

FCC Aqualia, S.A. and Subsidiaries

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

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 attached consolidated financial statements of FCC Aqualia, S.A. (hereinafter, the Parent Company) and subsidiaries (hereinafter, the Group), which include the consolidated statement of financial position at 31 December 2016, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated statement of cash flows and the consolidated annual report corresponding to the year ended on that date.

Directors' responsibility in relation to the consolidated financial statements

The Directors of the Parent Company are responsible for formulating the accompanying consolidated financial statements, so that they provide a true and fair view of the consolidated equity, consolidated financial position and consolidated results of FCC Aqualia, S.A. and subsidiaries in accordance with International Financial Reporting Standards adopted by the European Union and other provisions of the financial reporting framework applicable to the Group in Spain, which is identified in Note 2.a to the accompanying consolidated financial statements, and the internal control they deem necessary to enable the preparation of the consolidated financial statements free from material inaccuracies due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the consolidated financial statements based on our audit. We have performed our audit in accordance with the audit regulations in force in Spain. This arrangement requires that we comply with ethical requirements and that we plan and perform the audit to obtain reasonable assurance that the consolidated financial statements are free from material inaccuracies.

An audit requires the application of procedures to obtain audit evidence regarding the amounts and disclosures made in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of risks of material inaccuracies in the consolidated financial statements due to fraud or error. In making those risk assessments, the auditor considers the relevant internal control in the preparation of the consolidated financial statements by the Directors of the Parent Company in order to design audit procedures appropriate to the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control of the company. An audit also includes assessing the appropriateness of the accounting policies and the reasonableness of the accounting estimates made by Management, as well as assessing the presentation of the consolidated financial statements taken as a whole.

We believe that the audit evidence we have obtained provides sufficient and adequate basis for our audit opinion.

Opinion

In our opinion, the attached consolidated financial statements express, in all significant aspects, a true and fair view of the consolidated equity and consolidated financial position of FCC Aqualia, S.A. and subsidiaries at 31 December 2016, as well as the consolidated profits from operations and the consolidated cash flows corresponding to the period ended said date in accordance with the International Financial Reporting Standards adopted by the European Union and other provisions of the framework for financial reporting applicable in Spain.

Report on other legal and regulatory requirements

The accompanying consolidated management report for 2016 contains the explanations which the Directors of the Parent Company believe to be relevant to the financial position of FCC Aqualia, S.A. and subsidiaries, the development of the business and other significant issues, and does not form an integral part of the financial statements. We have verified that the accounting information contained in the directors' report coincides with that of the consolidated financial statements for 2016. Our work as auditors is limited to verifying the consolidated management report in accordance with the scope mentioned in this paragraph, and does not include the review of information other than that obtained from the accounting records of FCC Aqualia, S.A. and its subsidiaries.

DELOITTE, S.L.

Official Spanish Account Auditing Registry (ROAC) Member No S0692

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Antonio Sánchez-Covisa Martín-González
28 February 2017



**FCC Aqualia, S.A.
and subsidiaries**



CONSOLIDATED FINANCIAL STATEMENTS

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CONSOLIDATED DIRECTORS' REPORT



FCC AQUALIA, S.A. AND SUBSIDIARIES
(CONSOLIDATED GROUP)

CONSOLIDATED BALANCE SHEET AT 31 DECEMBER 2016 (in thousands of euros)

ASSETS	31.12.2016	31.12.2015
NON-CURRENT ASSETS	1,479,391	1,516,170
1. Intangible assets (Note 4)	883,022	898,994
1. Concessions	789,414	808,697
2. Goodwill	85,306	85,306
3. Other intangible assets	8,302	4,991
2. Property, plant and equipment (Note 5)	318,742	318,939
1. Land and buildings	30,253	30,273
2. Plant and other items of property, plant and equipment	288,489	288,666
4. Investments in associates and jointly controlled entities (Note 7)	120,711	125,328
5. Non-current financial assets (Note 9)	111,219	123,886
6. Deferred tax assets (Note 17)	45,697	49,023
CURRENT ASSETS	808,156	704,426
2. Inventories (Note 10)	27,072	22,600
3. Trade and other receivables	255,310	218,079
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)	-
4. Other current financial assets (Note 9)	426,143	366,202
5. Other current assets	1,005	602
6. Cash and cash equivalents (Note 12)	98,626	96,943
TOTAL ASSETS	2,287,547	2,220,596

The accompanying notes 1 to 26 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
EQUITY (Note 13)	849,213	788,388
1. Equity attributable to the Parent	803,729	736,921
1. Shareholders' equity	822,257	751,237
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)
2. Valuation adjustments	(18,528)	(14,316)
2. Non-controlling interests	45,484	51,467
NON-CURRENT LIABILITIES	910,427	917,134
1. Grants (Note 18)	43,125	42,114
2. Long-term provisions (Note 15)	115,518	108,652
3. Non-current financial liabilities (Note 14)	696,662	703,722
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
6. Deferred tax liabilities (Note 17)	50,612	51,697
5. Other non-current liabilities	4,510	10,949
CURRENT LIABILITIES	527,907	515,074
2. Short-term provisions (Note 15)	16,308	14,261
3. Current financial liabilities (Note 14)	50,324	77,740
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
4. Trade and other payables	459,036	422,626
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	-
5. Other current liabilities	2,239	447
TOTAL LIABILITIES AND EQUITY	2,287,547	2,220,596

