recourse at 31 December 2016 and 2015 to a syndicate of Banks led by Banco Santander as the agent under the terms of an agreement made on 15 July 2011 for an initial term of 3 years, which was renewed in June 2014 and matures on the same date as the FCC Group Refinancing Agreement. The Parent acts in its own name and behalf in this contract and also as agent on behalf of two affiliates, Entemanser, S.A. and Aigües de Vallirana, S.A.U. The overall limit available on the factoring facility was increased in 2015 from EUR 90,000 to 102,000 thousand.

Changes in provisions for bad debts in 2016 and 2015 were as follows:

(thousands of euros)	2016	2015
Opening balance	45,221	41,038
Net allowances	(5,316)	4,183
Changes in scope of consolidation	577	-
Closing balance	<b>40,482</b>	<b>45,221</b>



The net allowances set aside in 2016 were recognized with a charge to “Other operating expenses” in the consolidated statement of profit or loss.

#### b) Other receivables

Other receivables at 31 December 2016 and 2015 were as follows:

(thousands of euros)	2016	2015
Receivable from Public Entities for grants awarded (Note 17)	19,062	20,892
Sundry receivables	21,723	20,487
Advances on wages and salaries	34	28
VAT recoverable	5,893	-
Receivable from Social Security authorities	5,208	-
Indirect taxes recoverable	456	-
<b>TOTAL BALANCE OF OTHER RECEIVABLES</b>	<b>52,376</b>	<b>41,407</b>

## 12. CASH AND CASH EQUIVALENTS

The main objective of the Group’s cash flow management processes is to optimize cash and cash equivalents by optimizing by controlling liquidity and cash needs, seeking by efficient management of funds to keep the lowest possible balance available in current accounts at banks, and to use the most beneficial financing facilities for the interests of the Group in situations of negative cash flow.

FCC Aqualia centralizes cash flow management for all subsidiaries which are 100% controlled by the Parent, whether directly or indirectly. The cash balances of these subsidiaries are channelled to the parent of the FCC Group, of which the FCC Aqualia Group is a part.

Cash and cash equivalents at 31 December 2016 and 2015 were as follows:

(thousands of euros)	2016	2015
Cash	93,739	96,943
Deposits maturing in 1 or 2 months	4,887	-
<b>TOTAL</b>	<b>98,626</b>	<b>96,943</b>

The balance of cash and cash equivalents broken down by currency in 2016 and 2015 was as follows:

CASH AND CASH EQUIVALENTS		
Breakdown by currency (thousands of euros)	2016	2015
Czech crown	22,397	24,677
US dollar	14	76
Euro	58,829	62,829



Serbian dinar	73	384
UAE dirham	5,792	2,647
Egyptian pound	6,137	-
Chilean peso	393	2,395
Mexican peso	2,876	2,638
Bosnian mark	5	45
Saudi riyal	1,035	393
Uruguayan peso	798	859
Colombian peso	277	-
<b>TOTAL</b>	<b>98,626</b>	<b>96,943</b>

The Group's cash balances at 2016 and 2015 were remunerated at market rates.

There were no restrictions on the disposability of cash and cash equivalents either at 31 December 2016 or 31 December 2015.

### 13. EQUITY

The accompanying consolidated statements of changes in equity for the years ended 31 December 2016 and 2015 show the changes in equity attributable to the shareholders of the Parent in those years.

#### Equity attributable to the Parent

##### a) Share capital

The share capital of FCC Aqualia, S.A. is represented by 145,000,000 ordinary bearer shares of 1 euro par value each. All shares have the same rights, and all are fully subscribed and paid up. The Parent's shares are unlisted.

The ownership structure of the Parent's share capital is as follows:

	%
Fomento de Construcciones y Contratas, S.A.	99.99
International Services, Inc. (100% FCC, S.A.)	0.01

##### b) Share premium and reserves

Reserves at 31 December 2016 and 2015 were as follows:



<b>Expressed in thousands of euros</b>	<b>2016</b>	<b>2015</b>
Reserves of the Parent	537,107	514,036
Consolidation reserves	68,899	55,518
	<b>606,006</b>	<b>569,554</b>

#### b.1) Reserves of the Parent

Reserves of the Parent comprise reserves recognized by the Group Parent, FCC Aqualia, S.A., in compliance with applicable legislation, and retained earnings.

Reserves of the Parent at 31 December 2016 and 2015 were as follows:

<b>Expressed in thousands of euros</b>	<b>2016</b>	<b>2015</b>
Share premium	112,019	112,019
Legal reserve	29,000	29,000
Voluntary reserves	363,377	344,444
Special reserves	76	76
Goodwill	32,635	28,497
	<b>537,107</b>	<b>514,036</b>

#### Share premium

The Spanish Limited Companies Act expressly allows use of the balance on the share premium account to increase share capital, and it does not establish any specific restrictions on disposability.

#### Legal reserve

Under the Limited Companies Act, 10% of the Parent's net profit for each year must be transferred to the legal reserve until the balance on said reserve is equal to at least 20% of share capital. The legal reserve cannot be distributed to shareholders except in the event of liquidation.

The legal reserve can be used to increase capital provided that the remaining balance on the reserve is not less than 10% of share capital after the increase.

Otherwise, until the legal reserve exceeds 20% of share capital, it can only be used to offset losses, provided that sufficient other reserves are not available for this purpose.





### Voluntary reserves

Voluntary reserves comprise amounts freely set aside out of the profits of the Parent after the distribution of dividends and the appropriation to the legal reserve made in accordance with prevailing legislation. These reserves are not subject to any limitations or restrictions on use.

### Goodwill reserve

In accordance with article 273.4 of the amended Limited Companies Act prevailing until 31 December 2015, the Parent made appropriations to a restricted reserve equal to the amount of goodwill carried on the consolidated balance sheet over a period of 20 years. The balance on this reserve at 31 December 2016 was EUR 32,635 thousand (EUR 28,497 thousand at 31 December 2015).

According to changes within the Limited Companies Act under Law 22/2015, 20 July, regarding Account Auditing, as from fiscal year commencing on 1 January 2016, the Company will interrupt contributions to this goodwill reserve, and will be, as from that fiscal year, available in the amount in excess of the goodwill accounted for on the assets side in the Balance Sheet.

### b.2) Consolidation reserves

“Consolidation reserves” in the accompanying consolidated balance sheet comprises reserves in fully consolidated and equity accounted companies generated as from the moment of their acquisition.

The consolidation reserves of each of the main subsidiaries at 31 December 2016 and 2015 were as follows:

<b>Expressed in thousands of euros</b>	<b>2016</b>	<b>2015</b>
FCC Aqualia, S.A.	22,056	8,121
FCC Aqualia América, S.A., Unipersonal	(946)	(1,144)
Abrantaqua, S.A.	270	190
Acque di Caltanissetta, S.p.A.	-	2,028
AISA Montenegro	973	779
Aisa Pristina LLC	475	-
Aguas de Campo Maior, S.A.	13	(660)
Aguas de Elvas, S.A.	4	(385)
Aigües de Vallirana, S.A.	1,319	1,246
Aquacartaya, S.L.	(387)	(134)
Aquajerez, S.L.	(3,726)	(1,746)
Aqualia Mace LLC	(1,359)	(2,448)
Aquos el Realito, S.A. de CV	1,497	1,488
AIE Costa Tropical de Granada	(19)	(191)
AIE ITAM Delta de la Tordera	-	(8)
Aqualia Czech, S.L.U.	6,873	9,422
Aqualia Intech, S.A.	11,862	3,623
Aqualia México, S.A de C.V.	7,150	4,452
Aqualia Infraestructuras Inzenyring	(6,066)	(5,243)
Aqualia New Europe, B.V.	344	165
Colaboración, Gestión y Asistencia, S.A.	(95)	(33)



Constructora de Infraestructuras de Aguas de Queretaro SA de CV	(1,033)	(888)
Constructora de Infraestructuras de Aguas de Potosi SA de CV	(6,127)	(1,099)
Depurplan 11, S.A.	258	263
Entemanser, S.A.	(23,102)	(13,603)
FS Colaboración y Asistencia, S.A.	5	(14)
FCC Aqualia USA CORP	(236)	-
Girona, S.A.	1,613	1,530
Hidrotec Tecnología del Agua, S.L.U.	6,343	3,030
Infraestructura y Distribución General del Agua, S.L.U.	(1,672)	(1,373)
Inversora Riutort, S.L.	289	289
Orasqualia Construction, S.A.E.	305	281
Orasqualia DEVEL.Waste T.P.S.A.E.	5,914	5,082
Orasqualia O&M	459	322
HA Proyectos Especiales Hidráulicos S.R.L. de C.V.	224	296
Proveiments d' Aigua, S.A.	307	265
Shariket Tahlya Miyah Mostaganem	24,092	21,794
Shariket Miyeh Ras Djinet	6,730	6,405
SmVak	(6,231)	(6,405)
Sociedad Española de Aguas Filtradas, S.A.	2,834	2,355
Suministro de Aguas de Querétaro, S.A. de C.V.	220	218
Tratamiento Industrial de Aguas, S.A.	17,325	17,207
Other companies	144	41
<b>Total Consolidation Reserves</b>	<b>68,899</b>	<b>55,518</b>

The balance of consolidation reserves in FCC Aqualia, S.A. at 31 December 2016 was EUR 22,056 thousand (EUR 8,121 at 31 December 2015), reflecting amounts arising from the distribution of affiliates' dividends each year, which are transferred to reserves of the Parent in the following year.

#### c) Valuation adjustments

Valuation adjustments comprise the fair value, net of taxes, of available-for-sale financial assets (Note 9) and derivatives used in cash flow hedges (Note 22), as well as translation differences arising on the conversion to euros of the financial statements of subsidiaries denominated in other currencies following the criteria described in Note 2.d.10.

Valuation adjustments at 31 December 2016 and 2015 were as follows (in thousands of euros):

	2016	2015
Valuation adjustments	(224)	(2,434)
Translation differences	(18,304)	(11,882)
	<b>(18,528)</b>	<b>(14,316)</b>

The valuation adjustments relating to each of the main subsidiaries at 31 December 2016 and 2015 were as follows (in thousands of euros):

	2016	2015
Aquajerez, S.L.	63	-
Aquos el Realito, S.A. de C.V.	(287)	(1,571)



Depurplan 11, S.A.	-	(863)
	<b>(224)</b>	<b>(2,434)</b>

Translation differences at 31 December 2016 and 2015 in each of the subsidiaries with a functional currency other than the euro were as follows:

Expressed in thousands of euros	2016	2015
<b>Algeria</b>	<b>(4,010)</b>	<b>(4,392)</b>
Shariket Tahlya Miyah Mostaganem S.p.a.	(2,957)	(3,232)
Shariket Miyeh Ras Djinet S.p.a.	(1,053)	(1,160)
<b>Mexico</b>	<b>(2,541)</b>	<b>(1,315)</b>
Aqualia México, S.A. de C.V.	(2,477)	(1,094)
Suministro Aguas de Querétaro, S.A. de C.V.	(66)	(20)
Constructora de Infraestructuras de Agua de Querétaro, S.A. de C.V.	200	16
Aquos el Realito, S.A. de C.V.	(1,040)	(543)
Operadora El Realito, S.A. de C.V.	(5)	(1)
HA Proyectos Especiales Hidráulicos S.R.L. de C.V.	(77)	(20)
Constructora de Infraestructuras de Aguas de Potosí, S.A. de C.V.	924	347
<b>Egypt</b>	<b>(6,427)</b>	<b>(938)</b>
Orasqualia Devel. Waste. T.P.	(5,433)	(606)
Orasqualia Construction S.A.E.	(413)	(351)
Orasqualia O&M	(581)	19
<b>Czech Republic</b>	<b>(5,604)</b>	<b>(5,599)</b>
Aqualia Czech, S.L.U.	2,303	2,303
SmVak	(8,014)	(8,011)
Aqualia Infraestructuras Inzenyring, s.r.o.	114	116
Ovod Spol, s.r.o.	(7)	(7)
<b>United States</b>	<b>(13)</b>	<b>(5)</b>
FCC Aqualia USA Corp.	(13)	(5)
<b>Colombia</b>	<b>2</b>	<b>(2)</b>
Sera. Q.A. Duitama E.S.P. S.A.	2	(2)
<b>Serbia</b>	<b>(5)</b>	<b>(2)</b>
Aisa D:O:O: Beograd-Vracar	(5)	(2)
<b>Abu Dhabi</b>	<b>294</b>	<b>371</b>
Aqualia MaceLLC	294	371
<b>Total translation differences</b>	<b>(18,304)</b>	<b>(11,882)</b>



The main variation in the year arose in Orasqualia Development due to the devaluation of the Egyptian pound in December 2016.

The main balances of net investments abroad grouped by geographical market and expressed in thousands of euros were as follows:

Expressed in thousands of euros	2016	2015
Mexico	3,459	1,040
Czech Republic	(124,231)	(124,170)
United States	630	274
Other	241	9
<b>TOTAL</b>	<b>(119,901)</b>	<b>(122,847)</b>

d) Consolidated profit attributable to the Parent by company

The consolidated profit attributable to the Parent was distributed by company as follows:

Expressed in thousands of euros	2016	2015
Abrantaqua, S.A.	167	79
Acque di Caltanissetta, S.p.A.	2,762	(638)
Aguas de Alcázar Empresa Mixta, S.A.	99	53
Aguas de Archidona, S.L.	7	(12)
Aguas de Denia, S.A.	1	2
Aguas de las Galeras, S.L.	250	640
Aguas de Narixa, S.A.	(26)	(7)
Aguas de Priego, S.L.	(104)	(18)
Aguas de Ubrique, S.A.	-	(1)
Aguas del Puerto Empresa Municipal, S.A.	(435)	(487)
AIE Aquagest Medioambiente, S.A. - Aqualia	(12)	(10)
AIE Costa Tropical de Granada	19	191
AIE ITAM Delta de la Tordera	5	8
Aigües de Blanes, S.A.	10	16
Aigües de Girona Salt i Sarrià del Ter	94	52
Aigües de Vallirana, S.A.U.	98	73
Aigües del Tomoví, S.A.	18	34
Aqua Campiña, S.A.	456	(82)
Aqua Management Solutions B.V.	(11)	(8)
Aquacartaya, S.L.	636	386
Aquaervas - Aguas de Elvas, S.A.	243	118
Aquafundalia – Agua do Fundão, S.A.	57	(23)
Aquajerez, S.L.	(1,763)	(1,528)
Aqualia Czech, S.L.	(94)	(2,665)
Aqualia México, S.A. de C.V.	792	2,698
Aqualia Infraestructuras Inzenyring, s.r.o.	460	277
Aqualia Infraestructuras Montenegro	(577)	369
Aqualia Infraestructuras Beograd-Vracar	(251)	379

<b>Expressed in thousands of euros</b>	<b>2016</b>	<b>2015</b>
Aqualia Infraestructuras Mostar	(37)	7
Aqualia Infraestructuras Pristina, LLC	(654)	475
Aqualia Intech, S.A.	3,505	6,410
Aqualia MACE LLC	3,260	2,322
Aqualia New Europe B.V.	(809)	(210)
Aquamaior – Aguas de Campo Maior, S.A.	134	(119)
Aquos El Realito, S.A. de C.V.	353	9
Augas Municipais de Arteixo, S.A.	-	-
Cartagua – Aguas do Cartaxo, S.A.	47	18
Colaboración, Gestión y Asistencia, S.A.	(1)	(1)
Compañía de Servicios Medioamb. do Atlántico, S.A.	49	48
Concesionaria de Desalación de Ibiza, S.A.	207	409
Conservación y Sistemas, S.A.	182	1,009
Constructora de Infraestructuras de Aguas de Potosí, S.A. de C.V.	(500)	(5,029)
Constructora de Infraestructuras de Aguas de Querétaro, S.A. de C.V.	(2,230)	(145)
Depurplan 11, S.A.	(497)	127
Depurtebo, S.A.	-	208
EMANAGUA - Empresa Municipal de Aguas de Níjar, S.A.	56	1
Empresa Gestora de Aguas Linenses, S.L.	62	92
Empresa Mixta Abastament en Alta Costa Brava, S.A.	50	52
Empresa Mixta d'Aigües de la Costa Brava, S.A.	72	76
Empresa Mixta de Aguas de Jódar, S.A.	16	(34)
Empresa Mixta de Aguas de Langreo, S.L.	17	29
Empresa Mixta de Aguas de Ubrique, S.A.	3	(21)
Empresa Mixta de Aguas y Servicios, S.A.	48	47
Empresa Municipal Aguas de Algeciras, S.A.	16	19
Empresa Municipal Aguas de Benalmádena, S.A.	272	626
Empresa Municipal Aguas de Toxiria, S.A.	3	(8)
Empresa Municipal de Aguas de Linares, S.A.	69	482
Entemanser, S.A.	2,273	1,585
FCC Aqualia América, S.A.U.	199	198
FCC Aqualia USA CORP.	(385)	(236)
FCC Aqualia, S.A.	32,850	35,220
FS Colaboración Gestión y Asistencia, S.A.	399	103
Gestión de Servicios Hidráulicos de Ciudad Real AIE	43	39
Girona, S.A.	114	166
HA Proyectos Especiales Hidraulicos S.R.L. de CV	987	(72)
Hidrotec Tecnología del Agua, S.L.U.	4,752	3,313
Infraestructuras y Distribución General de Agua, S.L.	(88)	(61)
Inversora Riutort, S.L.	(1)	-
Nueva Sociedad de Aguas de Ibiza, S.A.	20	16
Operadora El Realito S.A. de C.V.	25	28
Orasqualia Construction, S.A.E.	377	24
Orasqualia Devel. Waste Treatment Plant S.A.E.	856	1,310
Orasqualia Operation and Maintenance, S.A.E.	821	272
Ovod spol, s.r.o.	106	84
Proveïments d'Aigua, S.A.	67	72
Severomoravske Vodovody a Kanalizace Ostrava a.s.	5,828	6,462
Shariket Miyeh Ras Djinet	1,664	325
Shariket Tahlya Miyah Mostaganem	4,007	2,299
Sociedad Española de Aguas Filtradas, S.A.	59	479
Sociedad Ibérica del Agua, S.A.U.	85	10
Suministro de Aguas de Querétaro, S.A. de C.V.	54	66
Tratamiento Industrial de Aguas, S.A.	9,545	8,636
<b>TOTAL</b>	<b>71,251</b>	<b>67,133</b>



e) Non-controlling interests

Non-controlling interests in the accompanying consolidated balance sheet reflect the proportional part of the equity and results for the year after tax of the dependent companies in which non-controlling shareholders of the Group hold interests.

The detail of non-controlling interests at 31 December 2016 in relation to the main companies concerned is as follows:

Expressed in thousands of euros	Equity	Translation differences	Unpaid shares	Interest rate hedging transactions	Profit or loss	Total
<b>2016</b>						
Abrantaqua, S.A.	307	-	-	-	111	418
Aguas de Alcázar Empresa Mixta S.A.	855	-	-	-	90	945
Aqua Campiña, S.A.	(1,110)	-	-	-	51	(1,059)
Aquajerez	(3,578)	-	-	61	(1,694)	(5,211)
Aqualia Czech S.L.U.	40,561	2,950	-	-	(90)	43,421
Aqualia Infraestructuras Inzenyring	(5,548)	146	-	-	442	(4,960)
Aqualia Mace LLC	(140)	377	-	-	1,982	2,219
Aqualia New Europe B.V.	8,171	-	-	-	(777)	7,394
Acque di Caltanisseta, S.P.A.	56	-	-	-	43	99
Entemanser, S.A.	1,263	-	-	-	70	1,333
SmVak	(4,093)	4,432	(1,057)	-	5,752	5,034
Orasqualia Devel Waste T.P.S.A.E.	(900)	(5,088)	-	-	675	(5,313)
Aguas do Cartaxo, S.A.	755	-	-	-	32	787
Other	281	(222)	-	221	97	377
<b>TOTAL</b>	<b>36,880</b>	<b>2,595</b>	<b>(1,057)</b>	<b>282</b>	<b>6,784</b>	<b>45,484</b>

Expressed in thousands of euros	Equity	Translation differences	Unpaid shares	Interest rate hedging transactions	Profit or loss	TOTAL
<b>2015</b>						
Abrantaqua, S.A.	254	-	-	-	53	307
Aguas de Alcázar Empresa Mixta S.A.	754	-	-	-	48	802
Aqua Campiña, S.A.	(1,079)	-	-	-	(9)	(1,088)
Aquajerez	(1,676)	-	-	-	(1,468)	(3,144)
Aqualia Czech S.L.U.	43,011	2,950	-	-	(2,561)	43,400
Aqualia Infraestructuras Inzenyring	(4,758)	149	-	-	266	(4,343)
Aqualia New Europe B.V.	7,999	-	-	-	(201)	7,798
Acque di Caltanisseta, S.P.A.	66	-	-	-	(10)	56
Entemanser, S.A.	1,557	-	-	-	49	1,606
SmVak	(5,358)	4,437	-	-	6,378	5,457
Orasqualia Devel Waste T.P.S.A.E.	(1,197)	(11)	-	-	674	(534)
Aguas do Cartaxo, S.A.	744	-	-	-	12	756
Aqua Management Solutions B.V.	(84)	-	-	-	(17)	(101)
Other	371	-	-	-	124	495
<b>TOTAL</b>	<b>40,604</b>	<b>7,525</b>			<b>3,338</b>	<b>51,467</b>



The main changes in 2016 arose from the payment of dividends to non-controlling shareholders of Aqualia Czech, S.A. and Severomoravske Vodovody a Kanalizace Ostrava A.S., and due to the negative change in translation differences caused basically by the devaluation of the Egyptian pound.

#### 14. NON-CURRENT AND CURRENT FINANCIAL LIABILITIES

In 2014, Fomento de Construcciones y Contratas, S.A. and a group of companies including FCC Aqualia entered into a refinancing agreement with the Group's principal financial creditors, which largely replaced financial debt with intragroup debt.

##### a) Non-current and current bank borrowings

Non-current and current bank borrowings at 31 December 2016 and 2015 were as follows (in thousands of euros):

2016	NON-CURRENT	CURRENT	TOTAL
Overdraft facilities and loans	46,974	5,679	52,653
	<b>46,974</b>	<b>5,679</b>	<b>52,653</b>

2015	NON-CURRENT	CURRENT	TOTAL
Overdraft facilities and loans	10,439	3,084	13,523
Limited recourse project finance debts	6,400	550	6,950
	<b>16,839</b>	<b>3,634</b>	<b>20,473</b>

The above borrowings are measured at amortized cost and there were no significant changes in fair value.

Changes in "Non-current and current bank borrowings" in 2016 resulted mainly from the refinancing of Aquajerez, S.L. discussed below.

At 31 December 2016, the limit on overdraft facilities and loans granted to the FCC Aqualia Group outside the scope of the Refinancing Agreement was EUR 56,314 thousand (EUR 25,092 thousand at 31 December 2015), of which a total of EUR 3,660 thousand remain available for utilization (EUR 4,619 thousand at 31 December 2015).



The average interest rate on bank borrowings in 2015 was the result basically of Euribor and Pribor conditions in interbank markets. In 2016, the main reference rate was Euribor following the cancellation of the debt owed by Severomoravske Vodovody a Kanalizace Ostrava A.S.

The following chart details non-current and current bank borrowings (overdraft facilities and loans) by currency as drawn down at 31 December 2016 and 2015:

2016

Expressed in thousands of euros	EUROS	TOTAL
Overdraft facilities and loans	52,653	52,653
<b>TOTAL</b>	<b>52,653</b>	<b>52,653</b>

2015

Expressed in thousands of euros	EUROS	TOTAL
Overdraft facilities and loans	13,523	13,523
Limited recourse project finance debts	6,950	6,950
<b>TOTAL</b>	<b>20,473</b>	<b>20,473</b>

In 2006 the Parent arranged a loan of EUR 4,800 million Czech crowns with a syndicate of banks with HVB Bank Czech Republic a.s. as the lead arranger. The proceeds of the loan were utilized to acquire 98.67% of the shares of Severomoravske Vodovody a Kanalizace Ostrava a.s. and it has since been refinanced several times resulting, inter alia, in an undertaking on the part of FCC Aqualia's principal shareholder to grant the Parent a participating loan of EUR 149,250 thousand, classified as equity for the purposes of the Facility Agreement. The balance on the loan at 31 December 2016 was EUR 149,250 thousand (EUR 149,250 thousand at 31 December 2015), and it remains outstanding and payable by the Parent despite the cancellation of the financing granted to Severomoravske Vodovody a Kanalizace Ostrava A.S., as explained below.

The rate of interest on the participating loan is made up of a fixed and a floating component. The fixed rate is Euribor and the second is calculated based on the evolution of the return on equity generated by





the Parent benchmarked against the average return on equity in the industry in which FCC Aqualia operates. The interest rate applied in 2016 was 6.70% (7% in 2015). The loan had an indefinite term but the lender could at any time demand total or partial repayment by the borrower subject to a minimum of one month's prior notice. On 22 December 2016 Fomento de Construcciones y Contratas, S.A has informed the Parent of its intention to declare this loan mature on 31 January 2017. Notwithstanding the foregoing, and in the same notice, Fomento de Construcciones y Contratas, S.A. and FCC Aqualia, S.A have agreed to refinance this repayment by means of including the outstanding amount of the participating loan to the ordinary loan that matures at the end of June 2018 explained under Note 14.c.1. Due to this the actual liability is maintained under non-current liabilities in the Consolidated Balance Sheet of the Group as of 31 December 2016 attached.

The loan of 4,800 Czech crowns arranged in 2006 was refinanced in prior years and matured in December 2015, when it was repaid in full. The current financing of this project is described in Note 14.b) below.

Other bank borrowings totalled EUR 523,654 thousand at 31 December 2016 and are subject to the following key terms and conditions:

Company	Balance 2016	Balance 2015	Start date	Maturity date	Interest Rate
<b>Overdraft facilities and loans</b>					
AIE Costa Tropical de Granada	4,725	5,312	3.01.2014	3.01.2026	EURIBOR 12M + 1.9%
Abrantaqua, S.A. (loan)	1,000	2,000	10.05.2010	9.05.2017	EURIBOR 6M + 5.75 %
Abrantaqua, S.A. (overdraft facility)	850	400	15.05.2013	12.02.2017	EURIBOR 6M + 6%
Aquafundalia – Agua do Fundão, S.A.	1,156	1,500	17.01.2014	17.01.2020	EURIBOR 3M + 4.800%
Aquajerez, S.L. (Note 14.c.2)	39,212	-	21.07.2016	15.07.2031	EURIBOR 12M+ 2%
Aquamaior – Aguas de Campo Maior, S.A.	1,863	1,913	28.08.2014	28.05.2021	EURIBOR 6M + 4.000%
Entemanser, S.A.	2,758	1,647	20.05.2014	26.06.2018	3.66%
Empresa Mixta d'Aigües de la Costa Brava	622	572	20.05.2014	26.06.2018	3.66%
Interest	467	179			
<b>Overdraft facilities and loans</b>	<b>52,653</b>	<b>13,523</b>			
<b>Limited recourse project finance debts</b>					
Depurplan 11, S.A.	-	6,950			
<b>Total limited recourse project finance debts</b>	<b>-</b>	<b>6,950</b>			
<b>Total</b>	<b>52,653</b>	<b>20,473</b>			

In 2016, the Group cancelled the Depurplán project financing and interest rate derivative in advance.

In 2015, the FCC Group cancelled the overdraft facility granted to Aquacartaya, S.L. in advance and reclassified the balance on facilities granted to Aguas de las Galeras, S.L. to "Other financial liabilities" in order to improve the presentation of liabilities based on the nature of the creditor.

#### b) Debt instruments and other marketable securities



The liability in respect of debt instruments and other marketable securities relates in its entirety to Severomoravske Vodovody a Kanalizace Ostrava a.s.

The issue of non-convertible notes arranged in November 2005 for a total of 2,000 million Czech crowns (EUR 72,573 thousand included under “Non-current financial liabilities” at 31 December 2014) matured in November 2015. The notes were listed on the Prague Stock Exchange (Czech Republic) and bore interest at a fixed annual rate of 5%.

Severomoravske Vodovody a Kanalizace Ostrava a.s. then proceeded in July 2015 to arrange a new issue of non-convertible notes for a total 5,300 million Czech crowns maturing in 2022 and bearing interest at a fixed annual rate of 2.625%. These notes are listed on the Prague Stock Exchange (Czech Republic) and are classified as non-current financial liabilities in the consolidated balance sheet for a total of EUR 197,432 thousand (EUR 197,027 thousand at 31 December 2015) and current financial liabilities for a total of EUR 2,390 thousand in respect of accrued interest payable at both 31 December 2016 and 2015.

The Bloomberg quotation for the notes was 101.49% at 31 December 2016 (96.20% at 31 December 2015).

### c) Other non-current financial liabilities

Other non-current financial liabilities carried in the accompanying consolidated balance sheet comprise:

Expressed in thousands of euros	2016	2015
FCC, S.A. participating loan (Note 14.a)	149,250	149,250
FCC, S.A. loan (Note 14.c.1)	236,529	234,446
Guarantee deposits received	32,075	27,992
Non-current limited resource project finance loans, third parties (Note 14.c.2)	-	42,577
Non-current accounts payable to suppliers of fixed assets	554	1,034
Non-current obligations under finance leases	35	76
Other (Note 14.c.3)	33,813	34,481
<b>TOTAL</b>	<b>452,256</b>	<b>489,856</b>

c.1) Non-current debts with Fomento de Construcciones y Contratas, S.A. at 31 December 2016 and 2015 were as follows:

	(thousands of euros)	
	31.12.2016	31.12.2015
Participation in FCC Group refinancing arrangement	232,029	229,946
Participating loan	149,250	149,250
Financing for the construction of the Llanera sports facility	4,500	4,500
<b>TOTAL</b>	<b>385,779</b>	<b>383,696</b>



In 2012, the FCC Aqualia Group obtained a loan of EUR 4,500 thousand from its parent, maturing in 2026 and bearing interest at a rate of 8.6%. The balance on this loan was unchanged at 31 December 2016 and 2015.

Under the terms of the Master Restructuring Agreement and Facility Agreement entered into by a group of companies led by FCC, S.A., which included the Parent and other FCC Aqualia Group companies, with practically all of the FCC Group's financial creditors, FCC agreed on 26 June 2014 to make a loan to the aforementioned FCC Aqualia Group companies.

Under this agreement, the loan was materialized by means of the express, irrevocable and unconditional assumption by FCC, in the capacity of debtor, cumulatively, jointly and severally with the companies formerly financed of liabilities maintained by the FCC Aqualia Group companies totalling EUR 232,029 thousand at 31 December 2016 (EUR 229,946 thousand at 31 December 2015).

The maturity of these loan agreements was fixed to coincide with final maturity of the FCC, S.A. Facility Agreement in June 2018. Accordingly, these companies have classified this loan as "Non-current financial debt".

The interest rate applied in 2016 was 4.38% and 4.55% in 2015.

c.2) In 2014, the FCC Aqualia Group obtained a loan bearing interest at an annual rate of 9% and maturing in 2019 from the investment fund TCI ("The Children's Investment Fund") to finance payment of the royalty on a concession arrangement. A total of EUR 34,477 thousand had been drawn down on this loan at 31 December 2015 which was recognized under "Non-current limited recourse project finance loans, third parties" together with other debt of the same nature arranged for a total of EUR 8,100 thousand by the Group company Aguas de las Galeras, S.L. (Note 14.a).

In 2016, the Group cancelled both loans in advance and arranged a loan of EUR 39,212 thousand with Caixabank (Note 14.a) to substitute the project financing required by Aquajerez, S.L.

c.3) In 2013, the FCC Aqualia Group incorporated Aquajerez, S.L. to manage a contract in Jerez de la Frontera (Cadiz). The non-controlling shareholder of this company granted financing for a total of EUR 29,069 thousand in the form of a participating loan remunerated by fixed interest of 3% and floating rate interest based on the free cash flows generated. The aggregate interest represented by the sum of both items is capped at an annual rate of 10%. The balance on this loan was recognized under the heading "Other" for a total of EUR 27,505 thousand at 31 December 2016 (EUR 28,760 thousand at 31 December 2015).

**d) Other current financial assets**



Details are as follows:

<b>Expressed in thousands of euros</b>	<b>2016</b>	<b>2015</b>
Income tax payable to FCC Group companies	16,565	20,438
Other current financial debts with FCC Group companies	10,162	37,755
Current trade bills payable	203	400
Current payables to suppliers of fixed assets	5,362	4,489
Guarantee deposits received	2,101	1,839
Current financial debts, third parties	7,821	6,756
Current obligations under finance leases	41	39
<b>TOTAL</b>	<b>42,255</b>	<b>71,716</b>

Current financial liabilities with FCC Group companies bear interest at market rates except for the financial debt arising for certain FCC Aqualia Group companies from their membership of the FCC Tax Group.

“Other current financial debts with FCC Group companies” basically comprise balances generated by the Group companies with FCC, S.A. under the cash pooling system arranged by the latter, which results in periodic cash sweeps by FCC.

#### e) Maturity of bank borrowings and other non-current financial liabilities

The schedule of expected maturities at 31 December 2016 and 2015 was as follows:

#### 2016

<b>Expressed in thousands of euros</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022 and thereafter</b>	<b>TOTAL</b>
Debt instruments and other marketable securities	-	-	-	-	197,432	197,432
Non-current bank borrowings	5,698	3,085	2,966	4,232	30,993	46,974
Other non-current financial liabilities	387,818	2,010	2,010	2,212	58,206	452,256
<b>TOTAL</b>	<b>393,516</b>	<b>5,095</b>	<b>4,976</b>	<b>6,444</b>	<b>286,631</b>	<b>696,662</b>

## 2015

Expressed in thousands of euros	2017	2018	2019	2020	2021 and thereafter	TOTAL
Debt instruments and other marketable securities	-	-	-	-	197,027	197,027
Non-current bank borrowings	2,562	3,376	1,826	3,920	5,155	16,839
Other non-current financial liabilities	7,642	374,404	35,910	3,982	67,918	489,856
<b>TOTAL</b>	<b>10,204</b>	<b>377,780</b>	<b>37,736</b>	<b>7,902</b>	<b>270,100</b>	<b>703,722</b>

### f) Other disclosures

The financial liabilities contracted by the Group are subject to certain financial covenants. No cases of non-compliance with financial covenants existed at 31 December 2016 such as might adversely affect the main facilities arranged by the Group. No defaults are expected in 2017. The facilities concerned include the loan arranged with Caixabank (Note 14.c.2) to finance Aquajerez, the terms of which provide for a collateral pledge of the Parent's investment in the company and pledges on financial claims arising with third parties and in bank accounts.

## 15. CURRENT AND NON-CURRENT PROVISIONS

The details of provisions at 31 December 2016 and 2015 are as follows (in thousands of euros):

	2016	2015
<b>Non-current</b>		
Obligations for long-term staff benefits	1,802	1,671
Litigation	2,758	1,516
Guarantees and legal or contractual obligations	4,038	5,351
Activities that enhance or increase concession capacity	61,882	57,863
Other risks and expenses	45,038	42,251
<b>TOTAL NON-CURRENT PROVISIONS</b>	<b>115,518</b>	<b>108,652</b>
<b>Current</b>		
Settlement and losses on projects	13,788	12,901
Termination benefits for project employees	931	69
Other provisions	1,589	1,291
<b>TOTAL CURRENT PROVISION</b>	<b>16,308</b>	<b>14,261</b>



The details in 2016 and 2015 in the different provisions are as follows:

	(in thousands of euros)	Non-current provisions	Current provisions
<b>Balance as at 31.12.14</b>		<b>100,556</b>	<b>22,075</b>
Allocations		15,824	8,040
Transfers		10,229	(10,229)
Reversals		(3,331)	(4,225)
Outflows		(14,672)	(1,395)
Translation differences		46	(5)
<b>Balance as at 31/12/2015</b>		<b>108,652</b>	<b>14,261</b>
Allocations		18,599	5,145
Reversals		(3,874)	(1,419)
Outgoings		(14,877)	(2,376)
Translation differences		227	(22)
Perimeter variation		6,791	719
<b>Balance as at 31/12/2016</b>		<b>115,518</b>	<b>16,308</b>

Transfers in 2015 included the Group's reconsideration regarding the expiry of certain contractual commitments which it will have to address in the foreseeable future.

In 2016 net transfers totalling EUR 23,744,000 were recorded, the most significant of which corresponded to an action brought against the Group by Arteixo District Council (La Coruña) claiming EUR 8,400,000, pending the court's judgment as at 31 December 2016. The Group has provided for this under the counterpart item "Other current trading expenses" on the enclosed profit and loss account. Also under this heading with a counterpart under "Other risk and expenditure provisions", the Group has transferred EUR 1,700,000 for the guarantee executed by the client regarding a contract in South America.

With regard to the litigation with Arteixo District Council, a suit has been lodged by the council against the FCC Aqualia Group for EUR 29,390,000. Until 30 June 2013, when the general meeting of shareholders that decided to wind up the company "Augas municipais de Arteixo, S.A." was held, FCC Aqualia and the council were shareholders in that company in order to manage the integrated water cycle in the district, with FCC holding a 51% stake and the council the remainder. In order to file an appeal against this claim, the Group has lodged a bank guarantee of EUR 14,000,000.

The investment commitments made by the Group during the year also included those in Almansa (Albacete) for EUR 3,443,000, and the Campo de Gibraltar Districts Association, for EUR 2,492,000.

In fiscal year 2015, net provisions amounted to EUR 23,864,000, the most important being the provision made for FCC Aqualia's liability in the delivery of assets pertaining to a contract at the end of the same amounting to EUR 1,400,000, pending court decision as at 31 December 2016, and those corresponding to



investment commitments signed by the Parent Company in the renewal of the contracts of Cangas de Morrazo amounting to EUR 2,464,000, Fundao amounting to EUR 2,336,000 and Candelaria amounting to EUR 1,500,000, among others.

The application of provisions in 2016 stood at a EUR 17,253,000 and includes the payment of EUR 4,898,000 made to a local authority as an additional royalty and the development of the investment undertakings made in the year, mostly in the companies Aquafundalia (EUR 459,000), Aqualvas (EUR 442,000), Aquajerez (EUR 353,000) and water services in Vigo (EUR 1,028,000) and Talavera de la Reina, Toledo (EUR 549,000).

In turn, provisions applied in 2015 for a total of EUR 16,067,000 include the investment commitments implemented in 2015 in Vigo for a total of EUR 3,633,000, Abrantes for EUR 1,250,000, Cartaya for EUR 1,078,000, Barbate for EUR 863,000, Lleida for EUR 669,000, Lepe for EUR 530,000 and San Juan del Puerto for EUR 426,000, to name a few.

The expected payment schedule at 31 December 2016 and 2015 deriving from obligations covered with non- current provisions is as follows:

<b>2016</b> (thousands of euros)	<b>UP TO 5 YEARS</b>	<b>MORE THAN 5 YEARS</b>	<b>BALANCE AS AT 31/12/2016</b>
Obligations for long-term staff benefits	144	1,658	1,802
Litigation	2,739	19	2,758
Guarantees and legal or contractual obligations	4,038	-	4,038
Activities that enhance or increase concession capacity	37,279	24,603	61,882
Other provisions for risks and expenses	44,533	505	45,038
<b>TOTAL</b>	<b>88,733</b>	<b>26,785</b>	<b>115,518</b>
<b>2015</b> (thousands of euros)	<b>UP TO 5 YEARS</b>	<b>MORE THAN 5 YEARS</b>	<b>BALANCE AS AT 31/12/2015</b>
Obligations for long-term staff benefits	107	1,564	1,671
Litigation	1,497	19	1,516
Guarantees and legal or contractual obligations	5,345	6	5,351
Activities that enhance or increase concession capacity	11,448	46,415	57,863
Other provisions for risks and expenses	41,766	485	42,251
<b>TOTAL</b>	<b>60.163</b>	<b>48.489</b>	<b>108,652</b>

#### Obligations for long-term staff benefits



This item of non-current provisions contains provisions that cover pension and similar commitments, such as medical and life insurance, by Group companies.

#### Litigation

These cover the risks of companies in FCC Aqualia Group that are involved in lawsuits as defendants in certain proceedings for liability arising from the activities they engage in.

The main lawsuits affecting FCC Aqualia Group have been described under Note 15 and under caption “Guarantees and legal or contractual obligations” in this same Note. No further liabilities have been recorded to the ones stated on 31 December 2016, arising from these lawsuits.

#### Guarantees and legal or contractual obligations

This item contains provisions to cover expenses for obligations that arise from contractual and legal obligations that are not of an environmental nature, such as the dismantling of facilities upon completion of certain contracts and expenses earmarked to guarantee service quality.

With regard to contractual or legal guarantees, the Group's directors report the following law suits pending resolution to date:

- One of the shareholders of SmVak, who holds a package of 12 shares equivalent to 0.0003 per cent of the company's capital, filed a court claim in 2016 proposing the annulment on the grounds of procedural anomalies of the decision taken at the general meeting of shareholders of SmVak to reduce the share capital from CZK 3,458,425,000 (approximately equivalent to EUR 128,000,000) to CZK 1,296,909,375,000 (approximately equivalent to EUR 48,000,000). Although the court has accepted this claim, the Group, based on the opinion of its legal advisors, estimates that the procedural anomalies can quickly be remedied without having any significant impact on the consolidated accounts.
- Italian prosecutors have charged Acque di Caltanissetta, in which FCC holds a 98% participating interest, with a breach of environmental regulations regarding the dumping of wastewater, after the company was awarded the contract for the integrated water cycle in Caltanissetta (Sicily).

The Group expects the investigation to be concluded without any significant consequences beyond the sums already provided for in these annual accounts.

#### Activities that enhance or increase concession capacity

These are allocated when the Group is required to perform activities that improve the infrastructure when such activities do not give rise to increased revenue from the concession in exchange. They have a balancing entry in “Intangible assets under concession arrangements”.





Other risks and expenses

This item contains likely risks that are not included in the previous sections.



## 16. OTHER PAYABLES

The details of the "Other payables" balance at 31 December 2016 and 2015 are as follows (in thousands of euros):

	2016	2015
Government - Tax payables for VAT (Note 17)	-	7,179
Government - Payable to Social Security Authorities (Note 17)	10,235	4,971
Government - Payable for withholdings (Note 17)	2,987	5,061
Government - Payable for other items (Note 17)	62,211	55,376
Remuneration payable	4,626	4,159
Customer advances	59,805	25,115
Other non-commercial debts and payables	132,509	136,211
Current tax liabilities	-	3,637
<b>TOTAL OTHER PAYABLES BALANCE</b>	<b>272,373</b>	<b>241,709</b>

“Government - Payable for other items” contains the amounts collected by FCC Aqualia Group companies from their customers on behalf of government authorities for fees, currently pending payment (Note 17).

“Other non-commercial debts and payables” contains outstanding balances payable by the Group for services provided.

## 17. TAX MATTERS

This note describes the sections in the attached consolidated statement of financial position and consolidated income statement that are related to the tax obligations of each of the companies pertaining to the Group, such as deferred tax assets and liabilities, tax payables and receivables and income tax expense.

FCC Aqualia, S.A. and the subsidiaries that meet the requirements set in Spanish taxation regulations are included in record 18/89, under which the FCC Group files incomes taxes under the consolidated taxation system, with Fomento de Construcciones y Contratas, S.A. acting as the parent of the group.

FCC Aqualia, S.A. and the subsidiaries that are part of the FCC Aqualia Group, as well as the temporary joint ventures therein, have all the periods that have not been statute-barred available for tax inspections on all the applicable taxes. In this respect, at 31 December 2016, the Parent Company is subject to a tax audit from 2010 to 2013 for Corporations Tax and from 2012 to 2013 for the value added tax. Regarding the periods that have been inspected in Group companies, in certain cases, the aforementioned tax authorities have applied different criteria, leading to claims proceedings, in relation to which the corresponding Group companies have filed for appeal.



The criteria that the tax authorities may adopt in relation to the periods open to inspection could result in contingent tax liabilities not subject to objective quantification. The Directors of the Parent Company estimate that any liabilities that could arise, in relation to both the periods open for inspection and the claims filed, would not significantly affect the Group's equity. In this sense, in these financial statements no amount is recorded as provisions for the tax assessments currently under way for these inspections, since the Directors believe that if different criteria exist for interpreting the tax and accounting regulations, they will not lead to significant liabilities arising for the Group.

No significant amounts have been recognised in equity for taxes in 2016 and 2015.

a) Deferred tax assets and liabilities

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>(in thousands of euros)</i>		
	<b>31/12/2016</b>	<b>31/12/2015</b>
Provisions	11,225	17,935
Pension plans	-	513
Amortisation	6,446	5,799
TJVs profits recognised in following year and adjustments thereto	3,692	3,667
Intra-group asset purchase and sale transactions	4,442	4,213
Translation differences	8,490	6,128
- Non-deductible finance costs	3,495	1,950
Due to cancellation of the financial activation of the concession agreement in IFRS	3,730	3,798
Other differences	4,177	5,020
<b>TOTAL</b>	<b>45,697</b>	<b>49,023</b>

The main variation noted in 2016 was due to the cancellation of deferred-tax assets corresponding to portfolio impairment accounted for since 31 December 2013, which the group, applying Spanish Royal Legislative Decree 3/2016, has had to cancel during the year.

<b>DEFERRED TAX LIABILITIES</b>		
<i>(in thousands of euros)</i>		
	<b>31/12/2016</b>	<b>31/12/2015</b>
TJV profits recognised in following year and adjustments thereto	4,966	4,145
Finance leases	8	10
Free depreciation	20,082	20,130
Translation differences	7,086	5,526
Assignment of goodwill	14,229	15,734
By application of RLD 3/2016 deferring portfolio impairment deducted	2,737	-
Other adjustments	1,504	6,152
<b>TOTAL</b>	<b>50,612</b>	<b>51,697</b>

The scheduled due dates for deferred taxes are shown below:

<b>Amounts in thousands of euros</b>							
	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022 AND THEREAFTER</b>	<b>TOTAL</b>
Deferred tax assets	2,284	1,456	993	988	969	39,007	<b>45,697</b>
Deferred tax liabilities	25,233	1,556	1,553	1,551	1,550	19,169	<b>50,612</b>

#### b) Government

The detail of current assets and liabilities held with Government at 31 December 2016 and 2015 is as follows:

##### Current assets

	<b>2016</b>	<b>2015</b>
Tax receivables for grants awarded (Note 11)	19,062	20,892
	<b>19,062</b>	<b>20,892</b>

##### Current liabilities

	<b>2016</b>	<b>2015</b>
Personal income tax and corporate income tax (income from work and income from personal property) withholdings (Note 16)	2,987	5,061
Value Added Tax (Note 16)	-	7,179
Payable to Social Security Authorities (Note 16)	10,235	4,971
Other Government liabilities (Note 16)	62,211	55,376
	<b>75,433</b>	<b>72,587</b>

The “Other Government liabilities” item contains outstanding taxes and fees in which the Group handles collection on behalf of the government authority for the services provided to customers.



c) Income tax expense

The income tax expense accrued during the period comes to EUR 26,428,000, as stated in the attached consolidated income statement (EUR 28,253,000 in 2015). The reconciliation between the accounting profit and the taxable profit is shown below (amounts in 000s of euros):

**2016**

<b>Consolidated pre-tax accounting profit for the year</b>	<b>Increases</b>	<b>Decreases</b>	<b>104,463</b>
Permanent differences, Consolidation adjustments and eliminations	17,994	-	17,994
Offsetting of previous years' losses			(271)
<b>Adjusted consolidated accounting profit</b>			<b>122,186</b>
Temporary differences:			
- Provisions	1,103	(26,840)	(25,737)
- Repayments	257	(2,701)	(2,444)
- TJV profits transferred to following year	23,844	(20,503)	3,341
- Other adjustments	5,988	(1,037)	4,951
- Translation differences and Fair value assets	-	-	-
- Adjustment for tax advances on intra-group profits	2,390	(965)	1,425
<b>Consolidated taxable profit (fiscal income)</b>			<b>103,722</b>
<b>Adjusted consolidated accounting profit</b>	<b>122,286</b>		
Income tax rate	30,547		
Deductions and credits	(185)		
Other adjustments	(3,934)		
<b>Corporate Income Tax accrued</b>	<b>26,428</b>		

At 31 December 2016, a net decrease of EUR 8,761,000 in Consolidation adjustments and eliminations corresponds mainly to equity method consolidated companies.



2015

<b>Consolidated pre-tax accounting profit for the year</b>			
	<b>Increases</b>	<b>Decreases</b>	<b>98,724</b>
Consolidation adjustments and eliminations	5,828	(9,143)	(3,315)
Permanent differences	5,076	(513)	4,563
Offsetting of previous years' losses			(286)
<b>Adjusted consolidated accounting profit</b>			<b>99,686</b>
Temporary differences:			
- Provisions	12,672	(10,148)	2,524
- Repayments	302	(3,506)	(3,204)
- TJV profits transferred to following year	15,460	(15,873)	(413)
- Other adjustments	5,645	(783)	4,862
- Translation differences and Fair value assets	6,563	-	6,563
- Adjustment for tax advances on intra-group profits	2,440	(890)	1,550
<b>Consolidated taxable profit (fiscal income)</b>			<b>111,568</b>
<b>Adjusted consolidated accounting profit</b>	<b>99,686</b>		
Income tax rate	26,775		
Deductions and credits	(66)		
Other adjustments	1,544		
<b>Corporate Income Tax accrued</b>	<b>28,253</b>		

At 31 December 2015, a net decrease of EUR 3,315 thousand in Consolidation adjustments and eliminations corresponds mainly to equity method consolidated companies.

Deductions and credits are related to environmental protection, foreign investments, R&D and reinvestment of profits from the sale of assets.

Companies with offices in Spain and belonging to the tax group of Fomento Construcciones y Contratas (group number 18/89) have a tax debt with the parent of the said Group amounting to EUR 16,565,000 at 31 December 2016 (EUR 20,438,000 at 31 December 2015).



## 18. GRANTS

The details of this section for each year are as follows (in thousands of euros):

	2016	2015
<b>Balance at 1 January</b>	<b>42,114</b>	<b>30,061</b>
Additional amounts recognised during the year	4,785	15,144
Outflows	(181)	(59)
Grants for tangible and intangible assets taken to profit/loss	(3,593)	(3,032)
<b>Balance at 31 December</b>	<b>43,125</b>	<b>42,114</b>

FCC Aqualia Group has recognised EUR 4,785,000 in 2016 (EUR 15,144,000 in 2015), the most important item being the amounts in Italy, totalling EUR 3,653,000. In 2015, the most important were those also obtained in Italy amounting to EUR 14,371,000.

In turn, the Group recognised EUR 6,584,000 (EUR 10,353,000 in 2015) in the consolidated income statement for operating grants (Note 20), grants awarded by the city councils of towns in which the Group provides end-to-end water management services and in recognition of concession operators with operating deficits in said concessions, as set forth in the respective specifications and contracts.

The outstanding amounts receivable at 31 December 2016 and 2015 for this item as indicated in Notes 11 and 17.

## 19. GUARANTEES WITH THIRD PARTIES AND OTHER CONTINGENT LIABILITIES

At 31 December 2016, FCC Aqualia, along with other companies in the FCC Group, is listed as the guarantor in syndicated loans signed by the Parent Company, Fomento de Construcciones y Contratas, S.A., for a total of EUR 3,237,357,000 (EUR 3,701,675,000 at 31 December 2015).

At 31 December 2016, the Group has provided guarantees to third parties, mainly public entities and private customers, to secure the performance of construction and contracting work, for a total of EUR 364,821,000 (EUR 221,985,000 at 31 December 2015). This increase is due to new contracts won in 2016 in Colombia and Egypt.

FCC Aqualia, S.A. and subsidiaries in the Group are involved in lawsuits as defendants in certain proceedings for liability arising from the different activities in which they engage, in the performance of the contracts awarded and provisions have been allocated in relation thereto (see Note 15). It is estimated that the liabilities that could arise therefrom, taking into account the existing provisions, would not significantly affect the Group's equity.



As indicated in Note 8, participation by Group companies in joint arrangements managed under temporary joint operations, equity accounts, economic interest groupings and other entities with similar legal status entail that the participants share the joint and several liability for the activities conducted.

The Directors of the Parent Company estimate that no significant liabilities will arise as a result of these joint and several guarantees.

## **20. INCOME AND EXPENSES**

### Profit from operations

The Group companies state their profit from operations in the “Net Revenue” section, except for operating grants, which are recognised as “Other profit from operations” in the consolidated income statement.

Revenue comprises two main 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 the relevant public entity in each case.
- Sales of works and services. This is the amount corresponding to construction work and activities that the Group 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 of work 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 consolidated statement of financial position, for both water and work, is stated as “Production executed and pending certification” under "Customer receivables – sales and service provision" (Note 11).

Revenue is broken down per type of business activity as shown in the following table:





<b>REVENUES PER BUSINESS ACTIVITY</b>		
<i>(in thousands of euros)</i>		
	<b>31.12.2016</b>	<b>31.12.2015</b>
Water supply	551,512	529,860
Sanitation	150,294	141,825
Water treatment	112,505	103,192
Water works	131,786	176,660
Desalination	12,492	11,673
Other income	32,653	32,486
<b>TOTAL</b>	<b>991,242</b>	<b>995,696</b>

The Group does not issue analytical P&L and Balance Sheet statements by activity taking into account that its main activity is the end-to-end water management and is, as a whole, considered as the only activity in all the captions of its financial statements. Exception made with the revenues as shown in the previous chart.

