

Financial management, key for a sustainable ecosystem

Isidoro Marbán | Aqualia Financial Director

The study of double materiality has stressed the importance of financial management as an essential axis for achieving sustainable policies and mitigating climate change. We focus on this work with Isidoro Marbán, CFO of Aqualia.

From the conviction that sustainability must be rooted in the core of the organisation to ensure – in the current situation – the value of the assets affected by the different ESG variables, the role of CFOs has become one of the most necessary profiles in the transition towards sustainable development. In this context, we spoke with Isidoro Marbán, CFO of Aqualia, about the main aspects that the company has undertaken in the last year, and its approach to 2030.

Balance and equilibrium

Double materiality and positive impact

Starting from the 2023 balance sheet, and taking account of the international context in which the company operates, could you tell us, from a financial perspective, what challenges Aqualia is currently facing and how it tackles them to achieve the necessary balance between competitiveness and business sustainability?

Aqualia's main activity, which represents 80 % of our total turnover, is the management of the end-to-end water cycle through concessionary models or proprietary assets that we provide through contracts with national, regional governments, municipalities, etc. to residential and non-residential users.

Like any business group with an international presence and a commitment to balanced growth,

at Aqualia we face the challenge of integrating efficient practices from an economic perspective, with policies in which we guarantee environmental management committed to decarbonisation and the fight against the climate emergency, alongside responsible practices that have a positive impact on society. This is where our strongest present and future purpose lies.

In business year 2023, Aqualia, against a very turbulent international context, has taken firm steps towards the consolidation of two target markets on which we had been making a very significant commercial effort. On the one hand, in Colombia, where we already provide service to more than 1.2 million inhabitants, and are the second largest private operator in the country. And, on the other hand, we have closed the year with the acquisition of a strategic asset for our future development in the US market, by buying a majority stake in the capital of the company Municipal District Services (MDS).

Looking to the future, our greatest competitive leverage is based on the fact that all the operational actions we carry out – through the execution of investments in infrastructure, the acquisition of auxiliary means, their maintenance as well as the integration of the technological innovation in the company's processes and procedures – are aimed at meeting the objectives of economic efficiency and environmental and social sustainability.

The double materiality analysis carried out by the company has highlighted the impact of the socioeconomic and political circumstances of the countries in which it operates. Given this situation, what do you consider to be the main challenges that Aqualia faces? To what extent do you establish mechanisms for their management?

Obviously, changes in the political and economic direction can always have an impact on the development of multinational business. Factors such as the changes in fiscal policies, regulatory frameworks and, naturally, the stability of municipal, regional and state governments, can have a direct influence. Fortunately, the geographical diversification of our business allows us, in some way, to mitigate these impacts. In any case, Aqualia has proven over time its great capacity to adapt to new scenarios for which it has established contingency plans. However, the main challenge often lies in anticipating these changes in order to have and activate measures to adapt to them. However, the contractual frameworks that regulate our business tend to have a high level of protection and the jurisdictions in which we operate are quite reliable.

Among the main challenges faced by the company, those related to excellence in the provision of service and water supply stand out. Aqualia is prepared to respond to regulatory, economic, environmental and other requirements to achieve this excellence, but does the state of the infrastructure in some countries where the company operates pose a risk to achieving excellence? How does the financial strategy support infrastructure development and maintenance in countries where conditions may present additional challenges? What type of financial models have been activated to address this risk, rated as one of the most relevant in the 2023 double materiality study?

It is true that the infrastructure we manage, generally through concession models in which the infrastructure is owned by the public administration, often presents historical investment deficits and renewal needs that have not been satisfied until a private operator, like us, acquires that contractual commitment, which is what binds it as a concessionary company. In these cases, our main challenge lies in collaborating with



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the public administration in defining priorities and executing the most critical actions from an operational perspective. Reduction of losses in networks, efficiency in energy management, preventive maintenance work on electromechanical equipment, installation of micro-metering, etc., all of this is aimed at guaranteeing the quality of the resource and the continuity of the service as essential elements.

The execution of investment plans and their financing through PPP (public and private partnerships) models are the optimal way to redirect the investment deficits often presented by the infrastructure of the services we are given access to. This ensure compatibility between the operator's investing effort and the operation and maintenance costs, without overloading public budgets (which also have their limitations), and while providing the end user with affordable rates.

Conscious investment

Digitalisation and the fight against climate change

Aqualia has focused on the digitalisation of services to improve the efficiency of the end-to-end water cycle and move towards sustainable management as a means to mitigate scarcity and the effects of climate change. How does the financial strategy support investment in digital transformation projects? What public-private partnerships are being carried out to facilitate the implementation of these projects in different operational contexts?