The accompanying notes 1 to 26 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
PROFIT FROM OPERATIONS	139,405	135,725
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)
FINANCIAL LOSS	(43,703)	(40,467)
Result of companies accounted for using the equity method (Note 7)	8,761	3,466
PROFIT BEFORE TAX FROM CONTINUING OPERATIONS (Note 17)	104,463	98,724
Income tax (Note 17)	(26,428)	(28,253)
PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS	78,035	70,471
CONSOLIDATED PROFIT FOR THE YEAR	78,035	70,471
Profit attributed to non-controlling interests (Note 13)	(6,784)	(3,338)
PROFIT ATTRIBUTABLE TO THE PARENT COMPANY	71,251	67,133
Basic earnings per share	0.54	0.49

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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
Consolidated profit for the year	78,035	70,471
Income and expense recognized directly in equity	(9,978)	(353)
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
Transfers to the consolidated statement of profit and loss	855	-
Cash flow hedges	1,140	-
Tax effect	(285)	-
Total comprehensive income	68,912	70,118
a) Attributable to the parent company	67,059	65,965
b) Attributable to non-controlling interests	1,853	4,153

The accompanying notes 1 to 26 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)	
Balance at 31.12.2014	145,000	532,483	-	62,528	(12,754)	727,257	56,115	783,372
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)
Balance at 31.12.2015	145,000	569,554	(30,450)	67,133	(14,316)	736,921	51,467	788,388
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
Balance at 31.12.2016	145,000	606,006	-	71,251	(18,528)	803,729	45,484	849,213



FCC AQUALIA, S.A. AND SUBSIDIARIES
(CONSOLIDATED GROUP)

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2016 (in thousands of euros)

	31.21.2016	31.12.2015
Profit before tax from continuing operations	104,463	98,724
Adjustments for:	124,261	111,861
Amortization and depreciation charges (Notes 4 and 5)	91,512	81,202
Other adjustments to profit or loss (net)	32,749	30,659
Changes in working capital	17,184	9,037
Other cash flows from operating activities	(35,871)	(28,948)
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)
TOTAL CASH FLOWS FROM OPERATING ACTIVITIES	210,037	190,674
Payments due to investment	(55,550)	(69,398)
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)
Proceeds from disposals	407	346
Property, plant and equipment and intangible assets	411	346
Other financial assets	(4)	-
Other cash flows from investing activities	(66,362)	(84,348)
Interest Income	6,243	5,034
Other proceeds/(payments) relating to investing activities	(72,605)	(89,382)
TOTAL CASH FLOWS FROM INVESTING ACTIVITIES	(121,505)	(153,400)
Proceeds and payments relating to equity instruments	34	3,999
Issues/(Redemptions)	34	3,999
Proceeds and payments relating to financial liability instruments	(36,658)	7,131
Issues	43,931	197,027
Repayments and redemptions	(80,589)	(189,896)
Dividends and returns paid on other equity instruments	(7,426)	(30,450)
Other cash flows from financing activities	(36,236)	(38,756)
Interest paid	(37,742)	(49,401)
Other proceeds/(payments) relating to financing activities	1,506	10,645
TOTAL CASH FLOWS FROM FINANCING ACTIVITIES	(80,286)	(58,076)
EFFECT OF FOREIGN EXCHANGE RATE CHANGES AND OTHERS	(6,563)	(2,813)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	1,683	(23,615)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	96,943	120,558
CASH AND CASH EQUIVALENTS AT END OF YEAR (note 12)	98,626	96,943



The accompanying notes 1 to 26 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

Adopted by the European Union		Obligatory application commencing:
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 ⁽¹⁾
Improvements to IFRS 2010-2012 Cycle (published December 2013)	Minor amendments to a series of standards	1 February 2015 ⁽¹⁾
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:

Adopted by the European Union		Obligatory commencing:	application
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:

ESTIMATED YEARS OF USEFUL LIFE	
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, effectiveness 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:

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



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
2016				
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
TOTAL	1,559,687	(661,268)	(15,397)	883,022
2015				
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
TOTAL	1,438,014	(526,146)	(12,874)	898,994

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
Balance at 31.12.14	1,302,526	85,331	18,701	(470,560)	(11,214)	924,784
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
Balance at 31.12.15	1,332,816	85,331	19,867	(526,146)	(12,874)	898,994
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
Balance at 31.12.16	1,450,901	85,331	23,455	(661,268)	(15,397)	883,022

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 2,345 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 1,962 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	
	COST	Acc. Amort.	IMPAIRMENT	COST	Acc. Amort.	IMPAIRMENT		TERM
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
TOTAL	742,657	(322,450)	(15,191)	698,100	(323,709)	(137)	10,144	

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
TOTAL	715,722	(277,804)	(7,841)	593,317	(234,503)	(3,971)	23,777	