Revenue is broken down per type of business activity as shown in the following table:

<b>GEOGRAPHICAL LOCATION</b>		
<i>(in thousands of euros)</i>	<b>31.12.2016</b>	<b>31.12.2015</b>
<b>Spain</b>		
Andalusia	232,074	232,521
Aragon	8,495	8,701
Asturias	32,089	38,342
Balearic Islands	36,345	32,081
Canary Islands	57,652	62,823
Cantabria	21,773	22,450
Castile-La Mancha	58,763	57,911
Castile and Leon	44,115	43,205
Catalonia	62,870	63,582
Valencia Region	34,989	34,055
Extremadura	38,741	37,960
Galicia	57,595	49,444
Rioja	4,562	4,567
Madrid	19,874	17,059
Murcia Region	31,241	30,260
Navarre	1,788	1,774
Basque Region	3,214	5,221
<b>International</b>		
Saudi Arabia	36,072	21,929
Algeria	10,156	12,307
Bosnia	1	116
Chile	5,812	14,549
Colombia	1,521	-
Ecuador	333	-
Egypt	3,085	234
United Arab Emirates	8,167	435



<b>GEOGRAPHICAL LOCATION</b>		
(in thousands of euros)	<b>31.12.2016</b>	<b>31.12.2015</b>
India	421	-
Italy	41,086	48,567
Mexico	14,830	42,784
Montenegro	2,241	1,898
Poland	-	1,531
Portugal	13,292	14,201
Czech Republic	89,453	85,985
Romania	-	4
Serbia	1,465	2,576
Tunisia	7,781	1,971
Uruguay	9,346	4,653
<b>TOTAL</b>	<b>991,242</b>	<b>995,696</b>

The details of “Other profit from operations” are as follows:

<b>Amounts in thousands of euros</b>	<b>2016</b>	<b>2015</b>
Income from operating grants (Note 18)	6,584	10,353
Income from diverse services	8,355	6,395
Surplus provisions for risks and expenses	9,006	3,302
	<b>23,945</b>	<b>20,050</b>

### Purchases

The details of the Purchases balance are as follows:

<b>Amounts in thousands of euros</b>	<b>2016</b>	<b>2015</b>
Work performed by subcontractors and other companies	122,390	144,842
Materials and services purchased	247,501	247,642
	<b>369,891</b>	<b>392,484</b>

### Employee benefits expense

The details of employee benefits expenses are shown below:

<b>(in thousands of euros)</b>	<b>2016</b>	<b>2015</b>
Wages and salaries	190,791	182,676
Accrued social security taxes	55,351	53,502
Other employee benefits expenses	2,797	2,924
	<b>248,939</b>	<b>239,102</b>

The average number of employees in the Group, broken down by job category, is as follows:



CATEGORIES	AVERAGE NO. OF EMPLOYEES	
	2016	2015
Management and advanced degree holders	291	201
Technicians and intermediate degree holders	779	771
Administrative and similar staff	1,115	713
Other staff on payroll	5,422	5,644
<b>TOTAL</b>	<b>7,607</b>	<b>7,329</b>

At year-end 2016, the Group employs 7,752 workers (7,463 workers at year-end 2015), broken down by job category and gender as follows:

	No. of employees		Male		Female	
	2016	2015	2016	2015	2016	2015
Management and advanced degree holders	320	292	258	242	62	50
Technicians and intermediate degree holders	833	771	585	546	248	225
Administrative and similar staff	1,198	1,145	480	454	718	691
Other staff on payroll	5,401	5,255	4,780	4,641	621	614
	<b>7,752</b>	<b>7,463</b>	<b>6,103</b>	<b>5,883</b>	<b>1,649</b>	<b>1,580</b>

As of 31 December 2016, the Group has 101 disabled persons employed. This disability being 33% or higher.

#### Other operating expenses

The details of other operating expenses are shown below:

Amounts in thousands of euros	2016	2015
Outsourced services	148,213	145,975
Taxes	24,530	23,768
Losses, impairment and changes in trade provisions	5,936	1,798
Other current operating expense	11,122	17,166
	<b>189,801</b>	<b>188,707</b>

#### Finance income and costs

The detail of finance income is as follows:

Amounts in thousands of euros	2016	2015
Interest earned on loans to third parties	7,412	8,022
Other finance income	767	833
<b>TOTAL</b>	<b>8,179</b>	<b>8,855</b>



The reduction in interest on loans to third parties relates basically to the lower profitability in the short-term loans to FCC Group companies (Note 9.b)

The details of finance costs are as follows:

Amounts in thousands of euros	2016	2015
Interest paid on loans to FCC Group companies	20,781	20,091
Interest paid on borrowings with third parties	22,649	29,310
<b>TOTAL</b>	<b>43,430</b>	<b>49,401</b>

## 21. INFORMATION ABOUT 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.
- In 2016 the carbon-footprint-reduction plan continued, paving the way for the development of the PIMA EMPRESA project. Also, the carbon-footprint calculation has been updated for all FCC Aqualia's activities, registering the result in the Carbon Footprint Registry of the Ministry of Agriculture, Food and Environment on 9 August 2016, under code No. 2016\_00\_a200, duly 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, and in response to the coming 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 with AENOR, allowing us to certify the entire organization in the ISO 50001 standard. For this purpose, energy audits have been planned for 78 contracts, with total consumption of more than 293,000 MWh, i.e., 85% of the company's total consumption, as required under the applicable regulations for reporting to the relevant authorities in the various 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, while showing the various actions undertaken to build awareness of domestic violence, employment integration for disabled people, and equal opportunities.
- 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. 2016 saw the launch of the project to reorganise FCC Aqualia's network of drinking-water laboratories, to achieve eight laboratories accredited by ENAC under the standard UNE EN 17025 and two 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 the development of projects already under way for methane enrichment at treatment plants, new hypochlorite-manufacturing methods for disinfecting water plants, and the use of ozone in the treatment process.

## 22. FINANCIAL RISK MANAGEMENT POLICY

The concept of financial risk refers to variations that may occur in the financial instruments taken out by the Group due to political, market and other factors and the repercussions of these changes on the consolidated financial statements.

The FCC Aqualia Group'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 Group's operations, and the risk policy is appropriately integrated into the organisation.

### Capital risk management

FCC Aqualia Group, following the guidelines set by its majority shareholder, manages its capital to ensure that the companies in the Group will be able to continue as profitable businesses while at the same time maximising shareholder returns by maintaining an optimal balance between debt and shareholder equity.

The Group's joint strategy continues to focus on geographic diversification, opening up markets in Western Europe, Eastern Europe, Algeria and Mexico, primarily.

The Group's capital structure includes debt (comprising the loans and credit facilities detailed in Note 14), cash and cash equivalents (Note 12) and shareholder equity, which includes capital, reserves and profits not shared out, as mentioned in Note 13.

The Group's Finance Department, responsible for financial risk management, periodically reviews the capital structure, solvency and liquidity ratios as part of the FCC Group finance policy.

The capital costs and associated risks in each investment project are analysed by the Operations Department and the Finance Division for subsequent approval or denial by the relevant Committee, or by the Parent Company Board of Directors, with any reports required from other functional divisions of the Group.

One of the aims of investment analysis is to keep the net debt to EBITDA ratio at a reasonable level and within the levels agreed upon with financial institutions.



Under “Solvency Risk” in this same Note, the calculation for the Net Debt ratio ( Net Debt/Total Liabilities and Net Dept/Ebitda) is included.

### Currency risk

FCC Aqualia Group's current position in the international markets (see Note 13.c) makes the concept of currency risk, for the Group as a whole, moderately relevant.

However, regardless of the significance of the risk, the Aqualia Group's policy is to reduce the negative effect that such risk could have on its consolidated financial statements, as regards changes due to transactions and assets, as much as possible.

The Group actively manages its currency risk by contracting financial transactions in the same currency as the asset is stated in. In other words, every effort is made to get the financing required for local activities by the company within the country of origin of the investment in the local currency in order to naturally hedge, or match, the cash flows generated and the financing.

### Interest rate risk

Given the nature of activities in which working capital management plays a key role, the Group's standard practice is to establish the index that most accurately reflects trends in inflation as the benchmark for its financial debt. Therefore, the Group's policy is to attempt to link its current financial assets, which to a great extent provide natural hedging for its current financial liabilities, and its debt to floating interest rates. In operations with long time horizons, whenever the financial structure so requires, the debt is indexed to a fixed interest rate for a term that coincides with the maturity cycle of the corresponding operation, all within the possibilities offered in the market.

### Solvency risk

At 31 December 2016, FCC Aqualia Group's net financial debt comes to EUR 167,076,000 (EUR 318,317,000 in 2015), as shown in the following table, which represents 20% (40% in 2015) of the equity at said date:

	<b>2016</b>	<b>2015</b>
Bank borrowings (Note 14)	52,653	20,473
Debt instruments and other marketable securities (Note 14)	199,822	199,417
Non-current financial debt with group companies (Note 14)	385,779	441,889
Other interest-earning financial debt	51,129	119,683
Other current financial assets (Note 9)	(423,681)	(366,202)
Cash on hand and cash equivalents (Note 12)	(98,626)	(96,943)
<b>Net interest-bearing debt</b>	<b>167,076</b>	<b>318,317</b>



The most representative ratios for measuring solvency are as follows:

	31 December 2016	31 December 2015
Net Debt / EBITDA ratio	0,74	1,48
Net debt / total liabilities ratio	7,3	14,3
Finance income/cost / EBITDA ratio	19.27%	18.83%

### 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 had a working capital of EUR 280,249,000.

As indicated in Note 19 “Guarantees to third parties and other contingent liabilities”, FCC Aqualia, S.A. acts as guarantor in the syndicated loans signed by its parent, “Fomento de Construcciones y Contratas, S.A.”

### Financial derivatives for risk hedging

The main financial risk that is hedged by FCC Aqualia Group using derivatives is related to changes in the floating interest rates that the group companies' financing is indexed to.

At 31 December 2016 and 2015, FCC Aqualia Group has the following interest rate hedges in place, which qualify as cash flow hedges:

Amounts in thousands of euros	2016 Fair value	2016 Notional	2015 Fair value	2015 Notional	Maturity
<b>Fully consolidated companies</b>					
Depurplán, S.A.	-	-	(1,154)	5,914	2025
Aquajerez	165	28,000	-	-	2031
<b>Companies consolidated using the equity method</b>					
Aquos el Realito, S.A. de C.V.	(79)	21,494	(2,254)	27,066	2025

To a lesser extent, as mentioned above, the Group actively manages its currency risk by contracting financial transactions in the same currency as the asset is stated in. In other words, every effort is made to get the financing required for local activities by the company within the country of origin of the investment in the local currency in order to naturally hedge, or match, the cash flows generated and the financing.





As indicated in Note 13.c), the most significant net assets stated in a currency other than the euro held by the FCC Aqualia Group at 31 December 2016 are located in the Czech Republic. To hedge the currency risk of these assets, FCC Aqualia Group has taken out borrowings in the same currency (Czech Koruna) broken down as shown in Note 14.a).

Changes in fair value of the cash flow hedges are stated, net of tax effects, in “Adjustments for changes in value” in equity and are recognised in profit/loss for the year to the extent that the hedged item affects the consolidated income statement.

The financial derivatives have been appraised by experts in this field that are independent from the Group and the entities that finance it, using generally accepted methods and techniques.

### **23. INFORMATION ON RELATED-PARTY TRANSACTIONS**

The Parent Company has a Board of Directors, whose members have not received any remuneration in 2016, in their role as directors of the Parent Company (nor in 2015). Moreover, no advances, loans or any other type of guarantees have been granted to such Board of Directors, nor are there any obligations in place regarding pensions or life insurance for such members.

Fomento de Construcciones y Contratas, S.A. has civil liability insurance for the Directors of the company. At 31 December 2016 this has amounted to an expense of EUR 397 thousand.

Additionally the persons representing the company within the Board of Directors have not received any remuneration in other companies, as Directors of the companies.

Members of senior management, two of whom are also board directors, of the Parent Company (eleven men and two women) have received total remuneration of EUR 2,276,000. (EUR 2,415,000 received by eleven men and two women in 2015).

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.

Neither the directors of FCC Aqualia, S.A. nor any parties acting on their behalf have performed other operations with the Group during the year beyond the scope of ordinary trade for each company or under conditions other than normal market conditions.

No relevant transactions have taken place that entail the transfer of resources or obligations between the Parent Company or other Group companies and the directors or senior management thereof.



Furthermore, FCC Aqualia Group has established the required mechanisms to detect, determine and resolve any possible conflicts of interest between Group companies and their board members, senior management and significant shareholders, as indicated in article 25 of the Board Regulations.

The balance and the transactions performed with FCC group companies, joint ventures and associates are as follows (in thousands of euros):



a) Clients and debtors group companies, joint ventures and associates

	<b>2.016</b>	<b>2.015</b>
AIE ITAM DELTA DE LA TORDERA	317	44
FCC AMBITO	270	278
EMPR.MUNICIPAL DE AGUAS DE ALGECIRAS, SA	6,504	5,562
EMPRESA MIXTA DE AGUAS Y SERVICIOS, S.A.	11	2
AIE COSTA TROPICAL DE GRANADA	1,045	861
GIRONA, S.A.	34	-
AIGÜES DE GIRONA SALT I SARRIA DE TER,SA	136	-
NUEVA SOCIEDAD DE AGUAS DE IBIZA, S.A.	1	1
CIA. DE SERV. MEDIOAMBIEN. DO ATLANTICO	176	62
EMPRESA MPAL. AGUAS DE BENALMADENA, S.A.	668	661
GENERAVILA, S.A.	7	5
EMPRESA MUNICIPAL AGUAS DE TOXIRIA, S.A.	391	430
EMP. MIXTA MUNICIPAL DE AGUAS DE NIJAR	2,584	1,834
AGUAS DE LANGREO, S.L.	573	587
AIE AQUAGEST-AQUALIA	11	23
EMP. MIXTA D'AIGÜES DE LA COSTA BRAVA	1	-
SHARIKET TAHLYA MIYAH MOSTAGANEM	5,749	5,808
SHARIKET MIYEH RAS DJINET	1,804	1,508
AIGÜES DE TOMOVI, S.A.	276	262
EMP.MUNICIPAL AGUAS DE LINARES	194	47
AGUAS DE NARIXA, S.A.	673	94
CONCESIO. DESALACION DE IBIZA, S.A.	41	301
AIE COSTA BRAVA AB. AQUALIA-SOREA	14	11
ABAST.ALTA COSTA BRAVA EMP.MIXTA	5	6
AGUAS DE PRIEGO, S.L.	579	554
EMP.MIXTA DE AGUAS DE JODAR, S.A.	420	470
AGUAS DE ARCHIDONA, S.L.	105	302
EMPRESA MIXTA DE AGUAS DE UBRIQUE, S.A.	257	250
AGUAS DEL PUERTO EMPRESA MUNICIPAL, S.A.	1,212	1,184
ORASQUALIA DEVEL.WASTE T.P. S.A.E.	400	1,087
ORASQUALIA CONSTRUCTION SAE	-	84
ORASQUALIA O&M	84	211



	<b>2.016</b>	<b>2.015</b>
AQUALIA MACE LLC	-	73
MANTINSA	1	-
AIGÜES DEL SEGARRA GARRIGUES, S.A.	32	-
FCC CONSTRUCCION	456	441
CONSTRUCTORA INFRAEST. DE AGUA QUERETARO	296	341
CONST.DE INFRAEST.DE AGUAS POTOSI, SACV	1,930	2,222
FAST CONSORTIUM LIMITED LLC	9,472	2,378
FCC, S.A.	150	3,994
FCC INDUSTRIAL E INFRAESTRUCTURAS ENERGÉTICAS + UTES (NACIONAL)	60	496
FCCMA	-	14
ABSA	-	20
GESTION Y VALOR INT.CENTRO, S.L.	9	2
<b>TOTAL</b>	<b>36,948</b>	<b>32,510</b>

b) Suppliers and creditors group companies, joint ventures and associates

	<b>2.016</b>	<b>2.015</b>
AIE ITAM DELTA DE LA TORDERA	75	129
FCC AMBITO	27	33
EMPR.MUNICIPAL DE AGUAS DE ALGECIRAS, SA	2,241	1,259
EMPRESA MIXTA DE AGUAS Y SERVICIOS, S.A.	6	4
AIE COSTA TROPICAL DE GRANADA	-	9
AGUAS DE DENIA, S.A.	181	491
PROVEIMENTS D'AIGUA, S.A.	12	8
NUEVA SOCIEDAD DE AGUAS DE IBIZA, S.A.	46	41
EMP. MIXTA MUNICIPAL DE AGUAS DE NIJAR	697	856
AGUAS DE LANGREO, S.L.	-	13
SHARIKET TAHLYA MIYAH MOSTAGANEM	263	266
AIGÜES DE TOMOVI, S.A.	17	14
EMP.MUNICIPAL AGUAS DE LINARES	5	5
ABAST.ALTA COSTA BRAVA EMP.MIXTA	-	-
EMPRESA MIXTA DE AGUAS DE UBRIQUE, S.A.	5	4
ORASQUALIA DEVEL.WASTE T.P. S.A.E.	5	21

	<b>2.016</b>	<b>2.015</b>
ORASQUALIA CONSTRUCTION SAE	303	-
ORASQUALIA O&M	-	-
PREFABRICADOS DELTA + UTE's	9	8
FCC CONSTRUCCION INC + UTEs	6	8
FCC CONSTRUCCION, S.A.	566	640
FAST CONSORTIUM LIMITED LLC	1,449	288
FCC, S.A.	3,669	11,341
FEDEMES, S.L.	398	11
FCC INDUSTRIAL E INFRAESTRUCTURAS ENERGÉTICAS	127	149
COMPAÑÍA DE CONTROL DE RESIDUOS	13	24
GAMASUR CAMPO DE GIBRALTAR, S.L.	22	25
ECOACTIVA DE MEDIO AMBIENTE, S.A.	8	7
FCCMA	4	10
SERVICIOS ESPECIALES DE LIMPIEZA, S.A.	90	10
FCC EQUAL CEE, S.L.	2	2
GESTION Y VALOR INT.CENTRO, S.L.	5	-
HORMIGONES Y MORTEROS PREP., S.A. UNIPERSONAL	1	1
HORMIGONES CALAHORRA, S.A.	-	2
HORMIGONES DELFIN, S.A.	-	-
HORMIGONES REINARES, S.A.	-	-
ARIDOS Y CANTERAS DEL NORTE, SA	-	-
<b>TOTAL</b>	<b>10,252</b>	<b>15,679</b>

c) Non-current receivables with FCC Group companies

<b>Thousand euro</b>	<b>2016</b>	<b>2015</b>
FCC, S.A.	14	14
AIE COSTA BRAVA AB. AQUALIA-SOREA	1	1



d) Current receivables with FCC Group companies

<b>Short term loans to companies consolidated under the equity method</b>	<b>2.016</b>	<b>2.015</b>
AGUAS DE ARCHIDONA, S.L.	15	14
AGUAS DE LANGREO, S.L.	733	732
AGUAS DE NARIXA, S.A.	437	436
AGUAS DE PRIEGO, S.L.	173	238
AGUAS DEL PUERTO EMPRESA MUNICIPAL, S.A.	1,430	2,605
AIGÜES DE TOMOVI, S.A.	11	47
AQUALIA MACE LLC	-	8
CIA. DE SERV. MEDIOAMBIEN. DO ATLANTICO	1	-
CONST.DE INFRAEST.DE AGUAS POTOSI, SACV	200	-
EMP. MIXTA MUNICIPAL DE AGUAS DE NIJAR	339	330
EMP.MIXTA DE AGUAS DE JODAR, S.A.	27	25
EMP.MUNICIPAL AGUAS DE LINARES	43	28
EMPR.MUNICIPAL DE AGUAS DE ALGECIRAS, SA	344	215
EMPRESA MIXTA DE AGUAS DE UBRIQUE, S.A.	19	19
EMPRESA MPAL. AGUAS DE BENALMADENA, S.A.	786	44
EMPRESA MUNICIPAL AGUAS DE TOXIRIA, S.A.	41	42
SHARIKET MIYEH RAS DJINET	4	4
SHARIKET TAHLYA MIYAH MOSTAGANEM	38	37
<b>TOTAL</b>	<b>4,641</b>	<b>4,824</b>

<b>Short term loans to FCC Group companies</b>	<b>2.016</b>	<b>2.015</b>
ABAST.ALTA COSTA BRAVA EMP.MIXTA	1	-
AGUAS DEL PUERTO EMPRESA MUNICIPAL, S.A.	6	1
AIE COSTA TROPICAL DE GRANADA	1,154	418
AIE ITAM DELTA DE LA TORDERA	117	117
ASESORIA FINANCIERA Y DE GESTION, S.A.	381,137	289,488
EMPRESA MIXTA DE AGUAS Y SERVICIOS, S.A.	1	1



EMPRESA MPAL. AGUAS DE BENALMADENA, S.A.	-	1
EMPRESA MUNICIPAL AGUAS DE TOXIRIA, S.A.	1	-
FCC CONSTRUCCION SA	945	887
FCC, S.A.	3,883	10,308
<b>TOTAL</b>	<b>387,245</b>	<b>301,221</b>

<b>Received Dividend from joint businesses and associates</b>	<b>2.016</b>	<b>2.015</b>
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<b>AIE COSTA TROPICAL DE GRANADA</b>	<b>9</b>	<b>-</b>
<b>AIE AQUAGEST-AQUALIA</b>	<b>33</b>	<b>5</b>
<b>AIE COSTA BRAVA AB. AQUALIA-SOREA</b>	<b>23</b>	<b>-</b>
<b>TOTAL</b>	<b>65</b>	<b>5</b>

<b>Received Dividend from equity method companies</b>	<b>2.016</b>	<b>2.015</b>
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<b>ORASQUALIA DEVEL.WASTE T.P. S.A.E.</b>	<b>1,798</b>	<b>2,379</b>
<b>ORASQUALIA CONSTRUCTION SAE</b>	<b>382</b>	<b>833</b>
<b>ORASQUALIA O&amp;M</b>	<b>209</b>	<b>336</b>
<b>TOTAL</b>	<b>2,389</b>	<b>3,548</b>

e) Current financial liabilities with FCC Group companies

	2016	2015
<b>Borrowings with FCC Group companies for Income Tax</b>		
FCC, S.A.	16,565	20,438
<b>Short term financial liabilities with FCC Group companies</b>		
AGUAS DE ARCHIDONA, S.L.	1	44
AGUAS DE NARIXA, S.A.	-	44
AIE COSTA TROPICAL DE GRANADA	1	-
AIE ITAM DELTA DE LA TORDERA	375	4
AIGÜES DE TOMOVI, S.A.	34	21
AUGAS MUNICIPAIS DE ARTEIXO, S.A.	1	10
CONSTRUCTORA INFRAEST. DE AGUA QUERETARO	12	1
EMPRESA MIXTA DE AGUAS DE UBRIQUE, S.A.	454	2.617
FCC CONSTRUCCION, S.A.	157	205



FCC INDUSTRIAL E INFRAESTRUCTURAS ENERGÉTICAS	68	-
FCC, S.A.	9,044	34,659
GRUPO PROACTIVA	13	1
HA PROYECTOS ESPECIALES HIDRAULICOS S.R.L. DE CV.	-	12
NEWLOG LOGISTICA, S.A. UNIPERSONAL	-	13
PRESTADORA SERV.ACUEDUCTO EL REALITO,SA DE CV	1	-
PROVEIMENTS D'AIGUA, S.A.	1	124
<b>Total</b>	<b>10,162</b>	<b>37,755</b>

f) Revenue

(thousands of euros)	2016	2015
ABASTECIMIENTO ALTA COSTA BRAVA EMPRESA MIXTA	21	26
AGUAS DE ARCHIDONA, S.L.	423	470
AGUAS DE DENIA	-	15
AGUAS DE LANGREO, S.L.	102	104
AGUAS DE NARIXA, S.A.	896	415
AGUAS DE PRIEGO, S.L.	181	200
AGUAS DE UBRIQUE, S.A.	912	882
AGUAS DEL PUERTO EMPRESA MUNICIPAL, S.A.	3,981	4,106
AIE AQUAGEST-AQUALIA	35	36
AIE COSTA BRAVA ABASTAMENT AQUALIA-SOREA	44	42
AIE COSTA TROPICAL DE GRANADA	481	432
AIGÜES DE GIRONA SALT I SARRIA DE TER, S.A.	112	-
AIGÜES DE TOMOVI, S.A.	541	772
AIGÜES DEL SEGARRA GARRIGUES, S.A.	100	-
AQUALIA MACE LLC	-	435
CIA. DE SERVICIOS MEDIOAMBIENTALES DO ATLANTICO, S.A.	493	216
CONCESIONARIA DESALACION DE IBIZA, S.A.	341	321
CONST. DE INFRAESTRUCTURAS DE AGUAS DE POTOSÍ, SACV	-	(71)
ECOPARQUE MANCOMUNIDAD DEL ESTE S.A.	1	1
EMP. MIXTA MUNICIPAL DE AGUAS DE NIJAR, S.A.	3,941	3,878
EMP. MUNICIPAL AGUAS DE LINARES, S.A.	4,159	3,966
EMP.MUNICIPAL DE AGUAS DE ALGECIRAS, SA	9,277	8,982
EMPRESA MIXTA DE AGUAS DE JODAR, S.A.	553	530
EMPRESA MIXTA DE AGUAS Y SERVICIOS, S.A.	39	39
EMPRESA MPAL. AGUAS DE BENALMADENA, S.A.	3,260	3,999
EMPRESA MUNICIPAL AGUAS DE TOXIRIA, S.A.	941	892
ENERSTAR VILLENA S.A.	-	4
FAST CONSTRUCTION, LLC	25,877	17,039
FCC AMBITO, S.A.	394	632
FCC CONSTRUCCION, S.A.	587	1,110
FCC MEDIO AMBIENTE, S.A.	3	2
FCC SERVICIOS INDUSTRIALES Y ENERGÉTICOS	90	176
FCC, S.A.	304	11,702
GESTION Y VALOR INT.CENTRO, S.L.	14	8
GIRONA, S.A.	28	-
HA PROY. ESPEC. HIDR.	1,570	1,387
MANTENIMIENTO DE INFRAESTRUCTURAS, S.A.	-	-
NUEVA SOCIEDAD DE AGUAS DE IBIZA, S.A.	2	2





ORASQUALIA DEVEL.WASTE T.P. S.A.E.	146	147
ORASQUALIA O&M	84	87
RAMALHO ROSA COBETAR SOC. DE CONST., S.A.	-	2
SHARIKET MIYEH RAS DJINET, S.P.A.	4,988	6,047
SHARIKET TAHLYA MIYAH MOSTAGANEM, S.P.A.	5,128	6,219
<b>TOTAL GROUP COMPANIES AND ASSOCIATES</b>	<b>70,049</b>	<b>75,252</b>

The largest turnover with Fast Construction LLC originates in the works and works made for the Riyadh Metro (Saudi Arabia).

g) Materials and other services purchased

<b>(thousands of euros)</b>	<b>2016</b>	<b>2015</b>
FCC AMBITO, S.A.	9	9
FCC, S.A.	15	345
FCC CONSTRUCCIÓN, S.A.	9	22
FCC MEDIO AMBIENTE, S.A.	2	2
HORMIGONES Y MORTEROS PREP., S.A. UNIP.	(11)	(21)
HORMIGONES REINARES, S.A.	1	1
EMPR. MUNICIPAL DE AGUAS DE ALGECIRAS, SA	2,071	2,257
NUEVA SOCIEDAD DE AGUAS DE IBIZA, S.A.	178	112
EMPRESA MIXTA MUNICIPAL DE AGUAS DE NIJAR	1,067	983
AIGÜES DE TOMOVI, S.A.	18	38
ABAST. ALTA COSTA BRAVA EMPRESA MIXTA	1	-
COMPAÑÍA DE CONTROL DE RESIDUOS	1	-
PREFABRICADOS DELTA	11	9
PROVEIMENTS D'AIGUA, S.A.	2	-
AGUAS DEL PUERTO EMPRESA MUNICIPAL, S.A.	26	-
HORMIGONES CALAHORRA, S.A.	5	6
<b>TOTAL GROUP COMPANIES AND ASSOCIATES</b>	<b>3,405</b>	<b>3,763</b>

h) Outsourced work

<b>(thousands of euros)</b>	<b>2016</b>	<b>2015</b>
FCC AMBITO, S.A.	147	31
FCC CONSTRUCCION, S.A.	151	5
FCC, S.A.	625	768
FCC SERVICIOS INDUSTRIALES Y ENERGÉTICOS, S.A.	59	51
COMPAÑÍA DE CONTROL DE RESIDUOS	28	45
GAMASUR GIBRALTAR, S.L.	35	22
ECOACTIVA DE MEDIO AMBIENTE, S.A.	11	14
FCC MEDIO AMBIENTE, S.A.	9	18
EMPRESA MUNICIPAL AGUAS DE TOXIRIA, S.A.	-	(2)
EMPRESA MIXTA DE AGUAS DE UBRIQUE, S.A.	-	5
GESTION Y VALOR INT.CENTRO, S.L.	5	-
EMPRESA MIXTA DE AGUAS Y SERVICIOS, S.A.	26	12



PROVEIMENTS D' AIGUA, S.A.	16	25
RAMALHO ROSA COBETAR SOC. DE CONST., S.A.	-	1
AIGÜES DE TOMOVI, S.A.	18	1
<b>TOTAL GROUP COMPANIES AND ASSOCIATES</b>	<b>1,130</b>	<b>996</b>

i) Other operating expenses

<b>(thousands of euros)</b>	<b>2016</b>	<b>2015</b>
AGUAS DE ARCHIDONA, S.L.	1	1
AGUAS DE DENIA, S.A.	256	256
AGUAS DE LANGREO, S.L.	7	22
AIE COSTA TROPICAL DE GRANADA	-	7
AIE ITAM DELTA DE LA TORDERA	18	15
AIGÜES DE TOMOVI, S.A.	1	-
AQUALIA MACE	-	14
COMPAÑÍA DE CONTROL DE RESIDUOS	2	1
EMPRESA MIXTA DE AGUAS DE UBRIQUE, S.A.	6	-
EMP.MUNICIPAL AGUAS DE LINARES	18	18
EMPR.MUNICIPAL DE AGUAS DE ALGECIRAS, SA	133	135
FCC AMBITO, S.A.	7	72
FCC CONSTRUCCION, S.A.	47	24
FCC EQUAL CEE, S.L.	12	10
FCC MEDIO AMBIENTE, S.A.	2	3
FCC, S.A.	22,381	22,316
FEDEMES, S.L.	2,083	159
GRUPO FCC ENVIRONMENT (UK)	-	2
ORASQUALIA DEVEL.WASTE T.P. S.A.E.	32	18
ORASQUALIA O&M	12	-
PROVEIMENTS D' AIGUA, S.A.	12	5
SERVICIOS ESPECIALES DE LIMPIEZA, S.A.	87	16
SHARIKET MIYEH RAS DJINET	-	(9)
<b>TOTAL GROUP COMPANIES AND ASSOCIATES</b>	<b>25,117</b>	<b>23,085</b>

j) Finance income

<b>(thousands of euros)</b>	<b>2016</b>	<b>2015</b>
AGUAS DE ARCHIDONA, S.L.	33	36
AGUAS DE NARIXA, S.A.	310	319
AGUAS DE PRIEGO, S.L.	185	189
AGUAS DEL PUERTO EMPRESA MUNICIPAL, S.A.	746	562
AIE COSTA TROPICAL DE GRANADA	270	243
AIGUES DEL TOMOVI, S.A.	-	4
ASESORIA FINANCIERA Y DE GESTION, S.A.	851	488
COMPAÑÍA DE SERVICIOS MEDIOAMBIENTALES DO ATLANTICO	-	13
CONST. DE INFRAEST.DE AGUAS POTOSI, SACV	-	585
EMPRESA MIXTA AGUAS DE LANGREO, S.A.	244	260
EMPRESA MIXTA DE AGUAS DE JODAR, S.A.	71	73
EMPRESA MIXTA DE AGUAS DE UBRIQUE, S.A.	17	27
EMPRESA MUNICIPAL DE AGUAS DE ALGECIRAS	32	44
EMPRESA MUNICIPAL DE AGUAS DE BENALMADENA, S.A.	72	103
EMPRESA MUNICIPAL DE AGUAS DE LINARES, S.A.	1	2
EMPRESA MUNICIPAL DE AGUAS DE NIJAR, S.A.	61	78



EMPRESA MUNICIPAL DE AGUAS DE TOXIRIA, S.A.	6	7
FCC, S.A.	3	571
<b>TOTAL GROUP COMPANIES AND ASSOCIATES</b>	<b>2,902</b>	<b>3,604</b>

k) Finance costs

At 31 December 2016, finance costs with FCC group companies come to EUR 20,781,000, corresponding entirely to Fomento de Construcciones y Contratas, S.A. (EUR 20,091,000 at 31 December 2015).

## 24. FEES PAID TO THE ACCOUNTS AUDITORS

The fees relating to accounts auditing services and other professional services provided during the year to the different companies pertaining to Aqualia Group by the main auditor and other auditors participating in the auditing of the different group companies, as well as by entities related to them, are shown in the following table:

<i>Amounts in thousands of euros</i>	2016			2015		
	Main auditor	Other auditors	Total	Main auditor	Other auditors	Total
Audit services	323	120	443	351	71	422
Other attest services	21	1	22	70	1	71
<b>Total</b>	<b>344</b>	<b>121</b>	<b>465</b>	<b>421</b>	<b>72</b>	<b>493</b>
Other services	14	-	14	-	1	1
<b>Total professional services</b>	<b>14</b>	<b>-</b>	<b>14</b>	<b>-</b>	<b>1</b>	<b>1</b>
<b>TOTAL</b>	<b>358</b>	<b>121</b>	<b>479</b>	<b>421</b>	<b>73</b>	<b>494</b>

## 25. OTHER DISCLOSURES

a) Information about deferrals on payments made to suppliers. Additional provision three “Duty of disclosure” of Law 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 years 2016 and 2015 that the Parent Company operates 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 contracts and supplies with third parties arising from contracts entered into by the Company with the various Public Authorities applies to the provisions of paragraph 5 of Article 228 of the current Consolidated Text of the Law on Public Sector Contracts (TRLCSP), which allows the contractor to agree with the suppliers time-frames that are longer than those established by the regulation, subject to certain conditions.

Owing to this circumstance, and with a view to adapting the Company's financial policy to reasonable levels of efficiency, suppliers' 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: in Article 228.5 of the TRLCSP (all the requirements of which were met) and b) Payments to other suppliers: in Transitional Provision Two of Law 15/2010 and, where applicable, the provisions of Article 9 of Law 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 Group 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.

In compliance with the Decision mentioned above, we set out below a table with information on the average payment period to suppliers for those business operations accrued from the date of entry into force of the said Act 31/2014, i.e. 24 December 2014, exclusively regarding Spain located companies and consolidated under global or proportional accounting methods.

For information purposes solely to comply with the Decision above, suppliers are considered as trade payables due to debts with suppliers for goods and services, included in the captions "Suppliers" and "Other creditors" under current liabilities in the balance sheet, this exclusively for Spanish companies included in the consolidable Group companies.

Average payment period to suppliers (thousands of euros)		
	2016	2015
	<b>Days</b>	
Average payment period for suppliers	94	78
Ratio of payments made	78	73
Ratio of outstanding payments	157	94



	<b>Sum</b>	
Total payments made in the year	398,678	260,810
Total payments outstanding	102,909	88,131

#### b) Earnings per share

Diluted earnings per share coincides with basic earnings per share, detailed as follows:

<b>Amounts in thousands of euros</b>	<b>2016</b>	<b>2015</b>
Net profit for the year (thousands of euros)	78,035	70,471
Weighted average number of shares in circulation	145,000	145,000
<b>Basic earnings per share (euros)</b>	<b>0.54</b>	<b>0.49</b>

#### 26. EVENTS AFTER REPORTING DATE

Regarding the nature of liable and joint guarantor maintained by FCC Aqualia, S.A. and certain depending subsidiaries with the financing contract of which Fomento de Construcciones y Contratas S.A is entitled (Note 19), as of 9 February 2017 the sufficient majority of the financial entities involved in the Fomento de Construcciones y Contratas, S.A. financing contract have agreed the termination of the mentioned guarantees subject to compliance with certain conditions to be fulfilled that, on the date of the release of these consolidated annual accounts, have not yet taken place. This agreement is included in the financial restructuring process initiated by the FCC Group that is expected to conclude in the next coming months.

At the reporting date, no additional relevant events have occurred that would entail significant changes to the information shown in the notes herein.

#### 27. EXPLANATION ADDED FOR TRANSLATION TO ENGLISH

These financial statements are presented on the basis of the regulatory financial reporting framework applicable to the Company (see Note 2). Certain accounting practices applied by the Company that conform with that regulatory framework may not conform with other generally accepted accounting principles and rules.



## APPENDIX I

### FCC AQUALIA AND SUBSIDIARIES (CONSOLIDATED GROUP) SUBSIDIARIES (CONSOLIDATED BY FULL CONSOLIDATION)

COMPANY	GROUP INTERESTS %	AUDITOR
<b>Acque di Caltanissetta, S.p.A</b> Viale Sicilia 176 93100 Caltanissetta - ITALY	98.46%	DELOITTE
<b>Aguas de Alcázar Empresa Mixta, S.A.</b> C/ Rondilla Cruz Verde, 1 - Alcázar de San Juan (CIUDAD REAL)	52.38%	CENTIUM AUDITORES
<b>Aguas de las Galeras, S.L.</b> Avda. Camino de Santiago, 40,	100.00%	DELOITTE
<b>Aigües de Vallirana, S.A.U.</b> C/ Conca de Tremp, 14 – Vallirana (BARCELONA)	100.00%	-
<b>Aqualia Infraestructuras D.O.O. Beograd-Vracar</b> Resavska 23 Belgrado Vracar - Belgrado-SERBIA	100%	-
<b>Aqualia Infraestructuras Montenegro</b> Bulevar Svetog Petra Centinjskog 1 A – 81000 Podgorica - MONTENEGRO	100%	-
<b>Aqualia Infraestructuras Pristina LLC</b> Bulevardi Nëna Terezë No 47/5B -Pristina- KOSOVO REPUBLIC	100%	-
<b>Aqualia MACE LLC</b> P.O. Box 105547 – Abu Dhabi, U.A.E.	51.00%	DELOITTE
<b>Aquaelvas - Aguas de Elvas, S.A.</b> Rua Paco Bandeira, 14 - Assunção - Elvas - PORTUGAL	100.00%	DELOITTE
<b>Aquamaior – Aguas de Campo Maior, S.A.</b> Rua Mayor Talaya, 28 – Nossa Senhora de Expectação – Campo Maior – PORTUGAL	100.00%	DELOITTE
<b>Abrantaqua, S.A.</b> Parque Lena – Alferrarede Abrantes – PORTUGAL	60.00%	OLIVEIRA, REIS & ASOCIADOS
<b>Aqua Campiña, S.A.</b> C/Bias Infante, 6 – Écija (SEVILLE)	90.00%	AUDINFOR
<b>Aqua Management Solutions B.V.</b> Prins Bernhardplein 200 – Amsterdam - THE NETHERLANDS	30.60%	DELOITTE
<b>Aquacartaya, S.L.</b> Avda. San Francisco Javier, 27 – SEVILLE	100.00%	DELOITTE
<b>Aquafundalia – Agua do Fundão, S.A.</b> Rua Fernando Pessoa, 195 6230 479 Fundao - PORTUGAL	100.00%	DELOITTE
<b>Aquajerez, S.L.</b> C/ Cristalera, 24 - CÁDIZ	51.00%	EY
<b>Aqualia Intech, S.A.</b> Avda. Camino de Santiago, 40 – MADRID	99.99%	DELOITTE
<b>Aqualia Infraestructuras Inzenyring, s.r.o.</b> Hory, Slavnikovcu 571/21 Ostrava - CZECH REPUBLIC	100.00%	ABC AUDIT SRO
<b>Aqualia México, S.A. de C.V.</b> Carrizal, 33 - Santiago de Queretaro - Queretaro - MEXICO	100.00%	DELOITTE
<b>Aqualia Infraestructuras Mostar</b> Dr. Ante Starcevic BB – MOSTAR (SERBIA)	100.00%	-
<b>Aqualia Czech, S.L.</b> Avda. Camino de Santiago, 40 – MADRID	51.00%	DELOITTE
<b>Aqualia New Europe B.V.</b> C/Calude Debussylann, 24 – Amsterdam (THE NETHERLANDS)	51.00%	DELOITTE
<b>Cartaxo – Aguas do Cartaxo, S.A.</b> Zona Industrial do Cartaxo, Lote 20 – Cartaxo - PORTUGAL	60.00%	OLIVEIRA, REIS & ASOCIADOS
<b>Colaboración, Gestión y Asistencia, S.A.</b> C/ Federico Salmón, 13 – MADRID	100.00%	-
<b>Compañía Onubense de Aguas, S.A.</b> C/ Martín Alonso Pinzón, 8 – HUELVA	60.00%	-



**FCC AQUALIA AND SUBSIDIARIES (CONSOLIDATED GROUP)  
SUBSIDIARIES (CONSOLIDATED BY FULL CONSOLIDATION)**

<b>COMPANY</b>	<b>GROUP INTERESTS %</b>	<b>AUDITOR</b>
<b>Conservación y Sistemas, S.A.</b> C/ Federico Salmón, 13 – MADRID	100.00%	DELOITTE
<b>Depurplan 11, S.A.</b> C/ Madre Rafols, 2 – ZARAGOZA	100.00%	AUDINFOR
<b>Depurtebo, S.A.</b> C/ San Pedro, 57 - Zuera – ZARAGOZA	100.00%	-
<b>Empresa Gestora de Aguas Linenses, S.L.</b> C/Federico Salmón, 13 – MADRID	100.00%	-
<b>Empresa Mixta de Butarque, S.A.</b> 3 - MADRID	70.00%	-
<b>Entemanser, S.A.</b> C/Castillo, 13 – ADEJE (SANTA CRUZ DE TENERIFE)	97.00%	DELOITTE
<b>FCC Aqualia América, S.A.U.</b> C/ Uruguay, 11 – Vigo (PONTEVEDRA)	100.00%	-
<b>FCC Aqualia USA Corp.</b> 2711 Centerville Road, Suite 400. Wilmington (New Castle -Delaware-EEUU)	100.00%	BEKOWITZ POLLACK BRANT
<b>FS Colaboración Gestión y Asistencia, S.A.</b> Avda. Camino de Santiago, 40. MADRID	100.00%	-
<b>SEVEROMORAVSKE VODOVODY A KANALIZACE OSTRAVA a.s.</b> Varenská 2723/51 70200 Ostrava – CZECH REPUBLIC	50.47%	DELOITTE
<b>Hidrotec Tecnología del Agua, S.L.U.</b> C/Pincel, 25 – SEVILLE	100.00%	DELOITTE
<b>Infraestructuras y Distribución General de Agua, S.L.</b> C/La Presa, 14 – Tijoco Bajo-ADEJE (SANTA CRUZ DE TENERIFE)	100.00%	-
<b>Inversora Riutort, S.L.</b> C/ Alfonso XIII – Sabadell (BARCELONA)	100.00%	-
<b>Ovod spol, s.r.o.</b> Jaselská 47 - Opava - CZECH REPUBLIC	100.00%	ABC AUDIT SRO
<b>Sociedad Ibérica del Agua, S.A.U.</b> C/Federico Salmón, 13 – MADRID	100.00%	-
<b>Sociedad Española de Aguas Filtradas, S.A.</b> C/Pincel, 4 – SEVILLE	100.00%	DELOITTE
<b>Tratamiento Industrial de Aguas, S.A.</b> C/Federico Salmón, 13 – MADRID	100.00%	DELOITTE

Note: This appendix forms an integral part of the attached notes to the consolidated financial statements.



## APPENDIX II

### FCC AQUALIA AND SUBSIDIARIES (CONSOLIDATED GROUP) ASSOCIATES AND JOINTLY CONTROLLED ENTITIES (CONSOLIDATED BY PROPORTIONATE METHOD)

COMPANY	GROUP INTERESTS %	AUDITOR
<b>AIE* Costa Tropical de Granada</b> Plaza Aurora, s/n - Motril (GRANADA)	51.00 %	ATTEST AUDITORES
<b>AIE ITAM Delta de la Tordera</b> Travesera de Gracia, 58 – BARCELONA	50.00 %	-
<b>AIE Aquagest Medioambiente, S.A. - Aqualia</b> C/Condado de Jaruco, s.n. – Lloret de Mar (GIRONA)	37.50 %	-
<b>Empresa mixta Abastament en Alta Costa Brava, S.A.</b> Plaza Josep Pla, 4 - GIRONA	26.00 %	-
<b>Gestión de Servicios Hidráulicos de Ciudad Real AIE</b> C/ Ramírez de Arellano, 15 – MADRID	75.00 %	-
<b>Empresa Mixta de Aguas y Servicios, S.A.</b> Alarcos, 13 - CIUDAD REAL	41.25 %	CENTIUM AUDITORES
<b>Empresa Mixta d'Aigües de la Costa Brava, S.A.</b> Plaza Josep Pla, 4 - GIRONA	25.00 %	EY
<b>AIE Costa Brava Abastecimientos Aqualia-Sorea</b> C/ Sector Carlit, s/n. Castelló d'Empuries - GIRONA	50.00 %	-

Note: This appendix forms an integral part of the attached notes to the consolidated financial statements.

\* AIE (Economic Interest Grouping)





### APPENDIX III

**FCC AQUALIA AND SUBSIDIARIES (CONSOLIDATED GROUP)**  
**ASSOCIATES AND JOINTLY CONTROLLED ENTITIES (CONSOLIDATED BY EQUITY METHOD)**

COMPANY	FGD %	VNC 2016 (Note 7)	VNC 2015 (Note 7)	AUDITOR
<b>Aguas de Priego, S.L.</b> Plaza Constitución, 3. Priego de Córdoba (CORDOBA)	49.00%	(104)	(18)	AUDINFOR
<b>Aguas de Archidona, S.L.</b> Plaza Ochavada, 1 – 29300 Archidona - MALAGA	48.00%	76	60	CENTIUM AUDITORES
<b>Aguas del Puerto Empresa Municipal, S.A.</b> C/ Aurora 1 - 11500 - EL PUERTO DE SANTA MARÍA (CÁDIZ)	48.98%	3,860	3,808	-
<b>Aqualia MACE LLC</b> P.O. Box 105547 – Abu Dhabi, U.A.E.	24.99%	0	385	DELOITTE
<b>Compañía de Servicios Medioamb. do Atlántico, S.A.</b> Carretera de Cedeira, km 1 - Narón (LA CORUÑA)	49.00%	343	342	AUDINFOR
<b>Girona, S.A.</b> Travesía del Carril, 2 – GERONA	33.61%	1,831	1,800	CATAUDIT AUDITORS ASSOCIATS
<b>Aguas de Denia, S.A.</b> Pedro Esteve, 17 - Denia (ALICANTE)	33.00%	400	401	-
<b>Aguas de Ubrique, S.A.</b> Avenida España, 9 - Ubrique (CÁDIZ)	49.00%	0	(1)	-
<b>Aguas de Narixa, S.A.</b> C/Málaga, 11 – Nerja (MÁLAGA)	50.00%	274	293	AUDINFOR
<b>Aigües de Blanes, S.A.</b> Canigó, 5. Blanes - GIRONA	16.47%	50	56	CD AUDITORS
<b>Aigües de Girona Salt i Sarrià del Ter</b> Ciutadans, 11 - GIRONA	26.88%	255	214	CATAUDIT AUDITORS ASSOCIATS
<b>Aigües del Tomoví, S.A.</b> c/ Vella, 1 – El Vendrell (TARRAGONA)	49.00%	509	524	GM AUDITORS
<b>Constructora de Infraestructura de Aguas de Querétaro, S.A. de C.V.</b> C/ Minería Edificio B Ciudad de Méjico, Distrito Federal (MEXICO)	24.50%	(2,995)	(1,012)	DELOITTE
<b>Constructora de Infraestructuras de Aguas de Potosí, S.A. de C.V.</b> Bulevar Manuel Avila Camacho, 36 Méjico, Distrito Federal (MEXICO)	24.50%	(5,395)	(5,665)	DELOITTE
<b>Concesionaria de Desalación de Ibiza, S.A.</b> Rotonda de Sta. Eulalia, s/n – Ibiza (BALEARIC ISLANDS)	32.00%	1,226	1,327	BDO AUDITORES
<b>EMANAGUA - Empresa Municipal de Aguas de Níjar, S.A.</b> Plaza de la Glorieta, 1 – Níjar (ALMERÍA)	49.00%	277	220	CENTIUM AUDITORES
<b>Empresa Municipal Aguas de Algeciras, S.A.</b> C/Virgen del Carmen, s/n - Algeciras (CÁDIZ)	49.00%	201	186	ABANTE UNICONTROL AUDITORES SLP
<b>Empresa Municipal Aguas de Benalmádena, S.A.</b> Ref. No. Ap.Tivoli, s/n - Arroyo de la Miel (MÁLAGA)	50.00%	1.582	1.936	AUDINFOR
<b>Empresa mixta de Aguas de Jódar, S.A.</b>	49.00%	16	(34)	CENTIUM AUDITORES



**FCC AQUALIA AND SUBSIDIARIES (CONSOLIDATED GROUP)**  
**ASSOCIATES AND JOINTLY CONTROLLED ENTITIES (CONSOLIDATED BY EQUITY METHOD)**

COMPANY	FGD %	VNC 2016	VNC 2015	AUDITOR
Plaza de España, 1- Jódar (JAEN)				
<b>Aguas de Langreo, S.L.</b> C/Alonso del Riesgo, 3 – Langreo (ASTURIAS)	49.00%	874	857	AUDINFOR
<b>Empresa Municipal Aguas de Toxiria, S.A.</b> Plaza de la Constitución – Torredonjimeno (JAÉN)	49.00%	78	76	CENTIUM AUDITORES
<b>Empresa Municipal de Aguas de Linares, S.A.</b> C/ Cid Campeador, 7 - Linares (JAEN)	49.00%	186	482	CENTIUM AUDITORES
<b>Empresa Mixta de Aguas de Ubrique, S.A.</b> C/JUZGADO S/N - 11600 - UBRIQUE (CÁDIZ)	49.00%	76	52	DELOITTE
<b>Aquos El Realito, S.A. de C.V.</b> San Luis Potosí (MEXICO)	44.00%	5,884	4,910	DELOITTE MEXICO
<b>Orasqualia Devel. Waste Treatment Plant S.A.E.</b> 2112 South Tower – El Cairo (EGIPTO)	27.95%	8,942	19,779	DELOITTE
<b>Orasqualia Construction, S.A.E.</b> 2112 South Tower – El Cairo (EGIPTO)	50.00%	147	(147)	KPMG
<b>Orasqualia Operation and Maintenance, S.A.E.</b> Nile City Towers – El Cairo - EGIPTO	50.00%	553	668	DELOITTE
<b>Operadora El Realito S.A. de C.V.</b> Tomas Alva Edison 176- San Rafael-Distrito Federal (MEXICO)	15.00%	46	27	EY
<b>HA Proyectos Especiales Hidraulicos S.R.L. de CV</b> Neucalpan – MÉXICO D.F.	50.00%	1,111	200	GRANT THORNTON SC
<b>Nueva Sociedad de Aguas de Ibiza, S.A.</b> C/Bartolomé Rosselló, 18 - (IBIZA)	40.00%	82	61	-
<b>Proveïments d'Aigua, S.A.</b> Asturias, 13 - GIRONA	15.12%	433	396	ANTONI RIERA ECONOMISTES AUDITORS
<b>Sera.Q.A. Duitama, S.A.</b> COLOMBIA	30.60%	48	43	-
<b>Shariket Tahlya Miyah Mostaganem</b> Cit� Abdoni Ilot, 36 – Dar el Beida (ARGELIA)	25.50%	32.464	28,090	MUSTAPHA HEDDAD
<b>Shariket Miyeh Ras Djinet</b> Cit� Abdoni Ilot, 36 – Dar el Beida (ARGELIA)	25.50%	12,178	10,371	MUSTAPHA HEDDAD
<b>Suministro de Aguas de Quer�taro, S.A. de C.V.</b> Santiago de Quer�taro – Quer�taro Arteaga (MEXICO)	25.00%	368	441	DELOITTE
<b>Prestadora de Servicios Acueducto El Realito SACV</b> Bvd. Manuel Avila Camacho, 36. MIGUEL HIDALGO (MEXICO)	24.50%	1	1	-
<b>Total</b>		<b>65,877</b>	<b>71,129</b>	

Note: This appendix forms an integral part of the attached notes to the consolidated financial statements.