Advancing the digitalisation processes in our operations is not an option. It is an obligation in order to guarantee our own survival as a leading operator in the sector. For Aqualia, continuing to progress in its digital maturation entails responsibly facing three unavoidable challenges: commercial, financial, and social and environmental sustainability challenges. From a commercial point of view, committing to technical excellence and leading the application of digital solutions throughout our value chain allows us to differentiate ourselves from our competitors and offer clients alternatives and services that not only satisfy expectations in an increasingly interconnected world, but also create barriers to entry in processes that are usually competitive. For the economic and financial aspect, digitalisation increasingly allows us to get closer to real-time management of information and be much more efficient in decision-making. Socially and environmentally speaking, our management report and the three-year sustainability plan already explicitly reference achieved objectives and, above all, goals and challenges for the future that bring the performance of our business group closer to

levels of excellence in the sector and that place Aqualia at the forefront of this type of strategy.

It is also important to highlight our company's collaboration with many local administrations in promoting initiatives to make use of the resources from the European Union Next Generation programme and its specific allocation in Spain towards digitalisation in projects eligible under the Strategic Projects for Economic Recovery and Transformation (PERTE) scheme, which can be applied to all end-to-end water cycle management services.

Aqualia contributes, wherever it operates, to the mitigation of climate change with its emissions reduction targets and increased investment in renewable energy. This contribution has been recognised with the Impact project/investment of the year 2023 award, from *Environmental Finance*, due to the positive impact of its green financing. From this perspective, how is this mitigation action progressing? What long-term financial impact do you foresee coming from this? And, thinking about the positive impact that the company can have in the future, the Taxonomy has established the activities that contribute to achieving greater sustainability every day. To what extent does Aqualia consider investing in these activities to mitigate the effects of climate change in the long-term?

We seek that our initiatives, as leading operators in this sector, are aligned not only to meet financial expectations, but also aimed at mitigating the effects of climate change and contributing to the minimisation of our environmental footprint. These projects are integrated into our 2026 Strategic Sustainability Plan, which establishes

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38 %
of our turnover comes from
overseas operations

1,100 €M
loan to finance and
refinance green projects

the framework that has allowed eleven financial institutions, led by CaixaBank, to grant us a loan of 1.1 billion euros to finance and refinance green projects, water and waste treatment activities, water distribution and storage, renewable energy, and sustainable transportation. This year I have had the honour of collecting two awards granted to Aqualia for recognition of the purpose of this loan, the Ofiso 2023 Award and the Impact project/investment of the year award awarded by *Environmental Finance*.

As I mentioned before, our performance is not only measurable in economic terms, but we also strive in our daily operations to materialise the seven lines that make up our sustainability strategy. The sustainable management of water resources, reducing the environmental footprint and promoting efficient practices, forms a substantial part of adequate water management for every operator. Resource conservation, efficient treatment and reuse are practices that in turn lead to reducing the demand for new water resources and the energy associated with their treatment.

Additionally, Aqualia actively participates, in collaboration with universities, technology centres, industries, suppliers and institutional clients, in many R&D+I programmes aimed at making water use and reuse more efficient, as well as the generation and development of alternative energy sources. These types of projects are financed through the company's own resources, non-refundable subsidies received and financing from public organisations or agencies under advantageous conditions.

All these initiatives and their impact can now be measurable through the application of the taxonomic standards established in the EU, which

determine, with increasing rigour, the criteria that apply to sustainable financing models and which actions are eligible in order to guarantee a true transition towards a green economy. This regulation allows CFOs to establish the criteria for the preparation of taxonomic reports that provide truthful and transparent information for all interested parties, to a greater extent for investors, on how the company creates value and contributes to mitigating climate change.

Strategic plan 2024–2026

A necessary roadmap with a vision for the future

From a more general perspective and in the medium to long term, what is the future vision of the financial area regarding the great sustainability challenges listed in the 2024-2026 Strategic Sustainability Plan?

The financial area is called to contribute – from its executive role in corporate management – with the responsible assumption of the challenges and objectives that the company anticipates in that medium-long term. The strategic plan, which is updated annually, and the sustainability plan for 2024-2026, as well as the effective execution and development of the ESG, establish the main lines of action that will guide the direction of our business. We will maintain our commitment to organic growth in the countries in which we have been carrying out our activity, without foregoing unique opportunities that may arise and preserving, as essential characteristics of our identity, excellence in management, commitment, coherence in action, transparency and rigour in the criteria of good corporate governance, and striving to maintain our leadership status.