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
TOTAL	85,306	85,306

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
2016				
Land and buildings	51,178	(20,925)	-	30,253
Land and natural resources	6,390	(37)	-	6.353
Constructions for own use	44,788	(20,888)	-	23.900
Plant and other items of property, plant and equipment	698,644	(410,116)	(39)	288,489
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
TOTAL	749,822	(431,041)	(39)	318,742
2015				
Land and buildings	50,243	(19,970)	-	30,273
Land and natural resources	6,366	(36)	-	6.330
Constructions for own use	43,877	(19,934)	-	23.943
Plant and other items of property, plant and equipment	684,214	(395,548)	-	288,666
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
TOTAL	734,457	(415,518)	-	318,939



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
Balance at 31.12.14	6,203	43,214	49,417	471,777	96,112	13,039	68,789	649,717	(383,703)	-	315,431
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)
Balance at 31.12.15	6,366	43,877	50,243	500,749	99,704	11,533	72,228	684,214	(415,518)	-	318,939
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
Balance at 31.12.16	6,390	44,788	51,178	516,304	102,472	11,800	68,068	698,644	(431,041)	(39)	318,742



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
Minimum future payments	81	116
Unaccrued finance charges	(5)	(2)
Present value (Note 14.c)	76	114

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
	205,901	196,247

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)
TOTAL	789,414	-	54,875	65,836	910,125

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)
TOTAL	808,697	26,113	54,246	71,082	960,138

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
Balance at 31.12.14	78,256	(50)	51,989	130,195
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
Balance at 31.12.15	71,129	(47)	54,246	125,328
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
Balance at 31.12.16	65,877	(41)	54,875	120,711

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
Balance sheet		
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
Profit or Loss		
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:

Temporary joint ventures		
(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>	2016	2015
Non-current loans	110,889	123,721
Held-to-maturity investments	165	165
Non-current financial derivatives	165	-
Total	111,219	123,886

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

Expressed in thousands of euros	2018	2019	2020	2021	2022 and thereafter	Total
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
Total	9,443	7,766	7,329	6,874	79,477	110,889

31 December 2015

Expressed in thousands of euros	2017	2018	2019	2020	2021 and thereafter	Total
Non-commercial loans	16,834	11,662	6,602	1,728	71,055	107,881
Guarantee deposits	645	6	-	8	15,181	15,840
Total	17,479	11,668	6,602	1,736	86,236	123,721

Non-commercial loans are classified as follows:

Expressed in thousands of euros	2016	2015
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
TOTAL NON-COMMERCIAL LOANS	110,889	123,721

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.

NON-CURRENT LOANS TO PUBLIC ENTITIES		
(expressed in thousands of euros)		
	2016	2015
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

NON-CURRENT LOANS TO PUBLIC ENTITIES
(expressed in thousands of euros)

	2016	2015
Sant Fost Town Council	1,203	1,323
Segurilla Town Council	-	4
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
TOTAL	94,091	107,856

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:

Expressed in thousands of euros	2016	2015
Other receivables	414,103	354,503
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
Guarantee deposits	12,040	11,699
TOTAL	426,143	366,202



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>	2016	2015
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	-
TOTAL	27,072	22,600

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)
TRADE RECEIVABLES FOR SALES AND SERVICES	202,975	176,672

“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	40,482	45,221



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	-
TOTAL BALANCE OF OTHER RECEIVABLES	52,376	41,407

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	-
TOTAL	98,626	96,943

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	-
TOTAL	98,626	96,943

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:

Expressed in thousands of euros	2016	2015
Reserves of the Parent	537,107	514,036
Consolidation reserves	68,899	55,518
	606,006	569,554

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:

Expressed in thousands of euros	2016	2015
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
	537,107	514,036

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:

Expressed in thousands of euros	2016	2015
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 Potosí 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
Total Consolidation Reserves	68,899	55,518

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)
	(18.528)	(14.316)



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)
	(224)	(2,434)

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
Algeria	(4,010)	(4,392)
Shariket Tahlya Miyah Mostaganem S.p.a.	(2,957)	(3,232)
Shariket Miyeh Ras Djinet S.p.a.	(1,053)	(1,160)
Mexico	(2,541)	(1,315)
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
Egypt	(6,427)	(938)
Orasqualia Devel. Waste. T.P.	(5,433)	(606)
Orasqualia Construction S.A.E.	(413)	(351)
Orasqualia O&M	(581)	19
Czech Republic	(5,604)	(5,599)
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)
United States	(13)	(5)
FCC Aqualia USA Corp.	(13)	(5)
Colombia	2	(2)
Sera. Q.A. Duitama E.S.P. S.A.	2	(2)
Serbia	(5)	(2)
Aisa D:O:O: Beograd-Vracar	(5)	(2)



Abu Dhabi	294	371
Aqualia MaceLLC	294	371
Total translation differences	(18,304)	(11,882)

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
TOTAL	(119,901)	(122,847)

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)

Expressed in thousands of euros	2016	2015
Aquacartaya, S.L.	636	386
Aquaelvas - 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
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



Expressed in thousands of euros	2016	2015
Proveiments 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
TOTAL	71,251	67,133

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
2016						
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 Caltanissetta, 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
TOTAL	36,880	2,595	(1,057)	282	6,784	45,484

Expressed in thousands of euros	Equity	Translation differences	Unpaid shares	Interest rate hedging transactions	Profit or loss	TOTAL
2015						
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 Caltanissetta, 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
TOTAL	40,604	7,525			3,338	51,467