## APPENDIX IV

### FCC AQUALIA AND SUBSIDIARIES (CONSOLIDATED GROUP) UNINCORPORATED TEMPORARY JOINT VENTURES (UNIÓN TEMPORAL DE EMPRESAS – UTE)

NAME	PARTICIPANTS	GROUP INTERESTS %
UTE Abastecimiento Villalón	FCC Aqualia, S.A. – FCC Construcción, S.A.	80%
UTE Abu Rawash Construcción	Aqualia Intech-Orascom Cons.Industries	50%
UTE Agnita Eptisa - aisa	Aqualia Intech S.A - EPTISA	50%
UTE Agua Santo Domingo	FCC Aqualia, S.A. - Agua y energía	70%
UTE Aguas de Alcalá	FCC Aqualia, S.A. – Canal de Isabel II – SUFI, S.A.	50.00%
UTE Aguas del Doramás	FCC Aqualia, S.A. – Eicoh Explot. S.L. – Eléct. Maspalomas, S.A.	50%
UTE Aguas Tomelloso	FCC Aqualia, S.A. - FCC, S.A.	80%
UTE Aigües Els Poblets	FCC Aqualia, S.A. – HIDROSAL	95%
UTE Alkhorayef-FCC Aqualia	FCC Aqualia -Alkhorayef Water&Power	51%
UTE Ampliación ITAM Delta de la Tordera	Aqualia Intech, S.A. - FCC Construcción, S.A.	33.34%
UTE Aqualia Infilco	FCC Aqualia, S.A. – Infilco, S.A.	50%
UTE Aqualia Inima (Depuración poniente almeriense)	FCC Aqualia, S.A. – Inima, S.A.	75%
UTE Aqualia Riofabar Piloña	FCC Aqualia, S.A.	100%
UTE Bombeos Zona Sur	FCC Aqualia, S.A. - FCC, S.A.	99%
UTE Cangas	FCC Aqualia, S.A. - FCC, S.A.	50%
UTE Cap Djinet	Aqualia Intech, S.A. – Inima	50%
UTE Centro Deportivo Granadilla de Abona	FCC Aqualia, S.A. – FCC, S.A.	99%
UTE Colectores A Guarda 2012	FCC Aqualia, S.A. – DEMAIN, S.L.	50%
UTE Cons. Gestor Ptar Salitre	Aqualia Intech, S.A. - Cass Construct.s y Cia S.A.- Aktor Thechnical S.A. Col. Branch	30%
UTE Conservación Getafe	Conservación y Sistemas, S.A. -FCC, S.A.	99%
UTE Consorcio Louro	FCC Aqualia, S.A. – Civis Global, S.L.	99%
UTE Costa Tropical	FCC Aqualia, S.A. – Acciona Agua, S.A.	51%
UTE Costa Tropical II	FCC Aqualia, S.A. – Acciona Agua, S.A.	51%
UTE Costa Tropical III	FCC Aqualia, S.A. – Acciona Agua, S.A.	51%
UTE del Aeropuerto de Lanzarote	S.E. Aguas Filtradas, S.A. - Jaime e Isaac Rguez., S.A.	60%
UTE Denia	FCC Aqualia, S.A.	100%
UTE Depósito Hervencia	FCC Aqualia, S.A. – Aqualia Intech, S.A.	100%
UTE Desaladora Bajo Almazora	FCC Aqualia, S.A. – FCC, S.A. –FCC Construcción, S.A. – Aqualia Intech, s.a.	30%
UTE EDAM Oeste	Aqualia Intech, s.a. – FCCCO – Transformaciones y Servicios	50%
UTE EDAM Santa Eulalia	FCC Aqualia, S.A. – Aqualia Intech, S.A.	100%
UTE EDAR A Guarda	FCC Aqualia, S.A. – DEMAIN, S.L.	50%
UTE EDAR A Guarda 2012	FCC Aqualia, S.A. – DEMAIN, S.L.	50%
UTE EDAR A Guarda 2013	FCC Aqualia, S.A. – DEMAIN, S.L.	50%
Ute Edar Albuñol	FCC Aqualia- FCC Construcción, S.A.	50%
UTE EDAR Almansa	FCC Aqualia, S.A. - FCC, S.A.	95%
UTE EDAR Avila	Aqualia Intech, S.A. – Volconsa	100%
UTE EDAR Baeza	Aqualia Intech, S.A. – Explotaciones las Misiones, S.L.- Martín Casillas, S.L.	50%
UTE EDAR Chipiona	FCC Aqualia, S.A. – Sociedad Española Aguas Filtradas, S.A.	100%
UTE EDAR Cuerva	FCC Aqualia, S.A. - FCC, S.A.	95%
UTE EDAR Gijón	Aqualia Intech, S.A. – FCCCO – Degremont, S.A.	30%
UTE EDAR La Ranilla	FCC Aqualia, S.A. – Aqualia Intech, S.A. - FCC,S.A. – FCC Construcción,SA.	50%
UTE EDAR Reinosa	FCC Aqualia, S.A. - FCC, S.A.	99%
UTE EDAR San Claudio	Aqualia Intech, S.A. - FCC Construcción, S.A.	50%
UTE EDAR San Vicente de la Barquera	FCC Aqualia, S.A. - FCC, S.A.	99%
UTE EDAR Valdepeñas	FCC Aqualia, S.A. – Aqualia Intech, S.A. – FCC Construcción, S.A.	50%
UTE EPTISA - AISA (ZIMNICEA)	Aqualia Intech, S.A. - FCC Construcción, S.A.	50%
UTE ETAPS Este	FCC Aqualia, S.A. – Iragaz Watin S.A.	65%
UTE Explotación ITAM Tordera	FCC Aqualia, S.A. – Acciona Agua, S.A.	50%
UTE Explotación Piscinas Vigo	FCC Aqualia, s.a – Idonea CYS, S.L.	50%
UTE FCC-Aqualia-Salamanca	FCC Aqualia, S.A. - FCC, S.A.	95%
UTE Gestión Cangas	FCC Aqualia, S.A. – Civis Global, S.L.	70%
UTE Gestión Piscinas Vigo	Aqualia, S.A. – Idonea Cys, S.L.	50%
UTE Groupement Solidaire Jerba	FCC Aqualia, S.A. Aqualia Intech, S.A. – Inima, S.A.	50%



**FCC AQUALIA AND SUBSIDIARIES (CONSOLIDATED GROUP)**  
**UNINCORPORATED TEMPORARY JOINT VENTURES (UNIÓN TEMPORAL DE EMPRESAS – UTE)**

NAME	PARTICIPANTS	GROUP INTERESTS %
UTE Guadiana	FCC Aqualia, S.A. - FCC, S.A.	80%
UTE HIDC-HIDR-INV. Do centr ACE	FCC Aqualia, S.A. – Lena Ambiente	50%
UTE Ibiza	FCC Aqualia, S.A. – Acciona Agua, S.A.	50%
UTE Ibiza - Pormany EPC	FCC Aqualia, S.A. – Acciona Agua, S.A.	50%
UTE IDAM Janubio	FCC Aqualia, S.A. – Aqualia Intech, S.A.	100%
UTE IDAM Sant Antoni	FCC Aqualia, S.A. – Infilco Española, S.A.	50%
UTE IDAM Sant Antoni II	FCC Aqualia, S.A. – Infilco Española, S.A.	50%
UTE La Sagra	FCC Aqualia, S.A.	100%
UTE Louro	FCC Aqualia, S.A. - Movexvial	65%
UTE Mancomunidad de Órbigo	FCC Aqualia, S.A. – FCC, S.A.	99%
UTE Mérida	FCC Aqualia, S.A. - FCC, S.A.	99%
UTE Mostaganem	Aqualia Intech, S.A. – Inima	50%
UTE Nigrán	FCC Aqualia, S.A. - FCC, S.A.	99%
UTE Oviedo	FCC Aqualia, S.A. - Seafsa, S.A.	100%
UTE OYM Cap Djinet	FCC Aqualia, S.A. – Inima	50%
UTE OYM Mostaganem	FCC Aqualia, S.A. – Inima	50%
UTE PTAR Ambato	Aqualia Intech, S.A. - Alvarado Ortiz Constructores	60%
UTE PTAR San Silvestre	Aqualia Intech, S.A. - Construvías de Colombia S.A.	50%
UTE Ranilla Construcción	Aqualia Intech, S.A. – FCC Construcción, S.A. – CODESA	42.50%
UTE Redes CABB	FCC Aqualia, S.A. – Iragaz Watin S.A.	65%
UTE Redondela	FCC Aqualia, S.A. - FCC, S.A.	99%
UTE San Mateo	Aqualia Intech, S.A.	100%
UTE Saneamiento Canet y L'Almardá	FCC Aqualia, S.A. – Aqualia Intech, S.A. – FCC Construcción, S.A.	50%
UTE Santomera	FCC Aqualia, S.A. - FCC, S.A.	40%
UTE SCC Sice	Conservación y Sistemas, S.A. – SICE	50%
UTE Seafsa Lanzarote	SEAFSA – Jaime e Isaac Rodríguez	60%
UTE Sentinas	SEAFSA – Sampol	50%
UTE SGVV	Conservación y Sistemas, S.A. - ACISA	50%
UTE Sistema Integral Alacantí Sur	Aqualia Intech, S.A. – FCC Construcción, S.A. – Terceros	33%
UTE Sollanoko Ura	FCC Aqualia, S.A. - Iragaz Watin, S.A.	50%
UTE Tablada	FCC Aqualia, S.A. - FCC, S.A.	80%
UTE Tossa de Mar	FS Colaboración y Asistencia, S.A. - Tec-Rec, S.L.	20%
UTE Tunel Puerto Algeciras	Conservación y Sistemas, S.A. - FCC, S.A.	70%
UTE Ussa A	FCC Aqualia, S.A. – Iragaz Watin S.A.	65%
UTE Vigo	FCC Aqualia, S.A. - FCC, S.A.	99%
UTE Vigo Piscinas	FCC Aqualia, S.A. – Idonea CYS, S.L.	50%
UTE Villalón de Campos	FCC Aqualia, S.A. - FCC, S.A.	80%

Note: This appendix forms an integral part of the attached notes to the consolidated financial statements.



## APPENDIX V

### 2016

#### FCC AQUALIA AND SUBSIDIARIES (CONSOLIDATED GROUP) CHANGES IN THE SCOPE OF CONSOLIDATION

NAME	ADDRESS	GROUP INTERESTS %
<b>A) Full Consolidation additions</b>		
Aqualia MACE, LLC	UNITED ARAB EMIRATES	51%
<b>B) Removed from Full Consolidation</b>		
Aqualia Industrial Solutions, S.A. Unipersonal	SPAIN	100%
Depurtebo, S.A.U.	SPAIN	100%
Aqualia Management Solutions, BV	THE NETHERLANDS	100%
<b>C) Removed from equity method consolidation</b>		
Aqualia MACE, LLC	UNITED ARAB EMIRATES	51%

Note: This appendix forms an integral part of the attached notes to the consolidated financial statements.

### 2015

#### FCC AQUALIA AND SUBSIDIARIES (CONSOLIDATED GROUP) CHANGES IN THE SCOPE OF CONSOLIDATION

NAME	ADDRESS	GROUP INTERESTS %
<b>A) Full Consolidation additions</b>		
Aqualia Infraestructuras D.O.O. Beograd-Vracar	SERBIA	100%
Aqualia Infraestructuras Pristina LLC	REP. OF KOSOVO	100%
FCC Aqualia USA Corp.	USA	100%
<b>B) Additions consolidated by equity method</b>		
Operadora El Realito S.A. de C.V.	MEXICO	15.00%
<b>C) Removed from equity method consolidation</b>		
Generávila, S.A.	SPAIN	36.00%
Augas Municipais de Arteixo, S.A.	SPAIN	51.00%

Note: This appendix forms an integral part of the attached notes to the consolidated financial statements.



## 2016 DIRECTORS' REPORT

### WATER MANAGEMENT

#### SPANISH MARKET

In 2016 the trend that began last year of gradual recovery of billing volumes has continued. The gap between coastal and inland areas has been accentuated, such that significant growth in consumption is noted in the Balearic and Canary Islands and parts of Andalusia, while inland areas of mainland Spain continue to fall off or stagnate. In overall terms, the figures billed within a constant perimeter have grown by 0.62% and income for own items by 2.55%.

Political initiatives advocating the return of water-management services to local authorities ("remunicipalisation") are ongoing. Tarrasa District Council, Valladolid City Council and certain districts in the Barcelona Metropolitan Area are taking steps to remunicipalise their water-supply services when the current contracts expire.

At Aqualia, although still only in isolated cases, we have observed some similar initiatives, although the legal framework in which our contracts are developed does not lead us to expect any relevant risks for our business in the short term. We have won new contracts or secured extensions to existing ones for integrated-water-cycle concessions with a high loyalty rate (94.4) being shown by the local authorities we work with. The most significant of these are: Adeje (Tenerife), Empresa Mixta de la Costa Brava (Gerona), Yecla (Murcia), Rota (Cádiz), Ibiza (one-year extension until new tender process), Nigrán (Pontevedra), Santiago del Teide (Tenerife), Puebla de Don Fadrique (Granada), San Cristóbal (Segovia).

In parallel, major efforts have been made to increase our presence in the market for O&M of facilities (WWTPs, DWTPs, seawater desalination facilities), winning contracts including WWTPs at Valdebebas (Canal de Isabel II in Madrid), La Gavia (Canal de Isabel II in Madrid), Llanes (Principality of Asturias Water Consortium), Fraga and Huesca (Aragon Water Institute), Campiña Sur (PROMEDIO, Badajoz Provincial Council Public Water Company) and Baix Ebre (Baix Ebre Tarragona District), as well as Sollano DWTP (Bilbao City Council) and management of the water supply for Zaragoza and its metropolitan area (ACUAES Ministry of Agriculture and the Environment Public Company). We have focused our business on major public clients who acknowledge our technological added value and improved management, enabling us to maintain satisfactory profitability. Central and regional governments are not currently calling for tenders for major water-infrastructure concessions, mainly because of the tax-consolidation and debt-reduction process that the authorities are continuing to apply, thus increasing the shortfall in infrastructure renewal and growth. As an example, in the wastewater-treatment area, the average proportion of water in Europe that is treated with tertiary treatments (thereby enabling it to be subsequently reused) stands at 67%, while in Spain – the country with the greatest water stress in Europe, because of its climatic and hydrological characteristics — it is only 60%.

2017 will see some concession contracts that we have been fulfilling for the integrated water cycle expire, accounting for an annual turnover of EUR 47M, as well as O&M contracts worth EUR 30M. Similar renewal rates to those this year are expected to be maintained.

Also close to term end are several major contracts operated by other firms in the sector (Lugo, Pontevedra, San Cugat, Manises, Requena, Villareal, Fuengirola, etc.). This means that the market is likely to be more active than this year and therefore offer more opportunities to win contracts.



We also fully intend to develop new activities that are in addition or complementary activities to our core business, including: O&M and refurbishment of water plants (process and dumping) for industry; Smart City Services (remote control and management, remote meter-reading, etc.) In this field, in 2016 we contracted the installation of a global remote-control system for the water supply in Salamanca, as well as industrial-treatment refurbishment works in Pontevedra and Cuenca.

Continuing the efforts made in 2016 in the O&M sector, 2017 is expected to provide major opportunities in regional sanitation boards, where we hope to strengthen our presence (Valencia Region, Balearic Islands and Murcia Region).

In the water-infrastructure area, in 2017 various concessions are likely to be opened up in treatment infrastructure, at least in Castile–La Mancha and Extremadura, to progress with compliance with the Wastewater Treatment Plan, which is very deficient in rural areas, and subject to sanctions for infringements of EU requirements.

With the coming to power of the new government in the last quarter of 2016, legislative initiatives and transfers of EU directives have been reactivated. At the time of preparing this report, an extensive amendment of the Public Sector Contracts Act is being brought through. Its effects on the sector will mostly be related to the solvency to be required from tenderers, adaptations to concession terms, reviews of the cause of claims for financial imbalance in concessions, and regulation of the review system for tariffs in contracts. No progress has been made with the setting-up of a state regulator, despite the considerable demand from all the stakeholders involved (trade unions, FEMP, AGA).

As part of our company's ongoing policy to strive for efficiency in our operational management, major efforts have been made in 2016 to cut costs. The Central Procurement Department has renegotiated electricity-supply contracts, reviewing the power-rating terms contracting, adjusting process timetables (pumping, etc.) and improving hydraulic performance in capture and distribution networks, which has also led to a reduction in the amount of water being purchased and energy consumed.

Our own network of accredited laboratories has been restructured to make it more efficient in both operational and financial terms. Likewise, steps have been taken to set up district teams for drain-cleaning tasks; control and reduction of outsourcing; renegotiation of bank commission applied to the management of standing-order payments in billing consignments; incentives and new campaigns to foster the use of e-billing (eliminating the use of paper and the associated costs), and streamlining the procedures related to investigating cases of fraud among customers.

Also in 2016 we have strengthened our social action and awareness campaigns. A large number of agreements have been entered into with local authorities, fostering regulatory changes to avoid customers at risk of exclusion having their water supply cut off if they cannot pay their bills. The employers' association in the sector has reached an agreement with the trade union UGT to protect jobs in the sector. Two conferences have been held, in Seville and Toledo, to disseminate the advantages of public–private partnership and management models in the water sector. Our RDI initiatives and projects have also been widely disseminated.

## **INTERNATIONAL MARKETS**

Within the international sphere, FCC Aqualia is focusing its commercial activities in 2016 in Europe, North Africa, the Middle East and Latin America.



In the Americas, the deficit in water infrastructure increases FCC Aqualia's growth options, which have multiplied after the FCC's withdrawal exit from the capital of Proactiva, a company in which it was partnered with the French operator Veolia.

In Mexico, the experience gained with the BOT contracts for Acueducto II and Realito is being put to good use by planning for similar projects, where more demanding technical and financial capacities have made FCC Aqualia a benchmark. Concerns about the efficiency of the water services in some Mexican districts are increasing. This, together with limited federal subsidies, means that opportunities to participate in management are on the rise, mostly under mixed-enterprise arrangements. Finally, the recent energy reform has led the national oil company to seek to modernise, launching an interesting partnering process for its water services, in which Aqualia is involved.

In Colombia, where FCC Aqualia won two major contracts this year, for the El Salitre (Bogota) and San Silvestreen (Barrancabermeja) WWTPs, business opportunities have been detected for the management of integrated services under municipal-concession models and for the design, build and financing of water infrastructure for wastewater treatment.

In Peru, the national government is currently assessing the efficiency of its utilities with a view to shifting to private initiatives for those presenting the worst management indicators.

In Chile, the mining sector is about to offer some interesting business opportunities for the production of desalinated water for mines.

Significant water-infrastructure programmes that are under way in Paraguay and Panama are also being followed with interest. In Panama, in particular, several joint construction and operation projects have already been presented in 2016, including drinking-water treatment and wastewater treatment, which will continue in 2017.

In Portugal, hardly any new tender processes were launched for municipal-services concessions in 2016. The concessions business is expected to be reactivated after the local elections in the last quarter of 2017, spurred by the budget deficit suffered by local authorities and the need to invest in infrastructure. As an add-on to our concessions business, opportunities are being explored related to providing services for subsidiaries of the state water company. Finally, technology- and network-related aspects of our contracts have benefited from the application of EU funds (POSEUR) for infrastructure improvements.

In Italy, the emergence of the national regulator 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 as a spur to new opportunities for public-private partnership with Local and Regional Authorities. New concessions are expected in northern Italy (Piacenza and Rimini) as well as the concentration of water management around larger geographical units. Compliance with Community legislation on sewage treatment will speed up the implementation of EU funds to implement new infrastructure, or rehabilitate or increase the capacity of existing infrastructure. Thus, the country's public water companies have been launching tender processes for the construction and operation of infrastructure.

In the Czech Republic, the new regulatory framework has eliminated the tariff incentives that were applied to investments by asset-holding companies, although the impact of this could be offset in part by the recognition, for tariff purposes, of all the costs related to greater efforts made in preventive maintenance of water infrastructure that is owned by operators. Tender processes are expected for the private-management contracts for water and sanitation in major urban areas in northern Bohemia and southern Czechia, and new leasing contracts without including investment by the operator are also likely.





In France, considerable activity is expected in the coming years as the terms of contracts historically managed by the leading French water companies run their course. Breaking through the traditional barrier against entry in this market is not expected to be easy, although the high prices currently being charged for water services by the traditional operators could encourage local authorities to turn to new operators. Similarly, the local organisational structure for the management of public services in conurbations has led to a new political climate of transparency and effective management, one likely to attract new operators into management.

In the UK, water and sanitation services are managed by private firms who own the assets, mostly controlled by financial investors. Entry into this market will be oriented towards providing these asset-owning firms with high-added-value services, as in the case of the contracting of a pilot plant for the elimination of nutrients in sludge dehydration for Thames Water.

In the Balkans, the most commonly found business model is EU-funded works contracting, with a view to complying with EU regulations on urban-wastewater treatment. There is also talk of private participation to finance water infrastructure, although still see a long road ahead until this is finally 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 this year, in particular, Aqualia has been awarded a contract for the design, build and operation of El Alamein desalinisation plant, with a capacity of 150,000 m<sup>3</sup>/day under conditions that guarantee completion regardless of the economic instability that the country is suffering.

The country's tax and trade deficit, high interest and inflation rates and limitations accessing strong foreign currency have forced the Egyptian government to apply economic measures such as public-spending cuts and free flotation of the Egyptian pound. These measures have resulted in the currency being devalued by more than 100% and a certain paralysis in foreign investment in the country.

In this regard, the project to build, finance and operate the Abu Rawash treatment plant, which was awarded to a consortium including FCC Aqualia via its subsidiary in partnership with the EBRD, is expected to be redirected towards a contractual EPC project, with an increased scope to be completed but financed against state funds. Water scarcity in Egypt has caused the Ministry of Defence to tender large desalination plants to supply the population in the Mediterranean and the Red Sea. And the expansion of the Suez Canal and the 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 serious reduction in earnings from oil is forcing nations in the Gulf to withdraw subsidies and use private initiatives to develop their water-infrastructure projects.

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



Oman will continue developing its desalination plan through public-private initiatives and in the UAE it is expected that tender processes for O&M and construction of desalination plants will be launched with models of this type.

In 2016, FCC Aqualia strengthened its commercial- prospecting business in the United States, mostly in Florida, California and Texas. The scarcity of water, obsolete water infrastructure and poor penetration by private operators in the sector are the main driving forces for growth in these states.

### **PROCUREMENTS AREA**

In the domestic market there has been little activity in municipal concessions, partly because of the presence on local councils of groups who are against public-private partnership systems, as well as the political uncertainty caused by the delay in forming a national government. Nevertheless, tender processes for O&M services have remained at their usual levels. Despite this scenario, the following new contracts are worthy of note:

- Madrid (Madrid), O&M service at La Gavia WWTP, awarded by Canal de Isabel II, for a term of 4 years, worth EUR 11.5M.
- Madrid (Madrid), O&M service at Valdebebas WWTP (lot II), awarded by Canal de Isabel II, for a term of 4 years, worth EUR 6.3M.
- Zalla (Vizcaya), O&M and conservation service at Sollano-Zalla DWTP, Ibarra pumping station (Zalla) and Berrón pumping station, awarded by Bilbao City Council for a term of 4 years, worth EUR 4.6M.
- Puebla de Don Fabrique (Granada), municipal concession for management of the water supply, sewerage and wastewater-treatment service for a term of 20 years, worth EUR 4.6M.
- San Cristóbal de Segovia (Segovia), municipal concession for integrated management of the water service for a term of 15 years, worth EUR 4.5M.
- Llanes and Ribadedeva (Asturias), O&M and conservation of public sanitation systems, awarded by the Principality of Asturias Water Supply and Sanitation Service (CADASA), for a term of 4 years, worth EUR 3.9M.

Renewals, increased scopes and term extensions of contracts already managed by FCC Aqualia in Spain include:

- La Adrada (Ávila), municipal concession for management of the water supply and sanitation for a term of 15 years, worth EUR 8.3M.
- Guijuelo (Salamanca), construction and operation for 21 years of local infrastructure, worth EUR 13M, awarded by Guijuelo District Council.
- Ebro Corridor (Zaragoza), new water supply services in Zaragoza province: Zaragoza and Ebro and Lower Ebro corridor in Aragon, awarded by Aguas las Cuencas de España, S.A., for a term of 2 years, worth EUR 2.9M.



- Vigo (Pontevedra), maintenance of facilities and operation of covered swimming-pools (Traviesas, Lavadores, Teis and Valadares), for Vigo City Council, for a term of 1 years, worth EUR 2.8M, awarded to a JV in which FCC Aqualia has a 50% stake.
- Costa Brava (Gerona), treatment services awarded by the Costa Brava Consortium to a JV in which FCC Aqualia has a 37.5% stake, for a term of 2 years, worth EUR 26.2M.
- Ibiza (Balearic Islands), municipal concession for water supply and sanitation for a term of 1.2 years, worth EUR 11.1M.
- Nigrán (Pontevedra), municipal concession for water supply and sanitation for a term of 5 years, worth EUR 10M.
- Rota (Cádiz), municipal concession for water supply for a term of 4.2 years, worth EUR 9.5M.
- Santiago del Teide (Santa Cruz, Tenerife), municipal concession for water supply for a term of 5 years, worth EUR 9M.
- Yecla (Murcia), municipal concession for water supply for a term of 4 years, worth EUR 4.9M.
- Pola de Lena (Asturias), municipal concession for water supply and sanitation for a term of 5 years, worth EUR 4.2M.
- Sant Antoni de Portmany (Balearic Islands), municipal concession for water supply and sewerage for a term of 1 year, worth EUR 3.9M.
- Santa Eulària des Riu (Balearic Islands), municipal concession for water supply and sewerage for a term of 1 year, worth EUR 3.2M.

On the international market, FCC Aqualia has continued to be actively involved in international tender processes in various areas, including:

- In Europe, the company won a contract to manage the sanitation and treatment service in the Dolni Lutyne district in the Czech Republic for a term of 5 years, via its subsidiary SmVaK, and has also won a contract to build the sanitation system and wastewater-treatment plant at Berane in Montenegro, worth EUR 10.9M.
- In North Africa, FCC Aqualia was awarded a contract by the Egyptian defence ministry, via its subsidiary Aqualia Intech S.A., to design and build a reverse-osmosis desalination plant at El Alamein, worth EUR 114.6M.
- In the Middle East, a contract has been won to modify water networks and services affected by the building of Riyadh Metro line 6 (Saudi Arabia), worth EUR 12.6M. Tenders were also submitted in Bahrein, Oman and the UAE, still pending award at the time of preparing this report.



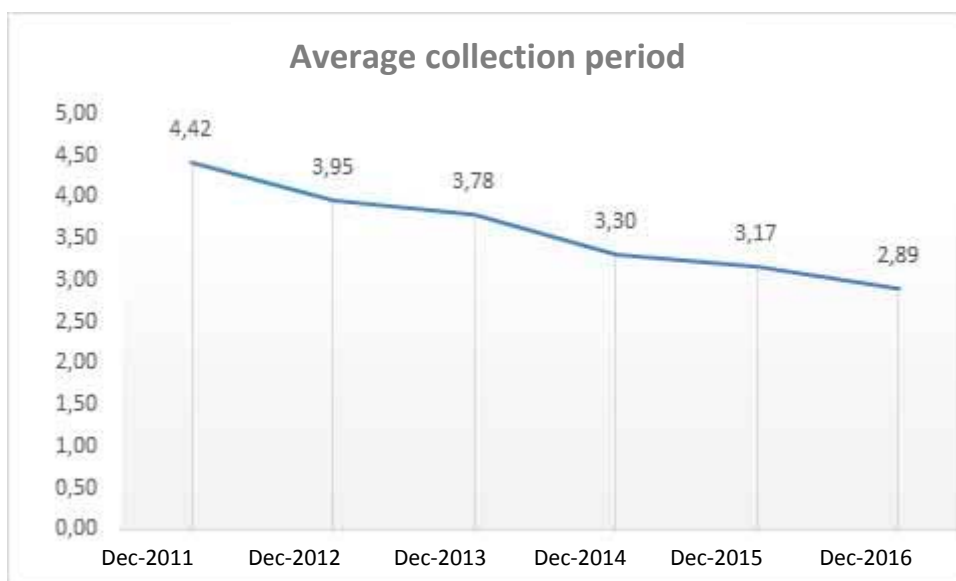
In Latin America, FCC Aqualia has won major contracts in Colombia, Ecuador, Mexico and Chile. The most significant are:

- Contract for the design, build, supply and installation of equipment and assisted operation for the extension of El Salitre WWTP in Bogota, worth EUR 377.4M, awarded to a consortium in which FCC Aqualia, through its subsidiary, Aqualia Intech S.A., holds a 30% stake.
- Contract for the design, build and operation of San Silvestre WWTP in Barrancabermeja (Colombia) worth EUR 33.9M, won by FCC Aqualia as a member of a consortium (50%) through its subsidiary Aqualia Intech SA.
- In Ecuador, a contract has been won to build Ambato water-treatment plant and the sewerage system, worth EUR 23.4M, with a 60% in the consortium via the subsidiary Aqualia Intech SA.
- In Texcoco (Mexico), a contract has been won, also through the subsidiary Aqualia Intech S.A., to modernise, commission and operate Contracorriente WWTP, worth EUR 4.7M.

### CUSTOMER MANAGEMENT

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 area we have implemented the Balanced Scorecard management tool, which enables us to link strategies and key targets to performance and results. This enables us to continually improve our processes to the extent that we have reached an average collection period of 2.89 months, with the following evolution:





In 2016 we carried out a campaign to encourage the use of e-billing, replacing hard-copy bills, which has enabled us to increase the number of customers who help us in our efforts to be environment-friendly by 73.9%, with 122,014 customers now opting to be billed digitally.

In our efforts to minimise the difference between the water supplied to the network and that actually consumed, we not only constantly renovate the networks to minimise leaks, but we also devise plans to detect fraudulent acts and uses of drinking-water. In 2016 we detected 9,359 cases of fraud, totalling EUR 2.9M. We have also upgraded 143,496 meters.

Aware as we are that our customers have constantly increasing expectations regarding the quality with which they interact with the company, in 2016 at FCC Aqualia we have gone beyond the concept of multichannel customer service to a single-channel experience for dealings with the company.

We have integrated the presence office, contact centre and mobile-device apps such that they all interrelate in real time, so that any customer who has started to communicate via one medium can then switch to another to continue, if they prefer, without altering their experience as an FCC Aqualia customer.

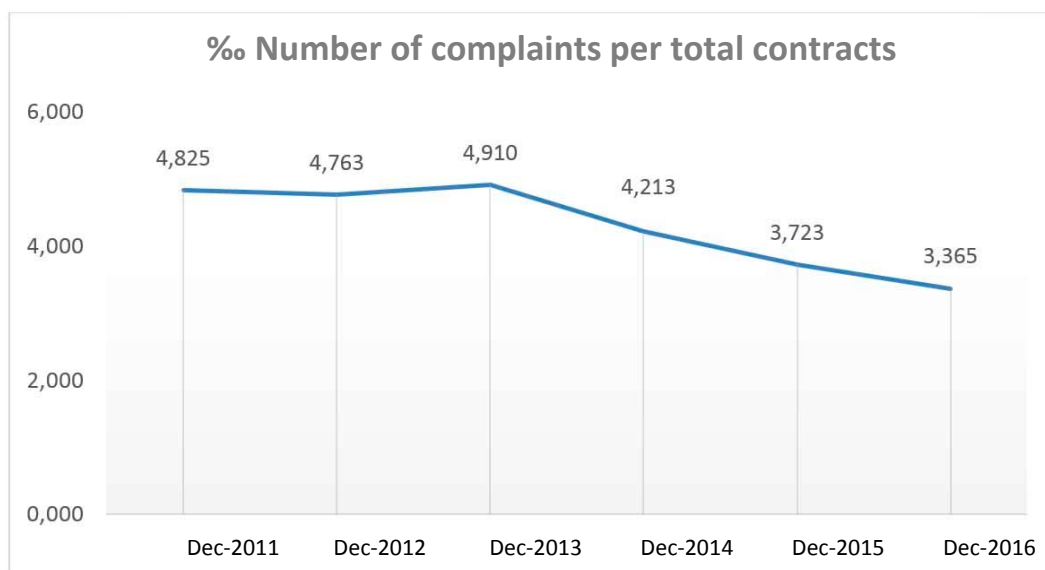
The telephone care service, through the Customer Care Centre (Aqualia Contact), not only enables customers to perform all their transaction without having to travel to the company's offices, but since it is available 24 hours 365 days a year, it also minimises the response time for resolving faults in distribution networks, with the consequent saving 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 care service received 729,282 calls during the year, offering its care in 6 languages (Castilian, Galician, Catalan, English, German and French). This year we have surveyed 235,242 customers using Aqualia Contact, of which 170,308 graded the service as excellent, 36,234 as very good and 18,399 as good, i.e. an overall degree of satisfaction of 95.62%.

The third communication channel is a 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 district. 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.

In 2016 FCC Aqualia has made available for customers a new channel for communicating with the company: Smartaqua, which is our app for mobile devices. It allows users to carry out every action associated with the services that the company provides, whenever the customer wishes, wherever they are, in the simplest and most convenient way, to give them a complete overview of their interactions with us. This new channel, as with the others, interacts in real time with our systems to give our customers a single-channel experience in their dealings with the company.

The efficiency of these communication channels has once again enabled us to reduce the number of customer complaints, which in 2016 reached record low levels.



The average response time to complaints is 16 days.

The average time for installing a meter after receiving a new subscription request was 7 days.

Although the power to set tariffs and regulate the services provided for the integrated water cycle in Spain is the sole responsibility of the government, at FCC Aqualia we actively pursue social-action mechanisms for tariffs and solidarity funds for our most underprivileged customers. We have also improved our liaison with local authorities' social services to protect clients at risk of social exclusion. In December 2015, FCC Aqualia entered into a partnership agreement with Caritas Española to support Caritas initiatives to combat poverty and inequality and improve living conditions for people in situations of vulnerability or exclusion in locations where both organisations are present.

In 2016 FCC Aqualia renegotiated with the major Spanish banks the commission on bill payments arranged by standing order, obtaining an average discount of 57.9 %. The impact of these lower bank-commission costs will be noted in next year's accounts.

## **SUSTAINABLE MANAGEMENT**

It is a priority goal for FCC Aqualia to support the company's strategy regarding compliance with the UN's sustainable-development objectives, particularly in respect of our sector and stakeholders:

- No. 3. Foster general welfare.
- No. 6. Sustainable water and sanitation.
- No. 8. Foster sustained economic growth.
- No. 9. Build robust infrastructure.



- No. 11. Achieve sustainable cities.
- No. 12. Assure sustainable production and consumption.
- No. 13. Adopt urgent measures to combat climate change.
- No. 14. Conserve marine resources in a sustainable way.
- No. 15. Combat desertification and protect biodiversity.

We also plan to continue with the strategy of shared-value creation to meet our stakeholders' expectations and further explore tools that will enable us to determine and measure our social and environmental impact, supporting our creation of economic value and making us more competitive (calculating social and environmental footprints).

Specifically, in 2016 we have worked on the following issues:

- Adapting the management system to the structure of the latest versions of the standards ISO 9001 and ISO 14001, published in 2015.
- The following concepts have been built into and adapted to the management system: leadership, context, stakeholders, risks, life cycle, biodiversity and climate change.
- Adapting the management system to the new company's new functional and territorial organisation.
- The management system has been adapted to the company's new organisation.
- The system's governance model has been adapted to the company's new organisational structure and geographical areas established.

Climate change.

Carbon-footprint calculation.

- Calculation and verification of the FCC Aqualia's carbon footprint in Spain in 2015.
- Registration of FCC Aqualia in the MAGRAMA Carbon Footprint Register in 2015.

Carbon-footprint reduction.

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

Carbon-footprint offsetting.

- We are ready to launch a project to offset the carbon footprint that also has a significant social component.

Energy management.

- Implementation of the energy-management system in Spain in compliance with RD 56/2016, which has led us to perform energy audits on 85% of the company's consumption, covering 78 contracts with consumption of more than 293,000 MWh.

Environmental management.

- Establishing the environmental system at Caltaqua with the implementation and certification of the standard ISO 14001 at a pilot facility.
- Business continuity.
- Analysis of the appropriateness of implementing and integrating applicable standards: ISO 31000 (Risks), ISO 27001 (Data Security), ISO 22301 (Business Continuity), ISO 55001 (Assets), ISO 22000 (Food) and EN 15975-1 (Water Crisis) and EN 15975 (Water Risks), Water Security Plans Model (PSA, OMS-IWA).
- Analysis of applicable legislation: Critical infrastructure, water-consumption directives, Data Protection Act, etc.



Participation in Standardisation Committees and Expert Groups. AENOR Excellence Model Standardisation Committee, CEN/PC 420. AEN/CTN 309 on Horizontal Standards for Services and AEC Customer Experience Committee.

In 2016 the calculation of the carbon footprint of all Aqualia's activities has been updated and registered in the Carbon Footprint Register at the Ministry of Agriculture, Food and the Environment on 9 August 2016, under code No. 2016\_00\_a200, duly verified by AENOR.

The Greenhouse Gas Report has been prepared in accordance with the requirements under the standard UNE-EN ISO 14064-1: "Greenhouse Gases. Part 1: Specification with orientation, at the organisation level, for quantification and reporting on 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 coming into force in February of RD 56/2016 on Energy Efficiency, this year we have continued to implement the plan agreed with AENOR to adapt to compliance with the decree, enabling us to certify the entire organisation under the standard ISO 50001. For this purpose, energy audits have been planned for 78 contracts, with total consumption of more than 293,000 MWh, i.e., 85% of the company's total consumption, as required under the applicable regulations for reporting to the relevant authorities in the various 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.

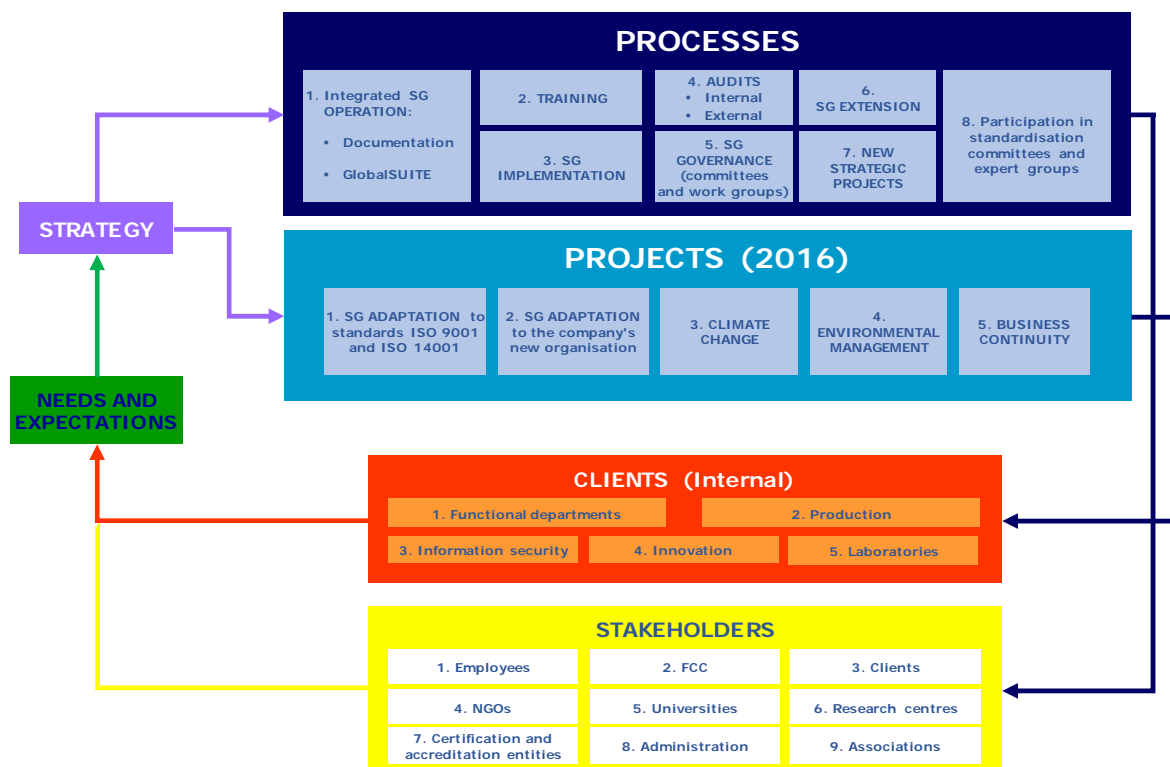
Additionally, a strategy has been fixed with the company's stakeholders to incorporate the handling of Aqualia's interest groups into the management system, as a requirement under the new standards and to support the company's other departments in their day-to-day tasks (Customers, CSR, Communication, etc.).





- Employees.
- Shareholders.
- Customers.
- NGOs.
- Universities.
- Research centres.
- Certification and accreditation entities.
- Public authorities.
- Associations.

The relationship between processes and projects developed with clients and stakeholders is shown in the diagram:



## ENERGY MANAGEMENT

In December 2015, our transversal Energy Efficiency Work Group began to operate in response to procedure GE-301 of the energy-efficiency system, which establishes as duties of the Operations Department the preparation of a "Guide to Best Energy Practices" to be disseminated throughout the organisation.

In this regard, in 2016 projects have been undertaken to address the energy efficiency of drinking-water pumping stations, which account for 40% of the company's electricity consumption, and the efficiency of WWTPs, which use 38% of the energy that the company consumes.

The aim of the first of these is to prepare a complete practical guide for evaluating energy losses that can be recorded at each component of a raising station, from the electricity input to the final drive, considering as such any losses of heat, electricity or water. Once it has been published and disseminated, the service head or personnel in charge of the facility will have a manual that they can use to evaluate in a comprehensive, well-planned fashion the facility's status and room for improvement.

The idea behind the second project is to analyse the situation in order to determine the operating mode, functioning and performance of all the equipment involved in wastewater-treatment processes (pumping, stirring, aeration, lighting,



etc.), the state of their components, their energy consumption and their specific weight in the electricity costs of operations, with a view to:

- Improving the energy efficiency and savings of systems
- Adapting facilities to the applicable regulations, as appropriate
- Being able to obtain savings following the observations made.
- 

In summary, the issues to be addressed in the tasks identified above are:

- Performing energy audits
- Analysing the processes and systems at facilities
- Proposals for improvements to assure the energy optimisation of facilities.

In 2016 studies were carried out at treatment plants in Estiviel (Toledo), Ávila, Santa Catalina (Jaén), Las Galeras (Puerto de Santa María) and Huesca.

As a result of these initial studies, a capacity for saving of around EUR 620,000 has been detected. This will be studied in each individual case to determine any opportunities for undertaking the improvements proposed.

The project will be run over a number of years. Scheduled for 2017 is the inclusion of another set of facilities, including some from the International Division.

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

In May 2016, the “Plan to Reorganise FCC Aqualia's Network of Drinking-Water Laboratories” was implemented.

The plan is to shift from a network of 27 laboratories — five of which are accredited by ENAC under the standard UNE EN 17025, while the other 22 have a certified management system under UNE EN 9001 and UNE EN 14001 — to a network of eight accredited and two certified laboratories.

The new networks will have a much higher accreditation scope than at present, with a production capacity for "control" and "tap" analysis accredited for a number of samples that is 3.7 times greater than at present and 30% higher in terms of its capacity to perform "full" analyses”. The new network will also be able to use new analytical techniques, which until now have been outsourced to other labs, including radioactivity, the costs of which are particularly high when they are outsourced.

With the new organisation, the company's network of laboratories will be in a position to respond to the requirements under Directive (EU) 2015/1787 of the European Commission, which establishes in Appendix II that all drinking-water analysis must be accredited under the standard EN ISO/IEC-17025.

## **INNOVATION AND TECHNOLOGY**

In line with our strategic planning, FCC Aqualia's innovation activity has been extended further in 2016 by adding a new eco-efficiency line to the three previous development areas — sustainability, quality and smart management — thanks to three new European projects under the H2020 programme.



The new line has integrated two projects that have been extended for another six months until the end of 2016, to consolidate the following results:

- Renovagas, co-funded by the Innpacto del Mineco programme, and led by Enagas, in October 2016 installed at the Jerez WWTP a methane-enrichment prototype, using the CO<sub>2</sub> from biogas and hydrogen produced with renewable electricity. Thanks to the catalytic reactor developed by Tecnalia, in 2017 the quality of the biofuel produced will be demonstrated for two vehicles, which were delivered with another project being run in tandem (Smart Green Gas).
- CleanWater, with a 50% subsidy from the EU Eco-Innovation programme, has demonstrated a new way of manufacturing hypochlorite on site at water plants, thereby avoiding the risks of using and transporting chlorine gas. In addition to the reuse of wastewater at the Almeria facility at the beginning of 2016, in September pre-oxidation began at the Denia desalination plant. A third machine was introduced at Nigrán in early 2017. Also in the eco-efficiency area, the multi-year project Smart Green Gas is continuing under the CDTI programme of the National Business Research Consortia (CIEN). FCC Aqualia leads a consortium of five firms (Gas Natural Fenosa, Naturgas/EDP, Ecobiogas, Diagnostiq, Dimasa Group) to develop efficient infrastructure for the production and management of biomethane networks. Aqualia's first actions in Jerez and Aranda de Duero have demonstrated that the quality control of the biomethane is sufficient to power vehicles.
- In the sustainability area, the European All-gas project (production of bioenergy from wastewater treatment) has entered the final stage of large-scale demonstration, with the construction of 2 hectares of algae crops and a 2,700 m<sup>3</sup> digester. In 2017, the transformation of up to 2,000 m<sup>3</sup>/d of municipal effluent into biomethane to power up to 20 vehicles will be demonstrated. Once car has already been running since the summer of 2016 using the biomethane produced by the 1000 m<sup>2</sup> prototype.

In the quality area, five projects are currently running, most of which are cofunded by the EU:

- The Life Memory project has commissioned a 50 m<sup>3</sup> reactor at Alcázar de San Juan, demonstrating the technical and economic feasibility of an innovative new technology, an Anaerobic Bioreactor Membrane (SANMBR), which enables the conversion of organic matter contained in wastewater into biogas. We achieved a reduction in energy consumption and CO<sub>2</sub> emissions by up to 80%, 25% less space requirement compared to conventional aerobic EDARs and a reduction of around 50% in sludge production.
- Life Biosol (Biosolar water reuse and energy recovery), led by the French SME Heliopur, has now completed the first demonstration stage at El Centa (Seville). The new solar wastewater treatment enables the water to be reused and organic waste to be recovered. Implementation on a larger scale at Almería WWTP is being assessed.
- Biowamet BESTF2 is being developed under the European ERANET programme, in partnership with Southampton and Delft universities. In synergy with the Life Memory project on anaerobic reactors with membranes, it is being implemented at a small EDAR in the Lower Ebro to obtain bioenergy and reusable water.
- Life Methamorphosis. Aqualia leads a consortium of six entities (Metropolitan Area of Barcelona, FCC SA, Gas Natural, Icaen and Seat) to implement at the Besós Ecopark, managed by FCC, three newly developed



technologies: AnMBR, ELAN (autotrophic nitrogen removal) and a biogas washing system. The final product would be a biomethane that can be injected into the natural gas grid or used as car fuel.

- Innova E3N (energy efficient nitrogen removal). Following the Innova Impactar project funded by the Cantabria regional government, the pilot project implemented in the Santander sewerage network will be optimised to demonstrate compact decentralised treatment plants.

In the smart-management area, two European projects are in progress:

- Motrem, selected under the Water JPI initiative, is led by Rey Juan Carlos University in Madrid, together with three other universities in Finland, Italy and Germany. The project assesses new technologies for the control and treatment of emerging pollutants in the current line at municipal WWTPs, with particular emphasis on the reuse of water.
- Life Icirbus (Innovative Circular Businesses), led by the Intromac technology centre, brings together eight firms to demonstrate the reuse of treatment-plant waste for building materials and generating bio-fertilisers at two plants in Extremadura.

In 2016, FCC Aqualia has launched six new projects:

In the sustainability area, two projects under the European H2020 programme:

- Incover, a project led by the Aimen technology centre and Aqualia as the leading firm in a consortium of eighteen entities from seven countries. This project creates synergy with existing facilities and the knowledge acquired in All-gas to extend the use of algae biomass in products of higher value, such as bio-fertilisers and bio-plastics, and improve the production of reusable water.
- Sabana, led by the University of Almería, with Aqualia as the main principal industrial partner, together with Westphalia (Germany) and the Italian food group Veronesi in a consortium of eleven entities from five countries (also the Czech Republic and Hungary). The aim is to install 5 hectares of crops and a bio-refinery to achieve new bio-fertilisers and bio-pesticides as alternatives to chemical products, by using microalgae, to open the way to agriculture that is "safer" both for consumers and for the environment.

In the quality area, two projects are focusing on more sustainable treatment plants:

- The Pioneer project, as part of the European ERA-NET Cofund Water Works programme within the WATER JPI initiative, led by the USC, partners Aqualia with a network of universities (Verona/IT, DTU/DK and KTH/SE) to improve the elimination of micropollutants and reduce the environmental impact of treatment with technologies such as ELAN and estruvite precipitation.
- Medrar, co-funded by the Conecta Peme programme to foster RIS 3 priorities identified in Galicia and supported by the European Regional Development Fund, has the objective of improving treatment in small towns and villages. Together with two SMEs and led by the USC, compact automated modules are being developed, integrated into the rural environment, with minimum impact and costs.

In the eco-efficiency area, two European projects are focusing on the development of new bio-electrochemical processes:

- The H2020 Mides project aims to revolutionise desalination by reducing the energy cost tenfold compared with conventional reverse osmosis. The technology used — the microbial desalination cell (MDC) was developed with Imdea Agua (in a previous IISIS project) — allows waste organic material (from effluents) to be used to activate bacteria that displace salts via membranes with no need for external energy sources. The project is mobilising eleven partners from seven countries to implement the technology and install three demonstration units on three continents (Spain, Africa and the Americas).
- The Life Answer project, led by Mahou, also involves the University of Alcalá de Henares, which has developed the microbial-treatment-cell technology (fluidised MFC, in a previous Itaca project). The aim is to demonstrate the technology at Mahou's brewery in Guadalajara to achieve energy savings, combining it with an electro-coagulation pretreatment to enable aluminium to be recycled.

Sustainability	Eco-efficiency	Quality	Smart management
<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>✓INNERCONECTA Alegria (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>✓CONNECTA 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>✓INNERCONECTA Smartic (2014*)</li> <li>✓FP7 UrbanWater (2015*)</li> <li>✓CDTI WATER JPI Motrem (2017)</li> <li>✓LIFE Icirbus4industries (2019)</li> </ul> <p>(*) Completed projects</p> <p><b>Updated December 2016:</b></p> <p>Completed 18 In progress 17</p>

Over the course of 2016, researchers at FCC Aqualia have secured two new patents for biogas production and purification:

- EP 14382399.5 on the implementation of a UASB anaerobic reactor
- EP 15382087.3 on biogas washing and the elimination of H<sub>2</sub>S and CO<sub>2</sub>

Also during the year five patent applications were made for different demonstration technologies: ELAN, AnMBR, MDC, MFC and estruvite crystallisation.



With regard to publications and participation at significant scientific conferences and events, of particular note was the organisation of the IWA Leading Edge Technology event in Jerez in June. It was attended by 450 participants from 45 countries, and Aqualia managers were actively involved in the programme to present to progress being made in their work.

Aqualia was also invited to participate in a number of 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
- Water Technology Summit, Toronto (ON) in October
- Latin-American Desalination Congress, Santiago (Chile) in October
- Algae Biomass Summit, Phoenix (AZ) in October
- Hyundai Engineering and Construction Conference, Seoul (SK) in November
- GWI American Water Summit in Miami (FL) in December

## **COLLECTIVE BARGAINING AND PERSONNEL ADMINISTRATION**

Collective bargaining and industrial relations:

With regard to collective bargaining, stability was maintained within the sector with the consolidation of the fifth State Water Agreement in 2016, facilitating relations with the majority trade union owing to the applicability of extensive agreement regulations, resulting in fewer disputes at the applicable workplaces. Also, as a result of the consolidation and extension of the fifth State Water Agreement, to which various workplaces have adhered, there has been a 5% reduction in the number of applicable agreements compared with those applied or in force in 2015.

With regard to wage-increase negotiations under agreements, the Agreement for Employment and Collective Bargaining has been used as the reference framework, with agreements being reached with no conflict whatsoever with workers' legal representatives.

With regard to employment-related litigation cases taken to court, and the corresponding employment settlements, the outcomes obtained show that the number of cases going to court has fallen by 12.5% compared with 2015, and only 10.71% of cases in which the court found against the company at the first instance, with judgments in favour being issued in 23.81% of cases and settlements with the plaintiffs in 32.14%. These data show a reduction in ongoing industrial disputes and a satisfactory outcome for court cases.



With regard to disputes ending in strike action, in 2016 two strikes were called (three in 2015), one of which was settled with zero time lost to effective strike action after a settlement was reached with the workers, and in the other case only one day of strike action (24 days in 2015), and even then it was not the result of any actions by the company, as it was a strike for the tele-operators sector supported only by a minority of workers (only 5% of the workers at the workplace, including RLT) revolving around sector negotiations on the applicable agreement.

Personnel administration:

Various actions were carried out to continue the efforts to decentralise and optimise administrative processes begun in 2015.

These included the redistribution of personnel-administration tasks performed by operations managers in order for them to be taken over by personnel from the HR department. Doing so relieves production personnel of responsibility for these tasks, giving them more time to devote to operations while they are carried out by more specialised personnel, gradually optimising the number of current licences for the Incorpora/SAP application and thereby achieving further economic savings.

The current map of positions/duties has been extended and consolidated, standardising and extending it in order to identify and organise in a more efficient functional way all the company's current personnel. This involves improving the information available and analysis of the current personnel in each department, which previously had not been determined in such detail.

With regard to social security, an extremely high level of effectiveness has been obtained by changing to Cret@ from the system previously used for contributions and registrations. This change, which was required under new social-security regulations, involves precise matches between the information held by the company and that held by Social Security, changes to the criteria used for contributions and the management of personnel administration. The results have been excellent, with successful adaptation to the new system of 100% (i.e., 0% errors).

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

This year FCC Aqualia has continued to implement its second Equal Opportunities Plan (for the period from 2015 to 2018) in which both Aqualia and the leading unions at the state level once again demonstrate 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 has been developed to encourage female talent within the organisation, making talented women more visible and facilitating their career development.

In 2016 the first Aqualia Female Talent Meeting was held, connecting mentors and students with successful female executives, who have shared their personal and professional experiences. With actions such as this, Aqualia strives to contribute towards creating and fostering a business culture based on gender equality.

This year three awareness-building sessions were also held on "Conciliation: A New Paradigm for Personnel Management". The aim of these talks, which lasted an hour, was to build awareness and motivate executives and middle managers about the importance of work/life balance and co-responsibility.





Also, for the third year running, equal-opportunities training was organised for employees as part of their training in specific job risks.

Similarly, the recruitment processes in place at FCC Aqualia continue to be implemented under the model of skills-based selection, in which interview questions are based on an analysis of the relevant position and asking the same questions of all the candidates, to enable comparisons to be made while assuring equality and avoiding discrimination.

FCC Aqualia currently holds the “Equality at Work” distinction, which was extended for a further three years in 2014. This distinction indicates recognition by the Ministry of Health, Social Services and Equal Opportunities of the company's commitments to diversity and equal opportunities for men and women.

FCC also continues to demonstrate its commitment to combat domestic violence by participating in various campaigns.

Aqualia has also participated in several diversity-related actions:

- Adecco Foundation Family Plan, targeted at children of employees with certified disabilities of 33%, or more.
- Partnership agreement entered into between the subsidiary Hidrotec and the Prevent Foundation to facilitate non-employment practices for people at risk of social exclusion.
- Awareness-building day at the customer-service centre on working with people at risk of exclusion.
- Integration in work teams of intellectually disabled people via the Down Syndrome Foundation.

Also in 2016, the third edition of the Otto Walter Season was organised, a programme targeted at middle managers on transforming the leadership style at FCC Aqualia towards a more participatory model of personnel management, catalysing talent, strengthening team cohesion and backed by a common language shared by all.

In 2016 FCC Aqualia has continued to be a member of the Alliance for Dual Vocational Training. Under this alliance FCC Aqualia has entered into new partnership agreements with:

- San Juan de la Cruz secondary school in Madrid to develop an alternative DUAL modality higher-level environmental health training course.
- The Catalan Regional Department of Education to develop, under an alternating dual-training system, the higher training course on physical training and sport at Andreu Nin secondary school in El Vendrell.
- Torre Vicens secondary school in Lleida, which provides CFGS courses on building projects.
- The agreement entered into in 2015 between FCC Aqualia and Pere Martell secondary school in Tarragona, to foster, encourage and develop, under an alternating system with dual vocational training, the intermediate level training course on water networks, facilities and treatment plants, also continues to be implemented.
- As for training, at FCC Aqualia we continue to be committed to our employees' professional training and career development.
- In 2016 we organised 464 courses, in which 3,329 employees received 68,062 hours of training.
- This means that training was given to 57% of our male employees and 66% of our female employees.
- Attendance at training courses by employees was 90% (6,172 participants in 2016), with a high level of commitment and involvement being shown by those employees trained.
- The objectives of training at Aqualia are linked to the company's strategic objectives, to improving job performance and to assuring occupational health and safety. We also work on developing training route maps



for specific and critical groups within the organisation (service managers, laboratory staff and customer handling).

## **REPORT ON OH&S ACTIONS IN 2016**

In line with the FCC Group's corporate policies, in compliance with the 2015 strategic plan on the concept of a "healthy company", a study was devised in 2016 as an initial diagnosis and a number of items were devised for dissemination and publicity that will accompany the actions carried out in 2017.

A project was begun to assess psychosocial risks throughout the company, with a view to exploring this topic as another component of the concept of health at work. So far the following actions have been carried out:

- An awareness-building workshop was organised for 20 people, including OH&S technicians, HR managers and workers' representatives.
- A study was undertaken to determine “analysis units” to target diagnosis surveys more effectively.
- The methodology to be used as the assessment method has been defined.
- Certification of the OH&S Management System has again been renewed globally, nationally and internationally, until November 2017.
- In the summer the OH&S-management tool came online. Although all processes of this type need a running-in period and time for upgrades to be made, we have been able to obtain valuable information on the degree of management at the contracts level, which in turn will serve as a monitoring and control tool for the managerial hierarchy.

As for external relations, the company has obtained three more recognitions of its OH&S performance.

- Finalist in the eighth edition of the ATLANTE awards (OH&S integration category).
- Finalist in the 2016 edition of the awards organised by Asepeyo for the OH&S Culture Improvement project.
- Winner of the 2016 FCC award (OH&S management category).
- Also with regard to external communications, the company has partnered with public authorities for two training actions on risks in the integrated-water-cycle sector.
- Also in 2016 the work being done under the Aqualia Health Charter has continued, with representatives of the principal trade unions and the company's management working together to improve safety conditions through discussions and devising global best practices.

Accident rates in 2016 ended with the frequency rate at a value of (12.05), which is slightly higher than last year (11.56), mostly owing to an increase in accidents during the first half of the year which could not be fully offset by the improvement noted in the second half. With regard to reducing absenteeism in professional contingencies, in 2016 a package of measures was implemented to reduce these situations:

- Programme of visits to contracts with the highest accident rates: a measure that has been implemented in previous years, which in 2016 has led us to visit and prepare specific programmes for improvement at 21 contracts located all over Spain.
- The Improvement Action Plan drawn up as part of the project to improve the OH&S culture has begun to be implemented. The four actions launched in 2016 were:



- Safety visits by managers: about a hundred visits were made by central management, area managers and office managers, in order for them to make management's commitment to OH&S more visible to workers.
- Refreshment training: from September onwards, OH&S technicians gave training sessions on job risks using new audiovisual material and a new teaching methodology, in which the aim is for workers to learn by participating and making commitments.
- Safety observations: also from September onwards, OH&S technicians have changed the methodology of traditional safety inspections, switching from a prescriptive approach to seeking the same objectives as described in the preceding section.
- Safety talks: a guide has been prepared and a workshop organised on a tool that will gradually be implemented by service heads. The aim is to incentivise these talks with participation by workers and standardising how safety issues are dealt with at each workplace.
- Three actions have been launched as part of the road-safety campaign.
- Responsible declaration on driving skills: obtaining from workers who drive vehicles a declaration on their skills, particularly with a view to conserving all the points on their licences.
- Information has been compiled on road-traffic accidents with a view to assessing incident rates.
- A new Health and Safety Policy has been signed, including the company's commitment to road safety.

## COMMUNICATION, MARKETING AND CSR

### Communication

The 2016 Communication Plan (PCom), a document that sets out the planning for the year, indicated as the main challenge to "position Aqualia's activity in the media and new channels". The objective was to leverage the company's work in territories where it operates. In this regard, 2016 saw a notable increase in public information, educational and awareness-building activity by the company. Over the course of the year the media — particularly the specialist and local press — published some 10,000 pieces of information on Aqualia's activities: 70% on digital platforms.

In 2016 relations with the leading local newspapers in areas where Aqualia operates have particularly been strengthened. Thus, numerous meetings and encounters have been held, at which we have conveyed the company's vision on current issues in the sector, informing them of the most significant aspects of each service or office.

With a view to conveying to journalists in particular and to society in general our vision of the importance of proper, specialised management of the integrated water cycle for society's development and well-being, in December 2016 the first Aqualia Award for Journalism on "Local Water Management" was won by the journalist Tomás Díaz for his article "*El canon de saneamiento subirá un 50% y encarecerá el recibo*" ("Higher water bills as sanitation charge goes up by 50%"), published in the Water and Environment supplement of *El Economista* on 13 January 2015. The award has been a great success, both in terms of the quality of the entries received and the high number (48) of entries, originally published in all kinds of media: local and regional, print and digital, general and specialising in the water sector. This initiative will continue in 2017.

Likewise, major efforts have been applied to in-house training and communication campaigns with a view to fine-tuning and strengthening our managers' structured, effective use of communication tools to enable them to respond to issues related to the sector with reliable, confirmed content Topics such as human right to water and sanitation, water ownership, setting of tariffs, cutting off supplies and explaining bills — just a few of fifteen in all — are rigorously



addressed and studied in order to provide clear, concise information. The second of the main communication objectives focused on “making Aqualia a benchmark in technology, innovation, sustainability and communication”. In this regard, the concern for more, enhanced communications is by no means unique to Aqualia, but rather a basic need for all firms operating in the sector. Proof of this is that even employers' organisations such as the Spanish Water Supply and Sanitation Association (AEAS) and the Andalusian Water Supply and Sanitation Association (ASA) have set up their own work groups to address the discipline of communication. In 2016 these groups have been working towards establishing clear, consistent, comprehensible policies that will enable the sector's message to reach journalists, the authorities and the general public. Aqualia is a member of both groups, which have already coordinated the sector's presence at events including the 13th National Environment Congress (CONAMA) held from 28 November to 1 December, and the 34th AEAS Conference, to be held in Tarragona on 24–26 May 2017.

Together with the standard actions (press conferences, press releases, news articles, interviews, features, etc.), in 2016 Aqualia has prepared and disseminated cobranding content. In these types of actions brands join forces to increase the perception of value and positive benefits of each. In other words, in certain information we share the spotlight with other leading brands in other cutting-edge sectors. Such is the case with the application of IBM's cognitive technology at the Lleida treatment plant to optimise its efficiency. This strategy has also been used with two of the world's leading car manufacturers — Volkswagen and SEAT — with whom we have been working closely to make progress in the All-gas and SMART Green Gas projects, which seek to obtain biogas from wastewater. For information on social and academic matters we have partnered with Caritas and IESE on projects to combat poverty and social inequality and to establish best practices and standards for public-private partnerships, respectively.

Aqualia's communication efforts have been rewarded by the ranking published annually by iAgua, the leading sector publication in Spain and Latin America. At the end of 2016, Aqualia was listed as the second most influential entity in the sector in Spain and Latin America.

## Marketing

The 2016 Communication Plan (PCom) 2016 included the dual objective of achieving a public perception of the company as contributing local value, while assuring satisfaction among the institutions that work with Aqualia as a benchmark in technology, innovation, sustainability and communication. To achieve this, the company has been striving to position itself in the public's mind in a different way compared with our competitors: people.

From a very local point of view, the street-marketing plan in Lora del Río (Seville province), for example, has met both these objectives, as this innovative campaign has built awareness of the value of the water service while working in close partnership with the local council. Another example is the launch of a campaign to encourage responsible use in Ibiza and Formentera, under the umbrella of the Alliance for Sustainable Water Management, an organisation that is made up of representatives from public institutions, private bodies, civil society and the farming sector, with the overarching aim of fostering the integrated management of freshwater on the Pitiusa Islands.

The 14th edition of the International Digital Children's Drawing Competition, which was presented on 22 March, International Water Day, is another example of actions aimed at achieving strategic goals. As in previous years, with a view to fostering children's skills in the use of the latest technology and contributing towards sustainable development by avoiding the use of paper, the competition has been organised via the microsite [www.elciclodelaguaparavalientes.es](http://www.elciclodelaguaparavalientes.es), where children have been able to create their artworks while testing their knowledge of each of the stages in the integrated water cycle. Also, in 2016 the educational aspect of the competition has been highlighted by devising the story “*El ciclo del agua, una aventura para valientes*” (The Water Cycle: An Adventure for the Brave”. This year the



message has reached more than 160,000 people among our stakeholders: 150,000 schoolchildren, 6,800 teachers, 2,000 employees, 1,000 local authorities and 850 media outlets.

This effective training and education action has also been run in-house. 178 children, grandchildren and nieces and nephews of Aqualia employees have taken part in the seventh edition of Pequeartistas, which also was organised entirely online. This year the initiative has reached out to children not only in Spain but also in Portugal and Uruguay.

With regard to the activities organised for International Water Day (22 March), Aqualia has been present in the leading local and regional newspapers with special supplements on the day. For this purpose, the publication of advertising graphics has been designed and managed for around fifty newspapers, with ad hoc editorial content for another thirty.

In 2016, various campaigns have been organised in relation to commercial and awareness-building objectives, supporting communication with a view to fostering public understanding and valuing of what the company does. Actions to promote e-billing, “*Pásate a la e-factura*” (“Switch to the E-bill”), the campaign to promote Aqualia's app for mobile devices “Smartaqua” and the campaign to give information and build awareness about the proper use of toilets, “No lo tires” (“Don't Flush It”) are clear examples of this.

Given the attacks by platforms advocating the public management of water, which notably exclude firms like Aqualia, an information campaign has been launched to explain certain home truths that disprove many false myths that are prevalent in society regarding the integrated water cycle and the role of operators in the sector.

The campaign is based at the website [www.informacionrealdelagua.com](http://www.informacionrealdelagua.com) and the approach can also be seen in other media and channels: advertising graphics, leaflets, banners, on the back of bills, social networks, the Smartaqua app (“Campaigns” menu option) and our 2017 calendar. We will set out 12 false myths about how the integrated water cycle is managed, explaining the arguments and facts that disprove them. The objective of this campaign is to disseminate among our target audiences — the company, the authorities, the public and the media — the fact that, leaving aside any ideological and political debates about water-management models, what most concerns the public is that everyone should be able to count on an excellent, high-quality service, regardless of who is providing it.

Also in 2016 we have been working on strengthening the perception of Aqualia as a “glocal” company (global management with strong local involvement), an approachable company that adds local value while at the same time operating internationally, being permeable to new cultures. In 2016, Aqualia has increased its presence at numerous events and international strategic forums to position itself in the sector as a benchmark for innovative solutions to future challenges, or to address new models of public–private partnership. This is the case with the International iWater Fair in Barcelona, the IWA LET Congress in Jerez, the EXPO APA in Bucharest, the second edition of Oman Energy & Water, the Watec Italy conference, the Latin American Water Desalination and Reuse Congress (DESAL) in Santiago (Chile), the 12th META Meeting (a discussion forum attended by leading representatives from the public and private sectors and academia), the ninth International AEDyR Congress, the IDA International Energy and Environment Forum, and the seventh American Water Summit in Miami. Also, in June, the company Aguas y Servicios de la Costa Tropical de Granada celebrated its 20th anniversary, leveraging the excellent public–private experience in management of the water service.

Finally, 2016 has been a year in which Aqualia's activities have been recognised on several occasions for the “glocal” efforts being made by the company. The leading media outlet in the water sector in Spain and Latin America, iAgua, has recognised Aqualia's good practices in communication. The company has received two awards: one for the Best Contract, for the Contract won for El Salitre treatment plant in Bogota (Colombia), and another for the Best Campaign,



for the awareness-building action *#nolotires* (on using toilets properly). Aqualia's efforts in the town of Mérida in Extremadura have been recognised by AESPE, the Spanish Ecological Portable Sanitary Association, with their "Golden Droplet" award. This award recognises Aqualia's environmental commitment and its initiatives to achieve more efficient management of natural resources, more rational energy consumption and identification of the risks associated with the company's activities. Aqualia has also been the first company in the water sector to be a finalist at the International Children's Communication Festival "El Chupete".

Internationally, Aqualia has won an award as the best water operator in Saudi Arabia, at the Saudi Water & Electricity Forum (SWEF) held in Riyadh on 6–9 February. This award acknowledges the work done by Aqualia over the last five years on the sectoring and leaks project in the city of Riyadh, supplemented by the award of the O&M and maintenance contract for the Mecca treatment plants (Hadda and Arana) last summer. With this award, Aqualia strengthens its presence in the Middle East, a region where the company was a pioneer in the management of major contracts.

## CSR

Social responsibility is a driving force in the dynamics and development of Aqualia's business. As part of our tasks to build awareness and our commitment to the communities where we provide services, in 2016 the company has undertaken various awareness-building actions on domestic violence, employment integration for disabled people, and equal opportunities. Also, as part of our day-to-day activities, Aqualia has launched a number of initiatives to build awareness about using water responsibly and caring for our environment.

This year we joined the PPP For Cities project, a UN initiative via its UNECE Regional Commission and its International Centre of Excellence on PPPs (ICoE) programme, housed in Spain at the IESE business school. The company leads the Water Management section, sharing its extensive experience in the development of PPP projects. The objective of this project is to lead and serve as an international benchmark for the preparation of PPP best practices and standards and to provide the necessary help to governments to implement them in each country.

Domestic violence and equal opportunities. This year the Spanish Ministry of Health, Social Services and Equal Opportunities has backed the fifth annual monitoring report for the "Equality at Work" distinction submitted by Aqualia. The company submitted the measures implemented under the umbrella of the distinction that was first awarded by the ministry in 2010, together with details of how the actions developed since 2013, the last time the distinction was renewed, have progressed, in the fifth annual monitoring report.

In this regard, we highlight the awareness-building campaigns developed by Aqualia for International Women's Day (8 March), to combat breast cancer and to combat domestic violence (25 November), as well as training actions organised on the topic of equal opportunities. Particularly, actions aimed at increasing women's presence in positions of authority, such as the Management Programme for Women with High Potential, the Mentoring Programme, the second edition of which is being run this year, seeking to encourage female talent and contribute towards a cultural change within the company, with equal gender opportunities, orienting and facilitating the careers of female employees who show potential.

The event organised on the day against domestic violence was one of the most successful ever organised in terms of in-house mobilisation among Aqualia employees. This year the company developed the website [www.aqualiacontigo.com](http://www.aqualiacontigo.com), where everyone was invited to participate in this initiative of solidarity and join a great heart, which was the symbol of the campaign.





Also, Ávila City Council has recognised Aqualia as a “Company Socially Committed to Equality”. A moving ceremony was held on 9 March, recognising the people, institutions and companies who have worked for effective equality between men and women.

Aqualia has further strengthened its commitment to combating inequality by participating in forums at which the topics for discussion include the major challenges being faced by employers when it comes to achieving a gender balance. This is the case with Aqualia's participation in the event “*Hacia el equilibrio de género en la dirección de empresas: oportunidades y retos*” (Towards Gender Balance in Corporate Management: Opportunities and Challenges), held on 31 March and organised by the Social Services Department at the Ministry of Health, Social Services and Equal Opportunities, EEA Grants (Financial Mechanism of the European Economic Space, involving Norway, Iceland and Liechtenstein) and the initiative “*Más mujeres, mejores empresas*” (“More Women, Better Companies”).

Sustainability and awareness-building. Aqualia has participated in and organised various conferences where it has conveyed its commitment to sustainability, with messages associated with the public nature of water and the argument that its management, whether public or private, must be efficient and sustainable (socially, financially and environmentally), while strengthening the attributes of approachability, involvement and professionalism. The conferences “*El agua como motor de empleo y sostenibilidad*” (“Water As a Driving Force for Jobs and Sustainability”), held in Seville, Toledo and Chiclana (Cádiz), are examples of this approach. The objective was to study the situation in the sector via several discussion groups, which tackled such topics as management models, the sector's legal and employment framework, collective bargaining and social sustainability.

Also in this regard, Aqualia brought together in Santa Eulària des Riu (Ibiza) representatives from the company, the island and local authorities, experts and academics to discuss “*El agua en las Pitiusas. Todos somos responsables*” (Water in the Pitiusa Islands: Everyone's Responsibility). The meeting was devoted to analysing the seriously lacking water resources on the islands — especially in summer, the peak period for visitors. Also at this event proposals were presented to build awareness among locals and visitors and establish the measures necessary to meet the islands' needs in a sustainable way.

For Aqualia the efficient management of natural water, especially water, is a fundamental issue. The innovation projects launched this year in Lleida, Jerez and Chiclana — in partnership with leading firms such as SEAT and IBM — consolidate the company's commitment towards energy optimisation, resulting in significant cost savings as well as making the areas where they are applied more independent and sustainable, thus benefiting local people.

On 22 March, various local awareness-building initiatives were organised at which Aqualia played a leading role. These included: participation in the presentation of the Alliance for Sustainable Water Management in Ibiza and Formentera and events in various cities all over in Spain, including Vigo, Santander, Dénia (Alicante), Nájera (Rioja), Molins de Rei (Barcelona) and Sant Antoni de Portmany (Ibiza). Various events were also organised at the facilities of the firm SmVak (Czech Republic).

Also in 2016, more than 100 meetings were held with different groups (homemakers, pensioners, journalists) and more than 50 visits were made to a total of 15,000 schoolchildren. We informed people about how the integrated water cycle is approached at a firm like Aqualia, showing them how to use the resource properly, via responsible consumption, optimal use of toilets, handling used oil, etc., with a view to making a firm commitment to caring for the environment.

In a different area, one of Aqualia's objectives is to assure a safe and healthy working environment for our employees, and our awareness-building efforts are essential for this purpose. In 2016 the company launched its “Safety Strolls”,



actions included in Aqualia's OH&S Culture Improvement Plan 2015–2018 and led from the OH&S Service, with the objective of improving the health and safety climate within the organisation. This initiative is usually applied by leading OH&S firms, with a view to making management's commitment to health and safety more visible. It is not about controls or inspections, but rather a strategic approach to the culture of safety and leadership in accident prevention.

Corporate. Aqualia's work and efforts in 2016 have consisted of taking another step towards contributing to the welfare of those who have placed their trust in us as their water company. This has taken the form of a number of different actions.

With regard to the social measures that managers of public water services are putting into practice, on 28 the first conference on “*Medidas de Acción Social en el Sector del Agua*” (“Social Action Measures in the Water Sector”) was held in Seville. This event, which was organised by the Andalusian employers' association ASA in partnership with the Andalusian Federation of Municipalities and Provinces (FAMP), brought together around one hundred representatives from public authorities, operators, consumer associations and social workers. One of the discussion groups was made up of water operators, where the service in Almería presented the social-action measures that are being applied in that city's municipal water service. These included tariff-capping, more than 500 customised payment plans per year, and liaison between different social actors, such as the city council's social services department, the Almería Housing and Rehabilitation Agency, organisations such as Caritas and the Red Cross, and residents associations.

As a firm specialising in the management of a public resource such as water, Aqualia has an added responsibility towards society. For this reason partnerships have been forged with associations for disabled people in Segovia, Ibiza and Oviedo, among other places.

Aqualia has also renewed the agreement with *Cáritas Española* under which the company undertakes to work on the needs of people in situations of vulnerability or exclusion on issues related to the water cycle, via municipal social-services departments. An annual donation is also being made, equivalent to the value of the water service at Caritas's premises in the cities where Aqualia provides services.

Also in this regard, Aqualia has entered into an agreement with Vigo Council, in partnership with Social Services, to contribute towards avoiding low-income families from having their water supplies cut off. This initiative allows the municipal water service, which is managed by Aqualia, to recognise cases of effective inability to pay and seek the most effective solutions in each case, while the local authority maintains its commitment to social cohesion and equality.

As part of our commitment to society, we should also mention more than a hundred cultural, sporting and environmental partnerships, which demonstrate the company's commitment to being recognised as an agent for local change and involvement, forging links with local people to create a fairer society.

Publications. Aqualia has published the tenth edition of its CSR Report, which summarises, in a highly visual way, the main economic and environmental milestones reached by the company in 2015, while reporting on key issues affecting the company's relations with its stakeholders, including employees, the public, the media and public authorities. This report can be read on the Aqualia website ([www.aqualia.com](http://www.aqualia.com)).

In 2016, Aqualia has been a partner in the publication of the book “*La Regulación de los Servicios Urbanos de Agua. Experiencias a analizar desde España*” (“Regulation of Urban Water Services: Study Experiences from Spain”), which analyses the experiences and efforts in various countries to regulate their urban water services. It has been published in partnership with Valencia Polytechnic University (UPV), its department specialising in urban water management (ITA)





and the International Water Association (IWA). This book analyses the methods used to regulate relations with public entities, the operators of urban-water management services and users of this service in Germany, Australia, the United Kingdom, Portugal and Denmark.

## **OTHER ISSUES**

The main risks that affect the Group are the contracting, implementation and quality risk, within the scope of its business activities, as mentioned in Note 1 of the attached consolidated annual report, and investment, financial and human resources risks, as well as general business risks. As the Group is a member of the FCC Group, there are risk policies in place aimed at limiting the impact of these risks on the Group's profits and the ordinary course of its business activities (see Note 22 of the attached consolidated annual report).

Details of the Group's exposure to financial risks are contained in the attached report under note 22.

As detailed in note 25 of the Report, the Group has exceeded the average maximum period for payments to suppliers. Consequently, the Group has established measures to adjust this maximum period, including:

- Reviewing internal procedures regarding the payments process (receipt of invoices and internal approval processes).
- Optimising the management of goodwill, by shortening average collection and payment periods.
- Studying and, as appropriate, implementing e-billing processes.

With regard to actions with own shares, the Group has not purchased any own shares and has no plans to do so in the future.

Subsequent to 31 December 2016 any relevant events are described in Note 23.1 of the enclosed annual report.

These financial statements are presented on the basis of the regulatory financial reporting framework applicable to the Company (see Note 2). Certain accounting practices applied by the Company that conform with that regulatory framework may not conform with other generally accepted accounting principles and rules.



The Consolidated Financial Statements and Directors' Report for FCC Aqualia, S.A. and subsidiaries corresponding to the year ended 31 December 2016 were prepared by the directors of the company on 21 February 2017 and are issued on 70 sheets of duty-stamped paper printed on both sides, series 0M, numbers 6224219 to 6224288, inclusive, signed in approval on the duty-stamped sheet of paper, series 0M, number 6224288.

Deputy Chairman

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*Félix Parra Mediavilla*

Director

Secretary

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*Isidoro Marbán Fernández*

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*Cristina López Barranco*

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

Consolidated Financial Statements  
for the year ended 31 December  
2015 and Directors' Report,  
together with Independent  
Auditor's Report

*Translation of a report originally issued in Spanish based on our work performed in accordance with the audit regulations in force in Spain. In the event of a discrepancy, the Spanish-language version prevails.*

*Translation of a report originally issued in Spanish based on our work performed in accordance with the audit regulations in force in Spain. In the event of a discrepancy, the Spanish-language version prevails.*

## INDEPENDENT AUDITOR'S REPORT ON CONSOLIDATED FINANCIAL STATEMENTS

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

### **Report on the Consolidated Financial Statements**

We have audited the accompanying consolidated financial statements of FCC Aqualia, S.A. ("the Parent") and Subsidiaries ("the Group"), which comprise the consolidated balance sheet as at 31 December 2015, and the consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows and notes to the consolidated financial statements for the year then ended.

#### *Directors' Responsibility for the Consolidated Financial Statements*

The Parent's directors are responsible for preparing the accompanying consolidated financial statements so that they present fairly the consolidated equity, consolidated financial position and consolidated results of FCC Aqualia, S.A. and Subsidiaries in accordance with International Financial Reporting Standards as adopted by the European Union and the other provisions of the regulatory financial reporting framework applicable to the Group in Spain (identified in Note 2-a to the accompanying consolidated financial statements) and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

#### *Auditor's Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with the audit regulations in force in Spain. Those regulations require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the preparation by the Parent's directors of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

#### *Opinion*

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated equity and consolidated financial position of FCC Aqualia, S.A. and Subsidiaries as at 31 December 2015, and their consolidated results and their consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and the other provisions of the regulatory financial reporting framework applicable to the Group in Spain.

## **Report on Other Legal and Regulatory Requirements**

The accompanying consolidated directors' report for 2015 contains the explanations which the Parent's directors consider appropriate about the situation of FCC Aqualia, S.A. and Subsidiaries, the evolution of their business and other matters, but is not an integral part of the consolidated financial statements. We have checked that the accounting information in the consolidated directors' report is consistent with that contained in the consolidated financial statements for 2015. Our work as auditors was confined to checking the consolidated directors' report with the aforementioned scope, and did not include a review of any information other than that drawn from the accounting records of FCC Aqualia, S.A. and Subsidiaries.

DELOITTE, S.L.  
Registered in ROAC under no. S0692

Antonio Sánchez-Covisa Martín-González  
7 March 2016



## **FCC AQUALIA, S.A. and subsidiaries**

*Translation of financial statements originally issued in Spanish. In the event of a discrepancy, the Spanish-language version prevails.*

## **CONSOLIDATED FINANCIAL STATEMENT**

- Financial Statement

- Consolidated statement of financial position
- Consolidated income statement
- Consolidated statement of comprehensive income
- Consolidated statement of changes in equity
- Consolidated statement of cash flows
- Consolidated annual report

- Appendix I: Subsidiaries consolidated by the full consolidation method
- Appendix II: Associates and jointly controlled entities (consolidated by proportionate method).
- Appendix III: Associates consolidated using the equity method
- Appendix IV: Temporary Joint Ventures
- Annex V: Changes in the scope of consolidation
- Annex VI: Liquidity statement submitted by the directors of the Parent Company for the distribution of the interim dividend.

## **CONSOLIDATED DIRECTORS' REPORT**

**FCC AQUALIA, S.A. AND SUBSIDIARIES**  
**(CONSOLIDATED GROUP)**  
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION AT 31 December 2015 (in thousands of euros)**

ASSETS	2015.12	2014.12
<b>NON-CURRENT ASSETS</b>	<b>1,516,170</b>	<b>1,557,389</b>
<b>1. Intangible assets (Note 4)</b>	<b>898,994</b>	<b>924,784</b>
1. Concessions	808,697	834,408
2. Goodwill	85,306	85,306
3. Other intangible assets	4,991	5,070
<b>2. Property, plant and equipment (Note 5)</b>	<b>318,939</b>	<b>315,431</b>
1. Land and buildings	30,273	30,559
2. Technical installations and other property, plant and equipment	288,666	284,872
<b>4. Investments in associates and jointly-controlled entities (Note 7)</b>	<b>125,328</b>	<b>130,195</b>
<b>5. Non-current financial assets (Note 9)</b>	<b>123,886</b>	<b>142,296</b>
<b>6. Deferred tax assets (Note 17)</b>	<b>49,023</b>	<b>44,683</b>
<b>CURRENT ASSETS</b>	<b>704,426</b>	<b>662,559</b>
<b>2. Inventories (Note 10)</b>	<b>22,600</b>	<b>22,909</b>
<b>3. Trade and other receivables</b>	<b>218,079</b>	<b>262,133</b>
1. Customer receivables – sales and service provision (Note 11)	176,672	194,544
2. Other receivables (Note 11)	41,407	67,332
3. Current tax assets	-	257
<b>4. Other current financial assets (Note 9)</b>	<b>366,202</b>	<b>256,603</b>
<b>5. Other current assets</b>	<b>602</b>	<b>356</b>
<b>6. Cash and cash equivalents (Note 12)</b>	<b>96,943</b>	<b>120,558</b>
<b>TOTAL ASSETS</b>	<b>2,220,596</b>	<b>2,219,948</b>

Notes 1 to 27 and Appendices I to VI attached herein form an integral part of the consolidated financial statements for 2015.



**FCC AQUALIA, S.A. AND SUBSIDIARIES**  
**(CONSOLIDATED GROUP)**  
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION AT 31 December 2015 (in thousands of euros)**

EQUITY AND LIABILITIES	2015.12	2014.12
<b>EQUITY (Note 13)</b>	<b>788,388</b>	<b>783,373</b>
<b>1. Equity attributed to the parent company</b>	<b>736,921</b>	<b>727,258</b>
<b>1. Shareholders' Equity</b>	<b>751,237</b>	<b>740,012</b>
1. Capital	145,000	145,000
2. Issue premium and reserves	569,554	532,483
4. Profit/(Loss) for the year attributable to the Parent company	67,133	62,529
5. Interim dividend	(30,450)	-
<b>2. Adjustments for changes in value</b>	<b>(14,316)</b>	<b>(12,754)</b>
<b>2. Non-controlling interests</b>	<b>51,467</b>	<b>56,115</b>
<b>NON-CURRENT LIABILITIES</b>	<b>917,134</b>	<b>747,467</b>
<b>1. Grants (Note 18)</b>	<b>42,114</b>	<b>30,061</b>
<b>2. Non-current provisions (Note 15)</b>	<b>108,652</b>	<b>100,556</b>
<b>3. Non-current financial liabilities (Note 14)</b>	<b>703,722</b>	<b>533,985</b>
1. Debt instruments and other marketable securities	197,027	-
2. Bank borrowings	16,839	36,434
3. Other financial liabilities	489,856	497,551
<b>6. Deferred tax liabilities (Note 17)</b>	<b>51,697</b>	<b>50,859</b>
<b>5. Other non-current liabilities</b>	<b>10,949</b>	<b>32,006</b>
<b>CURRENT LIABILITIES</b>	<b>515,074</b>	<b>689,108</b>
<b>2. Current provisions (Note 15)</b>	<b>14,261</b>	<b>22,075</b>
<b>3. Current financial liabilities (Note 14)</b>	<b>77,740</b>	<b>234,110</b>
1. Debt instruments and other marketable securities	2,390	72,573
2. Bank borrowings	3,634	111,852
3. Other financial liabilities	71,716	49,685
<b>4. Trade and other payables</b>	<b>422,626</b>	<b>432,589</b>
1. Accounts payable for purchases and services	180,917	184,535
2. Other payables (Note 16)	241,709	248,054
<b>5. Other current liabilities</b>	<b>447</b>	<b>334</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>2,220,596</b>	<b>2,219,948</b>

Notes 1 to 27 and Appendices I to VI attached herein form an integral part of the consolidated financial statements for 2015.

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**FCC AQUALIA, S.A. AND SUBSIDIARIES**  
**(CONSOLIDATED GROUP)**  
**CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2015 (in thousand euros)**

	<b>2015.12</b>	<b>2014.12</b>
Net revenue (Note 20)	995,696	909,976
Capitalised expenses of in-house work on fixed assets (Note 5)	19,471	17,887
Other profit from operations (Note 20)	20,050	23,225
Change in inventories of finished goods and work in progress	13	(213)
Purchases (Note 20)	(392,484)	(327,799)
Employee benefits expense (Note 20)	(239,102)	(232,930)
Other operating expenses (note 20)	(188,707)	(194,824)
Depreciation and amortisation (Notes 4 and 5)	(81,202)	(78,414)
Recognition of non-financial asset grants and others	3,030	1,203
Impairment and profit/loss from disposal of assets	(1,692)	(3,667)
Other profit/loss	652	2,843
<b>PROFIT FROM OPERATIONS</b>	<b>135,725</b>	<b>117,287</b>
Finance income (Note 20)	8,855	16,314
Finance costs (Note 20)	(49,401)	(49,585)
Changes in fair value of financial instruments	451	(451)
Exchange differences	1,046	(133)
Impairment and profit/loss from disposal of financial instruments	(1,418)	(9,463)
<b>FINANCE INCOME/COST</b>	<b>(40,467)</b>	<b>(43,318)</b>
Profit or loss of equity method measured companies (Note 7)	3,466	9,288
<b>PROFIT BEFORE TAX FOR THE YEAR FROM CONTINUING OPERATIONS</b> <b>(Note 17)</b>	<b>98,724</b>	<b>83,257</b>
Income tax (Note 17)	(28,253)	(19,783)
<b>PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS</b>	<b>70,471</b>	<b>63,474</b>
<b>CONSOLIDATED PROFIT FOR THE YEAR</b>	<b>70,471</b>	<b>63,474</b>
Profit (loss) attributed to non-controlling interests (Note 13)	(3,338)	(945)
<b>PROFIT ATTRIBUTED TO PARENT COMPANY</b>	<b>67,133</b>	<b>62,529</b>
Profit (loss) per basic share	0.49	0.44

Notes 1 to 27 and Appendices I to VI attached herein form an integral part of the consolidated financial statements for 2015.

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**FCC AQUALIA, S.A. AND SUBSIDIARIES**  
**(CONSOLIDATED GROUP)**

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER**  
**2015 (in thousand euros)**

	2015.12	2014.12
<b>Consolidated profit for the year</b>	<b>70,471</b>	<b>63,474</b>
<b>Income and expense recognised directly in equity</b>	<b>(1,562)</b>	<b>787</b>
For cash flow hedges	847	240
Translation differences	(3,014)	2,302
Effect of taxes and other income/expense	605	(1,755)
<b>Transfer to the Income Statement</b>	<b>816</b>	<b>-</b>
For cash flow hedges	1,133	-
Tax effects	(317)	-
<b>Total recognised income/(expense)</b>	<b>69,725</b>	<b>64,261</b>
<b>a) Attributed to parent Company</b>	<b>65,571</b>	<b>63,260</b>
<b>Attributed to non-controlling interests</b>	<b>4,154</b>	<b>1,001</b>

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Notes 1 to 27 and Appendices I to VI attached herein form an integral part of the consolidated financial statements for 2015.

FCC AQUALIA, S.A. AND SUBSIDIARIES (CONSOLIDATED GROUP)

STATEMENT OF CHANGES IN EQUITY FOR THE PERIOD ENDED 31 December 2015 (in thousands of euros)

	Share capital	Issue premium and reserves	Interim dividend	Profit or loss for the year attributable to parent Company	Adjustments for changes in value	Equity attributed to parent Company	Non-controlling interests	Total equity
	(Note 13)	(Note 13)	(Note 13)	(Note 13)	(Note 13)	(Note 13)	(Note 13)	
<b>Balance at 31/12/2013</b>	<b>145,000</b>	<b>478,207</b>	-	<b>54,313</b>	<b>(13,486)</b>	<b>664,034</b>	<b>46,867</b>	<b>710,901</b>
Total recognised income/(expense)	-	-	-	62,528	732	63,260	1,001	64,261
Transactions with shareholders or owners	-	-	-	-	-	-	7,871	7,871
Capital increases/(reductions)	-	-	-	-	-	-	6,624	6,624
Dividends paid	-	-	-	-	-	-	(719)	(719)
Other transactions with shareholders or owners	-	-	-	-	-	-	1,966	1,966
Other changes in equity	-	54,276	-	(54,313)	-	(37)	376	339
<b>Balance at 31/12/2014</b>	<b>145,000</b>	<b>532,483</b>	-	<b>62,528</b>	<b>(12,754)</b>	<b>727,257</b>	<b>56,115</b>	<b>783,372</b>
Total recognised income/(expense)	-	-	-	67,133	(1,562)	65,571	4,154	69,725
Transactions with shareholders or owners	-	37,100	(30,450)	(62,528)	-	(55,878)	(8,557)	(64,435)
Dividends paid	-	37,100	(30,450)	(62,528)	-	(55,878)	(8,756)	(64,634)
Other transactions with shareholders or owners	-	-	-	-	-	-	199	199
Other changes in equity	-	(29)	-	-	-	(29)	(245)	(274)
<b>Balance at 31.12.2015</b>	<b>145,000</b>	<b>569,554</b>	<b>(30,450)</b>	<b>67,133</b>	<b>(14,316)</b>	<b>736,921</b>	<b>51,467</b>	<b>788,388</b>

Notes 1 to 27 and Appendices I to VI attached herein form an integral part of the consolidated financial statements for 2015.

**FCC AQUALIA, S.A. AND SUBSIDIARIES**  
**(CONSOLIDATED GROUP)**  
**CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE PERIOD ENDED**  
**31 December 2015 (in thousands of euros)**

	2015.12	2014.12
<b>Profit before tax for the year from continuing operations</b>	<b>98,724</b>	<b>83,257</b>
<b>Adjustments to profit or loss</b>	<b>111,861</b>	<b>130,316</b>
Depreciation and amortisation (Notes 4 and 5)	81,202	78,414
Other adjustments to profit or loss (net)	30,659	51,902
<b>Changes in working capital</b>	<b>9,037</b>	<b>31,117</b>
<b>Other cash flows from operating activities</b>	<b>(28,948)</b>	<b>(29,858)</b>
Dividends received	6,586	2,552
Income tax received/(paid)	(34,030)	(29,555)
Other amounts received/(paid) for operating activities	(1,504)	(2,855)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	<b>190,674</b>	<b>214,832</b>
<b>Investments paid</b>	<b>(62,557)</b>	<b>(103,188)</b>
Group companies, associates and business units	(4,817)	(9,046)
Property, plant and equipment and intangible assets	(57,740)	(79,125)
Other non-current financial assets:	(6,841)	(15,017)
<b>Proceeds from divestments</b>	<b>(6,495)</b>	<b>9,350</b>
Group companies, associates and business units	-	1,078
Property, plant and equipment and intangible assets	346	2,089
Other financial assets	-	6,183
<b>Other cash flows from investing activities</b>	<b>(84,348)</b>	<b>(122,555)</b>
Interest received	-	13,650
Other amounts received/(paid) for investing activities	(84,348)	(136,205)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	<b>(153,400)</b>	<b>(216,393)</b>
<b>Amounts received and (paid) for equity instruments</b>	<b>3,999</b>	<b>6,624</b>
Issuance/(repayment)	3,999	6,624
<b>Amounts received and (paid) for financial debt instruments</b>	<b>7,131</b>	<b>77,603</b>
Issue	197,027	127,227
Repayment and amortisation	(189,896)	(49,624)
<b>Dividend payments and other remuneration of equity instruments</b>	<b>(30,450)</b>	<b>(709)</b>
<b>Other cash flows from financing activities</b>	<b>(38,756)</b>	<b>(42,879)</b>
Interest paid	(49,401)	(43,903)
Other amounts received/(paid) for financing activities	10,645	1,024
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>	<b>(58,076)</b>	<b>40,639</b>
<b>EFFECT OF EXCHANGE DIFFERENCES AND OTHERS</b>	<b>(2,813)</b>	<b>(512)</b>
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(23,615)</b>	<b>38,566</b>
<b>CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR</b>	<b>120,558</b>	<b>81,992</b>
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR (Note 12)</b>	<b>96,943</b>	<b>120,558</b>

Notes 1 to 27 and Appendices I to VI attached herein form an integral part of the consolidated financial statements for 2015.

## CONSOLIDATED ANNUAL REPORT FOR 2015

### 1. BUSINESS ACTIVITIES

FCC Aqualia, S.A. (hereinafter, the Parent Company or FCC Aqualia) was incorporated in Logroño on 26 May 1980 under the name of Seragua, S.A. In June 1988, its registered offices were transferred to Madrid and in July 2002, it was renamed as Aqualia Gestión Integral del Agua. On 2 April 2014, the resolution under which the company's registered name was changed to FCC Aqualia, S.A. was notarised.

The FCC Aqualia Group comprises the Parent Company and a series of domestic and international investees whose main business activities are related to end-to-end water management, explained in further detail below:

- End-to-end water management consists in collection, transportation, treatment and distribution of water from wells, catchment areas and desalination plants to urban areas through pumping systems, pipelines, distribution grids and complex water treatment facilities for purification and storage. Once used, the water is captured through sewer networks and taken to treatment stations where it is treated before being returned to its natural source.

End-to-end water management requires the preservation and maintenance of water supply and sewer networks as well as purification and treatment stations, maintenance and repair of electrical, electronic and plumbing systems and equipment, among other items. All of this work helps in the detection of leaks in the systems and optimal use of the water.

The process is completed with technical, administrative and IT work performed for the purposes of customer management such as reading meters, billing and managing collection of customer receipts and staffing the customer service centre.

- 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 Temporary Joint Ventures in which the FCC Aqualia Group participates perform the same activities and are detailed in APPENDIX IV.

Likewise, the Parent Company has ownership interests in companies with similar corporate purposes and business activities. The lists of companies consolidated using the full consolidation method, the

proportionate consolidation method and the equity method are shown in APPENDICES I, II and III, respectively.

The Group is part of the Division of Integrated Water Management of FCC, whose parent company is Fomento de Construcciones y Contratas, S.A., established in C/Balmes, 36 in Barcelona. The consolidated financial statements of the FCC Group for 2015 were authorised for issue by the Directors of Fomento de Construcciones y Contratas, S.A. at a meeting of the Board of Directors held on 25 February 2016 and will be filed with the Companies Register.

## **2. BASIS OF PRESENTATION, CONSOLIDATION PRINCIPLES AND VALUATION STANDARDS**

### **a) Basis of presentation**

The attached consolidated financial statements and the notes thereto contained in this consolidated annual report were prepared in accordance with the International Financial Reporting Standards (IFRS) passed by the European Union (IFRS-EU) at the reporting date, pursuant to EC Regulation no. 1606/2002 of the European Parliament and Council of 19 July 2002 and all the provisions and interpretations that implement such regulation.

FCC Aqualia's consolidated financial statements for 2014 were approved by the shareholders at the Annual General Meeting of the Company on 08 May 2015.

The consolidated financial statements for 2015 were prepared using the accounting records of FCC Aqualia, S.A. and its investees. These records, taken in accordance with the local regulations applicable in each case, were adapted to the IFRS by each of the companies belonging to the Group according to procedures and operating systems established by the Group in order to implement and justify consolidation in compliance with the requirements of the IFRS.

The FCC Aqualia Group's consolidated financial statements were prepared so as to provide a true and fair view of the Group's equity and financial situation at 31 December 2015, as well as the consolidated profit from operations, changes in equity and cash flows that have taken place in the Group during the period ended at said date.

In order to present the different items composing these consolidated financial statements in a uniform manner, accounting uniformity criteria have been applied to the separate financial statements of the companies included within the consolidation scope. The closing date of the financial statements for the companies included within the consolidation scope is, in general, the same date as for the parent Company, 31 December.

For comparative purposes, the figures from 2014 are shown in the consolidated financial statements for 2015.

The consolidated financial statements for 2015 do not include changes in accounting estimates or correction of fundamental errors from previous periods.

Furthermore, the consolidated financial statements are presented in thousands of Euros, since this is the main currency in the setting in which the Group operates.

**b) Changes in accounting policies**

Entry into force of new accounting standards.

In 2015 the following mandatory interpretations and standards already adopted by the European Union came into force, which, where applicable, were used by the Group in preparing these consolidated financial statements:

(1) New standards, amendments and interpretations mandatorily applicable in the year beginning 01 January 2015:

Approved for use in the European Union		Compulsory application for periods starting after:
IFRIC 21 Levies (published in May 2013)	Interpretation of when to recognise a liability for fees or duties of the Administration.	Annual periods starting from 17 June 2014 <sup>(1)</sup>
Annual Improvements to IFRS 2011-2013 Cycle (published in December 2013)	Amendment to IFRS 3-Business Combinations in the scope relating to joint ventures, amendment to IFRS 13-Fair value in the scope relating to the portfolio valuation exception and amendment to IAS 40-Investment Property as it interrelates with IFRS 3.	01 January 2015 <sup>(2)</sup>

(1) The European Union endorsed IFRIC 21 (EU Journal 14 June 2014), changing the original date of entry into force established by the IASB from 1 January 2014 to 17 June 2014.

(2) Date of entry into force established by the IASB was from 1 July 2014.

The application of the new rules set out above has not had a significant impact on the Group.

(2) New standards, amendments and interpretations mandatorily applicable in annual reporting periods subsequent to the calendar year beginning 01 January 2015 (applicable from 2016 onwards):

At the date of preparation of these consolidated financial statements, the following standards and interpretations had been published by the IASB but had not yet come into force, either because their effective date is subsequent to the date of the consolidated financial statements or because they had not yet been adopted by the European Union:



Approved for use in the European Union		Compulsory application for periods starting after:
Amended IAS 19 Defined Benefit Plans: Employee Contributions (published in November 2013)	This amendment is issued to facilitate the possibility of deducting these contributions from the service cost in the same period in which they are paid if certain requirements are met.	01 February 2015 <sup>(1)</sup>
Annual Improvements to IFRS 2010-2012 Cycle (published in December 2013)	Minor amendments in several standards.	01 February 2015 <sup>(1)</sup>
Amendments to IAS 16 and IAS 38 Acceptable methods of depreciation and amortisation (published in May 2014)	Clarifies acceptable methods of depreciation of property, plant and equipment and amortisation of intangible assets, which do not include those based on revenues.	01 January 2016
Amendment to IFRS 11 Accounting for acquisitions of interests in joint operations (published in May 2014)	Specifies how to account for acquisitions of interests in joint operations in which the activity constitutes a business.	01 January 2016
Amendments to IAS 16 and IAS 41: Bearer plants (published in June 2014)	Bearer plants will now be measured at cost instead of at their fair value.	01 January 2016
Annual Improvements to IFRS 2012-2014 Cycle (published in September 2014)	Minor amendments in several standards.	01 January 2016
Amendment to IAS 27 Equity method in separate financial statements (published in August 2014)	The equity method shall be allowed in an investor's separate financial statements.	01 January 2016
Amendments to IAS 1: Breakdown initiative (December 2014)	Various clarifications in relation to the breakdowns (material nature, aggregation, order of notes, etc.)	01 January 2016

Not approved for use in the European Union		Compulsory application for periods starting after:
IFRS 15 Revenue from Contracts with Customers (issued in May 2014)	New standard for recognising revenue (replaces IAS 11, IAS 18, IFRIC 13, IFRIC 15, IFRIC 18 and SIC 31)	01 January 2018
IFRS 9 Financial Instruments (last phase issued in July 2014)	Replaces the requirements for the classification, measurement, recognition and derecognition of financial assets and liabilities, hedge accounting and impairment under IAS 39.	01 January 2018
IFRIC 16 Leases (published in May 2016)	New standard on leases replaces IAS 17. Tenants shall include all leases on the balance sheet as if they were financed purchases.	01 January 2019
Amendments to IFRS 10, IFRS 12 and IAS 28: Investment companies (December 2014):	Clarifications on the consolidation exception of investment entities	01 January 2016
Amendment to IFRS 10 and IAS 28 Sales or contributions of assets between an investor and its associate/joint venture (published in September 2014)	Clarification in relation to gains or losses from these operations, depending on whether they constitute a business or assets.	No definite date

(1) Date of entry into force of these standards established by the IASB was from 1 July 2014.

The Group intends to adopt these standards, amendments and interpretations issued by the IASB, which are not compulsory in the European Union at the reporting date of these consolidated financial statements, when they enter into force, if they are applicable. The Group is currently assessing their impact. Based on the analyses conducted up to this time, and except for what may arise from IFRS 15 and IFRS 16, as the case may be, the Group estimates that the initial application will not have a significant impact on the consolidated financial statements.

### c) Consolidation principles

#### Subsidiaries

In the consolidation, the full consolidation method was applied to the subsidiaries indicated in Appendix I, in which FCC Aqualia exercises control over the financial and operating policies of the entity, either directly or through other companies controlled in turn by the parent.

The value of the interests held by non-controlling shareholders in the equity is stated under “Non-controlling interests” in the Liabilities section of the attached consolidated statement of financial position and interests in profit/loss are shown in “Profit (loss) attributed to non-controlling interests” (Note 13.e.) of the attached consolidated income statement.

Where applicable, goodwill is determined according to the criteria indicated in Note 2.d.2 of this consolidated Annual Report.

### Joint arrangements

The Group develops joint arrangements participating in joint companies that are controlled jointly by the Parent Company or one of its subsidiaries with others not related to the FCC Aqualia Group, as well as participating in joint operations and similar entities.

In application of IFRS 11 "Joint Arrangements", the Group consolidates its ownership interests in joint businesses using the equity method and includes them in the attached consolidated statement of financial position in the "Investments accounted for using the equity method" section. The interests in the profit/loss less tax for the year of these companies is stated in the "Profit or loss of equity method measured companies" section of the attached consolidated income statement.

In turn, the joint operations have been integrated into the attached consolidated financial statements based on the percentage of interests held in the assets, liabilities, income and expenses deriving from the operations performed by such entities, eliminating any reciprocal balances in assets and liabilities and any income and expenses not incurred with third parties.

The detail of joint agreements using the proportionate method is attached herein as Appendix II.

### Associate companies

The companies listed in Appendix III, in which FCC Aqualia does not exercise control but does have significant influence, are included in the attached consolidated statement of financial position in the "Investments in associates and jointly-controlled entities" section, consolidated using the equity method. The contribution to profit/loss less tax for the year of these companies is stated in the "Profit or loss of equity method measured companies" section (Note 7) of the attached consolidated income statement. Appendix III lists the companies that have been consolidated using the equity method.

### Transactions with Group companies

In transactions conducted between consolidated companies, the profit/loss resulting from internal transactions is eliminated and deferred until the transaction takes place with a third party unrelated to the Group.

Capitalised expenses of in-house work by the Group on fixed assets are recognised at production cost, eliminating any profit/loss arising within the Group.

Credits and debits corresponding to subsidiaries and, in the relevant proportion, those existing between subsidiaries and temporary joint ventures, as well as internal income and expenses amongst consolidated companies as a whole, are eliminated from the consolidated financial statements.

### Uniformity

The companies within the scope of consolidation have been consolidated based on their separate financial statements which, for companies based in Spain, are prepared in accordance with the

Spanish General Chart of Accounts and, for foreign companies, in accordance with their local regulations. Any and all significant adjustments needed to adapt them to International Financial Reporting Standards and/or to make them uniform with the Group's accounting criteria have been considered in the consolidation process.

#### Changes in the scope of consolidation

Appendix V shows the changes that have taken place in 2015 and 2014 in the group of companies consolidated by full consolidation and using the equity method. The profit/loss of these companies is included in the consolidated income statement as of the effective acquisition date or up to the effective disposal date, as appropriate.

In the corresponding Notes to this consolidated Annual Report, under the section entitled “Change in the scope”, the effects of additions and removals of companies to and from the scope of consolidation are shown.

#### **d) Valuation standards**

The valuation standards applied in preparing the consolidated financial statements for the FCC Aqualia Group are detailed below:

##### **d. 1 Service concession arrangements**

Concession arrangements are arrangements between a public sector concession grantor and FCC Aqualia Group companies to provide public services consisting in 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.

These concession arrangements are accounted for in accordance with the terms of IFRIC 12, “Service concession arrangements”, which highlights two clearly distinguished phases: the first one, in which the concession operator provides construction or enhancement services, recognised according to the degree of progress as per IAS 11 “Construction Contracts”, with a balancing entry in intangible or financial assets, and the second phase, in which a series of maintenance or operation services regarding the said infrastructure are provided, recognised as per IAS 18 “Revenue”.

An intangible asset is recognised when the demand risk regarding the service is borne by the concession operator. Otherwise, if the demand risk regarding the service is borne by the concession

grantor, a financial asset is registered. Amounts paid as a fee for the award of the concession are also recognised as intangible assets.

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 profit/loss. In turn, provisions in response to replacement and repair activities regarding the infrastructures are systematically taken to profit/loss as the obligation arises.

Interest deriving from financing the infrastructure is recognised in profit/loss, and interest accrued during construction, up to the time of commissioning of the infrastructure, is capitalised, exclusively under the intangible asset model.