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
	46,974	5,679	52,653

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
	16,839	3,634	20,473

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
TOTAL	52,653	52,653

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
TOTAL	20,473	20,473

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
Overdraft facilities and loans					
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			
Overdraft facilities and loans	52,653	13,523			
Limited recourse project finance debts					
Depurplan 11, S.A.	-	6,950			
Total limited recourse project finance debts	-	6,950			
Total	52,653	20,473			

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
TOTAL	452,256	489,856

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
TOTAL	385,779	383,696

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% (7% 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:

Expressed in thousands of euros	2016	2015
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
TOTAL	42,255	71,716

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

Expressed in thousands of euros	2018	2019	2020	2021	2022 and thereafter	TOTAL
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
TOTAL	393,516	5,095	4,976	6,444	286,631	696,662

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
TOTAL	10,204	377,780	37,736	7,902	270,100	703,722

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
Non-current		
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
TOTAL NON-CURRENT PROVISIONS	115,518	108.652
Current		
Settlement and losses on projects	13,788	12,901
Termination benefits for project employees	931	69
Other provisions	1,589	1,291
TOTAL CURRENT PROVISION	16,308	14.261

The details in 2016 and 2015 in the different provisions are as follows:

(in thousands of euros)	Non-current provisions	Current provisions
Balance as at 31.12.14	100,556	22,075
Allocations	15,824	8,040
Transfers	10,229	(10,229)
Reversals	(3,331)	(4,225)
Outflows	(14,672)	(1,395)
Translation differences	46	(5)
Balance as at 31/12/2015	108.652	14,261
Allocations	18,599	5,145
Reversals	(3,874)	(1,419)



Outgoings	(14.877)	(2,376)
Translation differences	227	(22)
Perimeter variation	6,791	719
Balance as at 31/12/2016	115,518	16,308

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), Aquaelvas (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.

In 2015, net allocations have been registered for a total of EUR 28,475,000, the most important of which correspond to Lleida investment commitments totalling EUR 5,323,000 for assignment of the water supply contract that was previously managed by UTE Aqualia FCC, Alcázar de San Juan for a total of EUR 4,500,000, Arcos de la Frontera for a total of EUR 3,007,000 and San Juan del Puerto for a total of EUR 800,000, Chiclana de la Frontera for a total of EUR 775,000 and EUR 1,953,000 for financial adjustments to the provision.

The expected payment schedule at 31 December 2016 and 2015 deriving from obligations covered with non-current provisions is as follows:

2016 (thousands of euros)	UP TO 5 YEARS	MORE THAN 5 YEARS	BALANCE AS AT 31/12/2016
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
TOTAL	88,733	26,785	115,518
2015 (thousands of euros)	UP TO 5 YEARS	MORE THAN 5 YEARS	BALANCE AS AT 31/12/2015
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
TOTAL	60.163	48.489	108,652

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
TOTAL OTHER PAYABLES BALANCE	272,373	241.709

“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.

DEFERRED TAX ASSETS		
<i>(in thousands of euros)</i>		
	31/12/2016	31/12/2015
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
TOTAL	45,697	49,023

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.

DEFERRED TAX LIABILITIES		
<i>(in thousands of euros)</i>		
	31/12/2016	31/12/2015
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
TOTAL	50,612	51,697

The scheduled due dates for deferred taxes are shown below:

Amounts in thousands of euros							
	2017	2018	2019	2020	2021	2022 AND THEREAFTER	TOTAL
Deferred tax assets	2,284	1,456	993	988	969	39,007	45,697
Deferred tax liabilities	25,233	1,556	1,553	1,551	1,550	19,169	50,612

b) Government

The detail of current assets and liabilities held with Government at 31 December 2016 and 2015 is as follows:

Current assets

	2016	2015
Tax receivables Tax receivables for grants awarded (Note 11)	19,062	20,892
	19,062	20,892

Current liabilities

	2016	2015
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
	75,433	72,587

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

Consolidated pre-tax accounting profit for the year	Increases	Decreases	104,463
Permanent differences, Consolidation adjustments and eliminations	17,994	-	17,994
Offsetting of previous years' losses			(271)
Adjusted consolidated accounting profit			122,186
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
Consolidated taxable profit (fiscal income)			103,722
Adjusted consolidated accounting profit	122,286		
Income tax rate	30,547		
Deductions and credits	(185)		
Other adjustments	(3,934)		
Corporate Income Tax accrued	26,428		

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

Consolidated pre-tax accounting profit for the year			
	Increases	Decreases	98,724
Consolidation adjustments and eliminations	5,828	(9,143)	(3,315)
Permanent differences	5,076	(513)	4,563
Offsetting of previous years' losses			(286)
Adjusted consolidated accounting profit			99,686
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
Consolidated taxable profit (fiscal income)			111,568
Adjusted consolidated accounting profit	99,686		
Income tax rate	26,775		
Deductions and credits	(66)		
Other adjustments	1,544		
Corporate Income Tax accrued	28,253		

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
Balance at 1 January	42,114	30,061
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)
Balance at 31 December	43,125	42,114

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:



REVENUES PER BUSINESS ACTIVITY		
<i>(in thousands of euros)</i>		
	31.12.2016	31.12.2015
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
TOTAL	991,242	995,696