Straight-line amortisation of the intangible assets takes place throughout the life of the concession.

Concessions classified as financial assets are recognised at the fair value of the construction or enhancement services provided. In accordance with the amortised cost method, the relevant income based on the effective interest rate resulting from cash flow forecasts and concession payments is taken to profit/loss.

#### d.2 Business combinations and goodwill

Assets and liabilities of companies and sub-groups acquired are stated in the consolidated statement of financial position at their fair value, disclosing the relevant deferred taxes. However, in accordance with regulations, the stated value and the allocations to different assets and liabilities items initially made can be adjusted within twelve months after the acquisition date, whenever new information arises that must be considered.

The date of inclusion in the scope of consolidation is that on which the effective control is taken, which normally coincides with the acquisition date.

Goodwill is recognised as the gains occurring between a) the sum of the fair value of the remuneration transferred for the interests acquired and the fair value on the date control of previously held interests is taken over in the case of step acquisitions, and b) the percentage of the interests acquired in the identifiable assets and liabilities.

Non-controlling interests are measured as the proportion of the acquired company's assets and liabilities.

In the case of step acquisitions made in more than one transaction (through successive purchases), the difference between the fair value on the date control of previously held interests is taken over and the carrying amount of these interests is recognised as operating income/expense.

Once control over an investee is held, as long as such control is not lost, the difference between the amount for any purchases or sales of additional interests and their carrying amount is charged to equity.

Goodwill is not amortised but it is subjected, at least at year-end, to an impairment test in order to measure it as the lesser of its recoverable value, estimated based on expected cash flows, or its cost of purchase, reduced by any impairment that may have occurred in previous years. The accounting criteria applied to calculate impairment are explained in note 2.d.5.

#### d.3 Intangible assets

This standard applies to all the other intangible asset items that are not included in the aforementioned standards about service concessions and goodwill.

These assets include computer software, which is registered at cost of purchase less accumulated amortisation and impairment losses, if any. They are amortised using the straight-line method over an estimated useful life of 4 years.

#### d.4 Property, plant and equipment

Property, plant and equipment items are initially measured at purchase price and subsequently stated less the corresponding accumulated depreciation and impairment, if any. The cost of the assets also includes the estimated present value of dismantling or removal of the related elements and, in cases in which they have been provided by the acquired companies, they are initially measured at the purchase date fair value.

Expenses for preservation and maintenance of the property, plant and equipment items are stated in the consolidated 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 Group'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 Group'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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Periodically, the residual value, useful life and depreciation method of the Group's property, plant and equipment are reviewed to guarantee that the depreciation model applied is coherent with the profit deriving from operation of the assets.

The companies assess at least at the end of each year whether there is evidence of impairment of any asset or set of assets of property, plant and equipment in order to proceed, as the case may be, to their impairment or the reversal thereof in order to adjust their net carrying value to the value in use, without the reversals in any case exceeding the previous impairment performed.

d.5 Impairment of non-financial assets subject to amortisation or depreciation

Intangible assets with a defined useful life and property, plant and equipment items undergo an impairment test when there are signs of impairment losses in order to adjust their carrying amount to their value in use, when the latter is lower.

Goodwill and intangible assets with an indefinite useful life must undergo an impairment test at least once a year in order to discern any possible impairment losses.

Impairment losses recognised in previous periods on assets other than goodwill can be reversed if the estimates used in the impairment tests show that their value has recovered. The carrying amount of the assets whose value has recovered shall not under any circumstances exceed that which they would have had, had no impairment been recorded in previous years.

Impairment and reversal of impairment of assets is taken to profit/loss under "Impairment and profit/loss from disposal of 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, and which include growth rates based on approved business plans that are periodically reviewed. Zero growth is considered for periods in excess of the amount of time 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.

The cash flows from CGU abroad have been calculated in the functional currencies of these cash generating units and they are adjusted using discount rates that take the relevant risk premiums relating to these currencies into account. The present value of net cash flows thus attained has been converted at the closing exchange rate of each currency.

#### d.6 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. All other cases are classified as operating leases.

##### ***Finance leasing***

In finance leasing transactions, the Group acts exclusively as lessee. The cost of the leased assets is stated on the consolidated statement of financial position according to the nature of the subject-matter of the contract and simultaneously, a liability is shown for the same amount. This amount shall be the lesser of the fair value of the leased asset and the present value of the minimum amounts agreed at the start of the lease, including the purchase option, when there is no reasonable doubt as to the exercise thereof. Contingent payments, service charges and taxes to be paid by and reimbursed to the lessor shall not be included in the calculation. The total finance charge of the contract is recognised on the consolidated income statement for the period in which it accrues, applying the effective interest method. Contingent payments are recognised as expenses in the period in which they are incurred.

Leased assets are depreciated, based on their nature, using similar criteria to those applied to the items of property, plant and equipment taken as a whole.

At the end of the finance lease, the Group companies generally exercise their purchase option as there are no kinds of restrictions to exercising such option in the contracts. There are no renewal agreements in the duration of the contracts or price adjustments either.

##### ***Operating leases***

The expenses derived from operating lease agreements are stated in the consolidated income statement in the period in which they accrue.

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.



#### d.7 Investments in associates

Interests are initially measured at cost of purchase and, subsequently, they are adjusted by the portion of the interests in the profits generated by said companies which are not paid as dividends. Likewise, the value of the interests is adjusted to reflect the proportion of changes in the equity of these companies that have not been recognised in their profit/loss.

The required valuation adjustments are made whenever there are signs of impairment; in other words, if the recoverable value of the interests is lower than the carrying amount.

#### d.8 Financial assets

The financial assets owned by the Group are classified into the following categories:

- Loans and receivables: Financial assets derived from the sale of goods or the rendering of services relative to the Group companies' 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. This category includes collection rights arising in application of IFRIC 12, "Service concession arrangements" (Note 2.d.1).
- Held-to-maturity investments: debt securities with a fixed maturity date and determinable collection amounts that are traded on an active market, regarding which the Group declares its intention and capacity to hold them until the maturity date.
- Financial assets available for sale: debt securities and equity instruments of other companies that have not been classified in any of the previous categories are included here.

#### ***Initial measurement***

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

#### ***Subsequent measurement***

- Loans, receivables and held-to-maturity investments are measured at amortised cost.
- Available-for-sale financial assets are measured at fair value, and the result of changes in this fair value is recorded in Equity until the asset is disposed of or experiences stable or permanent impairment. At that time, this accumulated sum previously recognised in Equity is transferred to the consolidated income statement. In this regard, permanent impairment is deemed to exist if the listed value of the asset has dropped by more than 40% during a period of one and a half years without its value being recovered.

- 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 consolidated income statement.
- In particular, regarding valuation adjustments made in relation to trade and other receivables:
  - 1) The Parent Company calculates the relevant valuation 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.
  - 2) The rest of the Group companies calculate any valuation adjustments that may arise based on a specific analysis of the bad debt risk of each account receivable.
- 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 consolidated income statement.

### ***Classification***

Current and non-current assets are classified based on their due dates at the reporting date, and those assets that are due within twelve months after the end of the period are considered current, whereas those that exceed this period are non-current.

### ***Derecognition of financial assets:***

The Group derecognises financial assets when they expire or the rights to cash flows of the corresponding financial asset have been assigned and the risks and rewards inherent to ownership thereof have been substantially transferred, such as final sales of assets, transfers of commercial credits in factoring transactions in which the company does not retain any significant credit or interest risk, sales of financial assets with a repurchase agreement at fair value or securitisation of financial assets in which the assigning entity does not keep subordinated funding or grant any kind of guarantee or assume any other kind of risk.

However, the Group does not derecognise financial assets, and instead recognises a financial liability for an amount equal to the consideration received, in assignments of financial assets in which the risks and rewards inherent to ownership thereof are substantially retained, such as discounted bills, recourse factoring, sales of financial assets with repurchase agreements at a fixed price or at the sale price plus interest and securitisation of financial assets in which the assigning

company retains subordinated funding or another type of guarantee which substantially absorbs all the expected losses.

#### d.9 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 Group makes the necessary value adjustments, recognising them as an expense on the consolidated income statement when the net realisable value of the inventories is lower than the purchase price or production cost thereof.

#### d.10 Foreign currency

The FCC Aqualia Group's functional currency is the Euro.

##### **Translation differences**

The financial statements of foreign companies stated in other currencies have been converted to euros at the closing exchange rate, except for:

- Capital and reserves, which have been converted at historical exchange rates.
- Items in the income statements of foreign companies that have been converted by applying the average exchange rates during the year.

The translation differences generated through the application of the closing exchange rate method are included, net of tax, in Equity in the attached consolidated statement of financial position.

##### **Exchange differences**

Balances receivable or payable in foreign currency are measured in euros by applying the exchange rates that are valid on at the consolidated statement of financial position date, taking any differences generated to profit/loss.

The differences that arise as a result of changes in exchange rates between the time of collection or payment and the date on which the transactions take place or the value is adjusted are taken to profit/loss for the year.

In turn, any exchange differences that take place in relation to investment financing in foreign companies, when both the investment and the financing is stated in the same currency, are recognised directly in equity as translation differences.

#### d.11 Grants

Grants are accounted for depending on their nature.

##### **Capital grants**

Capital grants are those that entail the acquisition or construction of assets. They are measured at the amount received or the fair value of the assets received and stated as deferred income in the liabilities section of the attached consolidated statement of financial position, then taken to profit/loss as the related assets depreciate.

##### **Operating grants**

Operating grants differ from the previous ones in that they are not directly related to an asset or set of assets. The amount received at the time the grant is awarded is accounted for as operating income.

#### d.12 Provisions and contingencies

In preparing the financial statements, the Directors of the Group have distinguished between:

- a) 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.
- b) Contingent liabilities: these are possible obligations arising as a result of past events whose confirmation is subject to the occurrence or non-occurrence of one or more future events not within the Group'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.

The compensation to be received from a third party at the time the obligation is settled is stated as an asset, provided that there is no uncertainty that such repayment will be received, except in cases in which there is a legal relationship whereby a portion of the risk has been outsourced, in virtue

of which the Group is not required to respond; in such a situation, the compensation shall be taken into account to estimate the amount, where applicable, shown in the relevant provision.

Provisions for dismantling, removal or renovation and those related to the environment are recognised by increasing the value of the related asset by the present value of the expenses to be incurred when operation of the asset ceases. The effect on profit/loss takes place by depreciating the asset in accordance with that indicated in the preceding sections of this note and the financial adjustment mentioned in the previous paragraph.

They are classified as current or non-current in the attached consolidated statement of financial position depending on the estimated time period for maturity of the obligations they cover; those with an estimated maturity that is longer than the average cycle for the activity that gave rise to the provision are considered non-current.

#### d.13 Financial liabilities

Financial liabilities are initially measured at the fair value of the consideration received, adjusted for directly attributable transaction costs. Subsequently, these liabilities are measured at amortised cost.

Finance costs are recorded in the consolidated income statement in accordance with the accrual criterion, using the effective interest method, and added to the instrument's carrying amount as long as they are not settled during the period in which they accrue.

Bank borrowings and other current and non-current liabilities are classified based on their due dates at the reporting date, and those assets that are due within twelve months after the end of the period are considered current, whereas those that exceed this period are non-current.

#### d.14 Financial derivatives and hedge accounting

A financial derivative is a financial instrument or some other contract whose value changes in response to changes in certain variables, such as interest rates, the price of a financial instrument, the exchange rate, a rating or credit index or based on some other variable.

Financial derivatives, besides generating profits or losses, can, under certain conditions, offset all or part of the currency, interest or value risks related to balances and transactions. Hedging is accounted for as described below:

- Cash flow hedges. In this type of hedge, changes in the value of the hedge are temporarily recognised in Equity, and taken to the consolidated income statement when the hedged transaction takes place.
- Hedging of net investments in foreign businesses. This type of hedging transaction is intended to hedge the currency risk and is accounted for like a cash flow hedge.

According to IAS 39 "Financial instruments: Recognition and measurement", in order to be considered a hedge, a financial derivative must meet the following requirements:

- Formal identification and documentation at the start of the hedging relationship, as well as the purpose thereof and the company's strategy regarding hedging.
- Documentation identifying the hedged item, the hedging instrument and the nature of the risk being hedged.
- Prospective proof of the effectiveness of the hedge.
- Ex post measurements that are objective and verifiable.

Changes in the fair value of financial derivatives that do not meet the criteria for hedge accounting are recognised in the consolidated income statement as they occur.

Financial derivatives are appraised by experts in this field that are independent from the Company and the entities that finance it.

In the valuation of the derivative, the implicit rates in the zero coupon yield curve have been used, estimating the settlements in each period and discounting them based on this zero curve.

After IFRS 13 entered into force on 1 January 2013, the guidelines for fair value measurement are now explicit and, specifically, for an adjustment in the credit risk to be considered part of the fair value measurement of the derivative instrument. Therefore, the counterparty credit risk and the company's own credit risk have been adjusted using techniques that simulate future scenarios.

In turn, effectiveness is measured by conducting a test that verifies whether the changes in fair value of the cash flows from the derivative offset the changes in fair value of the hedged risk, both retrospectively and prospectively.

In order to quantify the hedged risk, hypothetical derivative simplification is used, in which the risk is modelled by isolating the hedged risk from the other factors that affect forecasted cash flows.

At year-end, the changes in the fair value of the cash flows from the derivative identified as a hedging instrument are retrospectively compared with the hypothetical derivative that models the hedged risk, and the following ratio is calculated:

$$\text{Hedge ratio} = \frac{\text{VR (Real Derivative)}_i - \text{VR (Real Derivative)}_0}{\text{VR (Hypothetical Derivative)}_i - \text{VR (Hypothetical Derivative)}_0}$$

Hedging is considered to be highly effective when the changes in fair value of the cash flows from the real derivative offset the cash flows from the hypothetical derivative within a range of 80 to 120 %.

The same analysis is done prospectively by simulating two scenarios of changes in the estimated interest rate curve.

Scenario 1: - 25 basis points.  
Scenario 2: +100 basis points.

Although certain hedging instruments have been recognised as non-hedging, this is merely for accounting purposes, given that, for financial and management purposes, all the Company' hedging contracts are, in principle, backed by an underlying financial transaction and are intended exclusively to hedge the transaction.

This occurs when the hedge does not pass the effectiveness test, which requires that the changes in fair value or in the cash flows from the hedged item that are directly attributable to the hedged risk be offset by the changes in fair value or in the cash flows of the hedging instrument within a range of 80%-120%. When this does not happen, the changes in value are taken to the income statement.

In Note 22 of this consolidated Annual Report, the financial derivatives held by the FCC Aqualia Group and other issues related to them are detailed.

#### d.15 Income tax

Pursuant to record 18/89, the FCC Group, to which Grupo FCC Aqualia belongs, files its taxes under the consolidated taxation system for corporate income tax, and all the group companies that meet the requirements set forth under tax legislation pertain to this system.

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

Current tax is the amount that each company in the Group must pay as a result of income tax settlements for the present year, applying the relevant tax rates depending on the legislation in each jurisdiction. 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.

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 tax 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 tax group, which have been offset by other companies in the tax 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 tax 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 Company of the FCC Group registers the total amount of consolidated income tax to be paid (refunded) as a charge (payment) to Credits (Borrowings) with the tax group companies.

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 Group will have future tax benefits against which to offset them.

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 consolidated statement of financial position are evaluated and recognised to the degree that their recovery with future fiscal gains becomes probable.

Furthermore, in December 2014, the companies that pay tax in Spain took into account the change in the Income Tax rate introduced under Corporate Income Tax Law 27/2014, which took effect on 1 January 2015. According to this law, the tax rate will drop from the current 30 % to 28 % in 2015 and to 25 % starting in 2016 and therefore, the deferred tax assets and liabilities at 31 December 2014 and 2015 have been measured using the new rates.

Deferred tax assets and liabilities are recognised in the consolidated statement of financial position as non-current assets or liabilities, regardless of the expected performance or settlement date, and no financial adjustments are made under any circumstances.

#### d.16 Operating income and expense

In its water supply contracts, the Group recognises the amounts corresponding to cubic metres supplied to consumers, valued at sale price, as income. This 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.



In construction activities, the Group recognises profit/loss according to the degree of progress, established by measuring the work executed during the period and the costs thereof, which are accounted for as they accrue. Income is recognised at the sale price of the executed work, which is governed by a contract signed by the customer.

Regarding service concession arrangements, the FCC Group recognises income from interest deriving from collection rights under the financial assets model as profit from operations, given that the value of the financial asset includes both construction services and maintenance and upkeep services which, from an operational perspective, are identical to those represented by the intangible assets model and, consequently, it is deemed that the true and fair view is best represented in this way, since both models are related to the Group's operating activities (see Note 2.d.1).

Other income and expenses are stated in accordance with the accrual criterion, i.e., when the actual flow of goods and services occurs, regardless of when the financial or monetary flow thereof takes place.

#### d.17 Estimates made

Estimates have occasionally been used in the Group's consolidated financial statements for 2015 to quantify some of the assets, liabilities, income, expenses and commitments stated therein. Basically, these estimates refer to:

- The breakdown of the cost of business combinations (Notes 2.d.2 and 4)
- The impairment losses of certain assets (Notes 4, 5, 7, 9, 10 and 11)
- The useful life of tangible and intangible assets (Notes 4 and 5)
- The sums of certain provisions (Note 15)
- The market value of certain derivatives (Note 22)
- The recoverability of deferred tax assets (Note 17)
- The Company's taxable profit/loss, which will be submitted to the authorities, will be settled in the future and have been used as the basis for accounting for certain balances relating to income tax in these financial statements (Note 17).
- The degree of progress of construction activities. (Note d.16)

While these estimates were made on the basis of the best information available regarding the events analysed at the reporting date of these consolidated financial statements, events could take place in the future that would require these amounts to be increased or decreased in future periods, which would be done in a prospective manner.

d.18 Related-party transactions

The Group makes all its related-party transactions at market values.

d.19 Pension commitments and similar obligations

In general, the Spanish companies in the Group have no supplementary pension plans in place in addition to Social Security. However, pursuant to the terms of the consolidated text of the Pension Plan and Fund Regulatory Act, in specific cases in which there are similar obligations, the companies outsource the pension commitments and other similar obligations regarding employees.

In turn, certain foreign companies in the Group have agreed to supplement the retirement benefits and other similar obligations for their employees. The valuation of the obligations accrued and, where applicable, the related assets has been done by independent actuaries using generally accepted actuarial techniques and methods and where appropriate, these amounts are shown in "Non-current provisions" of the attached consolidated statement of financial position under the heading "Obligations for long-term employee benefits", in accordance with the criteria set forth under IFRS (Note 15).

d.20 Fair value hierarchy.

The valuation of assets and liabilities measured at fair value is broken down into different levels according to the following hierarchy established in IFRS 7:

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

Level 2: Inputs other than the quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. prices) or indirectly (i.e. price derivatives).

Level 3: Inputs for the asset or liability that are not based on observable market inputs.

At 31 December 2015 and 2014 the Group only has Level 2 assets and liabilities corresponding to financial instruments measured as indicated in section d.14 Financial derivatives and hedge accounting.

d.21 Activities relating to the environment

In general, any operations whose main purpose is to prevent, reduce or repair damage to the environment are considered environmental activities.

In this regard, investments deriving from environmental activities are measured at the cost of purchase and capitalised as the greater cost of the asset in the period in which they are incurred.

Expenses deriving from actions designed to protect and improve the environment are carried as expenses in the period in which they are incurred.

d.22 Consolidated statements of cash flows

In the consolidated statement of cash flows, which is prepared using the indirect method, the following terms are used with the following meanings:

- Cash flows: inflows and outflows of cash and cash equivalents, defined as alterations in the value of highly liquid short-term investments.
- Operating activities: the Group's usual activities, as well as other activities that cannot be classified as investing or financing.
- Investing activities: the acquisition, sale or disposal by other means of long-term assets and other investments not included in cash and cash equivalents.
- Financing activities: activities that cause changes in the size and composition of equity and liabilities but are not part of the operating activities.

d.23 Termination benefits

According to current regulations, the group companies are required to pay compensation to employees with whom, under certain conditions, labour relations are terminated.

The Parent Company Directors estimate that the liabilities that would accrue for termination benefits in the event of termination of permanent staff members that could under normal circumstances occur in the future and the amounts to be paid for such would not be significant, and therefore no provision has been allocated for this item in the financial statements for 2015.

d.24 Earnings per share

For the purposes of IAS 33, basic earnings per share are calculated as the result of dividing net profit for the year attributable to the Parent Company by the weighted average number of ordinary shares in circulation during the period, not including the average number of Parent Company shares held in Group company portfolios. In turn, diluted earnings per share are calculated as the result of dividing net profit for the year attributable to ordinary shareholders, adjusted for the effect of dilutive potential ordinary shares, by the weighted average number of ordinary shares in circulation during the period, adjusted for the weighted average number of ordinary shares that would be issued if all the potential ordinary shares were converted into Parent Company ordinary shares. For these purposes, the conversion is deemed to take place at the beginning of the year or when the potential ordinary shares are issued, if they are issued during the period.

It must be noted that the scope of IAS 33 involves consolidated financial statements whose parent meets one of the following requirements:

- Ordinary shares or potential ordinary shares that are publicly traded (in a domestic or foreign stock exchange or in an OTC market, including local and regional markets), or
- Entities that file, or are in the process of filing, their financial statements with a securities commission or other regulatory organisation for the purpose of issuing some sort of instrument in a public market.

The Parent Company Directors consider that, at 31 December 2015 and 2014, the basic earnings per share coincide with the diluted earnings per share, since these circumstances have not occurred.

### 3. PARENT COMPANY PROFIT-SHARING

The proposed distribution of the Parent's profit for the year that will be submitted for approval by the shareholders at the Annual General Meeting is as follows:

<i>(Amounts in thousands of euros)</i>	
<u>Profit for the year</u>	<b>53,521</b>
<b>Distribution:</b>	
<b>To reserve for goodwill</b>	4,138
<b>To voluntary reserves</b>	18,933
<b>To Dividends:</b>	
Interim dividend	30,450

On November 2015, the Parent's directors resolved to distribute an interim dividend totalling EUR 30,450 thousand. This agreement and the corresponding liquidity statement submitted by the Directors of the Parent Company are reflected in Appendix VI of this consolidated report.

### 4. INTANGIBLE ASSETS

The composition of intangible assets at 31 December 2015 and 2014 is as follows:

(thousands of euros)	Cost	Accumulated depreciation	Impairment	Net value
<b>2,015</b>				
Concessions (Note 6)	1,332,816	(512,307)	(11,812)	808,697
Goodwill	85,331	-	(25)	85,306
Other intangible assets	19,866	(13,839)	(1,036)	4,991
<b>TOTAL</b>	<b>1,438,013</b>	<b>(526,146)</b>	<b>(12,873)</b>	<b>898,994</b>
<b>2,014</b>				
Concessions (Note 6)	1,302,526	(457,966)	(10,152)	834,408
Goodwill	85,331	-	(25)	85,306
Other intangible assets	18,701	(12,594)	(1,037)	5,070
<b>TOTAL</b>	<b>1,406,558</b>	<b>(470,560)</b>	<b>(11,214)</b>	<b>924,784</b>

None of the intangible assets stated was generated internally and, except for goodwill, they all have a finite useful life and are therefore subject to straight-line amortisation over the period during which they are estimated to generate income, detailed as follows:

	<u>Estimated useful life</u>
Concessions	5 - 50 years
Other intangible assets	4 years

The intangible assets located outside of Spanish territory come to EUR 78,138 thousand at 31 December 2015 (EUR 66,599 thousand at 31 December 2014).

There are no investment commitments other than those stated, which have been allocated provisions under “Non-current provisions” in the attached consolidated statement of financial position (see Note 13).

### Details of intangible assets

Details of this item of the consolidated statement of financial position during 2014 and 2015 are as follows:

(thousands of euros)	Concessions	Goodwill	Other intangible assets	Amortisation	Impairment	TOTAL
<b>Balance at 31/12/2013</b>	<b>1,234,544</b>	<b>85,331</b>	<b>15,008</b>	<b>(420,644)</b>	<b>(8,355)</b>	<b>905,884</b>
Inflows	67,344	-	3,484	-	-	70,828
Allocations	-	-	-	(52,566)	(4,101)	(56,667)
Reversals	-	-	-	-	434	434
Outflows	(8,768)	-	(14)	7,948	-	(834)
Transfers	-	-	13	(13)	-	-
Translation differences	-	-	(74)	65	-	(9)
Change in the scope of consolidation	9,406	-	284	(5,350)	808	5,148
<b>Balance at 31/12/2014</b>	<b>1,302,526</b>	<b>85,331</b>	<b>18,701</b>	<b>(470,560)</b>	<b>(11,214)</b>	<b>924,784</b>
Inflows	28,629	-	1,093	-	-	29,722
Allocations	-	-	-	(54,911)	(2,168)	(57,079)
Reversals	-	-	-	-	516	516
Outflows	(156)	-	(125)	137	-	(144)
Transfers	63	-	-	(6)	-	57
Translation differences	-	-	197	(172)	-	25
Change in the scope of consolidation	1,754	-	-	(634)	(7)	1,113
<b>Balance at 31/12/2015</b>	<b>1,332,816</b>	<b>85,331</b>	<b>19,866</b>	<b>(526,146)</b>	<b>(12,873)</b>	<b>898,994</b>

### Administrative concessions

Administrative concessions are defined as those by which a concession grantor awards a concession operator (FCC Aqualia Group), for a period of time, a contract for the construction and operation, or only the operation of infrastructures that can be operated and are needed for the provision of public services of a financial 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.

The Group 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.

At 31 December 2015 and 2014, the main administrative concessions are as follows:

## 2015

CONTRACT	Administrative concessions			Intangible assets, concession agreement			Adv. on Intangible	TERM
	COST	DEPREC. AM.	IMPAIRMENT	COST	DEPREC. AM.	IMPAIRMENT	Assets Concess. Agreement	
Alcalá de Henares (Madrid)	8,040	(3,718)	-	8,434	(3,262)	-	-	25 years
Algeciras (Cádiz)	460	(256)	-	15,619	(4,852)	-	-	50 years
Almansa (Albacete)	5,754	(692)	-	57	(57)	-	-	25 years
Almería (Almería)	10,780	(6,035)	-	17,838	(5,377)	-	-	40 years
Arcos de la Frontera (Cádiz)	7,937	(1,032)	-	3,250	(268)	-	-	25 years
Badajoz (Badajoz)	15,436	(8,479)	-	37,359	(13,761)	-	-	50 years
Calahorra (Rioja)	6,391	(3,043)	-	106	(79)	-	-	20 years
Cabezo Torres (Murcia)	-	-	-	6,314 (3,646)	-	-	-	40 years Denia (Alicante)
	-	10,995	(4,912)	-	-	-	6,138	(3,225)-
	-	-	-	-	-	-	9,135	(5,643)-
	57	(54)	-	30 years				
L'Ametlla de Mar (Tarragona)	8,415	(3,685)	-	592	(278)	-	-	25 years
La Línea de la Concepción (Cádiz)	8,712	(6,271)	-	-	-	-	-	40 years
La Nucia (Alicante)	29	(29)	-	21,804	(7,712)	-	-	30 years
Llanera (Asturias)	1,248	(1,218)	(30)	12,513	(2,930)	(3,829)	-	25 years
Lleida (Lleida)	38,098	(3,077)	-	11,179	(959)	-	-	25 years
Lloret de Mar (Girona)	22,253	(8,901)	(3,616)	299	(163)	-	-	25 years
Los Alcázares (Murcia)	7,946	(5,253)	-	312	(251)	-	-	20 years
Mérida (Badajoz)	15,642	(7,539)	-	3,619	(1,817)	-	-	30 years
Moguer (Huelva)	5,739	(1,261)	-	1,674	(344)	-	-	30 years
Oviedo (Asturias)	17,945	(6,779)	-	19,131	(6,306)	-	-	50 years
Puente Genil (Córdoba)	3,324	(3,160)	-	2,016	(143)	-	-	30 years
Salamanca (Salamanca)	6,961	(2,001)	-	43	(13)	-	-	25 years
Ronda (Málaga)	4,584	(2,442)	-	257	(12)	-	-	25 years
Sanlúcar de Barrameda (Cádiz)	17,268	(3,609)	-	-	-	-	-	40 years
Santander (Cantabria)	72,632	(28,239)	-	13,718	(5,272)	-	-	25 years
Santa María de Guía (Gran Canaria)	-	-	-	5,682	(5,136)	-	-	20 years
Sant Feliu (Gerona)	5	(5)	-	6,791	(3,907)	-	137	50 years
Sant Josep (Ibiza)	-	-	-	11,576	(4,569)	-	-	28 years
Soller (Majorca)	68	(13)	-	6,571	(1,685)	-	-	30 years
Talavera de la Reina (Toledo)	16,985	(10,776)	-	11,838	(2,812)	-	-	25 years
Valverde del Camino (Huelva)	5,701	(741)	-	500	(65)	-	-	25 years
Vélez - Málaga (Málaga)	6,750	(2,978)	-	208	(9)	-	-	20 years
Vigo (Pontevedra)	16,353	(15,048)	-	71,278	(57,046)	-	-	30 years
Adeje (Tenerife)	53,467	(27,187)	-	63,658	(27,336)	-	-	2 years
Écija (Seville)	9,560	(5,504)	-	-	-	-	-	25 years
Jerez de la Frontera (Cádiz)	83,406	(9,056)	-	18,580	(2,018)	-	25 years	-
Cartaya (Huelva)	8,521	(630)	-	176	(65)	-	-	25 years
La Línea de la Concepción (Cádiz)	9,880	(829)	-	-	-	-	195	12 years
Puerto de Santa María (Cádiz)	2,000	(127)	-	-	-	-	-	25 years
Alcázar de San Juan (Ciudad Real)	1,855	(97)	-	10,843	(1,954)	-	-	25 years
Municipal WWTP (Tárragona)	-	-	-	16,618	(5,401)	-	-	21 years
Costa Tropical Grana ja Municipalities	501	(213)	-	19,795	(9,041)	-	-	25 years
Abrantes (Portugal)	-	-	-	9,851	(2,405)	-	-	25 years
Campo Maior (Portugal)	-	-	-	4,032	(1,054)	-	-	30 years
Elvas (Portugal)	-	-	-	5,783	(1,285)	-	-	30 years
Cartaxo (Portugal)	10,177	(1,926)	-	10,143	(1,448)	-	-	35 years
Fundao (Portugal)	2,000	(311)	-	5,132	(540)	-	-	30 years
Caltanissetta (Italy)	-	-	-	24,387	(8,398)	-	23,245	30 years
Rest less than 5 m on	187,626	(86,776)	(4,195)	102,689	(35,861)	(142)	200	5 - 50 years
<b>TOTAL</b>	<b>715,722</b>	<b>(277,804)</b>	<b>(7,841)</b>	<b>593,317</b>	<b>(234,503)</b>	<b>(3,971)</b>	<b>23,777</b>	

In relation to the Adeje concession, although the maturity in force is set for 2017, there are renewals for 5-year periods, subject to agreement between the parties. In this regard, the Group considers that such

renewals will occur until at least 2032, having performed the recoverability tests of that concession and taking into account the aforementioned period of life.

In 2015, the Group recognised a total of EUR 29,722 thousand corresponding mainly under the following contracts:

- Caltanissetta Province (Italy) amounting to EUR 12,067 thousand for the execution of investments for the refurbishment of the network in the municipalities of the contract, mainly in the cities of Caltanissetta, Gela, Butera and San Cataldo.
- Municipalities of the Tropical Coast of Granada amounting to EUR 3,269 thousand for the refurbishment and modernization of the network of supply and sanitation in several of them, among which are mainly Motril and Almuñécar.
- Fundao (Portugal) amounting to EUR 2,666 thousand invested in improving the network of the municipality.
- 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.
- 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.



## 2014

A detail of the intangible assets figures for the main concession contracts operated by the Group is shown below:

	Administrative concessions			Intangible assets, concession agreement			Advances for Int. Assets, concession arrangements	TERM
	COST	DEPREC. DEPRECIATION	IMPAIRMENT	COST	DEPREC. DEPRECIATION	IMPAIRMENT		
Alcalá de Henares (Madrid)	8,040	(3,396)	-	8,434	(2,879)	-	-	25 years
Algeciras (Cádiz)	460	(249)	-	15,619	(4,543)	-	-	50 years
Almansa (Albacete)	5,754	(461)	-	34	(2)	-	-	25 years
Almería (Almería)	10,780	(5,756)	-	17,838	(4,644)	-	-	40 years
Arcos de la Frontera (Cádiz)	7,937	(718)	-	3,250	(268)	-	-	25 years
Badajoz (Badajoz)	15,436	(8,237)	-	37,359	(12,918)	-	-	50 years
Denia (Alicante)	-	-	-	10,995	(4,523)	-	-	35 years
Cabezo de Torres (Murcia)	-	-	-	6,314	(3,121)	-	-	40 years
Calahorra (Rioja)	6,391	(2,692)	-	106	(75)	-	-	20 years
Ingenio (Gran Canaria)	6,138	(2,981)	-	-	-	-	-	35 years
Jaén (Jaén)	9,135	(5,337)	-	57	(54)	-	-	30 years
L' Ametlla de Mar (Tarragona)	8,415	(3,347)	-	592	(256)	-	-	25 years
La Línea de la Concepción (Cádiz)	18,592	(6,020)	-	130	(67)	-	-	40 years
La Nucia (Alicante)	29	(29)	-	21,804	(6,772)	-	-	30 years
Llanera (Asturias)	1,248	(1,216)	(1,782)	12,513	(2,442)	-	-	25 years
Lleida (Lleida)	38,098	(1,472)	-	11,179	(458)	-	-	25 years
Lloret de Mar (Girona)	22,253	(8,011)	(3,858)	299	(153)	-	-	25 years
Los Alcázares (Murcia)	7,946	(4,833)	-	312	(241)	-	-	20 years
Mérida (Badajoz)	15,642	(6,990)	-	3,619	(1,696)	-	-	30 years
Moguer (Huelva)	5,739	(1,031)	-	1,674	(274)	-	-	30 years
Oviedo (Asturias)	17,945	(6,415)	-	19,131	(5,889)	-	-	50 years
Puente Genil (Córdoba)	3,324	(2,991)	-	43	(36)	-	897	30 years
Salamanca (Salamanca)	6,961	(1,550)	-	43	(9)	-	-	25 years
Ronda (Málaga)	4,567	(2,324)	-	79	(5)	-	-	
Sanlúcar de Barrameda (Cádiz)	17,268	(2,920)	-	-	-	-	-	40 years
Santander (Cantabria)	72,632	(25,328)	-	13,718	(4,718)	-	-	25 years
Santa Maria de la Guía (Gran Canaria)	-	-	-	5,682	(4,925)	-	-	20 years
Sant Feliu de Guixols (Girona)	6	(6)	-	6,791	(3,817)	-	-	50 years
Sant Josep (Ibiza)	-	-	-	11,576	(4,238)	-	-	28 years
Soller (Majorca)	27	(10)	-	5,851	(1,374)	-	639	30 years
Talavera de la Reina (Toledo)	16,985	(10,280)	-	10,500	(2,261)	-	-	25 years
Valverde del Camino (Huelva)	5,701	(513)	-	500	(45)	-	-	25 years
Vélez – Málaga (Málaga)	6,750	(2,721)	-	208	(9)	-	-	20 years
Vigo	16,353	(15,048)	-	70,983	(53,932)	-	-	25 years

(Pontevedra)								
Adeje (Tenerife)	53,467	(24,511)	-	63,658	(23,780)	-		3 years
Écija (Seville)	9,560	(5,121)	-	25	(17)	-		25 years
Jerez de la								
Frontera (Cádiz)	83,406	(5,714)	-	18,580	(1,274)	-		25 years
Cartaya (Huelva)	7,592	(304)	-	1,100	(44)	-		25 years
Puerto de Santa								
María (Cádiz)	2,000	(47)	-			-		25 years
Alcázar de San								
Juan (Ciudad	1,855	(79)	-	12,552	(1,563)	-		25 years
Real)								
Municipal								
WWTP (Teruel)	-	-	-	16,618	(4,528)	-		21 years
Costa Tropical								
Granada	316	(203)	-	16,711	(8,683)	-		25 years
Municipalities								
Abrantes								
(Portugal)	-	-	-	9,851	(2,068)	-		25 years
Campo Maior								
(Portugal)	-	-	-	4,032	(918)	-		30 years
Elvas (Portugal)								
Cartaxo								
(Portugal)	10,177	(1,648)	-	10,143	(1,158)	-		35 years
Fundao								
(Portugal)	2,000	(244)	-	2,466	(258)	-		30 years
Caltanissetta								
(Italy)	-	-	-	20,746	(7,017)	-	14,820	30 years
Rest less than 5								
million	182,922	(78,103)		96,133	(23,597)	(1,580)	691	5 - 50 years
<b>TOTAL</b>	<b>709,847</b>	<b>(248,856)</b>	<b>(5,640)</b>	<b>575,632</b>	<b>(202,641)</b>	<b>(1,580)</b>	<b>17,047</b>	

In 2014, the Group recognised a total of EUR 70,828 thousand corresponding to the activities developed in Spain, mainly under the following contracts:

- Aguas de Lleida (Lleida), for a total of EUR 22,730 thousand, for the supply and distribution of drinking water, as well as sewerage and treatment of waste water for 25 years. This contract was already being implemented by UTE Aqualia – FCCSA (Lleida), in which the Group has a 50 % interest.

On 30 January 2014 the contract that the temporary joint venture had was assigned to FCC Aqualia, for the latter to provide the service as of said date. This assignment was authorised by the City Council.

- La Línea de la Concepción (Cádiz), for a total of EUR 9,880 thousand, for the management of the town's municipal water supply service for 12 years. Thus, the FCC Aqualia Group continues to manage the water services end to end in this town, as it has been doing uninterruptedly since 1986.

- Callosa del Segura (Alicante), for a total of EUR 3,140 thousand, for end-to-end management of the public water services in said town for 20 years.

- Arcos de la Frontera (Cádiz), for a total of EUR 3,113 thousand, for the agreement to make investments related to the end-to-end water supply and sanitation management contract in said town.

- San Juan del Puerto (Huelva), for a total of EUR 2,242 thousand, for management of the public drinking water supply and sewerage services in this town for 25 years.

- Aguas de Alcalá de Henares (Madrid), for a total of EUR 1,547 thousand, for the purchase of a 12.50 % interest in UTE Aguas de Alcalá, in which the Group's interests have risen from 37.50 to 50 %. This

temporary joint venture is responsible for the municipal water supply and sanitation service in Alcalá de Henares for 25 years.

- Guijuelo (Salamanca) joint municipalities and the surrounding district, for a total of EUR 1,166 thousand for water supply and sewerage.

#### Other intangible assets

“Other intangible assets” includes mainly computer software purchased from third parties, which experiences straight-line amortisation over four years, and other asset items related to the concession contracts.

#### Goodwill

The breakdown of goodwill (net of impairment) at 31 December 2015 and 2014 in the attached consolidated statement of financial position is as follows:

Amounts in thousands of euros	31.12.2015	31.12.2014
Depurplan 11, S.A.	18	18
Aqualia Industrial Solutions, S.A. UNIP.	-	2,523
Aqualia Infraestructuras, S.A.	2,523	-
Merger goodwill	82,765	82,765
<b>TOTAL</b>	<b>85,306</b>	<b>85,306</b>

The merger goodwill arose in 2002 and 2011 when the parent company merged with several of its subsidiaries, giving rise to goodwill through the difference between the cost of purchase of these subsidiaries and the net value of their identifiable assets, considering the market value as the maximum limit, less any liabilities payable and provisions constituted.

On 21 March 2013, Aqualia Industrial Solutions, S.A. Unipersonal (formerly Graver Española, S.A.U.) merged, as the acquiring company, with Nilo Medioambiente, S.L. and Chemipur Químicos, S.L. (as the acquired companies).

On 23 November 2015, Aqualia Industrial Solutions, S.A. merged with Aqualia Infraestructuras, S.A., through the absorption by the latter of Aqualia Industrial Solutions, S.A. Unipersonal, both investee companies of FCC Aqualia. The absorption was performed by integrating all the elements and the block transfer of the assets of the absorbed to the absorber at consolidated values.

As regards the estimates made and the sensitivity analysis of the goodwill impairment tests, the main issues are mentioned below:

- Merger goodwill. For the hypotheses used in estimating cash flows, FCC Aqualia as a whole has been considered a cash generating unit, without considering the contracts furnished by the acquired companies at that time separately.

The main hypotheses used have been made with annual revenue growth estimates ranging from 1% to 2% and in calculating the constant income, it must be noted that a zero growth rate was

considered. Current cash flow forecasts are not highly sensitive, and can bear increases in the discount rate in excess of 9 percentage points, as well as a decrease in cash flows of 70% without incurring in impairment.

- Aqualia Industrial Solutions goodwill. In order to calculate the revenue and profit hypotheses, the sum of this company and Aqualia Infraestructuras has been taken as a cash generating unit because the two companies merged in 2015.

## 5. PROPERTY, PLANT AND EQUIPMENT

The net composition of property, plant and equipment at 31 December 2015 and 2014 is as follows:

(thousands of euros)	Cost	Accumulated depreciation	Net value
<b>2015</b>			
<b>Land and buildings</b>	<b>50,243</b>	<b>(19,970)</b>	<b>30,273</b>
Land and natural resources	6,366	(36)	6,330
Structures for internal use	43,877	(19,934)	23,943
<b>Technical installations and other property, plant and equipment</b>	<b>684,214</b>	<b>(395,548)</b>	<b>288,666</b>
Technical installations	500,749	(257,558)	243,191
Machinery and transport means	99,705	(79,514)	20,191
Assets in progress	11,533	-	11,533
Other property, plant and equipment	72,227	(58,476)	13,751
<b>TOTAL</b>	<b>734,457</b>	<b>(415,518)</b>	<b>318,939</b>
<b>2014</b>			
<b>Land and buildings</b>	<b>49,417</b>	<b>(18,858)</b>	<b>30,559</b>
Land and natural resources	6,203	(34)	6,169
Structures for internal use	43,214	(18,824)	24,390
<b>Technical installations and other property, plant and equipment</b>	<b>649,718</b>	<b>(364,846)</b>	<b>284,872</b>
Technical installations	471,778	(234,480)	237,298
Machinery and transport means	96,112	(74,756)	21,356
Assets in progress	13,039	-	13,039
Other property, plant and equipment	68,789	(55,610)	13,179
<b>TOTAL</b>	<b>699,135</b>	<b>(383,704)</b>	<b>315,431</b>

The details of the different property, plant and equipment accounts during 2014 and 2015 were as follows:

(in thousands of euros)	Land and natural resources	Property for own use	LAND AND BUILDINGS	Technical installations	Machinery and transport means	Fixed assets in progress	Other property, plant and equipment	TECH. INSTALLATIONS AND OTHER PROPERTY, PLANT AND EQUIPMENT	ACCUMULATED AMORTISATION	TOTAL
<b>Balance at 31/12/2013</b>	<b>6,153</b>	<b>42,914</b>	<b>49,067</b>	<b>454,736</b>	<b>92,621</b>	<b>12,191</b>	<b>66,525</b>	<b>626,073</b>	<b>(360,641)</b>	<b>314,499</b>
Inflows	7	28	35	2,092	1,034	17,855	1,920	22,901	-	22,936
Allocations	-	-	-	-	-	-	-	-	(25,848)	(25,848)
Outflows	(4)	(195)	(199)	(1,386)	(1,168)	(72)	(800)	(3,426)	2,408	(1,217)
Transfers	5	772	777	12,919	3,447	(16,885)	475	(44)	(733)	-
Translation differences	(55)	(305)	(360)	(4,185)	(690)	(119)	(73)	(5,067)	2,706	(2,721)
Change in the scope of consolidation	97	-	97	7,602	868	69	742	9,281	(1,596)	7,782
<b>Balance at 31/12/2014</b>	<b>6,203</b>	<b>43,214</b>	<b>49,417</b>	<b>471,778</b>	<b>96,112</b>	<b>13,039</b>	<b>68,789</b>	<b>649,718</b>	<b>(383,704)</b>	<b>315,431</b>
Inflows	-	17	17	1,415	1,319	16,440	4,418	23,592	-	23,609
Allocations	-	-	-	-	-	-	-	-	(26,291)	(26,291)
Outflows	(3)	(125)	(128)	(300)	(936)	(17)	(489)	(1,742)	1,618	(252)
Transfers	27	(43)	(16)	16,977	1,387	(17,805)	(556)	3	6	(7)
Translation differences	139	789	928	10,879	1,822	309	189	13,199	(7,266)	6,861
Change in the scope of consolidation	-	25	25	-	1	(433)	(123)	(556)	119	(412)
<b>Balance at 31/12/2015</b>	<b>6,366</b>	<b>43,877</b>	<b>50,243</b>	<b>500,749</b>	<b>99,705</b>	<b>11,533</b>	<b>72,227</b>	<b>684,214</b>	<b>(415,518)</b>	<b>318,939</b>

The Group companies enter into the insurance policies deemed necessary to cover the potential risks to which the property, plant and equipment items may be exposed.

At 31 December 2015 the property, plant and equipment items located outside of Spanish territory have a carrying amount of EUR 283,485 thousand, located mainly in the European Union and Mexico (EUR 277,428 thousand at 31 December 2014).

The sum of fully depreciated property, plant and equipment items that, however, are still in use in production activities, given that they are in good condition, comes to EUR 128,248 thousand at 31 December 2015 (EUR 116,958 thousand at 31 December 2014).

Capitalised interest in 2015 comes to EUR 26 thousand (EUR 93 thousand in 2014), and accumulated interest capitalised from the outset comes to EUR 3,835 thousand (EUR 3,809 thousand in 2014).

#### Assets with restrictions on title

Within the scope of its activities, the Group purchases or builds assets that are returned to the City Councils that granted the concessions at the end of the contracts.

The Group companies estimate that the periodic maintenance plans for their facilities, the cost of which is taken to expenses in the year they are incurred, are sufficient to ensure that the related assets are returned in good condition at the end of the concession period and that, therefore, no relevant expenses will be incurred as a result of the return.

#### Property, plant and equipment purchase commitments

In the course of its activities, all the companies in the FCC Aqualia Group that engage in the concession business have firm commitments to purchase property, plant and equipment items (see Note 6).

#### Group capitalised expenses of in-house work on assets

The FCC Aqualia Group, through its specialised companies, performs construction work and builds infrastructures related to water contracts, which are mainly provided in the Czech Republic and will not be returned to the city councils that awarded the contract. The amount capitalised for this item comes to EUR 19,471 thousand at 31 December 2015 (EUR 17,887 thousand at 31 December 2014).

#### Finance leasing

At year-end 2015 and 2014, the Company had transport items acquired under a finance lease, with a carrying amount of EUR 114 thousand at 31 December 2015 (EUR 33 thousand at 31 December 2014).

The reconciliation between the amount for minimum future lease payments and the carrying amount is as follows (in thousands of euros):

	31.12.2015	31.12.2014
<b>Minimum future payments</b>	<b>116</b>	<b>33</b>
Finance costs not yet accrued	(2)	-
<b>Present value (Note 14.c)</b>	<b>114</b>	<b>33</b>

At the end of the finance lease, the FCC Aqualia Group companies generally exercise their purchase option as there are no kinds of restrictions to exercising such option in the contracts.

The finance leasing agreements signed by the Group companies do not include fees for amounts determined on the basis of future economic events or indexes and therefore no expenses for contingent payments have been incurred during the year.

#### Operating leases

In its capacity as lessee, the operating lease payments recognised by the Group as an expense at 31 December 2015 come to EUR 24,999 thousand (EUR 18,090 thousand at 31 December 2014). These amounts correspond mainly to leases of machinery used in engaging in the Group's activities and leases on buildings for internal use.

## 6. SERVICE CONCESSION ARRANGEMENTS

This note gives an overall perspective on the investments that the Group makes in concession businesses, which are recognised in diverse items of the assets section of the attached consolidated statement of financial position.

The following chart shows the total amount of these assets that the Group companies have in service concession arrangements, which are contained in the intangible assets, non-current financial assets and investments in companies accounted for using the equity method sections of the attached consolidated statement of financial position at 31 December 2015 and 2014.

CONCESSIONS AT 31.12.2015 (thousands of euros)	Intangible assets (Note 4)	Non current collection rights – concession arrangements (Note 9.a)	Current collection rights – concession arrangements (Note 9.b)	Loans to concession operating joint ventures (Note 7)	Carrying amount, concession operating joint ventures (Note 7)	Total Investment
Cost	1,332,816	-	31,231	54,246	71,082	1,489,375
Depreciation	(512,307)	-	-	-	-	(512,307)
Impairment	(11,812)	-	(5,118)	-	-	(16,930)
<b>TOTAL</b>	<b>808,697</b>	<b>-</b>	<b>26,113</b>	<b>54,246</b>	<b>71,082</b>	<b>960,138</b>

CONCESSIONS AT 31.12.2014 (thousands of euros)	Intangible assets (Note 4)	Non current collection rights – concession arrangements (Note 9.a)	Current collection rights – concession arrangements (Note 9.b)	Loans to concession operating joint ventures (Note 7)	Carrying amount, concession operating joint ventures (Note 7)	Total Investment
Cost	1,302,526	25,251	5,273	51,989	78,206	1,463,245
Depreciation	(457,966)	-	-	-	-	(457,966)
Impairment	(10,152)	-	-	-	-	(10,152)
<b>TOTAL</b>	<b>834,408</b>	<b>25,251</b>	<b>5,273</b>	<b>51,989</b>	<b>78,206</b>	<b>995,127</b>

Furthermore, under the concession agreements, the concession operators controlled by the Group are required to purchase or build property, plant and equipment items related to the concessions, totalling EUR 57,866 thousand at 31 December 2015 (EUR 62,920 thousand at 31 December 2014).

## 7. INVESTMENTS IN ASSOCIATES AND JOINTLY-CONTROLLED ENTITIES

This section contains the value of investments made in companies consolidated by applying the equity method, which includes both the interests and the non-current loans granted to these companies, as well as jointly operated entities which, as indicated in Note 2.c), have been accounted for using the equity method.

In the periods ended at 31 December 2015 and 2014, there have been no impairment losses because the market value is equal to or greater than the values attained as explained in the preceding paragraph.

The breakdown of interests held per company is shown in Appendix III, where the companies consolidated by the equity method are listed, and the detail for each period, per item, is as follows:

(thousands of euros)	Interests (Note 6)	Uncalled capital payments (Note 6)	LT Loans (Note 6)	ENDING BALANCE
<b>Balance at 31/12/2013</b>	<b>66,345</b>	<b>(49)</b>	<b>49,395</b>	<b>115,691</b>
Acquisitions	4,368	-	-	4,368
Profit-sharing	9,288	-	-	9,288
Dividends paid	(3,721)	-	-	(3,721)
Uncalled capital payments	-	(1)	-	(1)
Translation differences	2,428	-	-	2,428
Loans granted/(repaid)	-	-	2,594	2,594
Impairment and other losses	-	-	-	-
Others	(452)	-	-	(452)
<b>Balance at 31/12/2014</b>	<b>78,256</b>	<b>(50)</b>	<b>51,989</b>	<b>130,195</b>
Acquisitions	1	-	-	1
Profit-sharing	3,466	-	-	3,466
Dividends paid	(7,835)	-	-	(7,835)
Sales	(469)	-	-	(469)
Uncalled capital payments	-	-	-	-
Translation differences	(3,128)	-	-	(3,128)
Loans granted/(repaid)	-	-	4,817	4,817
Impairment and other losses	-	-	(2,560)	(2,560)
Others	838	3	-	841
<b>Balance at 31/12/2015</b>	<b>71,129</b>	<b>(47)</b>	<b>54,246</b>	<b>125,328</b>

During 2015, the acquisition of the group stood at EUR 1 thousand, corresponding to 15% of the share capital in the company Operadora del Realito S.A. de C.V.

The increase in the loans granted mainly relates to the transfer to non-current status of the loans to Constructora de Infraestructuras de Aguas Potosí, SACV and Constructora de Infraestructuras de Agua Querétaro, SACV by Aqualia Infraestructuras S.A.

In 2014, the main acquisition made by the Group comes to EUR 4,295 thousand, corresponding to 49 % of the share capital acquired in Aguas del Puerto Empresa Municipal, S.A., which ceases to be a municipal company, becoming a public-private entity.

The assets, liabilities, revenue and profit/loss for 2015 and 2014 corresponding to the Group's interests in the share capital of each associate and jointly-controlled entity, according to the information included in the respective financial statements, are shown below.



	(thousands of euros)	
	2015	2014
<b>Financial Position</b>		
Non-current assets	202,350	241,199
Current assets	69,919	80,220
Non-current liabilities	160,051	171,983
Current liabilities	51,768	73,328
<b>Results</b>		
Net revenues	88,809	88,290
Net profit from operations	10,834	22,879

In relation to investments accounted for using the equity method, the FCC Aqualia Group has constituted guarantees for a sum of EUR 2,843 thousand at 31 December 2015 (EUR 3,434 thousand at 31 December 2014) at financial institutions in order to secure maintenance of the interests in the capital of the related subsidiaries throughout the term of the loan agreement.

## 8. JOINT VENTURES

The Group companies engage in part of their activities by participating in businesses in which the FCC Aqualia Group exercises joint control with external partners, mainly through temporary joint ventures (TJV or UTEs, in Spanish) and Economic Interest Groupings (EIG or AIEs, in Spanish). These businesses have been consolidated using the proportionate method, as indicated in Note 2 of this consolidated Annual Report.

The main financial figures of the different joint ventures at 31 December 2015 and 2014 are shown below:

<b>Unincorporated temporary joint ventures (UTEs)</b>		
(Amounts in thousands of euros)	2015	2014
Net revenues	107,834	98,838
Gross profit from operations	26,638	19,273
Net profit from operations	20,681	14,015
Non-current assets	66,965	86,917
Current assets	25,183	7,619
Non-current liabilities	26,600	21,875
Current liabilities	54,900	69,027

Appendix II lists the proportionately consolidated companies and Appendix IV lists the businesses operated jointly with third parties outside the Group through contracts and temporary joint ventures.

These businesses managed through temporary joint ventures mean that the participating partners share the joint liability for the activities carried out.

## 9. NON-CURRENT FINANCIAL ASSETS AND OTHER CURRENT FINANCIAL ASSETS

The most significant items under “Non-current financial assets” and “Other current financial assets” in the attached consolidated statement of financial position are broken down as follows:

**a) Other financial assets**

Non-current financial assets are broken down as shown:

<i>(Amounts in thousands of euros)</i>	<b>2015</b>	<b>2014</b>
Financial assets available for sale	-	84
Non-current loans	123,721	142,041
Held-to-maturity assets	165	171
<b>Total</b>	<b>123,886</b>	<b>142,296</b>

Financial assets available for sale

Breakdown of the balance at 31/12/2014:

	% effective interests	(in thousands of euros)		Carrying amount
		Cost	Impairment loss	
Sevilla Seed Capital , S.A.	4.19	601	(517)	84
		<b>601</b>	<b>(517)</b>	<b>84</b>

In 2015, the general meeting of shareholders of Sevilla Seed Capital, S.A. agreed to the liquidation of the company.

Non-current loans

The scheduled due dates for the non-current loans that Group companies have granted to third parties and companies in the FCC group are as follows:

At 31 December 2015:

Amounts in thousands of euros	2,017	2,018	2,019	2,020	2021 and the following	Total
Non-commercial loans	16,834	11,662	6,602	1,728	71,055	107,881
Deposits and guarantees	645	6	-	8	15,181	15,840
<b>Total</b>	<b>17,479</b>	<b>11,668</b>	<b>6,602</b>	<b>1,736</b>	<b>86,236</b>	<b>123,721</b>

At 31 December 2014:

Amounts in thousands of euros	2,016	2,017	2,018	2,019	2020 and the following	Total
Non-commercial loans	12,459	9,456	8,661	8,631	87,772	126,979
Deposits and guarantees	612	1	1	-	14,448	15,062
<b>Total</b>	<b>13,071</b>	<b>9,457</b>	<b>8,662</b>	<b>8,631</b>	<b>102,220</b>	<b>142,041</b>

Non-commercial loans are categorised into the following types:

Amounts in thousands of euros	2015	2014
Non-current loans to FCC Group companies	15	764
Non-current loans to public entities	107,856	100,930
Non-current guarantees and deposits constituted	15,840	15,062
Non-current collection rights, concession agreement (Note 6)	-	25,251
Non-current loans to employees	10	34
<b>TOTAL NON-COMMERCIAL LOAN BALANCE</b>	<b>123,721</b>	<b>142,041</b>

At 31 December 2014 the Company recorded under “Non-current collection right - concession arrangements” an amount of EUR 25,251 thousand and an amount of EUR 5,273 thousand under “Current collection right - concession arrangements”, for the collection rights the Company had in the construction and operation of a seawater desalination plant in Santa Eulalia (Balearic Islands), based on a public works concession contract that was signed on 15 November 2005 by the Temporary Joint Venture FCC Aqualia - Aqualia Infraestructuras, 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 is completed, it would take over the concession during the operational phase as it was going to be 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 Parent 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.

At 31 December 2015, based on its expected outcome, the Company reclassified in the first quarter of 2016, the entire amount to "Current collection right - concession arrangements" (note 9.b) since on 4 December 2015, the Council of Ministers adopted a resolution on 2 concession contracts in the Balearic Islands, including the one relating to the desalination plant of Sta. Eulalia in Ibiza, authorizing the payment of EUR 26,113 thousand by way of compensation plus interest to the Concessionaire UTE. This amount was collected on 18 January 2016.

Given the resolution of the Council of Ministers, the Group recorded a financial impairment amounting to EUR 5,118 thousand for the difference with the amount recorded in the accounting, adjusting the amount recorded in the accounting and pending recovery at 31 December 2015 to EUR 26,113 thousand.

The non-current loans to public entities correspond mainly to amounts loaned to city councils to finance the implementation of work and facilities in the water system. These loans accrue interest at a floating rate based on the Euribor and are repaid mainly through the rates in the related concession agreements.

<b>NON-CURRENT LOANS TO PUBLIC ENTITIES</b>		
<b>(Amounts in thousands of euros)</b>		
	<b>2015</b>	<b>2014</b>
Adeje City Council	120	240
Agate City Council	174	294
Alboraya City Council	4,148	4,275
Aller City Council	327	373
Almería City Council	-	-
Ávila City Council	4,284	5,165
Baena City Council	707	707
Bell-Lloch City Council	64	70
Bollullos City Council	1,396	1,396
Calasparra City Council	340	382
Callosa del Segura City Council	1,615	1,693
Caravaca de la Cruz City Council	442	676
Chiclana City Council	-	373
Chipiona City Council	667	766
El Escorial City Council	3,686	3,735
El Vendrell City Council	208	227
Gáldar City Council	4,970	5,250
Güímar City Council	264	294
Hellín City Council	21	24
Hondón de los Frailes City Council	141	168
Jaén City Council	30,764	31,075
Albuera City Council	-	313
La Guardia City Council	417	452
La Línea de la Concepción City Council	1,530	1,675
Tordera City Council	126	171
Lepe City Council	10,597	8,502
Lora del Río City Council	860	1,025
Los Alcázares City Council	-	406
Magán City Council	257	280
Martos City Council	335	430
Matalascañas City Council	2,725	3,179
Medina del Campo City Council	97	104
Mula City Council	779	969
Ayuntamiento de Olivenza	680	-
Oviedo City Council	-	311
Puerto de la Cruz City Council	1,811	2,618
Quintanar de la Orden City Council	66	106
Ribera del Fresno City Council	341	379

<b>NON-CURRENT LOANS TO PUBLIC ENTITIES</b>		
(Amounts in thousands of euros)		
	<b>2015</b>	<b>2014</b>
Ronda City Council	3,028	3,164
San Pedro del Pinatar City Council	382	400
Sant Fost City Council	1,323	1,455
Segurilla City Council	4	7
Solana de Los Barros City Council	165	181
Talavera de la Reina City Council	66	218
Turcia City Council	11	10
Ubrique City Council	951	1,168
Vélez-Málaga City Council	8,252	3,187
Alcalá City Council	4,452	-
Campo de Gibraltar District	5,380	5,538
Llanos Villamartín Irrigation Community	700	333
Watering Community	31	41
Costa Tropical de Granada joint municipalities	8,152	7,124
<b>TOTAL</b>	<b>107,856</b>	<b>100,929</b>

Guarantees and deposits constituted correspond mainly to those set up by Group companies under legal or contractual obligations in the course of engaging in their activities. They are primarily made in relation to public entities for deposits received from customers for water supply services.

**b) Other current financial assets**

The composition of the balance at 31 December 2015 and 2014 is as follows:

Amounts in thousands of euros		
	<b>2015</b>	<b>2014</b>
<b>Other borrowings</b>	<b>354,503</b>	<b>239,790</b>
Current loans to equity method consolidated companies	4,824	9,451
Current loans to FCC Group companies	301,221	206,187
Current collection rights under concession agreement (Note 9.a)	26,113	5,273
Current loans to third parties not related to the group	18,784	17,897
Dividend receivable from joint ventures and associates	5	58
Dividends receivable from equity method consolidated companies	3,548	833
Dividends receivable from companies not related to the group	8	91
<b>Deposits and guarantees constituted</b>	<b>11,699</b>	<b>16,813</b>
<b>TOTAL</b>	<b>366,202</b>	<b>256,603</b>

The increase under the caption "Short-term loans to companies in the FCC Group" has its origin in the increase in the loan to Asesoría Financiera y de Gestión, S.A. by the Parent Company amounting to EUR 289,488 thousand at 31 December 2015 (EUR 65,162 thousand at 31 December 2014). On the other hand, there was a decrease of the loan granted by the Parent Company to FCC, S.A. which at 31 December 2015 amounted to EUR 7,243 thousand (EUR 129,209 thousand at 31 December 2014).

The average rate of return obtained in 2015 for these items was 0.25 % (4.25 % in 2014).

There are no restrictions on the availability of these amounts, except for “Deposits and guarantees constituted”, as these correspond to the same amounts furnished as a guarantee on certain contracts, which will be recovered when the guarantees expire.

## 10. INVENTORIES

The details of the "Inventories" balance at 31 December 2015 and 2014 are as follows:

<i>(Amounts in thousands of euros)</i>	<b>2015</b>	<b>2014</b>
Raw materials and other purchases	11,347	12,358
Advances on inventories	11,252	10,563
Impairment	(20)	(20)
Ancillary work	21	8
<b>TOTAL</b>	<b>22,600</b>	<b>22,909</b>

Raw materials and other purchases include replacements, fuel and other materials needed in the course of the business activities.

## 11. TRADE AND OTHER RECEIVABLES

### a) Customer receivables – sales and service provision

The details of the "Customer receivables – sales and service provision" balance at 31 December 2015 and 2014 are as follows:

<i>(thousands of euros)</i>	<b>2015</b>	<b>2014</b>
Outstanding payments on certified production and receivables from sales	205,325	208,838
Non-recourse customer credit assignments, third parties	(100,717)	(86,902)
Production executed and pending certification	82,819	72,928
Withholdings as guarantee	1,717	1,512
Outstanding payments on production billed to FCC Group companies	32,749	39,206
Provision for bad debts	(45,221)	(41,038)
<b>TOTAL CUSTOMER RECEIVABLES – SALES AND SERVICE PROVISION</b>		
<b>BALANCE</b>	<b>176,672</b>	<b>194,544</b>

The “Outstanding payments on certified production and receivables from sales” item contains the amounts for certifications sent to customers on work executed and services rendered not yet collected at the consolidated statement of financial position date.

The difference between the amount for production registered for each of the projects, measured according to the criteria stated in Note d.16) “Operating income and expense” and the amount certified for each one is stated as “Production executed and pending certification”.

The “Non-recourse customer credit assignments, third parties” item corresponds to collection rights assigned without recourse at 31 December 2015 and 2014 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 Parent Company acts on its own behalf but also as agent of two subsidiaries: Entemanser, S.A. and Aigues Vallirana, S.A.U. During 2015, it has increased the joint assignment limit available from EUR 90,000 to 102,000 thousand.

The changes in the provisions for bad debt during 2015 and 2014 are as follows:

(thousands of euros)	2015	2014
Beginning balance	41,038	35,198
Net sums allocated	4,183	5,840
<b>Ending balance</b>	<b>45,221</b>	<b>41,038</b>

Net allocations during the period have been charged to “Other operating expenses” in the attached consolidated income statement for 2015.

#### b) Other receivables

The details of the "Other receivables" balance at 31 December 2015 and 2014 are as follows:

(thousands of euros)	2015	2014
Receivable from Government for grants awarded (Note 17)	20,892	47,095
Sundry receivables	20,487	20,184
Advance remuneration	28	53
<b>TOTAL OTHER RECEIVABLES BALANCE</b>	<b>41,407</b>	<b>67,332</b>

## 12. CASH AND CASH EQUIVALENTS

Through the administrative management of its cash resources, the Group's aim is to optimise such resources, controlling its liquidity and needs and endeavouring to maintain, through efficient fund management, a low balance in its bank accounts and, in the event of cash deficits, using financing facilities as profitably as possible in the Group's interests.

The cash management of subsidiaries that are fully controlled, directly or indirectly, by FCC Aqualia, is done centrally. The liquidity positions of these investees flow to the parent of the FCC Group, to which the FCC Aqualia Group pertains.

Details of the composition of this item at 31 December 2015 and 2014 are as follows:

(thousands of euros)	2015	2014
Cash on hand	96,943	120,558
Debt securities held to maturity	-	-
<b>TOTAL</b>	<b>96,943</b>	<b>120,558</b>

Per currency, the cash and cash equivalent position is as follows for 2015 and 2014:

<b>CASH AND CASH EQUIVALENTS</b>		
Breakdown per currency (thousands of euros)	2015	2014
Czech Koruna	24,677	15,915
US Dollars	76	-
Euros	62,829	104,487
Serbian dinar	384	-
Chilean peso	2,395	-
Mexican Pesos	2,638	73
Bosnian Marka	45	36
Saudi Arabian Riyal	393	47
Uruguayan peso	859	-
United Arab Emirates dirham	2,647	-
<b>TOTAL</b>	<b>96,943</b>	<b>120,558</b>

In 2015 and 2014, the Group's cash balances earned interest at market rates.

There are no unavailable cash or cash equivalent amounts at 31 December 2015 or 31 December 2014.

### 13. EQUITY

The consolidated statement of changes in equity at 31 December 2015 and 2014 shows the trends in equity attributed to the Parent Company's shareholders that took place in the respective years.

#### Equity attributable to Parent Company shareholders

##### a) Share capital

FCC Aqualia, S.A.'s share capital is made up of 145,000,000 ordinary bearer shares with a nominal value of EUR 1 each. All the shares have the same rights and are fully subscribed and paid out. The Company's shares are not listed.

The interests in the Parent Company's share capital are as follows:

	%
Fomento de Construcciones y Contratas, S.A.	99.99
Internacional Services, Inc. (100% FCC, S.A.)	0.01



## b) Issue premium and reserves

The components of this heading at 31 December 2015 and 2014 are the following:

Amount in thousands of euros	2015	2014
Parent Company reserves	514,036	509,897
Consolidation reserve	55,518	22,586
	<b>569,554</b>	<b>532,483</b>

### b.1) Parent Company reserves

A series of reserves set up by the Group's Parent, FCC Aqualia, S.A., in compliance with applicable legal provisions and, where applicable, with profits retained from previous years.

The details at 31 December 2015 and 2014 are as follows:

Amount in thousands of euros	2015	2014
Issue premium	112,019	112,019
Legal reserve	29,000	29,000
Voluntary reserves	344,444	344,444
Special reserves	76	76
Reserve for goodwill	28,497	24,358
	<b>514,036</b>	<b>509,897</b>

#### Issue premium

The Spanish Companies Law expressly permits the use of the issue premium balance to increase capital, and it does not establish any specific restrictions whatsoever regarding the availability of this balance for other purposes.

#### Legal reserve

Pursuant to the Spanish Companies Law, an amount equal to 10% of the Parent Company's profit for the year must be allocated to the legal reserve until this reserve reaches at least 20% of the capital. The legal reserve cannot be shared out to shareholders, except in the case of liquidation.

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 available for such purpose.

#### Voluntary reserves

These are reserves that have been voluntarily allocated using profits from the Parent Company after sharing out dividends and allocating the relevant amounts to the legal reserve in accordance with current legislation, and there are no limitations or restrictions placed on the availability of this amount.

### Goodwill Reserves

Pursuant to the terms of article 273.4 of the consolidated text of the Spanish Companies Law, the Parent Company is allocating a restricted reserve fund for the goodwill amount that appears in assets in the consolidated statement of financial position for a period of 20 years, the balance of which at 31 December 2015 is EUR 28,496 thousand (EUR 24,358 thousand at 31 December 2014). This reserve is restricted.

#### b.2) Consolidation reserve

This item of the attached consolidated statement of financial position includes the reserves in fully consolidated and equity method consolidated companies generated since they were acquired.

The amounts contained in this item for each of the most significant companies at 31 December 2015 and 2014 are as follows:

	(in thousands of euros)	2015	2014
FCC Aqualia, S.A.		8,121	(14,158)
Aqualia Industrial Solutions, S.A. Unipersonal		-	826
FCC América, S.A., Unipersonal		(1,144)	(1,349)
Abrantaqua, S.A.		190	147
Acque di Caltanissetta, S.p.A.		2,028	-
AISA Montenegro		779	737
Aguas de Campo Maior, S.A.		(660)	(573)
Aguas de Elvas, S.A.		(385)	(435)
Aigües de Vallirana, S.A.		1,246	910
Aquajerez, S.L.		(1,746)	(52)
Aqualia Mace LLC		(2,448)	77
Aquos el Realito, S.A. de CV		1,488	677
AIE Costa Tropical de Granada		(191)	(670)
AIE ITAM Delta de la Tordera		(8)	(11)
Aqualia Czech, S.L.U.		9,422	8,786
Aqualia Infraestructuras, S.A.		3,623	1,649
Aqualia Infraestructuras de México, S.A de C.V.		4,452	4,043
Aqualia Infraestructuras Inzenyring		(5,243)	(4,782)
Aqualia New Europe, B.V.		165	(895)
Colaboración, Gestión y Asistencia, S.A.		(33)	(116)
Constructora de Infraestructuras de Aguas de Queretaro SA de CV		(888)	(685)
Constructora de Infraestructuras de Aguas de Potosí SA de CV		(1,099)	(1,118)
Depurplan 11, S.A.		263	769
Entemanser, S.A.		(13,603)	(13,176)
FS Colaboración y Asistencia, S.A.		(14)	-
Girona, S.A.		1,530	1,463
Hidrotec Tecnología del Agua, S.L.U.		3,030	619
Infraestructura y distribución general del agua, S.L.U.		(1,373)	(1,296)
Inversora Riutort, S.L.		289	289
Orasqualia Construction, S.A.E.		281	601
Orasqualia DEVEL. Waste T.P.S.A.E.		5,082	5,076
Orasqualia O&M		322	110
HA Proyectos especiales Hidráulicos S.R.L. de C.V.		296	341
Proveïments d'aigua, S.A.		265	246

(in thousands of euros)	2015	2014
Shariket Tahlya Miyah Mostaganem	21,794	18,420
Shariket Miyeh Ras Djinet	6,405	5,320
SmVak	(6,405)	(1,663)
Sociedad Española de Aguas Filtradas, S.A.	2,355	2,443
Suministro de Aguas de Querétaro, S.A. de C.V.	218	195
Tratamiento Industrial de aguas, S.A.	17,207	9,907
Other companies	(93)	(86)
<b>Total Consolidation Reserve</b>	<b>55,518</b>	<b>22,586</b>

FCC Aqualia, S.A. records an amount of EUR 8,121 thousand at 31 December 2015 (-14,158 thousand at 31 December 2014) in the form of consolidation reserves due to the distribution each year of dividends from subsidiaries, which become Parent Company reserves the following year.

c) Adjustments for changes in value

This item includes changes, net of tax, in the fair value of available-for-sale financial assets (Note 9) and cash flow hedging derivatives (Note 22), as well as translation differences that arise when the financial statements of subsidiaries stated in other currencies are converted into euros, according to the criteria described in Note 2.d.10.

The detail at 31 December 2015 and 2014 is as follows (in thousands of euros):

	2015	2014
Valuation adjustments	(2,434)	(3,042)
Translation differences	(11,882)	(9,712)
	<b>(14,316)</b>	<b>(12,754)</b>

The amounts contained in Valuation adjustments for each of the most significant companies at 31 December 2015 and 2014 are as follows (in thousands of euros):

	2015	2014
Aquos el Realito, S.A. de C.V.	(1,571)	(1,993)
Depurplan 11, S.A.	(863)	(1,049)
	<b>(2,434)</b>	<b>(3,042)</b>

The amounts for translation differences for each of the subsidiaries with functional currencies other than the euro at 31 December 2015 and 2014 are:

Amounts in thousands of euros	<b>2015</b>	<b>2014</b>
<b>Algeria</b>	<b>(4,392)</b>	<b>(1,612)</b>
Shariket Tahlya Miyah Mostaganem S.p.a.	(3,232)	(1,214)
Shariket Miyeh Ras Djinet S.p.a.	(1,160)	(398)
<b>Mexico</b>	<b>(1,315)</b>	<b>(792)</b>
Aqualia Infraestructuras de México, S.A. de C.V.	(1,094)	(451)
Suministro Aguas de Querétaro, S.A. de C.V.	(20)	2
Constructora de Infraestructuras de Agua de Querétaro, S.A. de C.V.	16	(31)
Aquos El Realito, S.A. de C.V.	(543)	(344)
Operadora El Realito, S.A. de C.V.	(1)	-
HA Proyectos especiales Hidráulicos S.R.L. de C.V.	(20)	(12)
Constructora de Infraestructuras de Aguas de Potosí, S.A. de C.V.	347	44
<b>Egypt</b>	<b>(938)</b>	<b>(1,272)</b>
Orasqualia Devel. Waste. T.P.	(606)	(884)
Orasqualia Construction S.A.E.	(351)	(349)
Orasqualia O&M	19	(39)
<b>Czech Republic</b>	<b>(5,599)</b>	<b>(6,222)</b>
Aqualia Czech, S.L.U.	2,303	3,309
Smvak	(8,011)	(9,705)
Aqualia Infraestructuras Inzenyring, s.r.o.	116	184
Ovod Spol. s.r.o.	(7)	(10)
<b>USA</b>	<b>(5)</b>	<b>-</b>
FCC Aqualia USA Corp.	(5)	-
<b>Colombia</b>	<b>(2)</b>	<b>5</b>
Sera. Q.A. Duitama E.S.P. S.A.	(2)	5
<b>Serbia</b>	<b>(2)</b>	<b>-</b>
Aisa D:O:O: Beograd-Vracar	(2)	-
<b>Abu Dhabi</b>	<b>371</b>	<b>181</b>
Aqualia Mace LLC	371	181
<b>Total translation differences</b>	<b>(11,882)</b>	<b>(9,712)</b>

The net investment abroad in currencies other than the euro has fallen at 31 December 2015 compared with the balance existing at 31 December 2014 due to the debentures issued in the company Severomoravské Vodovody a Kanalizace Ostrava during the year (see note 14 ). The main net investment balances abroad, grouped by geographic market and stated in thousands of euros, are listed below:

Amounts in thousands of euros	2015	2014
Mexico	1,040	2,244
Czech Republic	(124,170)	67,228
USA	274	-
Others	9	-
<b>TOTAL</b>	<b>(122,847)</b>	<b>69,472</b>

d) Consolidated profit attributed to the Parent Company per company.

The detail of consolidated profit attributed to the Parent Company per company is broken down as follows:

Amounts in thousands of euros	2015	2014
Abrantaqua, S.A.	79	43
Acque di Caltanissetta, S.p.A	(638)	2,028
Aguas de Alcázar Empresa Mixta, S.A.	53	-
Aguas de Archidona, S.L.	(12)	(13)
Aguas de Denia, S.A.	2	4
Aguas de las Galeras, S.L.	640	485
Aguas de Narixa, S.A.	(7)	(48)
Aguas de Priego, S.L.	(18)	5
Aguas de Ubrique, S.A.	(1)	(12)
Aguas del Puerto Empresa Municipal, S.A.	(487)	(365)
AIE Aquagest Medioambiente, S.A. - Aqualia	(10)	(26)
AIE Costa Tropical de Granada	191	670
AIE ITAM Delta de la Tordera	8	11
Aigües de Blanes, S.A.	16	16
Aigües de Girona Salt i Sarrià del Ter	52	33
Aigües de Vallirana, S.A.U.	73	336
Aigües del Tomoví, S.A.	34	152
Aqua Campiña, S.A.	(82)	(245)
Aqua Management Solutions B.V.	(8)	(31)
Aquacartaya, S.L.	386	559
Aquaervas - Aguas de Elvas, S.A.	118	51
Aquafundalia – Agua do Fundão, S.A.	(23)	35
Aquajerez, S.L.	(1,528)	(1,418)
Aqualia Czech, S.L.	(2,665)	(4,607)
Aqualia Industrial Solutions, S.A.U.	-	(1,115)
Aqualia Infraestructuras de México, S.A. de C.V.	2,698	409
Aqualia Infraestructuras Inzenyring, s.r.o.	277	249
Aqualia Infraestructuras Montenegro	369	591
Aqualia Infraestructuras Beograd-Vracar	379	-
Aqualia Infraestructuras Mostar	7	16
Aqualia Infraestructuras Pristina, LLC	475	-
Aqualia Infraestructuras, S.A.	6,410	1,058
Aqualia MACE LLC	2,322	1,728
Aqualia New Europe B.V.	(210)	(185)
Aquamaior – Aguas de Campo Maior, S.A.	(119)	(87)
Aquos El Realito, S.A. de C.V.	9	810
Augas Municipais de Arteixo, S.A.	-	55
Cartagua – Aguas do Cartaxo, S.A.	18	(22)
Colaboración, Gestión y Asistencia, S.A.	(1)	(2)
Compañía de Servicios Medioamb. do Atlántico, S.A.	48	28
Concesionaria de Desalación de Ibiza, S.A.	409	270
Conservación y Sistemas, S.A.	1,009	1,658
Constructora de Infraestructuras de Aguas de Potosí, S.A. de C.V.	(5,029)	18
Constructora de Infraestructuras de Aguas de Querétaro, S.A. de C.V.	(145)	(203)

Amounts in thousands of euros	2015	2014
Depurplan 11, S.A.	127	325
Depurtebo, S.A.	208	(2)
EMANAGUA - Empresa Municipal de Aguas de Níjar, S.A.	1	2
Empresa Gestora de Aguas Linenses, S.L.	92	(47)
Empresa mixta Abastament en Alta Costa Brava, S.A.	52	52
Empresa Mixta d'Aigües de la Costa Brava, S.A.	76	47
Empresa mixta de Aguas de Jódar, S.A.	(34)	(32)
Empresa Mixta de Aguas de Langreo, S.L.	29	79
Empresa Mixta de Aguas de Ubrique, S.A.	(21)	37
Empresa Mixta de Aguas y Servicios, S.A.	47	46
Empresa Municipal Aguas de Algeciras, S.A.	19	229
Empresa Municipal Aguas de Benalmádena, S.A.	626	487
Empresa Municipal Aguas de Toxiria, S.A.	(8)	22
Empresa Municipal de Aguas de Linares, S.A.	482	(131)
Entemanser, S.A.	1,585	3,009
FCC Aqualia América, S.A.U.	198	202
FCC Aqualia USA CORP.	(236)	-
FCC Aqualia, S.A.	35,220	32,315
FS Colaboración Gestión y Asistencia, S.A.	103	168
Generávila, S.A.	-	(3)
Gestión de Servicios Hidráulicos de Ciudad Real AIE	39	40
Girona, S.A.	166	121
HA Proyectos Especiales Hidraulicos S.R.L. de CV	(72)	(45)
Hidrotec Tecnología del Agua, S.L.U.	3,313	2,411
Infraestructuras y Distribución General de Agua, S.L.	(61)	298
Inversora Riutort, S.L.	-	-
Nueva Sociedad de Aguas de Ibiza, S.A.	16	19
Operadora El Realito S.A. de C.V.	28	-
Orasqualia Construction, S.A.E.	24	(320)
Orasqualia Devel. Waste Treatment Plant S.A.E.	1,310	1,523
Orasqualia Operation and Maintenance, S.A.E.	272	286
Ovod spol, s.r.o.	84	98
Proveïments d'Aigua, S.A.	72	23
Severomoravske Vodovody a Kanalizace Ostrava a.s.	6,462	6,607
Shariket Miyeh Ras Djinet	325	1,085
Shariket Tahlya Miyah Mostaganem	2,299	3,374
Sociedad Española de Aguas Filtradas, S.A.	479	143
Sociedad Ibérica del Agua, S.A.U.	10	7
Suministro de aguas de Querétaro, S.A. de C.V.	66	57
Tratamiento Industrial de Aguas, S.A.	8,636	7,058
<b>TOTAL</b>	<b>67,133</b>	<b>62,529</b>

#### e) Non-controlling interests

This section of the attached consolidated statement of financial position contains the portion of equity and profit for the year after tax of those subsidiaries in which the Group's non-controlling shareholders have interests.

The details of the balance of these items at year-end for the main companies with non-controlling interests are as follows:

Amounts in thousands of euros	Net Equity	Translation differences	Results	Total
<b>2015</b>				
Abrantaqua, S.A.	254	-	53	307
Aguas de Alcazar Empresa Mixta S.A.	754	-	48	802

Aqua Campiña, S.A.	(1,079)	-	(9)	(1,088)
Aquajerez	(1,676)	-	(1,468)	(3,144)
Aqualia Czech S.L.U.	43,011	2,950	(2,561)	43,400
Aqualia infraestructuras Inzenyring	(4,758)	149	266	(4,343)
Aqualia New Europe B.V.	7,999	-	(201)	7,798
Acque di Caltanisseta, S.P.A.	66	-	(10)	56
Entemanser, S.A.	1,557	-	49	1,606
SmVak	(5,358)	4,437	6,378	5,457
Orasqualia Devel Waste T.P.S.A.E.	(1,197)	(11)	674	(534)
Aguas do Cartaxo, S.A.	744	-	12	756
Aqua Management Solutions B.V.	(84)	-	(17)	(101)
Others	371	-	124	495
<b>TOTAL</b>	<b>40,604</b>	<b>7,525</b>	<b>3,338</b>	<b>51,467</b>

Amounts in thousands of euros	Net Equity	Translation differences	Results	Total
<b>2014</b>				
Abrantaqua, S.A.	225	-	29	254
Aguas de Alcazar Empresa Mixta S.A.	755	-	-	755
Aqua Campiña, S.A.	(808)	-	(27)	(835)
Aquajerez	(49)	-	(1,362)	(1,411)
Aqualia Czech S.L.U.	42,400	4,239	(4,426)	42,213
Aqualia infraestructuras Inzenyring	(4,422)	262	239	(3,921)
Aqualia New Europe B.V.	6,980	-	(178)	6,802
Acque di Caltanisseta, S.P.A.	35	-	31	66
Entemanser, S.A.	1,570	-	93	1,663
SmVak	666	2,208	6,522	9,396
Aguas do Cartaxo, S.A.	758	-	(14)	744
Aqua Management Solutions B.V.	(14)	-	(70)	(84)
Others	364	-	108	472
<b>TOTAL</b>	<b>48,460</b>	<b>6,709</b>	<b>945</b>	<b>56,114</b>

During fiscal year 2015, the main changes in the year were caused by dividend payments to minority shareholders of Aqualia Czech, S.A. and Severomoravské Vodovody a Kanalizace Ostrava A.S.

#### 14. CURRENT AND NON-CURRENT FINANCIAL LIABILITIES

In 2014, Fomento de Construcciones y Contratas, S.A. and a group of companies including the Parent Company signed a Refinancing Agreement with the Group's main lenders, replacing most of its bank borrowings with intra-group debt.

##### a) Current and non-current bank borrowings

The detail at 31 December 2015 and 2014 is as follows (in thousands of euros):

2015	NON-CURRENT	CURRENT	TOTAL
Credit facilities and loans	10,439	3,084	13,523
Limited recourse debts for project financing	6,400	550	6,950
	<b>16,839</b>	<b>3,634</b>	<b>20,473</b>

2014	NON-CURRENT	CURRENT	TOTAL
Credit facilities and loans	15,101	3,761	18,862
Limited recourse debts for project financing	21,333	108,091	129,424
	<b>36,434</b>	<b>111,852</b>	<b>148,286</b>

The changes in the heading "Non-current and current borrowings with financial institutions" originates mainly in the refinancing of Severomoravské Vodovody a Kanalizace Ostrava A.S. described later in this note.

At 31 December 2015, the limit on the credit policies and loans granted to the FCC Aqualia Group beyond the aforementioned Refinancing Agreement comes to a total of EUR 25,092 thousand (EUR 149,003 thousand at 31 December 2014), of which, EUR 4,619 thousand is available (EUR 717 thousand at 31 December 2013).

The average interest rate for the bank borrowings in 2015 has been basically the result of the conditions in the different interbank markets, indexed to the Euribor and the Pribor. Since 2016, it will basically be the Euribor since the debt of Severomoravské Vodovody a Kanalizace Ostrava A.S. Has been settled.

The following table shows a breakdown per currency of the non-current and current bank borrowings for credit facilities and loans drawn at 31 December 2015 and 2014:

#### 2015

Amounts in thousands of euros	CZECH KORUNA	EUROS	TOTAL
Credit facilities and loans	-	13,523	13,523
Limited recourse debts for project financing	-	6,950	6,950
<b>TOTAL</b>	-	<b>20,473</b>	<b>20,473</b>

#### 2014

Amounts in thousands of euros	CZECH KORUNA	EUROS	TOTAL
Credit facilities and loans	-	18,862	18,862
Limited recourse debts for project financing	107,433	21,991	129,424
<b>TOTAL</b>	<b>107,433</b>	<b>40,853</b>	<b>148,286</b>

In 2006 the Parent Company signed a loan agreement for a total of 4,800 million Czech Koruna 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 the Parent 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 the loan at 31 December 2015 amounted



to EUR 149,250 thousand (EUR 149,250 thousand at 31 December 2014) and continues granting to the parent company despite the fact that the funding of Severomoravské Vodovody a Kanalizace Ostrava A.S. has been settled as indicated below.

The interest rate of the participating loan 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 2015 was 7%. The loan is established for an indefinite term, although the lender may ask the borrower for the total or partial repayment at any time, providing at least one month's notice. The loan is presented in its entirety in the long term as the directors of the Parent Company do not expect that its total or partial cancellation will be requested over the next 12 months.

The loan for 4,800 million Czech Crown signed in 2006 was refinanced in previous years and finally fell due in December 2015, having been completely settled on the said date (at 31 December 2014 the amounts owed in relation to this loan amounted to 3,020 million Czech Crown, equivalent to EUR 107,433 thousand, which are classified as "Limited recourse debts for project financing" in current liabilities in the consolidated statement of financial position. The loan accrued interest at a rate indexed to the PRIBOR plus 4.25 basis points). The current funding for this project is included later in note 14b)

The remaining bank borrowings, totalling EUR 20,473 thousand at 31 December 2015, have the following conditions:

Company	Amount in 2015	Amount in 2014	Initial date	Expiry date	Interest rate
<b>Credit facilities and loans</b>					
AIE Costa Tropical de Granada	5,312	4,847	3.01.2014	3.01.2024	4M EURIBOR + 4%
Abrantaqua, S.A.	2,400	4,000	10.05.2010	9.05.2017	6M EURIBOR + 5,750%
Aquafundalia – Agua do Fundão, S.A.	1,500	1,240	17.01.2014	17.01.2020	3M EURIBOR + 4,800%
Aquamaior – Aguas de Campo Maior, S.A.	1,913	1,975	28.08.2014	28.05.2021	6M EURIBOR + 4,000%
Entemanser, S.A.	1,647	6,650	20.05.2014	26.06.2018	3.66%
Empresa Mixta d'aigües de la Costa Brava	572	-	20.05.2014	26.06.2018	3.66%
Interest	179	150			
<b>Total credit facilities and loans</b>	<b>13,523</b>	<b>18,862</b>			
<b>Limited recourse debts for project financing</b>					
Aguas de las Galeras, S.L.	-	7,500	01.06.2014	1.06.2019	9.00%
Aquacartaya, S.L.	-	4,450	13.12.2013	13.12.2018	9.00%
Depurplan 11, S.A.	6,950	10,041	24.04.2008	1.12.2026	2.83%
<b>Total limited recourse debts for project financing</b>	<b>6,950</b>	<b>21,991</b>			
<b>Total</b>	<b>20,473</b>	<b>40,853</b>			

## b) Debt instruments and other marketable securities

The current liabilities relate at 31 December 2014 to the company Severomoravské Vodovody a Kanalizace Ostrava A.S.

In November 2015, the issuance of non-convertible debentures performed in November 2005 for 2,000 million Czech Crown reached maturity (EUR 72,573 thousand in Current financial liabilities at 31 December 2014). These obligations were listed on the Prague Stock Exchange (Czech Republic) and bore a fixed interest rate of 5% per annum.

In July 2015, the company Severomoravské Vodovody a Kanalizace Ostrava a.s. has performed a new issuance of non-convertible debentures amounting to 5,300 million Czech Crowns maturing in 2022 and bearing a fixed annual interest of 2.625%. These debentures are listed on the Prague Stock Exchange (Czech Republic) and are classified as non-current liabilities in the amount of EUR 197,027 thousand and current liabilities in the amount of EUR 2,390 thousand corresponding to accrued interest outstanding.

These bonds traded at 96.20% of par at 31 December 2015 according to Bloomberg.

### c) Other non-current financial liabilities

The details of this item of the consolidated statement of financial position are as follows:

Amounts in thousands of euros	2015	2014
FCC, S.A. participating loan (Note 14.a)	149,250	149,250
FCC, S.A. loan	234,446	249,296
Guarantees and deposits received	27,992	26,447
Non.cur.loan.non.recourse lim.p/end.project, third.	42,577	34,316
Non-current accounts payable for purchases	1,034	2,213
Non-current obligations under finance leases	76	21
Others	34,481	36,008
<b>TOTAL</b>	<b>489,856</b>	<b>497,551</b>

c.1) The long-term debts with Fomento de Construcciones y Contratas, S.A. at 31 December 2015 and 2014 show the following breakdown:

	(thousands of euros)	
	31.12.2015	31.12.2014
Participation in the refinancing agreement of the FCC Group	229,946	225,412
Participating loan	149,250	149,250
Financing of the construction of Llanera sports facilities	4,500	4,500
Loan to finance UTEs transferred to FCC Aqualia	-	19,384
<b>TOTAL</b>	<b>383,696</b>	<b>398,546</b>

In 2012, the FCC Aqualia Group received a loan from its parent for a total of EUR 4,500 thousand, which matures in 2026 and accrues interest at 8.6 %. This balance remains unchanged at 31 December 2015 and 2014.

Based on the Restructuring Framework Agreement and the Financing Agreement signed by a group of companies led by FCC, S.A., including the Parent Company and other FCC Aqualia Group Companies,

and almost all their lenders, on 26 June 2014 a loan agreement was signed between FCC and the aforementioned companies in FCC Aqualia Group.

This loan was implemented through FCC's express, irrevocable and unconditional acceptance of the position of borrower, but acting in a cumulative and joint and several manner with the companies that were previously financed, the liabilities held by the companies of the FCC Aqualia Group with FCC, S.A. coming to EUR 229,946 at 31 December 2015 (EUR 225,412 thousand at 31 December 2014).

The loan contracts mature on the same date as the Financing Agreement for FCC, S.A., in other words, final maturity in June 2018. Therefore, the companies have stated this loan as non-current financial debt.

The rate of interest was 4.55% in 2015 and 6.95% in 2014.

Finally, the Parent Company stated a total of EUR 19,384 thousand in financial debt at 31 December 2014 which was cancelled in 2015 and arose from for the assignment of interests in UTEs jointly held in 2014, mainly the one that managed the Lleida contract, which is now executed by FCC Aqualia, S.A.

c.2) In 2013, the FCC Aqualia Group established Aquajerez, S.L. to execute the contract in Jerez de la Frontera (Cádiz). The non-controlling shareholder of this company granted the company financing totalling EUR 29,069 thousand as a participating loan, which earns interest at a fixed rate of 3% plus floating interest based on free cash flows, with an aggregate limit of 10% annually. The balance of this loan at 31 December 2015 and 2014, totalling EUR 28,760 thousand and EUR 30,092 thousand, is included in the "Others" item.

c.3) In 2014, FCC Aqualia Group obtained a loan from the TCI investment fund ("The Children's Investment Fund) to finance payment of the fee on a concession contract, which accrues 9 % interest annually and matures in 2019. The aforementioned loan was drawn down in the amount of EUR 34,316 thousand at 31 December 2014 and is classified under "Non-current provisions with limited recourse for project finance, third parties", together with the debt of the same nature in the amount of EUR 8,100 thousand contracted by the Group company Aguas de las Galeras, S.L. (Note 14.a).

#### **d) Other current financial liabilities**

The detail is as follows:

<b>Amounts in thousands of euros</b>	<b>2015</b>	<b>2014</b>
Borrowings with FCC Group companies for Income Tax	20,438	26,215
Other current financial debt with FCC Group companies	37,755	8,010
Current bills payable	400	73
Current accounts payable for purchases	4,489	7,719
Guarantees and deposits received	1,839	2,582
Current financial debt, third parties	6,756	4,625
Current obligations under finance leases	39	11
Liabilities from current speculative int. fin. deriv.	-	450
<b>TOTAL</b>	<b>71,716</b>	<b>49,685</b>

Current financial debts with FCC Group Companies accrue market interest, except for the financial debt arising as a result of certain companies in the FCC Aqualia Group that are members of the FCC Tax Group.

At 31 December 2014 the Group has registered a liability for interest rate financial derivatives because the financial derivatives taken out by Aqualia Czech, S.A. for hedging purposes could not be considered as such and therefore, they are measured at fair value and stated as finance costs for current financial derivative valuation totalling EUR 450 thousand. This liability has expired in 2015.

The item "Other short-term financial debts with FCC Group companies" basically includes the balances generated by the Group Companies with FCC, S.A. as a result of the system of cash pooling they have agreed and which leads to regular cash sweeps with that company.

**e) Due dates on bank borrowings and other non-current financial liabilities.**

The scheduled due dates at 31 December 2015 and 2014 are as follows:

2015

Amounts in thousands of euros	2017	2018	2019	2020	2021 AND LATER	TOTAL
Debt instruments and other marketable securities	-	-	-	-	197,027	197,027
Non-current bank borrowings	2,562	3,376	1,826	3,920	5,155	16,839
Other non-current financial liabilities	7,642	374,404	35,910	3,982	67,918	489,856
<b>TOTAL</b>	<b>10,204</b>	<b>377,780</b>	<b>37,736</b>	<b>7,902</b>	<b>270,100</b>	<b>703,722</b>

2014

Amounts in thousands of euros	2016	2017	2018	2019	2020 AND LATER	TOTAL
Non-current bank borrowings	2,576	2,645	7,358	6,338	17,517	36,434
Other non-current financial liabilities	7,418	2,423	369,448	2,102	116,160	497,551
<b>TOTAL</b>	<b>9,994</b>	<b>5,068</b>	<b>376,806</b>	<b>8,440</b>	<b>133,677</b>	<b>533,985</b>

**f) Other disclosures**

Regarding the financial liabilities contracted by the Group, mandatory ratios do exist, without there being at 31 December 2015 any breaches that could affect the main financing contracts of the Group. These financing contracts include the contract signed with Talos Capital Limited (note 14.c.3) to finance Aquajerez which creates pledges on the holding of the Parent Company in this company, in the same way as with pledges on credit rights with third parties and bank accounts.

## 15. CURRENT AND NON-CURRENT PROVISIONS

The detail of provisions at 31 December 2015 and 2014 is as follows (in thousands of euros):

	2015	2014
<b>Non-current</b>		
Obligations for long-term staff benefits	1,671	1,599
Lawsuits	1,516	1,856
Guarantees and legal or contractual obligations	5,351	6,379
Activities that enhance or increase concession capacity	57,863	62,920
Other risks and expenses	42,251	27,802
<b>TOTAL NON-CURRENT PROVISIONS</b>	<b>108,652</b>	<b>100,556</b>
<b>Current</b>		
Settlement and losses on projects	12,901	20,414
Termination benefits for project employees	69	121
Other provisions	1,291	1,540
<b>TOTAL CURRENT PROVISIONS</b>	<b>14,261</b>	<b>22,075</b>

The details in 2015 and 2014 in the different provisions is as follows:

(Amounts in thousands of euros)	Non-current provisions	Current provisions
<b>Balance at 31/12/2013</b>	<b>89,113</b>	<b>19,416</b>
Allocations	31,690	9,357
Reversals	(5,873)	(6,699)
Allocation	(14,362)	-
Translation differences	(12)	1
<b>Balance at 31/12/2014</b>	<b>100,556</b>	<b>22,075</b>
Allocations	15,824	8,040
Transfers	10,229	(10,229)
Reversals	(3,331)	(4,225)
Allocation	(14,672)	(1,395)
Translation differences	46	(5)
<b>Balance at 31/12/2015</b>	<b>108,652</b>	<b>14,261</b>

Transfers in 2015 include the Group's reconsideration regarding the expiry of certain contractual commitments which it foreseeably must face.

In fiscal year 2015, there have been net provisions amounting to EUR 23,864 thousand, the most important being the provision made for FCC Aqualia's liability in the delivery of assets pertaining to a contract at the end of the same amounting to EUR 1,400 thousand and corresponding to investment commitments signed by the Parent Company in the renewal of the contracts of Cangas de Morrazo amounting to EUR 2,464 thousand, Fundao amounting to EUR 2,336 thousand and Candelaria amounting to EUR 1,500 thousand, among others.

In 2014, net allocations have been registered for a total of EUR 28,475 thousand, the most important of which correspond to Lleida investment commitments totalling EUR 5,323 thousand for assignment of the water supply contract that was previously managed by UTE Aqualia FCC, Alcázar de San Juan for a total of EUR 4,500 thousand, Arcos de la Frontera for a total of EUR 3,007 thousand and San Juan del Puerto for a total of EUR 800 thousand, Chiclana de la Frontera for a total of EUR 775 thousand and EUR 1,953 thousand for financial adjustments to the provision.

Furthermore, in 2014 the Company allocated the estimated amounts for contractual liability that could entail likely payment obligations in the future as regards two Spanish local administrations, for EUR 4,400 thousand and EUR 4,800 thousand, respectively. Both amounts were charged to “Other operating expenses – Other current administrative expenses” in the attached consolidated income statement for 2014 and at 31 December 2015 they have not yet been applied.

In turn, provisions applied in 2015 for a total of EUR 16,067 thousand include the investment commitments implemented in 2014 in Vigo for a total of EUR 3,633 thousand, Abrantes for EUR 1,250 thousand, Cartaya for EUR 1,078 thousand, Barbate for EUR 863 thousand, Lleida for EUR 669 thousand, Lepe for EUR 530 thousand and San Juan del Puerto for EUR 426 thousand, to name a few.

In 2014, the investment commitments applied for a total of EUR 14,362 thousand relate to Vigo for a total of EUR 2,547 thousand, Abrantes for EUR 523 thousand, Elvas for EUR 532 thousand, Cartaxo for EUR 634 thousand, Fundao for EUR 647 thousand, Fraga for EUR 1,087 thousand and Barbate for EUR 918 thousand, to name a few.

The expected payment schedule at 31 December 2015 and 2014 deriving from obligations covered with non-current provisions is as follows:

<b>2015</b> (thousands of euros)	<b>UP TO 5 YEARS</b>	<b>MORE THAN 5 YEARS</b>	<b>BALANCE AT 31/12/2015</b>
Obligations for long-term staff benefits	107	1,564	1,671
Lawsuits	1,497	19	1,516
Guarantees and legal or contractual obligations	5,345	6	5,351
Activities that enhance or increase concession capacity	11,448	46,415	57,863
Other provisions for risks and expenses	41,766	485	42,251
<b>TOTAL</b>	<b>60,163</b>	<b>48,489</b>	<b>108,652</b>
<b>2014</b> (thousands of euros)	<b>UP TO 5 YEARS</b>	<b>MORE THAN 5 YEARS</b>	<b>BALANCE AT 31/12/2014</b>
Obligations for long-term staff benefits	-	1,599	1,599
Lawsuits	1,837	19	1,856
Guarantees and legal or contractual obligations	4,012	2,367	6,379
Activities that enhance or increase concession capacity	22,811	40,109	62,920
Other provisions for risks and expenses	27,598	204	27,802
<b>TOTAL</b>	<b>56,258</b>	<b>44,298</b>	<b>100,556</b>

### Obligations for long-term staff benefits

This item of non-current provisions contains provisions that cover pension and similar commitments, such as medical and life insurance, by Group companies.

### Lawsuits

These cover the risks of companies in FCC Aqualia Group that are involved in lawsuits as defendants in certain proceedings for liability arising from the activities they engage in.

### Guarantees and legal or contractual obligations

This item contains provisions to cover expenses for obligations that arise from contractual and legal obligations that are not of an environmental nature, such as the dismantling of facilities upon completion of certain contracts and expenses earmarked to guarantee service quality.

### Activities that enhance or increase concession capacity

These are allocated when the Group is required to perform activities that improve the infrastructure when such activities do not give rise to increased revenue from the concession in exchange. They have a balancing entry in "Intangible assets under concession arrangements".

### Other risks and expenses

This item contains likely risks that are not included in the previous sections.

## **16. OTHER PAYABLES**

The details of the "Other payables" balance at 31 December 2015 and 2014 are as follows (in thousands of euros):

	<b>2015</b>	<b>2014</b>
Government - Tax payables for VAT (Note 17)	7,179	12,208
Government - Payable to Social Security Authorities (Note 17)	4,971	6,366
Government - Payable for withholdings (Note 17)	5,061	9,114
Government - Payable for other items (Note 17)	55,376	58,277
Remuneration payable	4,159	3,766
Customer advances	25,115	26,334
Other non-commercial debts and payables	136,211	130,804
Current tax liabilities	3,637	1,185
<b>TOTAL OTHER PAYABLES BALANCE</b>	<b>241,709</b>	<b>248,054</b>

“Government - Payable for other items” contains the amounts collected by FCC Aqualia Group companies from their customers on behalf of government authorities for fees, currently pending payment (Note 17).

“Other non-commercial debts and payables” contains outstanding balances payable by the Group for services provided.

## **17. TAX MATTERS**

This note describes the sections in the attached consolidated statement of financial position and consolidated income statement that are related to the tax obligations of each of the companies pertaining to the Group, such as deferred tax assets and liabilities, tax payables and receivables and income tax expense.

FCC Aqualia, S.A. and the subsidiaries that meet the requirements set in Spanish taxation regulations are included in record 18/89, under which the FCC Group files incomes taxes under the consolidated taxation system, with Fomento de Construcciones y Contratas, S.A. acting as the parent of the group.

FCC Aqualia, S.A. and the subsidiaries that are part of the FCC Aqualia Group, as well as the temporary joint ventures therein, have all the periods that have not been statute-barred available for tax inspections on all the applicable taxes. In this respect, at 31 December 2015, the Parent Company is subject to a tax audit from 2010 to 2013 for Corporations Tax and from 2012 to 2013 for the value added tax. Regarding the periods that have been inspected in Group companies, in certain cases, the aforementioned tax authorities have applied different criteria, leading to claims proceedings, in relation to which the corresponding Group companies have filed for appeal.

The criteria that the tax authorities may adopt in relation to the periods open to inspection could result in contingent tax liabilities not subject to objective quantification. The Directors of the Parent Company estimate that any liabilities that could arise, in relation to both the periods open for inspection and the claims filed, would not significantly affect the Group's equity. In this sense, in these financial statements no amount is recorded as provisions for the tax assessments currently underway for these inspections, since the Directors believe that if different criteria exist for interpreting the tax and accounting regulations, they will not lead to significant liabilities arising for the Group.

No significant amounts have been recognised in equity for taxes in 2015 and 2014.

### **a) Deferred tax assets and liabilities**

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>31/12/2015</b>	<b>31/12/2014</b>
Provisions	17,935	18,516
Pension Plans	513	414
Amortisation	5,799	6,282
TJV profits recognised in following year and adjustments thereto	3,667	2,683
Intra-group asset purchase and sale transactions	4,213	3,162
Translation differences	6,128	5,046
- Non-deductible finance costs	1,950	580
Due to cancellation of the financial activation of the concession agreement in IFRS	3,798	4,425
Other differences	5,020	3,575
<b>TOTAL</b>	<b>49,023</b>	<b>44,683</b>

<b>DEFERRED TAX LIABILITIES</b>		
<i>(Amounts in thousands of euros)</i>		
	<b>31/12/2015</b>	<b>31/12/2014</b>
TJV profits recognised in following year and adjustments thereto	4,145	3,014
Finance leases	10	10
Free depreciation	20,130	20,059
Translation differences	5,526	5,145
Assignment of goodwill	15,734	17,249
Other adjustments	6,152	5,382
<b>TOTAL</b>	<b>51,697</b>	<b>50,859</b>

The scheduled due dates for deferred taxes are shown below:

<b>Amounts in thousands of euros</b>							
	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021 AND LATER</b>	<b>TOTAL</b>
Deferred tax assets	5,120	1,785	1,785	1,785	1,780	36,768	<b>49,023</b>
Deferred tax liabilities	5,093	1,671	1,667	1,667	1,667	39,932	<b>51,697</b>

## b) Government

The detail of current assets and liabilities held with Government at 31 December 2015 and 2014 is as follows:

### Current assets

	<b>2015</b>	<b>2014</b>
Tax receivables Tax receivables for grants awarded (Note 11)	20,892	47,095
	<b>20,892</b>	<b>47,095</b>

## Current liabilities

	2015	2014
Personal income tax and corporate income tax (income from work and income from personal property) withholdings (Note 16)	5,061	9,114
Value Added Tax (Note 16)	7,179	12,208
Payable to Social Security Authorities (Note 16)	4,971	6,366
Other Government liabilities (Note 16)	55,376	58,277
	<b>72,587</b>	<b>85,965</b>

The “Other Government liabilities” item contains outstanding taxes and fees in which the Group handles collection on behalf of the government authority for the services provided to customers.

### c) Income tax expense

The income tax expense accrued during the period comes to EUR 28,253 thousand, as stated in the attached consolidated income statement (EUR 19,783 thousand in 2014). The reconciliation between the accounting profit and the taxable profit is shown below (amounts in thousands of euros):

### 2015

<b>Consolidated pre-tax accounting profit for the year</b>			
	<b>Increases</b>	<b>Decreases</b>	<b>98,724</b>
Consolidation adjustments and eliminations	5,828	(9,143)	(3,315)
Permanent differences	5,076	(513)	4,563
Offsetting of previous years' losses			(286)
<b>Adjusted consolidated accounting profit</b>			<b>99,686</b>
Temporary differences:			
- Provisions	12,672	(10,148)	2,524
- Repayments	302	(3,506)	(3,204)
- TJV profits transferred to following year	15,460	(15,873)	(413)
- Other adjustments	5,645	(783)	4,862
- Translation differences and Fair value assets	6,563	-	6,563
- Adjustment for tax advances on intra-group profits	2,440	(890)	1,550
<b>Consolidated taxable profit (fiscal income)</b>			<b>111,568</b>
<hr/>			
<b>Adjusted consolidated accounting profit</b>		<b>99,686</b>	
Income tax rate		26,775	
Deductions and credits		(66)	
Other adjustments		1,544	
<b>Corporate Income Tax accrued</b>		<b>28,253</b>	

At 31 December 2015, a net decrease of EUR 3,315 thousand in Consolidation adjustments and eliminations corresponds mainly to equity method consolidated companies.