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:

GEOGRAPHICAL LOCATION			
<i>(in thousands of euros)</i>			
	31.12.2016	31.12.2015	
Spain			
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	
International			
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	



GEOGRAPHICAL LOCATION		
(in thousands of euros)	31.12.2016	31.12.2015
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
TOTAL	991,242	995,696

The details of “Other profit from operations” are as follows:

Amounts in thousands of euros	2016	2015
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
	23,945	20,050

Purchases

The details of the Purchases balance are as follows:

Amounts in thousands of euros	2016	2015
Work performed by subcontractors and other companies	122,390	144,842
Materials and services purchased	247,501	247,642
	369,891	392,484

Employee benefits expense

The details of employee benefits expenses are shown below:

(in thousands of euros)	2016	2015
Wages and salaries	190,791	182,676
Accrued social security taxes	55,351	53,502
Other employee benefits expenses	2,797	2,924
	248,939	239,102



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
TOTAL	7,607	7,329

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
	7,752	7,463	6,103	5,883	1,649	1,580

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
	189,801	188,707

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
TOTAL	8,179	8,855



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
TOTAL	43,430	49,401

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:

	2016	2015
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)
Net interest-bearing debt	167,076	318,317

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
Fully consolidated companies					
Depurplán, S.A.	-	-	(1,154)	5,914	2025
Aquajerez	165	28,000	-	-	2031
Companies consolidated using the equity method					
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

	2.016	2.015
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



	2.016	2.015
ORASQUALIA O&M	84	211
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
TOTAL	36,948	32,510

b) Suppliers and creditors group companies, joint ventures and associates

	2.016	2.015
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	-	-



	2.016	2.015
EMPRESA MIXTA DE AGUAS DE UBRIQUE, S.A.	5	4
ORASQUALIA DEVEL.WASTE T.P. S.A.E.	5	21
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	-	-
TOTAL	10,252	15,679

c) Non-current receivables with FCC Group companies

Thousand euro	2016	2015
FCC, S.A.	14	14
AIE COSTA BRAVA AB. AQUALIA-SOREA	1	1



d) Current receivables with FCC Group companies

	2.016	2.015
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
TOTAL	4.641	4.824

Short term loans to FCC Group companies

	2.016	2.015
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
TOTAL	387,245	301,221

Received Dividend from joint businesses and associates	2.016	2.015
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AIE COSTA TROPICAL DE GRANADA	9	-
AIE AQUAGEST-AQUALIA	33	5
AIE COSTA BRAVA AB. AQUALIA-SOREA	23	-
TOTAL	65	5

Received Dividend from equity method companies	2.016	2.015
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ORASQUALIA DEVEL.WASTE T.P. S.A.E.	1,798	2,379
ORASQUALIA CONSTRUCTION SAE	382	833
ORASQUALIA O&M	209	336
TOTAL	2,389	3,548

e) Current financial liabilities with FCC Group companies

	2016	2015
FCC, S.A.	16,565	20,438
Short term financial liabilities with FCC Group companies		
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
Total	10,162	37,755

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 Construcción 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 PROJ. ESPEC. HIDR.	1,570	1,387
MANTENIMIENTO DE INFRAESTRUCTURAS, S.A.	-	-



NUEVA COMPANY 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
TOTAL GROUP COMPANIES AND ASSOCIATES	70,049	75,252

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

(thousands of euros)	2016	2015
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 COMPANY 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
D' AIGUA, S.A.	2	-
AGUAS DEL PUERTO EMPRESA MUNICIPAL, S.A.	26	-
HORMIGONES CALAHORRA, S.A.	5	6
TOTAL GROUP COMPANIES AND ASSOCIATES	3,405	3,763

h) Outsourced work

(thousands of euros)	2016	2015
FCC AMBITO, S.A.	147	31
FCC CONSTRUCCION, S.A.	151	5
FCC Construcción 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
TOTAL GROUP COMPANIES AND ASSOCIATES	1,130	996

i) Other operating expenses

(thousands of euros)	2016	2015
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)
TOTAL GROUP COMPANIES AND ASSOCIATES	25,117	23,085

j) Finance income

(thousands of euros)	2016	2015
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
TOTAL GROUP COMPANIES AND ASSOCIATES	2,902	3,604

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
Total	344	121	465	421	72	493
Other services	14	-	14	-	1	1
Total professional services	14	-	14	-	1	1
TOTAL	358	121	479	421	73	494

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)		
	Days	
Average payment period for suppliers	94	78
Ratio of payments made	78	73
Ratio of outstanding payments	157	94
	Sum	
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:

Amounts in thousands of euros	2016	2015
Net profit for the year (thousands of euros)	78,035	70,471
Weighted average number of shares in circulation	145,000	145,000
Basic earnings per share (euros)	0,54	0,49

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.