2014

<b>Consolidated pre-tax accounting profit for the year</b>			<b>83,257</b>
	<b>Increases</b>	<b>Decreases</b>	
Consolidation adjustments and eliminations	1,175	(10,463)	(9,288)
Permanent differences	7,949	(5,180)	2,769
<b>Adjusted consolidated accounting profit</b>			<b>76,738</b>
Temporary differences:			
- Provisions	15,254	(6,632)	8,622
- Repayments	13,233	-	13,233
- TJV profits transferred to following year	18,483	(11,804)	6,679
- Other adjustments	6,653	-	6,653
- Translation differences and Fair value assets	6,439	-	6,439
- Adjustment for tax advances on intra-group profits	1,083	(839)	244
<b>Consolidated taxable profit (fiscal income)</b>			<b>118,608</b>
<b>Adjusted consolidated accounting profit</b>			<b>76,738</b>
Income tax rate			21,083
Deductions and credits			(936)
Other adjustments			(364)
<b>Corporate Income Tax accrued</b>			<b>19,783</b>

At 31 December 2014, a net decrease of EUR 9,288 thousand in Consolidation adjustments and eliminations corresponds mainly to equity method consolidated companies.

Deductions and credits are related to environmental protection, foreign investments, R&D and reinvestment of profits from the sale of assets.

Companies with offices in Spain and belonging to the tax group of Fomentos Construcciones y Contrata (group number 18/89) have a tax debt with the parent of the said Group amounting to EUR 20,438 thousand at 31 December 2015 (EUR 26,215 thousand at 31 December 2014).

## 18. GRANTS

The details of this section for each year are as follows (in thousands of euros):

	2015	2014
<b>Balance at 1 January</b>	<b>30,061</b>	<b>27,997</b>
Additional amounts recognised during the year	15,144	3,333
Outflows	(59)	(402)
Grants for tangible and intangible assets taken to profit/loss	(3,032)	(1,174)
Changes in scope	-	307
<b>Balance at 31 December</b>	<b>42,114</b>	<b>30,061</b>

FCC Aqualia Group has recognised EUR 15,144 thousand in 2015 (EUR 3,333 thousand in 2014), the most important item being the amounts in Italy, totalling EUR 14,371 thousand. In 2014, the most important were those also obtained in Italy amounting to EUR 1,470 thousand.

In turn, the Group recognised EUR 10,353 thousand (EUR 10,933 thousand in 2014) in the consolidated income statement for operating grants (Note 20), grants awarded by the city councils of towns in which the Group provides end-to-end water management services and in recognition of concession operators with operating deficits in said concessions, as set forth in the respective specifications and contracts.

The outstanding amounts receivable at 31 December 2015 and 2014 for this item as indicated in Notes 11 and 17.

## 19. GUARANTEES WITH THIRD PARTIES AND OTHER CONTINGENT LIABILITIES

At 31 December 2015, FCC Aqualia, along with other companies in the FCC Group, is listed as the guarantor in syndicated loans signed by the Parent Company, Fomento de Construcciones y Contratas, S.A., for a total of EUR 3,701,675 thousand (EUR 3,678,000 thousand at 31 December 2014).

At 31 December 2015, the Group has provided guarantees to third parties, mainly public entities and private customers, to secure the performance of construction and contracting work, for a total of EUR 221,985 thousand (EUR 173,039 thousand at 31 December 2014).

FCC Aqualia, S.A. and subsidiaries in the Group are involved in lawsuits as defendants in certain proceedings for liability arising from the different activities in which they engage, in the performance of the contracts awarded and provisions have been allocated in relation thereto (see Note 15). It is estimated that the liabilities that could arise therefrom, taking into account the existing provisions, would not significantly affect the Group's equity.

As indicated in Note 8, participation by Group companies in joint arrangements managed under temporary joint operations, equity accounts, economic interest groupings and other entities with similar legal status entail that the participants share the joint and several liability for the activities conducted.

The Directors of the Parent Company estimate that no significant liabilities will arise as a result of these joint and several guarantees.

## 20. INCOME AND EXPENSES

### Profit from operations

The Group companies state their profit from operations in the “Net Revenue” section, except for operating grants, which are recognised as “Other profit from operations” in the consolidated income statement.

Revenue comprises two main 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 the relevant public entity in each case.
- Sales of works and services. This is the amount corresponding to construction work and activities that the Group 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 of work 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 consolidated statement of financial position, for both water and work, is stated as “Production executed and pending certification” under “Customer receivables – sales and service provision” (Note 11).

Revenue is broken down per type of business activity as shown in the following table:

<b>REVENUES PER BUSINESS ACTIVITY</b>		
<i>(Amount in thousands of euros)</i>		
	<b>31.12.2015</b>	<b>31.12.2014</b>
Water supply	523,582	514,785
Sanitation	138,696	129,429
Treatment	95,937	89,415
Water works	176,660	104,523
Other income	60,821	71,824
<b>TOTAL</b>	<b>995,696</b>	<b>909,976</b>

The Group's revenue is broken down by geographic location as follows:

<b>GEOGRAPHIC LOCATION</b>			
(Amounts in thousands of euros)			
	<b>31/12/2015</b>	<b>31/12/2014</b>	
<b>Spain</b>			
Andalusia	232,521	229,661	
Aragon	8,701	10,038	
Asturias	38,342	33,732	
Balearic Islands	32,081	34,677	
Canary Islands	62,823	52,313	
Cantabria	22,450	22,447	
Castile-La Mancha	57,911	56,716	
Castile-Leon	43,205	42,263	
Catalonia	63,582	62,468	
Region of Valencia	34,055	34,295	
Extremadura	37,960	37,675	
Galicia	49,444	45,922	
La Rioja	17,059	4,332	
Madrid	30,260	19,145	
Murcia	1,774	32,579	
Navarre	5,221	1,857	
Basque Country	4,567	8,047	
<b>International</b>			
Saudi Arabia	21,929	5,855	
Algeria	12,307	8,432	
Bosnia	116	2017	
Chile	14,549	7,628	
Egypt	234	209	
United Arab Emirates	435	256	
Italy	48,567	36,590	
Mexico	42,784	14,832	
Montenegro	1,898	3,966	
Poland	1,531		
Portugal	14,201	14,556	
Czech Republic	85,985	83,883	
Romania	4	61	
Serbia	2,576	-	
Tunisia	1,971	1,871	
Uruguay	4,653	1,653	
<b>TOTAL</b>	<b>995,696</b>	<b>909,976</b>	

The details of “Other profit from operations” are as follows:

Amounts in thousands of euros	2015	2014
Income from operating grants (Note 18)	10,353	10,933
Income from diverse services	6,395	6,441
Surplus provisions for risks and expenses	3,302	5,851
<b>TOTAL</b>	<b>20,050</b>	<b>23,225</b>

### Purchases

The details of the Purchases balance are as follows:

Amounts in thousands of euros	2015	2014
Work performed by subcontractors and other companies	144,842	105,807
Materials and services purchased	247,642	221,992
<b>TOTAL</b>	<b>392,484</b>	<b>327,799</b>

### Employee benefits expense

The details of employee benefits expenses are shown below:

Amounts in thousands of euros	2015	2014
Wages and salaries	182,676	176,920
Accrued social security taxes	53,502	52,790
Other employee benefits expenses	2,924	3,220
<b>TOTAL</b>	<b>239,102</b>	<b>232,930</b>

The average number of employees in the Group, divided by job category, is as follows:

CATEGORIES	AVERAGE NO. OF EMPLOYEES	
	2015	2014
Management and advanced degree holders	201	294
Technicians and intermediate degree holders	771	1,136
Administrative and similar staff	713	816
Other staff on payroll	5,644	4,744
<b>TOTAL</b>	<b>7,329</b>	<b>6,990</b>

At year-end 2015, the Group employs 7,463 workers (6,978 workers at year-end 2014), broken down by job category and gender as follows:

CATEGORIES	No. of employees		Male		Female	
	2015	2014	2015	2014	2015	2014
Management and advanced degree holders	292	297	242	250	50	47
Technicians and intermediate degree holders	771	1,140	546	739	225	401
Administrative and similar staff	1,145	832	454	292	691	540
Other staff on payroll	5,255	4,709	4,641	4,178	614	531
<b>TOTAL</b>	<b>7,463</b>	<b>6,978</b>	<b>5,883</b>	<b>5,459</b>	<b>1,580</b>	<b>1,519</b>

## Other operating expenses

The details of other operating expenses are shown below:

Amounts in thousands of euros	2015	2014
Outsourced services	145,975	144,495
Taxes	23,768	20,846
Losses, impairment and changes in trade provisions	1,798	14,057
Other current operating expense	17,166	15,426
<b>TOTAL</b>	<b>188,707</b>	<b>194,824</b>

Under "Losses, impairment and changes in trade provisions" at 31 December 2014, explaining the variation between years, the parent company recorded provisions for risks arising from certain concessions in the amount of EUR 4,481 thousand and EUR 4,811 thousand, respectively, which have not been recurrent during 2015.

## Finance income and costs

The detail of finance income is as follows:

Amounts in thousands of euros	2015	2014
Interest earned on loans to third parties	8,022	15,092
Other finance income	833	1,222
<b>TOTAL</b>	<b>8,855</b>	<b>16,314</b>

The reduction in interest on loans to third parties relates basically to the lower profitability in the short-term loans to FCC Group companies (Note 9.b)

The detail of finance costs is as follows:

Amounts in thousands of euros	2015	2014
Interest paid on loans to FCC Group companies	20,091	14,063
Interest paid on borrowings with third parties	29,310	35,522
<b>TOTAL</b>	<b>49,401</b>	<b>49,585</b>

## **21. INFORMATION ABOUT 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 Infraestructuras, 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.
- Also during 2015, the company concluded the stage of calculating the greenhouse gas emissions, with the calculation of the carbon footprint corresponding to the entire activity of "Management of the complete water cycle" (adduction, distribution, client management, sewerage and purification)", performed by the company FCC Aqualia. This calculation was verified by AENOR and registered in the Registry established by the MAGRAMA for that purpose, dated 9 July 2015 and code 2015\_00\_a149.
- 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, and in response to the entry into force on 5 December 2015 of EU Directive 2012/27/EU on Energy Efficiency, during the current year we have agreed with AENOR an ambitious three-year plan to adapt towards compliance with the latter, allowing us to certify the entire organization in the ISO 50001 standard. Accordingly, during 2015, 15 contracts have been certified, foreseeing the certification of another 30 in 2016 and as many more in 2017. The contracts selected were those whose consumption is greater than 1,300,000 kWh/year, which cover more than 80% of the total consumption.
- 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 ninth edition in 2015, maintaining the editorial line of 2014, but providing a brief "vision" at the beginning of each relevant chapter and emphasizing the new international territorial strategy of the company, which it illustrated with interviews with the new "Area Managers" where they shared their forecasts in their respective areas.
- 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. To this end, the technical and human capabilities of a network of drinking water quality control laboratories are fostered. The vast network of laboratories available to the company includes the lead laboratories accredited by the ENAC in Jerez de la Frontera, Lérida, Ávila, Oviedo and the Canary Islands. Through the use of Lims and GesLAB software tools, which are connected in real time to the National Consumer Water Information System (SINAC in Spanish) within the Ministry of Health, both consumers and the public authorities are informed of the quality of the water supplied.
- 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. Last year, more than 497 Hm<sup>3</sup> of wastewater were treated before being released into natural streams in optimal conditions so that they had no impact on the environment.
- Developing R&D&i projects focusing mainly on enhancing water treatment options. Work continued in this field with the development of projects already underway for the incorporation of advanced sludge treatment, the use of membrane technology in wastewater treatment, application of ultrasound to enhance the wastewater digestion processes and the use of ozone in the treatment process. R&D&i projects that study new treatment possibilities in the industrial water field through the use of membranes, reverse osmosis, anaerobic reactors and advanced oxidation have also been developed. With these goals in mind, we are starting to participate in projects such as the use of micro-algae for nutrient elimination and biofuel production, the application of biofiltration and ultra-violet rays for industrial reuse of water or generation of energy using wastewater.

## 22. FINANCIAL RISK MANAGEMENT POLICY

The concept of financial risk refers to variations that may occur in the financial instruments taken out by the Group due to political, market and other factors and the repercussions of these changes on the consolidated financial statements.

The FCC Aqualia Group'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 Group's operations, and the risk policy is appropriately integrated into the organisation.

### Capital risk management

FCC Aqualia Group, following the guidelines set by its majority shareholder, manages its capital to ensure that the companies in the Group will be able to continue as profitable businesses while at the same time maximising shareholder returns by maintaining an optimal balance between debt and shareholder equity.

The Group's joint strategy continues to focus on geographic diversification, opening up markets in Western Europe, Eastern Europe, Algeria and Mexico, primarily.

The Group's capital structure includes debt (comprising the loans and credit facilities detailed in Note 14), cash and cash equivalents (Note 12) and shareholder equity, which includes capital, reserves and profits not shared out, as mentioned in Note 13.

The Group's Finance Department, responsible for financial risk management, periodically reviews the capital structure, solvency and liquidity ratios as part of the FCC Group finance policy.

The capital costs and associated risks in each investment project are analysed by the Operations Department and the Finance Division for subsequent approval or denial by the relevant Committee, or by the Parent Company Board of Directors, with any reports required from other functional divisions of the Group.

One of the aims of investment analysis is to keep the net debt to EBITDA ratio at a reasonable level and within the levels agreed upon with financial institutions.

### Currency risk

FCC Aqualia Group's current position in the international markets (see Note 13.c) makes the concept of currency risk, for the Group as a whole, moderately relevant.

However, regardless of the significance of the risk, the Aqualia Group's policy is to reduce the negative effect that such risk could have on its consolidated financial statements, as regards changes due to transactions and assets, as much as possible.

The Group actively manages its currency risk by contracting financial transactions in the same currency as the asset is stated in. In other words, every effort is made to get the financing required for local activities by the company within the country of origin of the investment in the local currency in order to naturally hedge, or match, the cash flows generated and the financing.

### Interest rate risk

Given the nature of activities in which working capital management plays a key role, the Group's standard practice is to establish the index that most accurately reflects trends in inflation as the benchmark for its financial debt. Therefore, the Group's policy is to attempt to link its current financial assets, which to a great extent provide natural hedging for its current financial liabilities, and its debt to floating interest rates. In operations with long time horizons, whenever the financial structure so requires, the debt is indexed to a fixed interest rate for a term that coincides with the maturity cycle of the corresponding operation, all within the possibilities offered in the market.

### Solvency risk

At 31 December 2015, FCC Aqualia Group's net financial debt comes to EUR 318,317 thousand (EUR 324,405 thousand in 2014), as shown in the following table, which represents 40% (41% in 2014) of the equity at said date:

	<b>2015</b>	<b>2014</b>
Bank borrowings (Note 14)	20,473	148,286
Debt instruments and other marketable securities (Note 14)	199,417	72,573
Non-current financial debt with group companies (Note 14)	441,889	398,546
Other interest-earning financial debt	119,683	82,161
Other current financial assets (Note 9)	(366,202)	(256,603)
Cash on hand and cash equivalents (Note 12)	(96,943)	(120,558)
<b>Net interest-bearing debt</b>	<b>318,317</b>	<b>324,405</b>

The most representative ratios for measuring solvency are as follows:

	<b>31 December 2015</b>
Net Debt / EBITDA ratio	1.54
Finance income/cost / EBITDA ratio	19.12%
	<b>31 December 2014</b>
Net Debt / EBITDA ratio	1.66
Finance income/cost / EBITDA ratio	22.18%

### 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 2015, the Company had a working capital of EUR 189,352 thousand.

As indicated in Note 19 “Guarantees to third parties and other contingent liabilities”, FCC Aqualia, S.A. acts as guarantor in the syndicated loans signed by its parent, “Fomento de Construcciones y Contratas, S.A.”

#### Financial derivatives for risk hedging

The main financial risk that is hedged by FCC Aqualia Group using derivatives is related to changes in the floating interest rates that the group companies' financing is indexed to.

At 31 December 2015 and 2014, FCC Aqualia Group has the following interest rate hedges in place, which qualify as cash flow hedges:

Amounts in thousands of euros	2015 Fair value	2015 Notional	2014 Fair value	2014 Notional	Maturity
<b>Fully consolidated companies</b>					
Depurplán, S.A.	(1,154)	5,914	(1,344)	6,187	2025
<b>Companies consolidated using the equity method</b>					
Aquos el Realito, S.A. de C.V.	(2,254)	27,066	(2,254)	27,066	2025

To a lesser extent, as mentioned above, the Group actively manages its currency risk by contracting financial transactions in the same currency as the asset is stated in. In other words, every effort is made to get the financing required for local activities by the company within the country of origin of the investment in the local currency in order to naturally hedge, or match, the cash flows generated and the financing.

As indicated in Note 13.c), the most significant net assets stated in a currency other than the euro held by the FCC Aqualia Group at 31 December 2015 are located in the Czech Republic. To hedge the currency risk of these assets, FCC Aqualia Group has taken out borrowings in the same currency (Czech Koruna) broken down as shown in Note 14.a).

Changes in fair value of the cash flow hedges are stated, net of tax effects, in “Adjustments for changes in value” in equity and are recognised in profit/loss for the year to the extent that the hedged item affects the consolidated income statement.

The financial derivatives have been appraised by experts in this field that are independent from the Group and the entities that finance it, using generally accepted methods and techniques.

### 23. INFORMATION ON RELATED-PARTY TRANSACTIONS

The Parent Company has a Board of Directors, whose members have not received any remuneration in 2015, in their role as directors of the Parent Company (nor in 2014). Moreover, no advances, loans or any other type of guarantees have been granted to such Board of Directors, nor are there any obligations in place regarding pensions or life insurance for such members.

Members of senior management of the Parent Company (11 men and 2 women) as a whole have received total remuneration of EUR 2,415 thousand. (EUR 1,789 thousand received by 10 men and 2 women in 2014)

At year-end 2015, 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.

Neither the directors of FCC Aqualia, S.A. nor any parties acting on their behalf have performed other operations with the Group during the year beyond the scope of ordinary trade for each company or under conditions other than normal market conditions.

No relevant transactions have taken place that entail the transfer of resources or obligations between the Parent Company or other Group companies and the directors or senior management thereof.

Furthermore, FCC Aqualia Group has established the required mechanisms to detect, determine and resolve any possible conflicts of interest between Group companies and their board members, senior management and significant shareholders, as indicated in article 25 of the Board Regulations.

The transactions performed with FCC group companies, joint ventures and associates are as follows (in thousands of euros):

a) Revenue

(thousands of euros)	2015	2014
ABASTECIMIENTO ALTA COSTA BRAVA EMPRESA MIXTA	26	18
AGUAS DE ARCHIDONA, S.L.	470	584
AGUAS DE DENIA	15	-
AGUAS DE LANGREO, S.L.	104	109
AGUAS DE NARIXA, S.A.	415	537
AGUAS DE PRIEGO, S.L.	200	282
AGUAS DE UBRIQUE, S.A.	882	590
AGUAS DEL PUERTO EMPRESA MUNICIPAL, S.A.	4,106	2,365
AIE AQUAGEST-AQUALIA	36	33
AIE COSTA BRAVA ABASTAMENT AQUALIA-SOREA	42	45
AIE COSTA TROPICAL DE GRANADA	432	645
AIGÜES DE TOMOVI, S.A.	772	818
AQUALIA MACE LLC	435	256
CIA. DE SERVICIOS MEDIOAMBIENTALES DO ATLANTICO, S.A.	216	219
CONCESIONARIA DESALACION DE IBIZA, S.A.	321	311
CONST. DE INFRAESTRUCTURAS DE AGUAS DE POTOSÍ, SACV	(71)	403
ECOPARQUE MANCOMUNIDAD DEL ESTE S.A.	1	1
EMP. MIXTA MUNICIPAL DE AGUAS DE NIJAR, S.A.	3,878	4,423
EMP.MUNICIPAL AGUAS DE LINARES, S.A.	3,966	4,079
EMPR.MUNICIPAL DE AGUAS DE ALGECIRAS, SA	8,982	9,097
EMPRESA MIXTA DE AGUAS DE JODAR, S.A.	530	556
EMPRESA MIXTA DE AGUAS Y SERVICIOS, S.A.	39	39
EMPRESA MPAL. AGUAS DE BENALMADENA, S.A.	3,999	4,203
EMPRESA MUNICIPAL AGUAS DE TOXIRIA, S.A.	892	944
ENERSTAR VILLENA S.A.	4	34
FAST CONSTRUCTION LLC	17,039	-
FCC ÁMBITO, S.A.	632	1,099
FCC CONSTRUCCION, S.A.	1,110	2,000
FCC MEDIO AMBIENTE, S.A.	2	2
FCC SERVICIOS INDUSTRIALES Y ENERGÉTICOS	176	169
FCC, S.A.	11,702	11,017
GENERAVILA, S.A.	-	82
GESTION Y VALOR INT.CENTRO, S.L.	8	71
HA PROY. ESPEC. HIDR.	1,387	807
MANTENIMIENTO DE INFRAESTRUCTURAS, S.A.	-	18
NUEVA SOCIEDAD DE AGUAS DE IBIZA, S.A.	2	2
ORASQUALIA DEVEL.WASTE T.P. S.A.E.	147	107
ORASQUALIA O&M	87	102
RAMALHO ROSA COBETAR SOC. DE CONST., S.A	2	-
SHARIKET MIYEH RAS DJINET, S.P.A.	6,047	4,155
SHARIKET TAHLYA MIYAH MOSTAGANEM, S.P.A.	6,219	4,246
<b>TOTAL GROUP COMPANIES AND ASSOCIATES</b>	<b>75,252</b>	<b>54,468</b>

The largest turnover with Fast Construction LLC originates in the works and works made for the Riyadh Metro (Saudi Arabia).

b) Materials and other services purchased

(thousands of euros)	2015	2014
FCC AMBITO, S.A.	9	(13)
FCC, S.A.	345	422
FCC CONSTRUCCIÓN, S.A.	22	-
SISTEMAS Y VEHICULOS DE ALTA TECNOLOGIA,S.A	-	1
FCC MEDIO AMBIENTE, S.A.	2	2
HORMIGONES Y MORTEROS PREP., S.A. UNIP.	(21)	8
ARRIBERRI, S.L.	-	1
HORMIGONES PREMEZCLADOS DEL NORTE, S.A.	-	1
HORMIGONES REINARES, S.A.	1	1
EMPR.MUNICIPAL DE AGUAS DE ALGECIRAS, SA	2,257	1,862
NUEVA SOCIEDAD DE AGUAS DE IBIZA, S.A.	112	107
EMPRESA MIXTA MUNICIPAL DE AGUAS DE NIJAR	983	851
AIGÜES DE TOMOVI, S.A.	38	24
ABAST. ALTA COSTA BRAVA EMPRESA MIXTA	-	1
PREFABRICADOS DELTA	9	29
HORMIGONES CALAHORRA, S.A.	6	5
<b>TOTAL GROUP COMPANIES AND ASSOCIATES</b>	<b>3,763</b>	<b>3,302</b>

c) Outsourced work

(thousands of euros)	2015	2014
FCC AMBITO, S.A.	31	99
FCC CONSTRUCCION, S.A.	5	21
FCC, S.A.	768	636
FCC SERVICIOS INDUSTRIALES Y ENERGÉTICOS, S.A.	51	95
SERVÍÁ CANTÓ, S.A.	-	87
COMPAÑÍA DE CONTROL DE RESIDUOS	45	124
GAMASUR GIBRALTAR, S.L.	22	2
ECOACTIVA DE MEDIO AMBIENTE, S.A.	14	10
FCC MEDIO AMBIENTE, S.A.	18	10
EMPRESA MUNICIPAL AGUAS DE TOXIRIA, S.A.	(2)	2
EMPRESA MIXTA DE AGUAS DE UBRIQUE, S.A.	5	-
TRATAMIENTOS Y RECUPER. INDUSTRIALES, S.A.	-	2
HORMIGONES Y MORTEROS PREP., S.A. UNIP.	-	2
EMPRESA MIXTA DE AGUAS Y SERVICIOS, S.A.	12	16
PROVEIMENTS D'AIGUA, S.A.	25	62
RAMALHO ROSA COBETAR SOC. DE CONST., S.A	1	-
AIGÜES DE TOMOVI, S.A.	1	9
<b>TOTAL GROUP COMPANIES AND ASSOCIATES</b>	<b>996</b>	<b>1,177</b>

d) Other operating expenses

(thousands of euros)	2015	2014
AGUAS DE ARCHIDONA, S.L.	1	1
AGUAS DE DENIA, S.A.	256	256



AGUAS DE LANGREO, S.L.	22	22
AGUAS DE PRIEGO, S.L.	-	1
AIE COSTA TROPICAL DE GRANADA	7	-
AIE ITAM DELTA DE LA TORDERA	15	15
AIGÜES DE TOMOVI, S.A.	-	2
Aqualia MACE	14	-
ÁRIDOS Y CANTERAS DEL NORTE, S.A.	-	(3)
COMPAÑÍA DE CONTROL DE RESIDUOS	1	-
EMP.MUNICIPAL AGUAS DE LINARES	18	18
EMPR.MUNICIPAL DE AGUAS DE ALGECIRAS, SA	135	50
FCC AMBITO, S.A.	72	42
FCC CONSTRUCCION, S.A.	24	26
FCC EQUAL CEE, S.L.	10	-
FCC MEDIO AMBIENTE, S.A.	3	1
FCC VERSIA, S.A.	-	4
FCC, S.A.	22,316	21,514
FEDEMES, S.L.	159	84
FCC Environment (UK) Group	2	-
ORASQUALIA DEVEL.WASTE T.P. S.A.E.	18	1
PROVEIMENTS D'AIGUA, S.A.	5	8
SERVICIOS ESPECIALES DE LIMPIEZA, S.A.	16	18
SHARIKET MIYEH RAS DJINET	(9)	-
<b>TOTAL GROUP COMPANIES AND ASSOCIATES</b>	<b>23,085</b>	<b>22,060</b>

e) Finance income

<b>(thousands of euros)</b>	<b>2015</b>	<b>2014</b>
FCC, S.A.	571	4,958
ASESORIA FINANCIERA Y DE GESTION, S.A.	488	1,429
EMPRESA MUNICIPAL DE AGUAS DE ALGECIRAS	44	60
AIE COSTA TROPICAL DE GRANADA	243	173
COMPAÑÍA DE SERVICIOS MEDIOAMBIENTALES DO ATLANTICO	13	11
EMPRESA MUNICIPAL DE AGUAS DE BENALMADENA,S.A.	103	206
EMPRESA MUNICIPAL DE AGUAS DE TOXIRIA, S.A.	7	10
EMPRESA MUNICIPAL DE AGUAS DE NIJAR, S.A.	78	99
EMPRESA MIXTA AGUAS DE LANGREO, S.A.	260	276
AIGUES DEL TOMOVI, S.A.	4	9
EMPRESA MUNICIPAL DE AGUAS DE LINARES, S.A.	2	3
AGUAS DE NARIXA, S.A.	319	327
AGUAS DE PRIEGO, S.L.	189	194
AGUAS DEL PUERTO EMPRESA MUNICIPAL, S.A.	562	205
CONST.DE INFRAEST.DE AGUAS POTOSI, SACV	585	304
EMPRESA MIXTA DE AGUAS DE JODAR, S.A.	73	74
AGUAS DE ARCHIDONA, S.L.	36	40
EMPRESA MIXTA DE AGUAS DE UBRIQUE, S.A.	27	-
CONSTRUCTORA DE INFRAESTRUCTURA AGUAS DE QUERETARO, SACV	-	298
<b>TOTAL GROUP COMPANIES AND ASSOCIATES</b>	<b>3,604</b>	<b>8,676</b>

f) Finance costs

At 31 December 2015, finance costs with FCC group companies come to EUR 20,091 thousand, corresponding entirely to Fomento de Construcciones y Contratas, S.A. (EUR 14,050 thousand at 31 December 2014). In 2015 there were no financial expenses with associated companies (EUR 13 million at 31 December 2014, corresponding to Orasqualia Construction SAE).

#### 24. FEES PAID TO THE ACCOUNTS AUDITORS

The fees relating to accounts auditing services and other professional services provided during the year to the different companies pertaining to Aqualia Group by the main auditor and other auditors participating in the auditing of the different group companies, as well as by entities related to them, are shown in the following table:

<i>Amounts in thousands of euros</i>	2015			2014		
	Main auditor	Other auditors	Total	Main auditor	Other auditors	Total
Audit services	351	71	472	267	161	428
Other attest services	70	1	21	6	42	48
<b>Total</b>	<b>421</b>	<b>72</b>	<b>493</b>	<b>273</b>	<b>203</b>	<b>476</b>
Other services	-	1	1	-	4	4
<b>Total professional services</b>	<b>-</b>	<b>1</b>	<b>1</b>	<b>-</b>	<b>4</b>	<b>4</b>
<b>TOTAL</b>	<b>421</b>	<b>73</b>	<b>494</b>	<b>273</b>	<b>207</b>	<b>480</b>

## 25. OTHER DISCLOSURES

a) Information about deferrals on payments made to suppliers. Additional provision three “Duty of disclosure” of Law 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 2015 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 contracts and supplies with third parties arising from contracts entered into by the Company with the various Public Authorities applies to the provisions of paragraph 5 of Article 228 of the current Consolidated Text of the Law on Public Sector Contracts (TRLCSP), which allows the contractor to agree with the suppliers time-frames that are longer than those established by the regulation, subject to certain conditions.

Owing to this circumstance, and with a view to adapting the Company’s financial policy to reasonable levels of efficiency, suppliers’ usual payment periods to suppliers in the sectors in which the Company operates have been maintained throughout 2015.

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: in Article 228.5 of the TRLCSP (all the requirements of which were met) and b) Payments to other suppliers: in Transitional Provision Two of Law 15/2010 and, where applicable, the provisions of Article 9 of Law 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 Group 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 597 thousand, with the drawn down balance being EUR 545 thousand at 31 December 2015. 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, we set out below a table with information on the average payment period to suppliers for those business operations accrued from the date of entry into force of the said Act 31/2014, i.e. 24 December 2014:

Average payment period to suppliers (thousands of euros)	
	<b>2015</b>
	<b>Days</b>
Average payment period for suppliers	78
Ratio of payments made	73
Ratio of outstanding payments	94
	<b>Sum</b>
Total payments made in the year	260,810
Total payments outstanding	88,131

For the purpose of the said Decision, these financial statements are described as initial, and therefore no comparative figures for the previous year are presented.

#### b) Earnings per share

Diluted earnings per share coincides with basic earnings per share, detailed as follows:

Amounts in thousands of euros	2015	2014
Net profit for the year (thousands of euros)	70,471	63,474
Weighted average number of shares in circulation	145,000	145,000
<b>Basic earnings per share (euros)</b>	<b>0.49</b>	<b>0.44</b>

## 26. EVENTS AFTER REPORTING DATE

At the reporting date, no relevant events have occurred that would entail significant changes to the information shown in the notes herein.

## 27. EXPLANATION ADDED FOR TRANSLATION TO ENGLISH

These financial statements are presented on the basis of the regulatory financial reporting framework applicable to the Company (see Note 2). Certain accounting practices applied by the Company that conform with that regulatory framework may not conform with other generally accepted accounting principles and rules.

## APPENDIX I

### FCC AQUALIA AND SUBSIDIARIES (CONSOLIDATED GROUP) SUBSIDIARIES (CONSOLIDATED BY FULL CONSOLIDATION)

COMPANY	GROUP INTERESTS %	AUDITOR
<b>Acque di Caltanissetta, S.p.A</b> Viale Sicilia 176 93100 Caltanissetta - ITALY	98.46%	DELOITTE SL
<b>Aguas de Alcázar Empresa Mixta, S.A.</b> C/ Rondilla Cruz Verde, 1 - Alcázar de San Juan (CIUDAD REAL)	52.38%	CENTIUM AUDITORES SL
<b>Aguas de las Galeras, S.L.</b> Avda. Camino de Santiago, 40 - MADRID	100.00%	DELOITTE SL
<b>Aigües de Vallirana, S.A.U.</b> C/ Conca de Tremp, 14 - Vallirana (BARCELONA)	100.00%	-
<b>Aqualia Infraestructuras D.O.O. Beograd-Vracar</b> Resavska 23 Belgrado Vracar - Belgrado-SERBIA	100%	-
<b>Aqualia Infraestructuras Montenegro</b> Bulevar Svetog Petra Centinjskog I A - 81000 Podgorica - MONTENEGRO	100%	-
<b>Aqualia Infraestructuras Pristina LLC</b> Bulevardi Nëna Terezë No 47/5B -Prishtina- KOSOVO REPUBLIC	100%	-
<b>Aquaelvas - Aguas de Elvas, S.A.</b> Rua Paco Bandeira, 14 - Assunção - Elvas - PORTUGAL	100.00%	DELOITTE SL
<b>Aquamaior – Aguas de Campo Maior, S.A.</b> Rua Mayor Talaya, 28 – Nossa Senhora de Expectação – Campo Maior – PORTUGAL	100.00%	DELOITTE SL
<b>Abrantaqua, S.A.</b> Parque Lena – Alferrarede Abrantes – PORTUGAL	60.00%	OLIVEIRA, REIS & ASOCIADOS
<b>Aqua Campiña, S.A.</b> C/Blas Infante, 6 – Écija (SEVILLE)	90.00%	AUDINFOR SL
<b>Aqua Management Solutions B.V.</b> Prins Bernhardplein 200 – Amsterdam - THE NETHERLANDS	30.60%	DELOITTE SL
<b>Aquacartaya, S.L.</b> Avda. San Francisco Javier, 27 – SEVILLE	100.00%	DELOITTE SL
<b>Aquafundalia – Agua do Fundão, S.A.</b> Rua Fernando Pessoa, 195 6230 479 Fundao - PORTUGAL	100.00%	DELOITTE SL
<b>Aquajerez, S.L.</b> C/ Cristalería, 24 - CÁDIZ	51.00%	ERNST & YOUNG SL
<b>Aqualia Infraestructuras, S.A.</b> Avda. Camino de Santiago, 40 – MADRID	99.99%	DELOITTE SL
<b>Aqualia Infraestructuras Inzenyring, s.r.o.</b> Marienské Hory, Slavnikovcu 571/21 Ostrava - CZECH REPUBLIC	100.00%	ABC AUDIT SRO
<b>Aqualia Infraestructuras de México, S.A. de C.V.</b> Carrizal, 33 - Santiago de Queretaro - Queretaro - MEXICO	100.00%	DELOITTE SL
<b>Aqualia Infraestructuras Mostar</b> Dr. Ante Estarcvica BB – MOSTAR (SERBIA)	100.00%	-
<b>Aqualia Czech, S.L.</b> Avda. Camino de Santiago, 40 – MADRID	51.00%	DELOITTE SL
<b>Aqualia Industrial Solutions, S.A.U.</b> C/ Federico Salmón, 13 – MADRID	100.00%	DELOITTE SL
<b>Aqualia New Europe B.V.</b> C/Calude Debussylann, 24 – Amsterdam (THE NETHERLANDS)	51.00%	DELOITTE SL
<b>Cartagua – Aguas do Cartaxo, S.A.</b> Zona Industrial do Cartaxo, Lote 20 – Cartaxo - PORTUGAL	60.00%	OLIVEIRA, REIS & ASOCIADOS
<b>Colaboración, Gestión y Asistencia, S.A.</b> C/ Federico Salmón, 13 – MADRID	100.00%	-
<b>Compañía Onubense de Aguas, S.A.</b> C/Martín Alonso Pinzón, 8 – HUELVA	60.00%	-
<b>Conservación y Sistemas, S.A.</b> C/ Federico Salmón, 13 – MADRID	100.00%	DELOITTE SL
<b>Depurplan 11, S.A.</b> C/ Madre Rafols, 2 – ZARAGOZA	100.00%	AUDINFOR SL
<b>Depurtebo, S.A.</b> C/ San Pedro, 57 - Zuera – ZARAGOZA	100.00%	-

<b>Empresa Gestora de Aguas Linenses, S.L.</b> C/ Federico Salmón, 13 – MADRID	100.00%	-
<b>Empresa Mixta de Butarque, S.A.</b> C/ Princesa, 3 - (MADRID)	70.00%	-
<b>Entemanser, S.A.</b> C/ Castillo, 13 – ADEJE (SANTA CRUZ DE TENERIFE)	97.00%	DELOITTE SL
<b>FCC Aqualia América, S.A.U.</b> C/ Uruguay, 11 – Vigo (PONTEVEDRA)	100.00%	-
<b>FCC Aqualia USA Corp.</b> 2711 Centerville Road, Suite 400. Wilmington (New Castle -Delaware-USA)	100.00%	-
<b>FS Colaboración Gestión y Asistencia, S.A.</b> Avda, Camino de Santiago, 40. MADRID	100.00%	-
<b>SEVEROMORAVSKE VODOVODY A KANALIZACE OSTRAVA a.s.</b> Varenská 2723/51 70200 Ostrava – CZECH REPUBLIC	50.47%	DELOITTE SL
<b>Hidrotec Tecnología del Agua, S.L.U.</b> C/ Píncel, 25 – SEVILLE	100.00%	DELOITTE SL
<b>Infraestructuras y Distribución General de Agua, S.L.</b> C/ La Presa, 14 – Tijoco Bajo-ADEJE (SANTA CRUZ DE TENERIFE)	100.00%	-
<b>Inversora Riutort, S.L.</b> C/ Alfonso XIII – Sabadell (BARCELONA)	100.00%	-
<b>Ovod spol, s.r.o.</b> Jaselská 47 - Opava - CZECH REPUBLIC	100.00%	ABC AUDIT SRO
<b>Sociedad Ibérica del Agua, S.A.U.</b> C/ Federico Salmón, 13 – MADRID	100.00%	-
<b>Sociedad Española de Aguas Filtradas, S.A.</b> C/ Jacometrezo, 4 – MADRID	100.00%	DELOITTE SL
<b>Tratamiento Industrial de Aguas, S.A.</b> C/ Federico Salmón, 13 – MADRID	100.00%	DELOITTE SL

Note: This appendix forms an integral part of the attached notes to the consolidated financial statements.

## APPENDIX II

### FCC AQUALIA AND SUBSIDIARIES (CONSOLIDATED GROUP) ASSOCIATES AND JOINTLY CONTROLLED ENTITIES (CONSOLIDATED BY PROPORTIONATE METHOD)

COMPANY	GROUP INTERESTS %	AUDITOR
<b>AIE Costa Tropical de Granada</b> Plaza Aurora, s/n - Motril (GRANADA)	51.00%	ATTEST AUDITORES, S.L
<b>AIE ITAM Delta de la Tordera</b> Travesera de Gracia, 58 – BARCELONA	50.00%	-
<b>AIE Aquagest Medioambiente, S.A. - Aqualia</b> C/Condado de Jaruco, s.n. – Lloret de Mar (GIRONA)	37.50%	-
<b>Empresa mixta Abastament en Alta Costa Brava, S.A.</b> Plaza Josep Pla, 4 - GIRONA	26.00%	-
<b>Gestión de Servicios Hidráulicos de Ciudad Real AIE</b> C/ Ramírez de Arellano, 15 – MADRID	75.00%	-
<b>Empresa Mixta de Aguas y Servicios, S.A.</b> Alarcos, 13 - CIUDAD REAL	41.25%	CENTIUM AUDITORES SL
<b>Empresa Mixta d'Aigües de la Costa Brava, S.A.</b> Plaza Josep Pla, 4 - GIRONA	25.00%	ERNST & YOUNG SL
<b>AIE Costa Brava Abastecimientos Aqualia-Sorea</b> C/ Sector Carlit, s/n. Castelló d'Empuries - GIRONA	50.00%	-

Note: This appendix forms an integral part of the attached notes to the consolidated financial statements.

## APPENDIX III

### FCC AQUALIA AND SUBSIDIARIES (CONSOLIDATED GROUP) ASSOCIATES AND JOINTLY CONTROLLED ENTITIES (CONSOLIDATED BY EQUITY METHOD)

COMPANY	INTERESTS %	2015 change (Note 7)	2014 change (Note 7)	AUDITOR
<b>Aguas de Priego, S.L.</b> Plaza Constitución, 3. Priego de Córdoba (CORDOBA)	49.00%	(18)	5	AUDINFOR SL
<b>Aguas de Archidona, S.L.</b> Plaza Ochavada, 1 – 29300 Archidona - MALAGA	48.00%	60	59	CENTIUM AUDITORES SL
<b>Aguas del Puerto Empresa Municipal, S.A.</b> C/ Aurora 1 - 11500 - EL PUERTO DE SANTA MARÍA (CÁDIZ)	48.98%	3,808	3,930	-
<b>Aqualia MACE LLC</b> P.O. Box 105547 – Abu Dhabi, U.A.E.	24.99%	385	2,062	DELOITTE SL
<b>Compañía de Servicios Medioamb. do Atlántico, S.A.</b> Carretera de Cedeira, km1 - Narón (LA CORUÑA)	49.00%	342	322	AUDINFOR SL
<b>Girona, S.A.</b> Travesía del Carril, 2 – GERONA	33.61%	1,800	1,688	CATAUDIT AUDITORS ASSOCIATS SL
<b>Aguas de Denia, S.A.</b> Pedro Esteve, 17 - Denia (ALICANTE)	33.00%	401	403	-
<b>Aguas de Ubrique, S.A.</b> Avenida España, 9 - Ubrique (CÁDIZ)	49.00%	(1)	(12)	-
<b>Aguas de Narixa, S.A.</b> C/Málaga, 11 – Nerja (MÁLAGA)	50.00%	293	252	AUDINFOR SL
<b>Aigües de Blanes, S.A.</b> Canigó, 5. Blanes - GIRONA	16.47%	56	55	CD AUDITORS
<b>Aigües de Girona Salt i Sarrià del Ter</b> Ciutadans, 11 - GIRONA	26.88%	214	195	CATAUDIT AUDITORS ASSOCIATS SL
<b>Aigües del Tomoví, S.A.</b> c/ Vella, 1 – El Vendrell (TARRAGONA)	49.00%	524	642	GM AUDITORS SL
<b>Constructora de Infraestructuras de Aguas de Querétaro, S.A. de C.V.</b> C/ Minería Edificio B Ciudad de Méjico, Distrito Federal (MEXICO)	24.50%	(1,012)	(929)	DELOITTE SL
<b>Constructora de Infraestructuras de Aguas de Potosí, S.A. de C.V.</b> Bulevar Manuel Avila Camacho, 36 Méjico, Distrito Federal (MEXICO)	24.50%	(5,665)	(1,040)	-
<b>Concesionaria de Desalación de Ibiza, S.A.</b> Rotonda de Sta. Eulalia, s/n – Ibiza (BALEARIC ISLANDS)	32.00%	1,327	1,072	BDO AUDITORES S.L.
<b>EMANAGUA - Empresa Municipal de Aguas de Níjar, S.A.</b> Plaza de la Glorieta, 1 – Níjar (ALMERÍA)	49.00%	220	220	CENTIUM AUDITORES SL
<b>Empresa Municipal Aguas de Algeciras, S.A.</b> C/Virgen del Carmen, s/n - Algeciras (CÁDIZ)	49.00%	186	229	ABANTE UNICONTROL AUDITORES SLP
<b>Empresa Municipal Aguas de Benalmádena, S.A.</b> Exp. Ap.Tívoli, s/n - Arroyo de la Miel (MÁLAGA)	50.00%	1,936	1,797	AUDINFOR SL
<b>Empresa mixta de Aguas de Jódar, S.A.</b> Plaza de España, 1- Jódar (JAEN)	49.00%	(34)	(32)	CENTIUM AUDITORES SL
<b>Aguas de Langreo, S.L.</b> C/Alonso del Riesgo, 3 – Langreo (ASTURIAS)	49.00%	857	828	AUDINFOR SL
<b>Empresa Municipal Aguas de Toxiria, S.A.</b> Plaza de la Constitución – Torredonjimeno (JAÉN)	49.00%	76	84	CENTIUM AUDITORES SL
<b>Empresa Municipal de Aguas de Linares, S.A.</b>	49.00%	482	(131)	CENTIUM AUDITORES SL



**FCC AQUALIA AND SUBSIDIARIES (CONSOLIDATED GROUP)**  
**ASSOCIATES AND JOINTLY CONTROLLED ENTITIES (CONSOLIDATED BY EQUITY METHOD)**

COMPANY	INTERESTS %	2015 change	2014 change	AUDITOR
C/ Cid Campeador, 7 - Linares (JAEN)				
<b>Empresa Mixta de Aguas de Ubrique, S.A.</b> C/JUZGADO S/N - 11600 - UBRIQUE (CÁDIZ)	49.00%	52	110	DELOITTE SL
<b>Generávila, S.A.</b> Plaza de la Catedral, 11 – ÁVILA	36.00%	-	71	-
<b>Aquos El Realito, S.A. de C.V.</b> San Luis Potosí (MÉXICO)	44.00%	4,910	4,745	DELOITTE MÉXICO
<b>Orasqualia Devel. Waste Treatment Plant S.A.E.</b> 2112 South Tower – El Cairo (EGYPT)	45.00%	19,779	20,149	DELOITTE SL
<b>Orasqualia Construction, S.A.E.</b> 2112 South Tower – El Cairo (EGYPT)	50.00%	(147)	(168)	KPMG
<b>Orasqualia Operation and Maintenance, S.A.E.</b> Nile City Towers – El Cairo - EGYPT	50.00%	668	855	DELOITTE SL
<b>Operadora El Realito S.A. de C.V.</b> Tomas Alva Edison 176- San Rafael-Distrito Federal (MEXICO)	15.00%	27	-	
<b>HA Proyectos Especiales Hidraulicos S.R.L. de CV</b> Neucalpán – MEXICO CITY	50.00%	200	283	GRANT THORNTON SC
<b>Nueva Sociedad de Aguas de Ibiza, S.A.</b> C/Bartolomé Rosselló, 18 - (IBIZA)	40.00%	61	85	-
<b>Proveïments d'Aigua, S.A.</b> Asturias, 13 - GIRONA	15.12%	396	331	ANTONI RIERA AUDITORS
<b>Sera.Q.A. Duitama, S.A.</b> (COLOMBIA)	30.60%	43	51	-
<b>Shariket Tahlya Miyah Mostaganem</b> Cit� Abdoni Ilot, 36 – Dar el Beida (ALGERIA)	25.50%	28,090	28,482	MUSTAPHA HEDDAD
<b>Shariket Miyeh Ras Djinet</b> Cit� Abdoni Ilot, 36 – Dar el Beida (ALGERIA)	25.50%	10,371	11,063	MUSTAPHA HEDDAD
<b>Suministro de aguas de Quer�taro, S.A. de C.V.</b> Santiago de Quer�taro – Quer�taro Arteaga (MEXICO)	25.00%	441	437	DELOITTE MEXICO
<b>Augas Municipais de Arteixo, S.A.</b> Pza. Alcalde Ram�n Dopico – Arteixo (LA CORU�A)	51.00%	0	61	-
<b>Prestadora de Servicios Acueducto El Realito SACV</b> Bvd. Manuel Avila Camacho, 36. MIGUEL HIDALGO (MEXICO)	24.50%	1	2	-
<b>Total</b>		<b>71,129</b>	<b>78,256</b>	

Note: This appendix forms an integral part of the attached notes to the consolidated financial statements.