APPENDIX I

FCC AQUALIA AND SUBSIDIARIES (CONSOLIDATED GROUP) SUBSIDIARIES (CONSOLIDATED BY FULL CONSOLIDATION)

COMPANY	GROUP INTERESTS %	AUDITOR
Acque di Caltanissetta, S.p.A Viale Sicilia 176 93100 Caltanissetta - ITALY	98.46%	DELOITTE
Aguas de Alcázar Empresa Mixta, S.A. C/ Rondilla Cruz Verde, 1 - Alcázar de San Juan (CIUDAD REAL)	52.38%	CENTIUM AUDITORES
Aguas de las Galeras, S.L. Avda. Camino de Santiago, 40,	100.00%	DELOITTE
Aigües de Vallirana, S.A.U. C/ Conca de Tremp, 14 – Vallirana (BARCELONA)	100.00%	-
Aqualia Infraestructuras D.O.O. Beograd-Vracar Resavska 23 Belgrado Vracar - Belgrado-SERBIA	100%	-
Aqualia Infraestructuras Montenegro Bulevar Svetog Petra Centinjskog I A – 81000 Podgorica - MONTENEGRO	100%	-
Aqualia Infraestructuras Pristina LLC Bulevardi Nëna Terezë No 47/5B -Pristina- KOSOVO REPUBLIC	100%	-
Aqualia MACE LLC P.O. Box 105547 – Abu Dhabi, U.A.E.	51.00%	DELOITTE
Aquaelvas - Aguas de Elvas, S.A. Rua Paco Bandeira, 14 - Assunção - Elvas - PORTUGAL	100.00%	DELOITTE
Aquamaior – Aguas de Campo Maior, S.A. Rua Mayor Talaya, 28 – Nossa Senhora de Expectação – Campo Maior – PORTUGAL	100.00%	DELOITTE
Abrantaqua, S.A. Parque Lena – Alferrarede Abrantes – PORTUGAL	60.00%	OLIVEIRA, REIS & ASSOCIADOS
Aqua Campiña, S.A. C/Blas Infante, 6 – Écija (SEVILLE)	90.00%	AUDINFOR
Aqua Management Solutions B.V. Prins Bernhardplein 200 – Amsterdam - THE NETHERLANDS	30.60%	DELOITTE
Aquacartaya, S.L. Avda. San Francisco Javier, 27 – SEVILLE	100.00%	DELOITTE
Aquafundalia – Agua do Fundão, S.A. Rua Fernando Pessoa, 195 6230 479 Fundao - PORTUGAL	100.00%	DELOITTE
Aquajerez, S.L. C/ Cristalería, 24 - CÁDIZ	51.00%	EY
Aqualia Intech, S.A. Avda. Camino de Santiago, 40 – MADRID	99.99%	DELOITTE
Aqualia Infraestructuras Inzenyring, s.r.o. Hory, Slavnikovcu 571/21 Ostrava - CZECH REPUBLIC	100.00%	ABC AUDIT SRO
Aqualia México, S.A. de C.V. Carrizal, 33 - Santiago de Queretaro - Queretaro - MEXICO	100.00%	DELOITTE
Aqualia Infraestructuras Mostar Dr. Ante Estarecevic BB – MOSTAR (SERBIA)	100.00%	-
Aqualia Czech, S.L. Avda. Camino de Santiago, 40 – MADRID	51.00%	DELOITTE
Aqualia New Europe B.V. C/Calude Debussylann, 24 – Amsterdam (THE NETHERLANDS)	51.00%	DELOITTE
Cartagua – Aguas do Cartaxo, S.A. Zona Industrial do Cartaxo, Lote 20 – Cartaxo - PORTUGAL	60.00%	OLIVEIRA, REIS & ASSOCIADOS
Colaboración, Gestión y Asistencia, S.A. C/ Federico Salmón, 13 – MADRID	100.00%	-
Compañía Onubense de Aguas, S.A.	60.00%	-