## APPENDIX IV

### FCC AQUALIA AND SUBSIDIARIES (CONSOLIDATED GROUP) TEMPORARY JOINT VENTURES

NAME	PARTICIPANTS	GROUP INTERESTS %
UTE Abastecimiento Villalón	FCC Aqualia, S.A. – FCC Construcción, S.A.	80%
UTE Abastecimiento Zaragoza	FCC Aqualia, S.A. – Ingeniería de Instrumentación y Control, S.A.	70%
UTE Abu Rawash Construcción	Aqualia Infraestructuras-Orascom Cons.Industries	50%
UTE Agnita Eptisa - aisa	Aqualia Infraestructuras S.A - EPTISA	50%
UTE Agua Santo Domingo	FCC Aqualia, S.A. - Agua y energía	70%
UTE Aguas de Alcalá	FCC Aqualia, S.A. – Canal de Isabel II – SUFI, S.A.	50.00%
UTE Aguas del Doramás	FCC Aqualia, S.A. – Eicoh Explot. S.L. – Eléct. Maspalomas, S.A.	50%
UTE Aguas Tomelloso	FCC Aqualia, S.A. - FCC, S.A.	80%
UTE Aigües Els Poblets	FCC Aqualia, S.A. – HIDROSAL	95%
UTE Alkhorayef-FCC Aqualia	FCC Aqualia -Alkhorayef Water&Power	51%
UTE Ampliación EDAR Lleida	Aqualia Infraestructuras, S.A. – FCC Construcción, S.A.	50%
UTE Ampliación IDAM Sant Antoni	FCC Aqualia, S.A. – Infilco , S.A.	50%
UTE Ampliación ITAM Delta de la Tordera	Aqualia Infraestructuras, S.A. - FCC Construcción, S.A.	33.34%
UTE aqualia Infilco	FCC Aqualia, S.A. – Infilco, S.A.	50%
UTE aqualia Inima (Depuración poniente almeriense)	FCC Aqualia, S.A. – Inima, S.A.	75%
UTE aqualia Intagua	FCC Aqualia, S.A. – Intagua.	50%
UTE aqualia Riofabar Piloña	FCC Aqualia, S.A.	100%
UTE aqualia-FCC-Myasa	FCC Aqualia, S.A. - FCC, S.A. – Myasa	74%
UTE Aseos EMT	Conservación y Sistemas, S.A. - FCC, S.A.	50%
UTE Bombeo Valmojado	FCC Aqualia, S.A. – FCC, S.A.	80%
UTE C-17 Servei	Conservación y Sistemas, S.A. – ETRA CATALUÑA, S.A.	50%
UTE Camí Sa Vorerà	FCC Aqualia, S.A. – FCC, S.A.	80%
UTE Cangas	FCC Aqualia, S.A. - FCC, S.A.	50%
UTE Cap Djinet	Aqualia Infraestructuras, S.A. – Inima	50%
UTE CC. Clot Arago	Conservación y Sistemas, S.A. – APLEIN INGENIEROS	60%
UTE Centro Deportivo Granadilla de Abona	FCC Aqualia, S.A. – FCC, S.A.	80%
UTE Colectores A Guarda 2012	FCC Aqualia, S.A. – DEMAIN, S.L.	50%
UTE Conducción el Viso y Depósitos	FCC Aqualia, S.A. – Juan Nicolás Gómez e Hijos, S.A.	70%
UTE Conservación de Galerías	Conservación y Sistemas, S.A. - FCC, S.A.	50%
UTE Conservación Getafe	Conservación y Sistemas, S.A. -FCC, S.A.	80%
UTE Conservación y Sistemas	Conservación y Sistemas, S.A. - FCC, S.A.	40%
UTE Consorcio Louro	FCC Aqualia, S.A. – Civis Global, S.L.	70%
UTE Contenedores Mostoles	Conservación y Sistemas, S.A. - FCC, S.A.	70%
UTE Control Calidad Agua Huesca	FCC Aqualia, S.A. - Sociedad Española Aguas Filtradas, S.A.	100%
UTE Costa Tropical	FCC Aqualia, S.A. – Acciona Agua, S.A.	51%
UTE Costa Tropical II	FCC Aqualia, S.A. – Acciona Agua, S.A.	51%
UTE Costa Tropical III	FCC Aqualia, S.A. – Acciona Agua, S.A.	51%
UTE del Aeropuerto de Lanzarote	S.E. Aguas Filtradas, S.A. - Jaime e Isaac Rguez., S.A.	60%
UTE Denia	FCC Aqualia, S.A.	100%
UTE Depósito Hervencia	FCC Aqualia, S.A. – Aqualia Infraestructuras, S.A.	100%
UTE Desaladora Bajo Almanzora	FCC Aqualia, S.A. – FCC, S.A. –FCC Construcción, S.A. – aqualia infraestructuras, s.a.	30%
UTE EDAM Oeste	Aqualia Infraestructuras, s.a. – FCCCO – Transformaciones y Servicios	50%
UTE EDAM Santa Eulalia	FCC Aqualia, S.A. – Aqualia Infraestructuras, S.A.	100%
UTE EDAR A Guarda 2012	FCC Aqualia, S.A. – DEMAIN, S.L	50%
UTE EDAR A Guarda 2013	FCC Aqualia, S.A. – DEMAIN, S.L	50%
Ute Edar Albuñol	FCC Aqualia- FCC Construcción, S.A.	50%
UTE EDAR Almansa	FCC Aqualia, S.A. - FCC, S.A.	95%
UTE EDAR Avila	Aqualia Infraestructuras, S.A. – Volconsa	100%

**FCC AQUALIA AND SUBSIDIARIES (CONSOLIDATED GROUP)  
TEMPORARY JOINT VENTURES**

NAME	PARTICIPANTS	GROUP INTERESTS %
UTE EDAR Baeza	Aqualia Infraestructuras, S.A. – Explotaciones las Misiones, S.L.- Martín Casillas, S.L.	50%
UTE EDAR Chipiona	FCC Aqualia, S.A. – Sociedad Española Aguas Filtradas, S.A.	100%
UTE EDAR Ciudad Valdeluz	FCC Aqualia, S.A.	100%
UTE EDAR Cuerva	FCC Aqualia, S.A. - FCC, S.A.	95%
UTE EDAR Gijón	Aqualia Infraestructuras, S.A. – FCCCO – Degremont, S.A.	30%
UTE EDAR La Ranilla	FCC Aqualia, S.A. – Aqualia Infraestructuras, S.A. - FCC,S.A. – FCC Construcción,SA.	50%
UTE EDAR Reinosa	FCC Aqualia, S.A. - FCC, S.A.	95%
UTE EDAR San Vicente de la Barquera	FCC Aqualia, S.A. - FCC, S.A.	95%
UTE EDAR Valdepeñas	FCC Aqualia, S.A. – Aqualia Infraestructuras, S.A. – FCC Construcción, S.A.	50%
UTE Eix-Llobregat	Conservación y Sistemas, S.A. – ISTEM, S.L.	50%
UTE ETAP Las Heras	Aqualia Infraestructuras, S.A. – TECONSA	50%
UTE ETAPS Este	FCC Aqualia, S.A. – Iragaz Watin S.A.	65%
UTE Explotación ITAM Tordera	FCC Aqualia, S.A. – Acciona Agua, S.A.	50%
UTE Explotación Piscinas Vigo	FCC Aqualia, s.a – Idonea CYS, S.L:	50%
UTE Explotación Presas del Segura	FCC Aqualia, S.A. – Explotación y control	60%
UTE FS Badajoz	FCC Aqualia, S.A. – FS Colaboración y Asistencia, S.A.	100%
UTE Gestión Cangas	FCC Aqualia, S.A. – Civis Global, S.L.	70%
UTE Gestión de Fangos Menorca	FCC Aqualia, S.A. – third parties	55%
UTE Gestión Piscina de Mula	FCC Aqualia, S.A. – FCC, S.A.	80%
UTE Gestión Piscinas Vigo	FCC Aqualia, S.A. – Idonea Cys, S.L.	50%
UTE Groupement Solidaire Jerba	FCC Aqualia, S.A. Aqualia Infraestructuras, S.A. – Inima, S.A.	50%
UTE Guadiana	FCC Aqualia, S.A. - FCC, S.A.	80%
UTE HIDC-HIDR-INV. Do centr ACE	FCC Aqualia, S.A. – Lena Ambiente	50%
UTE Ibiza	FCC Aqualia, S.A. – Acciona Agua, S.A.	50%
UTE IDAM Sant Antoni	FCC Aqualia, S.A. – Infilco Española, S.A.	50%
UTE IDAM Sant Antoni II	FCC Aqualia, S.A. – Infilco Española, S.A.	50%
UTE La Canda	Conservación y Sistemas, S.A. - FCC, S.A.	70%
UTE La Sagra	FCC Aqualia, S.A.	100%
UTE Limpieza Carril Bus	Conservación y Sistemas, S.A. - FCC, S.A.	70%
UTE Lotes A y B Fuenlabrada 2010	Conservación y Sistemas, S.A. - FCC, S.A.	50%
UTE Louro	FCC Aqualia, S.A. - Movexvial	65%
UTE Mancomunidad de Órbigo	FCC Aqualia, S.A. – FCC, S.A.	80%
UTE Mantenimiento Presas del Segura	FCC Aqualia, S.A. – Ing. De Instrumentación y Control	80%
UTE Mantenimiento Protecciones Conf. Hidro. del Tajo	FCC Aqualia, S.A. - S.E. Aguas Filtradas, S.A.	100%
UTE Mejora Abastecimiento Seseña	FCC Aqualia, S.A. – Juan Nicolás Gómez e Hijos, S.L.	50%
UTE Mérida	FCC Aqualia, S.A. - FCC, S.A.	90%
UTE Mieres Pico Seana	Aqualia Infraestructuras, S.A.	100%
UTE Molina	FCC Aqualia, S.A. - FCC, S.A.	95%
UTE Mostaganem	Aqualia Infraestructuras, S.A. – Inima	50%
UTE Nigrán	FCC Aqualia, S.A. - FCC, S.A.	90%
UTE Níjar	FCC Aqualia, S.A. – Aqualia Infraestructuras, S.A. – FCC, S.A.	80%
UTE Obras de Alcalá	FCC Aqualia, S.A. – Sufi, S.A.	55%
UTE Oviedo	FCC Aqualia, S.A. – Seafsa, S.A.	100%
UTE OYM Cap Djinet	FCC Aqualia, S.A. – Inima	50%
UTE OYM Mostaganem	FCC Aqualia, S.A. – Inima	50%
UTE Pavimento Zona I	Conservación y Sistemas, S.A. - FCC, S.A.	50%
UTE Potabilizadora de Els Poblets	FCC Aqualia, S.A. – Hidrosal	70%
UTE Ranilla Construcción	Aqualia Infraestructuras, S.A. – FCC Construcción, S.A. – CODESA	42.50%
UTE Redes CABB	FCC Aqualia, S.A. – Iragaz Watin S.A.	65%
UTE Redondela	FCC Aqualia, S.A. - FCC, S.A.	90%

**FCC AQUALIA AND SUBSIDIARIES (CONSOLIDATED GROUP)  
TEMPORARY JOINT VENTURES**

<b>NAME</b>	<b>PARTICIPANTS</b>	<b>GROUP INTERESTS %</b>
UTE Reforma Plaza del cristo	FCC Aqualia, S.A. – FCC, S.A.	80%
UTE Regantes Río Adaja	FCC Aqualia-Conservación y Sistemas	100%
UTE Repostado Entrevías	Conservación y Sistemas, S.A. - FCC, S.A.	50%
UTE Salamanca	FCC Aqualia, S.A. - FCC, S.A.	95%
UTE San Mateo	Aqualia Infraestructuras, S.A.	100%
UTE Saneamiento Canet y L'Almardá	FCC Aqualia, S.A. – Aqualia Infraestructuras, S.A. – FCC Construcción, S.A.	50%
UTE Santomera	FCC Aqualia, S.A. - FCC, S.A.	40%
UTE SCC Sice	Conservación y Sistemas, S.A. – SICE	50%
UTE Sentinas	SEAFSA – Sampol	50%
UTE SGVV	Conservación y Sistemas, S.A. - ACISA	50%
UTE Simón Hernández	Conservación y Sistemas, S.A. - FCC, S.A.	50%
UTE Sistema Integral Alacantí Sur	Aqualia Infraestructuras, S.A. – FCC Construcción, S.A. – third parties	33%
UTE Tablada	FCC Aqualia, S.A. - FCC, S.A.	80%
UTE Terciario Quart Benagert	Aqualia Infraestructuras, S.A. – FCC Construcción, S.A.	50%
UTE Tunel Puerto Algeciras	Conservación y Sistemas, S.A. - FCC, S.A.	70%
UTE Ussa A	FCC Aqualia, S.A. – Iragaz Watin S.A.	65%
UTE Vigo	FCC Aqualia, S.A. - FCC, S.A.	50%
UTE Vigo Piscinas	FCC Aqualia, S.A. – Idonea CYS, S.L.	50%
UTE Villalón de Campos	FCC Aqualia, S.A. - FCC, S.A.	80%

Note: This appendix forms an integral part of the attached notes to the consolidated financial statements.

**APPENDIX V**  
**2015**

**FCC AQUALIA AND SUBSIDIARIES (CONSOLIDATED GROUP)**  
**CHANGES IN THE SCOPE OF CONSOLIDATION**

NAME	ADDRESS	GROUP INTERESTS %
<b>A) Full Consolidation additions</b>		
Aqualia Infraestructuras D.O.O. Beograd-Vracar	SERBIA	100%
Aqualia Infraestructuras Pristina LLC	REP. OF KOSOVO	100%
FCC Aqualia USA Corp.	USA	100%
<b>B) Additions consolidated by equity method</b>		
Operadora El Realito S.A. de C.V.	MEXICO	15.00%
<b>C) Removed from equity method consolidation</b>		
Generávila, S.A.	SPAIN	36.00%
Aguas Municipais de Arteixo, S.A.	SPAIN	51.00%

**2014**

**FCC AQUALIA AND SUBSIDIARIES (CONSOLIDATED GROUP)**  
**CHANGES IN THE SCOPE OF CONSOLIDATION**

NAME	ADDRESS	GROUP INTERESTS %
<b>A) Full Consolidation additions</b>		
Aguas de Alcázar Empresa Mixta, S.A.	SPAIN	52.38%
Empresa Gestora de Aguas Linenses, S.L.	SPAIN	100.00%
Aguas de las Galeras, S.L.	SPAIN	100.00%
<b>B) Removed from Full Consolidation</b>		
Chemipur Químicos, S.L.	SPAIN	100.00%
Conservación de Infraestructuras Urbanas, S.A.	SPAIN	100.00%
Nilo Medioambiente, S.L.	SPAIN	100.00%
<b>C/ Change from equity to proportionate method</b>		
AIE Costa Tropical de Granada	SPAIN	51.00%
AIE ITAM Delta de la Tordera	SPAIN	50.00%
AIE Aquagest Medioambiente, S.A. - Aqualia	SPAIN	37.50%
Empresa mixta Abastament en Alta Costa Brava, S.A.	SPAIN	26.00%
Gestión de Servicios Hidráulicos de Ciudad Real AIE	SPAIN	75.00%
Empresa Mixta de Aguas y Servicios, S.A.	SPAIN	41.25%
Empresa Mixta d'Aigües de la Costa Brava, S.A.	SPAIN	25.00%
AIE Costa Brava Abastecimientos Aqualia-Sorea	SPAIN	50.00%
<b>C) Additions consolidated by equity method</b>		
Empresa Mixta de Aguas de Ubrique, S.A.	SPAIN	49.00%
Aguas del Puerto Empresa Municipal, S.A.	SPAIN	48.98%
<b>D) Removed from equity method consolidation</b>		
Proactiva, Aguas de Montería, S.A.	SPAIN	2.00%

Note: This appendix forms an integral part of the attached notes to the consolidated financial statements.

## ANNEX VI

### REPORT OF THE BOARD OF FCC AQUALIA S.A. FOR DISTRIBUTION OF AN INTERIM DIVIDEND FOR THE YEAR 2015

In accordance with Article 277 of the Spanish Limited Liability Companies Law, which lays down the obligation of the directors of the Company to present a financial statement which states that there is sufficient liquidity for the distribution of an interim dividend, it is worth noting:

1. The net result of the taxes generated by **FCC AQUALIA S.A.** on 31 October 2015 is **EUR 42,324,530**, higher than the proposed interim dividend of **EUR 30,450,000**.
2. The liquid assets available to the Company at 31 October 2015, amounting to **EUR 219,644,942**, demonstrate the existence of sufficient funds for the interim dividend distribution.

Therefore, and considering that on the date of this report, there have been no significant changes compared to the data presented, we believe that there is sufficient liquidity for the distribution of a dividend against profit for 2015 amounting to **EUR 30,450,000**.

For this reason, it is proposed to approve the following interim dividend from the results for the year 2015:

21% on the nominal gross rate of **€0.21** for each of the 145,000,000 shares entitled to a dividend.

Total amount.	<b>€30,450,000</b>
Gross interim dividend per share.	<b>€0.21</b>
Liquid amount to be received per share.	<b>€0.21</b>

Liquid dividend to be received per share: This coincides with the gross dividend, since under the provisions of Art. 140, paragraph 4, letter c) of Legislative Royal Decree 4/2004, of 5 March, no withholding may be made on ... "c) Dividends or shares in profits and interest paid between companies forming part of a group that is taxed according to the corporate groups regime", therefore, as all shareholders of **FCC Aqualia SA** form part of Consolidated Taxation Group 18/1989, the dividends are not subject to withholding.

The Board unanimously approves an interim dividend from the profit for 2015 in the amount indicated in the previous report, which will be paid according to the method that will be announced at the appropriate time.

## 2015 DIRECTORS' REPORT

### SPAIN

In 2015, for the first time since the start of the financial crisis, the domestic market has experienced a slight increase in water revenues, especially in coastal areas, which had seen sustained shrinkage in recent years.

In June 2015, the new Municipal Corporations, Councils, County Councils and Regional Governments were formed in fourteen communities. The election result has caused a significant change in the political affiliation in many local corporations, with the incorporation of new parties under various electoral lists which, at times, are ideologically opposed to outsourcing the management of public services. This, together with certain European trends advocating the return of management of public services to the public sector (initiative of the European Parliament Right2Water), has generated significant reporting in the media relating to initiatives requesting the return of public services to the municipalities, with the most notable being Alcázar de San Juan, El Puerto de Santa María, Girona etc. At the date of preparation of this report, no proceedings have been initiated to recover contracts in 2015, and we do not expect them to take place in the future, except in exceptional cases.

As usual in years when municipal elections are held, and taking into account the legal terms during which the powers of the outgoing corporations are reduced, as well as the creation of the new ones, the bidding for new contracts has been very limited at the local level.

Neither the Central Administration nor the Regional Governments are tendering relevant investment projects in water infrastructure, 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, should have a much higher level and only reaches 60%.

On the other hand, the actions taken by the national government with the aim of establishing a fast and efficient regulatory framework for this sector are worth highlighting. The Ministry of Agriculture, Food and the Environment drafted the first Draft of the Sectoral Water Act, although it has been put on hold due to the General Elections. Similarly, March saw the approval of the Act on the De-indexation of the Economy, while the Draft Law on Public Sector Contracts is in the public consultation phase. These 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. It is expected that these regulatory measures enhance the increasingly necessary investments in the renovation of distribution networks and treatment facilities which will lead to an increase in private water management in Spain, an activity that increasingly displays a higher technological level, accompanied by an excellent quality of service, aimed at ensuring a supply of clean, healthy water for human consumption.

The possibilities of future growth are focused around several vectors. It is expected that small national and especially regional operators will initiate divestment processes, due to being unable to provide the

technological and financial resources to this activity, given their small size. It is also expected that in the next three years opportunities will emerge to participate in bidding for concessions currently managed by other operators. Likewise, the sector of the operation and maintenance of facilities (EDARs and ETAPs) will maintain a high level of tenders, since it is not subject to the electoral cycle and generally falls to a regional jurisdiction, rather than municipal. Finally, given the improvement in the economic situation of the municipalities and public operators, a slight upturn is expected in the tendering of works for small sums where our territorial presence allows us to be very competitive. Finally, we will continue to devote efforts to the development of Smart Water models (already under development in cities managed by FCC Aqualia such as Almería, Salamanca, Santander), which affords us a competitive differentiation with respect to other operators.

In 2015, FCC Aqualia has restructured its organization in Spain, giving it a National Directorate and three Areas or regional structures, grouping under territorial criteria all the activity conducted in the complete water cycle (concessions, operation and urban and industrial maintenance, networks and technology). This will lead to a concentration of efforts and an improvement in our market position.

## **INTERNATIONAL MARKETS**

Within the international sphere, FCC Aqualia is focusing its commercial activities in Europe, North Africa, the Middle East, India, North America and Latin America and there are currently contracts underway in Portugal, Italy, the Czech Republic, Serbia, Bosnia, Montenegro, Kosovo, Poland, Algeria, Tunisia, Egypt, Saudi Arabia, Abu Dhabi, Qatar, India, Mexico, Uruguay and Chile.

In Italy, the emergence of the national regulator 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 as a spur to new opportunities for public-private partnership with Local and Regional Authorities. Compliance with Community legislation on sewage treatment will speed up the implementation of EU funds to implement new infrastructure, or rehabilitate or increase the capacity of existing infrastructure.

In Portugal, although the privatization of the state water company appears to have been ruled out over the coming years, as had been announced in previous years, local corporations are looking for solutions for improvements to their infrastructures of distribution of potable water and sewerage. Among them, the administrative concession emerges as a suitable formula to be applied for this purpose in a regulated legal framework with extensive experience. Our presence in Portugal puts us at the forefront for participation in the public tenders that are expected this year.

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 particular, this year Aqualia has been awarded the contract for the design, construction, operation and financing of the Abu Rawash wastewater treatment plant, which with a capacity of 1,600,000 m<sup>3</sup>/day is the largest plant in the African continent. Water scarcity in Egypt has caused the Ministry of Defence to tender large desalination plants to supply the population in the Mediterranean and the Red Sea. And the expansion of the Suez Canal and the 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 and where the standards of living and service quality are on the increase, important water infrastructure projects have been announced but are progressing slowly. Here, at least in the short term, restrictions due to the drop in oil prices are not expected. In Saudi Arabia, the SWCC —responsible for the production of water in the kingdom— will address a new desalination plan and the NWC —responsible for the distribution of drinking water to major cities— will complete one of the concession projects that it has been designing for a number of years. Oman will continue developing its desalination plan through public-private initiatives and in the UAE it is expected that operation and maintenance service contracts will be launched which, with the experience acquired in developed in those developed in Saudi Arabia and Abu Dhabi, will be good business opportunities.

In India, one of the top goals of regional governments has been to improve the water supply and sanitation systems, greatly fostering infrastructure construction and operation contracts that guarantee a constant supply. In conjunction with an important local partner, FCC Aqualia has already garnered two contracts of this kind, which will enable us to create a platform to enhance our knowledge of the country and take on projects of a greater magnitude.

In North America, FCC Aqualia aims to consolidate its position in the Mexican market, where it already carries out significant activities. In this country, the national government will be undertaking a series of actions aimed at enhancing municipal water supplies, which will surely enable the company to increase its revenues. New desalination projects will emerge in Baja California. The industrial sector —both of mining companies and PEMEX itself— may also play an important role in Aqualia's development in Mexico, a sector in which Aqualia has recently started to operate two contracts. In turn, FCC Aqualia has opened offices in the United States, as a bridgehead for its entry into a market that, in some states, has the same problems as in Spain: obsolete infrastructures, periods of drought, indebted municipal administrations that lack financing capacity and strict environmental requirements. An agreement has been signed with a construction partner in the state of Texas for the development of desalination projects.

Finally, the possibilities for FCC Aqualia's growth in Central and South America have multiplied significantly since FCC no longer holds interests in the capital of Proactiva, a subsidiary of the French operator Veolia. In the short term, Colombia, Peru and Chile are the countries that offer the most opportunities, although the group is also keeping close tabs on certain infrastructures programmes in Paraguay and Panama. In this market, along with the opportunities detected in Mexico for the oil company PEMEX, the construction and operation contracts for water treatment at mining and oil & gas companies are of particular interest. In Brazil, plans for supply and sanitation network coverage to all inhabitants of the municipalities, will act as a catalyst for new projects which, together with the exit from the water management market of one of the operators belonging to Brazil's largest construction firm, will allow us to position ourselves in the country in the short term.

## **SUSTAINABLE MANAGEMENT**

Continuing with the commitment assumed in 2014, 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 Infraestructuras, 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.

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” and the sector benchmark of the European Network of Construction Companies for Research and Development (hereinafter, ENCORD) in its edition of May 2012: "Protocol on CO measurement in construction". Such reference has obtained the logo "Built on GHG Protocol", which makes it the sector guideline for GHG in construction.

Also during 2015, the company concluded the stage of calculating the greenhouse gas emissions, with the calculation of the carbon footprint corresponding to the entire activity of "Management of the complete water cycle" (adduction, distribution, client management, sewerage and purification)", performed by the company FCC Aqualia. This calculation was verified by AENOR and registered in the Registry established by the MAGRAMA for that purpose, dated 9 July 2015 and code 2015\_00\_a149.

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.

In this regard, during 2015 and as a result of the collaboration with FCC Aqualia, Botín Foundation, Universidad Complutense de Madrid, Polytechnic University of Madrid, University of Cantabria and the Ministry of Environment of the Government of Cantabria, we have performed the Water Footprint of Cantabria, the first of its kind conducted in Spain.

The new paradigms of planning and integrated management of resources and the possible exchanges between the various uses and qualities are conducive to performing a conceptual and segregated analysis, a departure from that conventionally applied. The virtual water and water footprint approaches enable this analysis and the determination of the most efficient and sustainable options for water supply to citizens. Virtual water includes free water and water linked to the processes of producing goods or services. The water footprint of a territory is the entire real and virtual water used in that territory.

The aim of this project has been—in addition to the development and implementation of a specific work methodology—to conduct a study of the water footprint of Cantabria, establishing the impact of the use of water resources both at the level of the water basin and that of the municipalities and autonomous community. Relevant distinctions have been made between green and blue water, seeking to identify

possible trends of interest. Thus, it has been possible to ascertain the impact of the consumption of water included in the goods and services produced and exchanged by Cantabria, to determine the water footprint generated in the region, based on the calculation of the virtual water consumed in each product, service or activity.

The study addresses a comprehensive view of water and the territory to clarify the relationship between blue and green water, and between internal water, virtual water and water footprint, determining the values for each concept in the region and their flows.

The work carried out shows that water is not only a major natural capital for the region, but also an economic and social asset of the highest order. This is suggested by the predominant role of green water and its importance in maintaining ecosystems, and the clearly export character of virtual water in the Autonomous Community of Cantabria, whose main exponent is the sale abroad of agricultural, livestock and food industry products.

Similarly, and in response to the entry into force on 5 December 2015 of EU Directive 2012/27/EU on Energy Efficiency, during the current year we have agreed with AENOR an ambitious three-year plan to adapt towards compliance with the latter, allowing us to certify the entire organization in the ISO 50001 standard. Accordingly, during 2015, 15 contracts have been certified, foreseeing the certification of another 30 in 2016 and as many more in 2017. The contracts selected were those whose consumption is greater than 1,300,000 kWh/year, which cover more than 80% of the total consumption.

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.

The CSR Report of FCC Aqualia reached its ninth edition in 2015, maintaining the editorial line of 2014, but providing a brief "vision" at the beginning of each relevant chapter and emphasizing the new international territorial strategy of the company, which it illustrated with interviews with the new "Area Managers" where they shared their forecasts in their respective areas.

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.

## **HUMAN RESOURCES**

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

This year FCC Aqualia has signed its second Equal Opportunities Plan (for the period from 2015 to 2018) in which both Aqualia and the leading unions at the state level once again demonstrate 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 it has successfully completed the First Mentoring Programme for women, aimed at promoting female talent in the organisation and facilitating the career of women identified as having potential within the company. Also, for the second 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 is 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, Policy and Equality of the company's commitment to diversity and equal opportunities for men and women.

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

Moreover, during 2015 we held the second edition of the Otto Walter series, a programme aimed at middle managers and geared to continuing the transformation of the leadership style of 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 2015, FCC Aqualia signed its Accession to the Alliance for Dual Professional Training. The Alliance for Dual Professional Training is formed of a countrywide network of institutions and companies committed to the development of quality dual professional training in Spain. The creation of this network aims to improve the employability of young Spaniards by combining efforts and synergies to promote a quality model of dual PT aligned with our environment. The Alliance also aims to bring together the best initiatives and experiences that are being implemented for the benefit of all.

Within this alliance, FCC Aqualia has signed a collaboration agreement signed between FCC Aqualia and Pere Martell Institute of Tarragona to promote, encourage and develop, in alternation regimen and Professional Driver Training, Training Course Intermediate Network, facilities and Water Treatment stations.

As for the training, FCC Aqualia is still committed to the training and professional development of its workers. 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).

Within the topic of awareness raising, as part of FCC Aqualia's CSR policy, the company collaborated with the new Deputy Chancellor's Office for Cooperation and Volunteering of Rey Juan Carlos University in its new awareness and information campaign on the importance of human rights in today's society. These are dialogue-discussions in which highly renowned experts participate in explaining and debating the main issues present in the field of Human Rights, as well as the obstacles that prevent their fulfilment and new challenges currently coming up.

The events held include the presentation of the guidelines for the National Business and Human Rights Plan drawn up by social, financial and state stakeholders, which, at this time, is pending approval. The Ministry of Foreign Affairs was given the task of presenting the strategic lines in the document and representatives of well-known NGOs explained the most relevant projects in human rights training, especially those linked to higher education institutions, such as Rey Juan Carlos University.

The second meeting consisted of a discussion forum which involved the participation of CSR managers from various companies, including FCC Aqualia, where they described their actions on Human Rights and were able to reflect on the importance of the latter in business in general, and in their organization in particular.

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

In 2015, the signing of the V Collective Water Sector Agreement took place. Through this agreement, a regulatory framework is established that gives stability to the sector and which, with the agreement of the majority trade unions, UGT and CCOO, facilitates a period of non-conflict during its 2015-2017 term.

Within the scope of Personnel Management, during 2015 FCC Aqualia has promoted the decentralization of administrative processes (maintenance of agreements, informative management of incidents, etc) bringing the management to the regional offices and production centres, thereby giving greater management capacity and efficiency to our organization.

## **2015 ACTION REPORT REGARDING OCCUPATIONAL HEALTH AND SAFETY**

As a fundamental factor, we must highlight the absence of serious occupational accidents. With regard to accident rates, in the year 2015 there has been a rise in accident rates, although they have remained within acceptable margins in relation to the targets. In line with the improvement in professional contingency absenteeism, various activities have been carried out, among which we can highlight:

- Programme of visits to contracts with high accident rates: after a detailed study of the frequency rates, a programme of visits was developed to contracts with high accident rates that would give an insight into the conditions that could be causing the accidents and a set of measures was designed to be implemented based on such visits. Under the programme, a total of 19 contracts nationwide have been visited and a specific Plan has been started in Italy.
- The second phase of the Preventive Culture project launched in 2014 has been completed, which

included, based on an overall diagnosis of the entire company, the design of an Improvement Action Plan to be developed over the next three years, which includes a total of eight concrete actions.

- The design of a Road Safety Campaign has been completed, comprising a total of 15 actions that will be implemented in the 2016-18 triennium.
- Furthermore, in addition to the recertification of the Occupational Health and Safety Management System, at national level, we have obtained for the first time, the international certification, under the OHSAS 18001 guideline, of almost all the sites of the Company. The sites of the following countries are included: Mexico, Uruguay, Chile, Montenegro, Portugal, Italy, Czech Republic, Algeria and Saudi Arabia.
- Likewise, during 2015 we have ensured that the computer application incorporated in 2014 to improve the Company's preventive management is fully operational for the department of health and safety and we have developed the module which, through the WEB application, will be opened for use by the entire company. Through this application, the company will achieve making preventive management a highly computerised process, which will result in a more effective monitoring and control and a gain in efficiency by the department of health and safety.
- As for external relations, the Company has received further awards for its work towards the safety and health of its workers. We can highlight those granted by INVASSAT, a specialised agency of the Generalitat Valenciana or those granted by the mutual association Asepeyo in Almería and in the Balearic Islands, or the nomination for the Daman Health & Safety Awards in the Middle East. Likewise, members of the safety department have actively collaborated with the Public Authorities in organizing seminars on health and safety, among which we should highlight those organised regarding risks in the complete water cycle sector in the CPRL of Malaga, or the training day on confined spaces provided through the CPRL of Almeria —both of these agencies being attached to the Government of Andalusia.

In line with the corporate policies of the FCC Group, during 2015 we have designed a medium-term strategic plan to utilise practices included within the concept of "healthy company". In addition, there has been progress in specific actions such as awareness campaigns against the consumption of alcohol and drugs in the Balearic Islands, or a specific healthy company plan for Lleida.

Also, during 2015 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 good design practices a global level.



## INNOVATION AND TECHNOLOGY

Following its strategic planning, the innovation activity of FCC Aqualia has become firmly established in 2015, adding new European projects in each of the three areas of Development, Sustainability, Quality and Intelligent Management.

This year we have completed five projects named Idea Regenera (Junta de Andalucía), Innacto Downstream (Mineco), Innova Impactar (Cantabria), Life Membrane (European Union) and Urban Water (EU FP) which gave rise to the following results:

1. **Regenera**, co-funded by the Andalusian agency IDEA, has developed, together with the University of Almería, the Cajamar Foundation and the SME Biorizon, a new way to create value from algal biomass in the form of bio-fertilizers.
2. **Downstream**, co-funded by the Innacto Mineco programme, has used the support of the University of Cadiz, the ITC of the Canary Islands, and Tecnalia to improve the separation, processing and use of algal biomass as an energy source.
3. **Innactar**, co-funded by the Innova programme of the government of Cantabria, together with the University of Cantabria in Santander, has scaled a new compact technology to enable water reuse in small towns.
4. The **Membrane** project, 50% subsidised by the EU's Life programme, has demonstrated a new way to recover reverse osmosis desalination membrane modules. Together with Leitac, Tecnomat, Ambicat and the Catalan Waste Agency, pilot projects were built in Denia and Talavera, and the reuse of reconditioned modules from the Ibiza desalination plant at the water treatment plant in La Solana (Ciudad Real) was demonstrated. Other applications of the developed methodology and its commercial implementation are under development.
5. Within the ICT cluster (Information and Communication Technology) of the European framework programme FP 7, Aqualia was invited to coordinate the **UrbanWater** project, 55% subsidised by the EU. Together with 12 partners from 8 countries, a platform of electronic applications was built for the control of water distribution networks, which was implemented in the Aqualia operations in Almeria and Janovice (Czech Republic).

In 2015, work continued on another six multi-year research projects, which will continue progressing next year.

In the area of sustainability, two projects continue to be developed:

1. The European project **All-gas** (bio-energy production from wastewater treatment) enters its final phase of large-scale demonstration, allowing the processing of up to 5000 m<sup>3</sup>/d of municipal effluent into biomethane for 35 vehicles.
2. The **Renovagas** project is also ongoing (Renewable Natural Gas Generation Process), funded by the Ministry for the Economy and Competitiveness (MINECO). The goal is to develop a Synthetic Natural Gas production plant based on biogas through methanation of hydrogen obtained from

renewable sources.

In the area of quality, three European projects continue:

1. The **Life Memory** project demonstrates at the industrial prototype level, the technical and economic viability of an innovative technology, an Anaerobic Bioreactor Membrane (SAnMBR), which enables the conversion of organic matter contained in wastewater into biogas. We achieved a reduction in energy consumption and CO<sub>2</sub> emissions by up to 80%, 25% less space requirement compared to conventional aerobic EDARs and a reduction of around 50% in sludge production.
2. **Life Biosol** (Biosolar water reuse and energy recovery), led by the French SME Heliopur, demonstrates a new biological and solar treatment of wastewater to achieve the water reuse and recovery of gases and organic waste. The first prototype implemented at the CENTA (Sevilla) was completed.
3. **CIP Cleanwater** (Ecoproduction of HClO for safe water disinfection by innovative ion exchange membrane), led by the French SME Ceramhyd, implements a new water disinfection technology in three applications: drinking water, desalination and reuse. The first device is installed in the El Toyo EDAR in Almeria, and the handover of other pilot projects in Denia and Valdepeñas is being prepared.
4. In the area of Intelligent Management, the project Motrem was selected as part of the European initiative Water JPI. Motrem, led by the King Juan Carlos University in Madrid, along with 3 other universities in Finland, Italy and Germany, brings new technologies for the control and treatment of emerging pollutants (EC) in the current line of municipal wastewater treatment plants, with particular emphasis on water reuse.

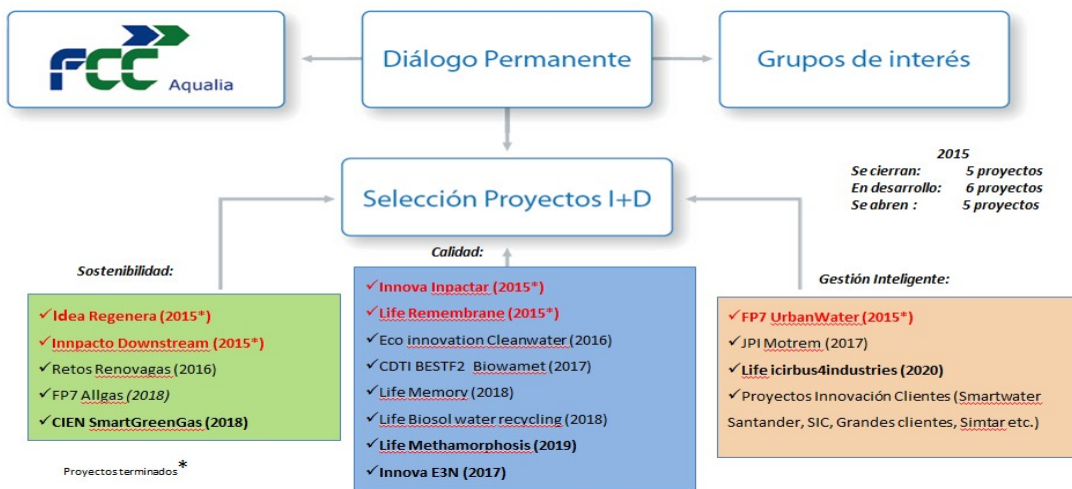
During 2015, FCC Aqualia has initiated five new projects:

1. **CIEN Smart Green Gas.** In the CDTI programme of Consortia of National Business Research (CIEN) Aqualia leads a consortium of 6 (including Natural Gas, Naturgas/EDP, BiofuelCell, Ecobiogas and DimWater) to develop an efficient infrastructure for production and management of biomethane networks. Aqualia's first undertakings are located in Jeréz and in Aranda del Duero, to control the quality of biomethane. The total budget amounts to EUR 8.3M, with funding of 80% of the budget.
2. **Biowamet BESTF2.** In the European programme ERANET, the BWM project brings together the universities of Southampton and Delft to create a synergy with the Life Memory project on anaerobic reactors with membranes, which make it possible to obtain bioenergy from wastewater.
3. **Life Methamorphosis.** Aqualia leads a consortium of six entities (Metropolitan Area of Barcelona, FCC SA, Natural Gas, Icaen and Seat) to implement at the Besós Ecopark, managed by FCC, three newly developed technologies: AnMBR, ELAN (autotrophic nitrogen removal) and a biogas



washing system. The final product would be a biomethane that can be injected into the natural gas grid or used as car fuel. The total budget amounted to EUR 3.5 M, 60% subsidised by the EU.

4. **Innova E3N (energy efficient nitrogen removal).** Following the Innova Impactar project funded by the government of Cantabria, the pilot project implemented in the sewerage network of Santander will be optimised to demonstrate compact decentralised treatment plants.
5. **Life Icirbus.** The Innovative Circular Businesses (Icirbus) project will demonstrate the reuse of waste from water treatment plants in building materials and the generation of bio-fertilizers, at two Aqualia plants in Extremadura. Led by the Intromac technology centre, it brings together 8 companies with a total budget of EUR 2.3 M, 60% subsidised by the EU.



Throughout the year, the team of researchers from FCC Aqualia was awarded three new patents on two key aspects algae crops, the reactor configuration (LEAR: Low Energy Algae Reactor) and the CO2 enrichment system to reduce the energy costs of operation (two European and one specifically Spanish):

- EP 13382470.6: Open reactor for the cultivation of microalgae
- EP 13178678.2: Carbonation system for microalgae cultivation
- P 201231485: Carbonation system for cultivation of microalgae

and it has presented the results of its research at a number of important scientific congresses and events:

- AEAS conferences in Burgos (28-20.04): presentation of the two latest technologies among 25 proposals from all the water companies in Spain:
  - ELAN (Autotrophic Nitrogen Removal) - with USC
  - Microbial Desalination Cell - microbial desalination cells (with UAH - Imdea)

- IWA Leading Edge Technology 2015, held in Hong Kong (30.05 to 03.06): saw the presentation of the work of Friscos (Elan in industrial water line), and Jerez as the site of the next edition 13 in mid June 2016 - [www.let2016.org](http://www.let2016.org)
- WEF (Water Environment Federation) has organised two events from 07 to 10.06 in Washington DC:
  - With the IWA on waste and biosolids
  - With EWA and JSWA on water and energy5 presentations of Aqualia were elected on the cultivation and digestion of algae, and the AnMBR reactors. Aqualia was also selected to organise a workshop on the AnMBR reactors, and chair the session on Anammox.
- At the SMARTURBAN Congress on 14.07 in Badajoz (Expoconferencia Ibérica) a paper was presented entitled "Intelligent water management for the development of cities" together with companies and research centres such as Iberdrola, Cellnex, CIEMAT and the City Council of Badajoz.
- With the help of external funding, we attended the WATEC Conference in Tel Aviv (Israel), from 13 to 15 October, with presentations at the Spain-Israel Seminar "Building Water Innovation Partnerships" and at the Infoday "Bringing Israel's WATER Innovation to the EU.
- during the IWA conference <http://www.ad14chile.com/> - last November. The results of three European projects (Life Memory, Life Biosol and FP 7 All-gas) were presented.

## PROCUREMENTS AREA

In the domestic market, the public tender activity has seen little activity due to the different electoral processes in 2015 and there have been few procurement opportunities, with the most significant awards being those of the following new contracts:

- Cangas (Pontevedra), concession for the integrated management of the water service for a period of 25 years with a contract worth EUR 74.0 million, awarded to a UTE in which FCC Aqualia has 70% stake.
- Villaviciosa (Asturias), concession for the integrated management of the water service for a period of 8 years and a contract worth EUR 7.8 million.
- Madrid (Madrid), service of operation and maintenance of the peripheral sanitation networks managed by Canal de Isabel II Gestión, S.A. (Lot 3- Culebro) for a period of three years and a portfolio worth EUR 17.6 million.
- Madrid (Madrid), operation and maintenance of certain sewage treatment stations in the Alberche Basin managed by Canal de Isabel II Gestión S.A. for a period of 2 years and a portfolio worth EUR 5.5 million.

- Madrid (Madrid), refurbishment of the service galleries of the city (Lot 3) for an amount of EUR 8.1 million, to be executed in 1.5 years. (through the subsidiary Conservation and Systems)
- Vigo (Pontevedra), renovation works of water supply and sanitation networks in several of the city's streets, for an amount of EUR 8.0 million, to be executed within 8 months.
- Albuñol (Granada), project design and execution of work of the collectors and EDAR for the Agency of Environment and Water of Andalusia, for an amount of EUR 3.6 million and an execution period of 2 years. (through a UTE 50% owned by FCC Aqualia)

Regarding domestic renewals and extensions, the following are of particular note:

- Association of Municipalities of Cabeza de Torcón (Toledo), management of the wholesale water supply service for a period of 15 years and a portfolio worth EUR 6.0 million.
- Mocejón (Toledo), water and sewerage service concession for a period of 25 years and a portfolio of EUR 9.0 million.
- Reinosa (Cantabria), water service concession for a period of 10 years and a portfolio worth EUR 9.5 million.
- Association of Municipalities of Guajaraz (Toledo), management of the wholesale and retail water supply and sewerage service for a period of 3 years and a portfolio worth EUR 7.0 million.
- Ibiza (Balearic Islands), management of the water supply and sewerage service of the city for one year for an amount of EUR 8.2 million.

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

- Within the European market, it has contracted the management of the sanitation and purification service of Velké Losiny, in the Czech Republic, for a period of 10 years, through its subsidiary SmVaK, and we have tendered for the first time in France for the procurement of the management of water and sewerage of Arlés. We have also participated in tenders to build sanitation and water treatment infrastructure in Macedonia and Montenegro at the date of preparation of this report, with the outcome of the final awards being pending to date.
- In North Africa, FCC Aqualia was awarded, as part of a consortium, the contract to design, build, finance and operate the wastewater treatment plant of Abu Rawash in Egypt. This is the second BOT-type contract won in Egypt after that of New Cairo, which is already in operation. This important award represents a portfolio of EUR 2,421 million, to be executed over a period of 25 years.
- Similarly, in the Middle East we continue to consolidate the presence of the company after being

awarded, in consortium with a local partner, the contract for the operation of EDARs of Arana and Hadda in the region of Mecca in Saudi Arabia for a period of 3 years and a portfolio of EUR 17.9 million. Also in the same country, we have achieved the award of contracts for the works of the water networks affected by the construction of lines 4 and 5 of the Riyadh metro, for a total of EUR 19.2 million.

- In Latin America, FCC Aqualia has maintained an important activity in tenders for the construction, financing and operation of infrastructure for water treatment in Colombia, Mexico, Chile, Uruguay, Peru, Panama, Ecuador and Paraguay, and in its international development strategy, and according to the expansion initiative in this geographic area a subsidiary that is 100% owned by FCC Aqualia was created (FCC Aqualia Gestao Integrada de Agua LTDA) for the purpose of facilitating the entry into water management projects in Brazil.
- Finally, and although Aqualia gives priority to organic development, we do not rule out a path of growth, especially in the international arena, through the acquisition of companies

## CUSTOMER MANAGEMENT

During 2015, 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. The full interactivity of these channels (face-to-face, telephone, internet), allows customers to decide at any time which channel they wish to communicate through and see their needs met in real time.

The telephone care service, through the Customer Care Centre (Aqualia Contact), not only enables customers to perform all their transaction without having to travel to the company's offices, but since it is available 24 hours 365 days a year, it also minimises the response time for resolving faults in distribution networks, with the consequent saving 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 care service received 748,000 calls during the year, offering its care in 6 languages (Castilian, Galician, Catalan, English, German and French).

The third communication channel is a 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.

The efficiency of these communication channels has once again allowed a reduction in the number of customer complaints in 2015

## COMMUNICATION, MARKETING AND CSR

### Communication

One of the strategic objectives set by Aqualia in its annual communication and marketing plan for 2015 was to strengthen relations with all target audiences of the company, and particularly with the media, in their capacity as strategic partners and opinion leaders within society. The development and dissemination of specific and quality content on our business and the industry is the raw material that facilitates the task. In this regard, during the year we have produced and distributed over 600 press releases and communications with all kinds of business related content. In addition to 100 articles and/or interviews in publications, both generalist and, above all, specialist.

Local and regional media are the priority target for the company. Accordingly, all services in localities with more than 50,000 inhabitants have, throughout the year, had some form of contact with journalists covering local information, either as a news conference or an informal meeting.

Aqualia has formalised its relationship with some groups such as the Association of Environmental Information Journalists (APIA) with the signing of a collaboration agreement. Thus, the company has participated in three training workshops for local journalists on environmental and water information, organised by the association and the provincial associations of journalists. They were held in Salamanca (12-13 February), Burgos (20-21 February) and Seville (29 and 30 April). The participation of Aqualia, in addition to the sponsorship, involved the presence of a manager at the opening of each workshop and the delivery of a speech on communication in the field of water management, by a representative of the Department of Communication and CSR.

Furthermore, the company has actively participated in the XI Congress of APIA, held in Madrid on 25 and 26 November under the title "Does the environment matter to politicians?". Besides being one of the sponsoring companies, the communications director spoke at a round table. Inaugurated by the Minister of the Environment, the congress was attended by over one hundred professionals covering information on environmental matters in print, digital and broadcast media.

Another of the initiatives in 2015 aimed at strengthening the relationship with the media was the launch of the first edition of the Aqualia journalism award "Integrated water management in municipalities". The event was created with the objective of involving media professionals in considering the importance of the efficient management of the complete water cycle in towns and cities, and of the need to ensure the environmental, financial and social sustainability of these services. The jury, composed of members of APIA, FAPE (Federation of Press Associations of Spain), FEMP (Spanish Federation of Municipalities and Provinces), AEAS and Aqualia, will announce the winning work and the two runners-up at the World Water Day (22 March 2016).

During 2015, we have also developed different internal communication initiatives with the aim of ensuring that all Aqualia workers have timely information that is close to the company and its projects.

In this regard, in January 2015 Aqualia launched its new intranet Aqualia ONE, an internal communication tool with the design and format defined by the FCC group but which maintains the features, services and needs of Aqualia. The new intranet replaces the previous version, in service since 2002, and contains all the news related to the company.

One of the main tools of internal communication is the Newsflash. The latter is used to provide brief reports to the entire organization of the major developments and projects developed. The 210 newsflashes issued last year represent the highest number of communications issued in a year and ensure that the Aqualia team receives timely information of interest. Regarding their content, we can say that all areas of the company have used this tool to convey their most important innovations.

In line with strengthening internal communication and fostering a sense of belonging by employees, we have created a new communication channel aimed at workers who do not have access to an email account: "Your Flash". This is a printed newsletter, A4 size, which is delivered together with the payroll and synthesizes and summarises the main messages of the month.

The communication plan designed and executed by Aqualia over the past year has been recognised and awarded by iAgua, the most recognised publication in the world of water management in Spain and Latin America, which designates the company as the most influential institution in the sector. To do so, iAgua has analysed all the communications issued by 500 institutions (companies, Public Authorities, universities, research centres,...) and the dissemination thereof. The iAgua ranking has crowned Aqualia as the No. 1 company in terms of communication during 2015.

The water management sector increasingly demands information on innovation and, in particular, on R&D projects. Leveraging the portfolio of European and national projects that the Department of Innovation and Technology of Aqualia is currently developing, in 2015 the communications department has developed and distributed newsflashes, press releases, reports and interviews that have highlighted the company's more innovative side.

## **Marketing**

Among the strategic objectives related to strengthening the positioning of the Aqualia brand, we have relaunched the corporate byline "Your water company" in all markets and for all customers, both externally and internally. The byline has been featured in all advertising and social marketing activities of the company. "Your water company" has been used in all media in order to differentiate and position ourselves in the minds of citizens in a different area to that of the competition: the people.

Repositioning the brand as a local and nearby service has become a reality in various strategic actions, such as the XIII edition of the Children's Drawing Contest which has an international character. The event, which was presented on 22 March, World Water Day, has been developed in digital format, through the website [www.llenatumundodevida.es](http://www.llenatumundodevida.es), with the aim of promoting the use of new technologies. In total, in the 2015 edition, 8,500 3rd and 4th year primary school students have participated from the municipalities in which Aqualia provides its services in Spain and Portugal. The international drawing competition involves all the target audiences of the company: institutional, end, media and workers.



This effective educational and informative action has also had an internal version. Thus, 175 children and grandchildren of employees of Aqualia took part in the sixth edition of Pequeartistas, an activity also conducted entirely online. Importantly, the initiative has spread to six of the countries where Aqualia operates: Spain, Czech Republic, Mexico, Chile, Uruguay, United Arab Emirates.

In relation to the actions for World Water Day (March 22), Aqualia has appeared in the pages reserved by the major 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 newspapers.

The communication strategy in all media has tried to take advantage of the activities conducted by Aqualia, with messages linked to the public nature of water and the fact that public or private management must be efficient and sustainable (financially and socially), thereby enhancing the attributes of closeness, commitment and professionalism. This approach can be seen reflected in the advertising graphics, brochures, banners, backs of invoices, in the 2016 calendar (12 truths about water management) linked to the Drawing Contest and the new educational tool of the company created in 2015, "The Aqualia notebook".

Also during 2015, we have worked to strengthen the perception of Aqualia as a Glocal company (global management with a strong local commitment), so that it is seen as an approachable company that provides local value, while at the same time being international and friendly to new cultures. Among others, events such as the one held in March in Benalmádena (Málaga) confirm this (20 years of service by Emabesa, a joint venture for water management of which Aqualia forms a part and which celebrated its anniversary and organised a fun day held under the slogan "Serving the public").

This year, we presented the "Eurocity" cross-border project in Lisbon. This project is shared by the populations of Badajoz and Elvas, two cities in which Aqualia manages the integrated water cycle. The event, which was attended by the mayors of both cities as well as the general manager of Aqualia, brought together around a hundred guests and has served to highlight the project being developed by both cities together.

Moreover, our attendance at seven international fairs, notably Aneas (Mexico), American Water Summit (USA) or SWPF (Saudi Water & Power Forum), and numerous international meetings linked to our growing presence in emerging markets, enhance our growing global deployment.

### **Corporate social responsibility**

Social Responsibility is a driving force in the dynamics and development of Aqualia. In our task of awareness-raising and commitment to society, in order to exert a positive influence on the communities in which we provide our services, in 2015 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 undertaken several actions to raise awareness of responsible water use and care of our environment.

Gender Violence and Equality. In this context, notable is the conference held on the Day against Gender Violence, which represented one of the successes of internal mobilization of Aqualia staff. The campaign launched by the company under the motto "Me, With You", received the support of hundreds of workers and has been a success thanks to the participation and involvement of all of them. In addition, on the occasion of International Women's Day, and to mark the day, various services in which Aqualia provides services have undertaken actions in collaboration with municipal corporations such as dyeing the fountains of some services pink as a symbol of support on such an important day (Fraga, Ibiza and Sóller, among others...). In support of the fight against breast cancer, in various towns and cities, collaborative actions have been conducted with municipal corporations such as dyeing fountains.

Sustainability and awareness. In 2015, Aqualia has become the first water management company that calculates the Carbon Footprint globally (for the entire organization) and in full. This is certified by the Spanish Climate Change Office of the Ministry of Agriculture, Food and Environment (MAGRAMA), with which the company was registered on 9 July. This milestone, achieved thanks to the work undertaken by the Department of Corporate Responsibility and Management Systems, with data collected by the Technical department, is another step in the process begun in 2012, when the Company calculated and verified the carbon footprint of the Comprehensive Water Service, specifically in the city of Lleida. This information was distributed to the media in July in a press release. *Aqualia's initiative, the first of its kind, is part of the action and communication plans designed by the company after the last municipal elections.*

In addition to this initiative, in 2015 more than 100 open days have been 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 integrated 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.

Company. The task and effort of Aqualia during 2015 has been to take another step in contributing to the welfare of the people who rely on us as their water company. As a logical consequence of this perspective, various actions have materialised.

The campus of the Rey Juan Carlos University (URJC) in Mostoles hosted the 3rd URJC meeting in support of Human Rights, held under the title "The Human Right to water and sanitation." The event, co-sponsored by Aqualia, was held over two sessions that addressed the issue both from an international and domestic perspective. Aqualia collaborated with the URJC Programme on Human Rights (the event organisers) to enable the debate attended by more than fifty students and teachers from the University.

The collaboration with associations for the disabled is also proof of this. As a company dedicated to a public asset such as water, Aqualia has an added responsibility to society, and therefore this year has collaborated with various disability associations working in Segovia, Ibiza and Oviedo, among others.

In addition, Aqualia has signed 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.

The 110 sponsorships or cultural, sporting and environmental contributions reflect the fact that the company aims to be perceived 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 ninth edition of its Report on Corporate Social Responsibility (CSR) summarizing the main economic, social and environmental benchmarks developed by the Company throughout 2014 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. This information was distributed to the media in August in a press release. You can view the report on the website of Aqualia.

### **Treasury Shares**

The Company has not conducted any transactions involving treasury shares during the year.

### **Financial derivatives**

The Company has not conducted any transactions with financial derivatives during the year.

### **Material events after the reporting date.**

There has been no significant event subsequent to the closing date of the year that is not found, as the case may be, in the corresponding note of the report.

### **Information required by Act 31/2014**

During the year, the Company maintains a part of its payment commitments in excess of the provisions of Act 3/2004 and Act 15/2010 on measures combating late payment in commercial transactions. The Company has planned measures aimed at reducing this period next year, including the modification of the trade agreements it has with outside vendors, in those cases in which such adaptation is possible.

## Main financial figures for the Group:

(thousands of euros)	Change			
	2015	2014	Absolute	%
Revenue	995,696	909,976	85,720	9%
Gross profit from operations	214,938	195,320	19,618	10%
% gross margin	22%	21%		
Net profit from operations	135,725	117,287	18,438	16%
% net margin	14%	13%		
Profit Before Tax	98,724	83,257	15,467	19%
Profit attributed to parent company	67,133	62,529	4,604	7%
Portfolio of works and services	14,215,850	14,852,009	-636,159	-4%
Investments	53,331	79,125	-25,794	-33%
Net debt	318,317	324,406	-6,089	-2%
Equity attributed to the parent company	736,921	727,258	9,663	1%
Dividend per share (euros)	0.39	0	0	0
Earnings per share attributed to parent company (euros)	0.46	0.43	0.03	7%

### 1. REVENUE

Changes in revenue are as follows:

(thousands of euros)	Change			
	2015	2014	Absolute	%
<b>REVENUE PER GEOGRAPHIC AREA</b>				
Domestic	741,956	728,167	13,789	2%
% of total	75%	80%		
International	253,740	181,809	71,931	40%
% of total	25%	20%		
<b>REVENUE</b>	<b>995,696</b>	<b>909,976</b>	<b>85,720</b>	<b>9%</b>

### 2. INVESTMENTS

Investments paid during the two periods are broken down as follows:

(thousands of euros)	Change			
	2015	2014	Absolute	%
Property, plant and equipment	23,609	20,005	3,604	18%
Intangible assets	29,722	59,120	-29,398	-50%
<b>TOTAL INVESTMENTS</b>	<b>53,331</b>	<b>79,125</b>	<b>-25,794</b>	<b>-33%</b>

### 3. NET DEBT

	<b>2015</b>	<b>2014</b>
Bank borrowings (Note 14)	20,473	148,286
Debt instruments and other marketable securities (Note 14)	199,417	72,573
Non-current financial debt with group companies (Note 14)	441,889	398,546
Other interest-earning financial debt	119,683	82,161
Other current financial assets (Note 9)	(366,202)	(256,603)
Cash on hand and cash equivalents (Note 12)	(96,943)	(120,558)
<b>Net interest-bearing debt</b>	<b>318,317</b>	<b>324,405</b>

### 4. OTHER ISSUES

The main risks that affect the Group are the contracting, implementation and quality risk, within the scope of its business activities, as mentioned in Note 1 of the attached consolidated annual report, and investment, financial and human resources risks, as well as general business risks. As the Group is a member of the FCC Group, there are risk policies in place aimed at limiting the impact of these risks on the Group's profits and the ordinary course of its business activities (see Note 22 of the attached consolidated annual report).



The Consolidated Financial Statements and Directors' Report for FCC Aqualia, S.A. and subsidiaries corresponding to the year ended 31 December 2015 were prepared by the directors of the company on 25 February 2016 and are issued on 69 sheets of duty-stamped paper printed on both sides, series 0M, numbers 6215875 to 6215943, inclusive, signed in approval on the duty-stamped sheet of paper, series 0M, number 6215943.

Vice-Chairman

***Mr. Félix Parra Mediavilla***

Director

Secretary

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***Mr. Isidoro Marbán Fernández***

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