**FCC AQUALIA AND SUBSIDIARIES (CONSOLIDATED GROUP)
SUBSIDIARIES (CONSOLIDATED BY FULL CONSOLIDATION)**

COMPANY	GROUP INTERESTS %	AUDITOR
C/ Martín Alonso Pinzón, 8 – HUELVA Conservación y Sistemas, S.A. C/ Federico Salmón, 13 – MADRID	100.00%	DELOITTE
Depurplan 11, S.A. C/ Madre Rafols, 2 – ZARAGOZA	100.00%	AUDINFOR
Depurtebo, S.A. C/ San Pedro, 57 - Zuera – ZARAGOZA	100.00%	-
Empresa Gestora de Aguas Linenses, S.L. C/Federico Salmón, 13 – MADRID	100.00%	-
Empresa Mixta de Butarque, S.A. 3 - MADRID	70.00%	-
Entemanser, S.A. C/Castillo, 13 – ADEJE (SANTA CRUZ DE TENERIFE)	97.00%	DELOITTE
FCC Aqualia América, S.A.U. C/ Uruguay, 11 – Vigo (PONTEVEDRA)	100.00%	-
FCC Aqualia USA Corp. 2711 Centerville Road, Suite 400. Wilmington (New Castle -Delaware-EEUU)	100.00%	BEKOWITZ POLLACK BRANT
FS Colaboración Gestión y Asistencia, S.A. Avda. Camino de Santiago, 40. MADRID	100.00%	-
SEVEROMORAVSKE VODOVODY A KANALIZACE OSTRAVA a.s. Varenská 2723/51 70200 Ostrava – CZECH REPUBLIC	50.47%	DELOITTE
Hidrotec Tecnología del Agua, S.L.U. C/Pinzel, 25 – SEVILLE	100.00%	DELOITTE
Infraestructuras y Distribución General de Agua, S.L. C/La Presa, 14 – Tijoco Bajo-ADEJE (SANTA CRUZ DE TENERIFE)	100.00%	-
Inversora Riutort, S.L. C/ Alfonso XIII – Sabadell (BARCELONA)	100.00%	-
Ovod spol, s.r.o. Jaselská 47 - Opava - CZECH REPUBLIC	100.00%	ABC AUDIT SRO
Sociedad Ibérica del Agua, S.A.U. C/Federico Salmón, 13 – MADRID	100.00%	-
Sociedad Española de Aguas Filtradas, S.A. C/Pinzel, 4 – SEVILLE	100.00%	DELOITTE
Tratamiento Industrial de Aguas, S.A. 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
AIE* Costa Tropical de Granada Plaza Aurora, s/n - Motril (GRANADA)	51.00 %	ATTEST AUDITORES
AIE ITAM Delta de la Tordera Travesera de Gracia, 58 – BARCELONA	50.00 %	-
AIE Aquagest Medioambiente, S.A. - Aqualia C/Condado de Jaruco, s.n. – Lloret de Mar (GIRONA)	37.50 %	-
Empresa mixta Abastament en Alta Costa Brava, S.A. Plaza Josep Pla, 4 - GIRONA	26.00 %	-
Gestión de Servicios Hidráulicos de Ciudad Real AIE C/ Ramírez de Arellano, 15 – MADRID	75.00 %	-
Empresa Mixta de Aguas y Servicios, S.A. Alarcos, 13 - CIUDAD REAL	41.25 %	CENTIUM AUDITORES
Empresa Mixta d'Aigües de la Costa Brava, S.A. Plaza Josep Pla, 4 - GIRONA	25.00 %	EY
AIE Costa Brava Abastecimientos Aqualia-Sorea 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 Group)



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
Aguas de Priego, S.L. Plaza Constitución, 3. Priego de Córdoba (CORDOBA)	49.00%	(104)	(18)	AUDINFOR
Aguas de Archidona, S.L. Plaza Ochavada, 1 – 29300 Archidona - MALAGA	48.00%	76	60	CENTIUM AUDITORES
Aguas del Puerto Empresa Municipal, S.A. C/ Aurora 1 - 11500 - EL PUERTO DE SANTA MARÍA (CÁDIZ)	48.98%	3,860	3,808	-
Aqualia MACE LLC P.O. Box 105547 – Abu Dhabi, U.A.E.	24.99%	0	385	DELOITTE
Compañía de Servicios Medioamb. do Atlántico, S.A. Carretera de Cedeira, km 1 - Narón (LA CORUÑA)	49.00%	343	342	AUDINFOR
Girona, S.A. Travesía del Carril, 2 – GERONA	33.61%	1,831	1,800	CATAUDIT AUDITORS ASSOCIATS
Aguas de Denia, S.A. Pedro Esteve, 17 - Denia (ALICANTE)	33.00%	400	401	-
Aguas de Ubrique, S.A. Avenida España, 9 - Ubrique (CÁDIZ)	49.00%	0	(1)	-
Aguas de Narixa, S.A. C/Málaga, 11 – Nerja (MÁLAGA)	50.00%	274	293	AUDINFOR
Aigües de Blanes, S.A. Canigó, 5. Blanes - GIRONA	16.47%	50	56	CD AUDITORS
Aigües de Girona Salt i Sarrià del Ter Ciudadans, 11 - GIRONA	26.88%	255	214	CATAUDIT AUDITORS ASSOCIATS
Aigües del Tomoví, S.A. c/ Vella, 1 – El Vendrell (TARRAGONA)	49.00%	509	524	GM AUDITORS
Constructora de Infraestructura de Aguas de Querétaro, S.A. de C.V. C/ Minería Edificio B Ciudad de Méjico, Distrito Federal (MEXICO)	24.50%	(2,995)	(1,012)	DELOITTE
Constructora de Infraestructuras de Aguas de Potosí, S.A. de C.V. Bulevar Manuel Avila Camacho, 36 Méjico, Distrito Federal (MEXICO)	24.50%	(5,395)	(5,665)	DELOITTE
Concesionaria de Desalación de Ibiza, S.A. Rotonda de Sta. Eulalia, s/n – Ibiza (BALEARIC ISLANDS)	32.00%	1,226	1,327	BDO AUDITORES
EMANAGUA - Empresa Municipal de Aguas de Níjar, S.A. Plaza de la Glorieta, 1 – Níjar (ALMERÍA)	49.00%	277	220	CENTIUM AUDITORES
Empresa Municipal Aguas de Algeciras, S.A. C/Virgen del Carmen, s/n - Algeciras (CÁDIZ)	49.00%	201	186	ABANTE UNICONTROL AUDITORES SLP
Empresa Municipal Aguas de Benalmádena, S.A. Ref. No. Ap.Tivoli, s/n - Arroyo de la Miel (MÁLAGA)	50.00%	1.582	1.936	AUDINFOR



FCC AQUALIA AND SUBSIDIARIES (CONSOLIDATED GROUP)
ASSOCIATES AND JOINTLY CONTROLLED ENTITIES (CONSOLIDATED BY EQUITY METHOD)

COMPANY	FGD %	VNC 2016	VNC 2015	AUDITOR
Empresa mixta de Aguas de Jódar, S.A. Plaza de España, 1- Jódar (JAEN)	49.00%	16	(34)	CENTIUM AUDITORES
Aguas de Langreo, S.L. C/Alonso del Riesgo, 3 – Langreo (ASTURIAS)	49.00%	874	857	AUDINFOR
Empresa Municipal Aguas de Toxiria, S.A. Plaza de la Constitución – Torredonjimeno (JAÉN)	49.00%	78	76	CENTIUM AUDITORES
Empresa Municipal de Aguas de Linares, S.A. C/ Cid Campeador, 7 - Linares (JAEN)	49.00%	186	482	CENTIUM AUDITORES
Empresa Mixta de Aguas de Ubrique, S.A. C/JUZGADO S/N - 11600 - UBRIQUE (CÁDIZ)	49.00%	76	52	DELOITTE
Aquos El Realito, S.A. de C.V. San Luis Potosí (MEXICO)	44.00%	5,884	4,910	DELOITTE MEXICO
Orasqualia Devel. Waste Treatment Plant S.A.E. 2112 South Tower – El Cairo (EGIPTO)	27.95%	8,942	19,779	DELOITTE
Orasqualia Construction, S.A.E. 2112 South Tower – El Cairo (EGIPTO)	50.00%	147	(147)	KPMG
Orasqualia Operation and Maintenance, S.A.E. Nile City Towers – El Cairo - EGIPTO	50.00%	553	668	DELOITTE
Operadora El Realito S.A. de C.V. Tomas Alva Edison 176- San Rafael-Distrito Federal (MEXICO)	15.00%	46	27	EY
HA Proyectos Especiales Hidraulicos S.R.L. de CV 11000 – MÉXICO D.F.	50.00%	1,111	200	GRANT THORNTON SC
Nueva Sociedad de Aguas de Ibiza, S.A. C/Bartolomé Rosselló, 18 - (IBIZA)	40.00%	82	61	-
Proveïments d'Aigua, S.A. Asturias, 13 - GIRONA	15.12%	433	396	ANTONI RIERA ECONOMISTES AUDITORS
Sera.Q.A. Duitama, S.A. COLOMBIA	30.60%	48	43	-
Shariket Tahlya Miyah Mostaganem Cité Abdoni Ilot, 36 – Dar el Beida (ARGELIA)	25.50%	32,464	28,090	MUSTAPHA HEDDAD
Shariket Miyeh Ras Djinet Cité Abdoni Ilot, 36 – Dar el Beida (ARGELIA)	25.50%	12,178	10,371	MUSTAPHA HEDDAD
Constructora de Infraestructura de Aguas de Querétaro, S.A. de C.V. Santiago de Querétaro – Querétaro Arteaga (MEXICO)	25.00%	368	441	DELOITTE
Prestadora de Servicios Acueducto El Realito SACV Bvd. Manuel Avila Camacho, 36. MIGUEL HIDALGO (MEXICO)	24.50%	1	1	-
Total		65,877	71,129	

Note: This appendix forms an integral part of the attached notes to the consolidated financial statements.



APPENDIX IV

FCC AQUALIA AND SUBSIDIARIES (CONSOLIDATED GROUP) DRAGADOS–OHL Joint Venture

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 Cía 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 Almanzora	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%



**FCC AQUALIA AND SUBSIDIARIES (CONSOLIDATED GROUP)
DRAGADOS–OHL Joint Venture**

NAME	PARTICIPANTS	GROUP INTERESTS %
UTE Groupement Solidaire Jerba	FCC Aqualia, S.A. Aqualia Intech, 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 Ibiza - Pormany EPC	FCC Aqualia, S.A. – Acciona Agua, S.A.	50%
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 Construcción 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. - Construvias 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 %
A) Full Consolidation additions		
Aqualia MACE, LLC	UNITED ARAB EMIRATES	51%
B) Removed from Full Consolidation		
Aqualia Industrial Solutions, S.A. Unipersonal	SPAIN	100%
Depurtebo, S.A.U.	SPAIN	100%
Aqualia Management Solutions, BV	THE NETHERLANDS	100%
C) Removed from equity method consolidation		
Aqualia MACE, LLC	UNITED ARAB EMIRATES	51%

Note: This appendix forms an integral part of the attached notes to the consolidated financial statements.

2016

FCC AQUALIA AND SUBSIDIARIES (CONSOLIDATED GROUP) CHANGES IN THE SCOPE OF CONSOLIDATION

NAME	ADDRESS	GROUP INTERESTS %
A) Full Consolidation additions		
Aqualia Infraestructuras D.O.O. Beograd-Vracar	SERBIA	100%
Aqualia Infraestructuras Pristina LLC	REP. OF KOSOVO	100%
FCC Aqualia USA Corp.	USA	100%
B) Additions consolidated by equity method		
Operadora El Realito S.A. de C.V.	MEXICO	15.00%
C) Removed from equity method consolidation		
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 (94.3) 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 m³/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 2.8Meuros, 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.

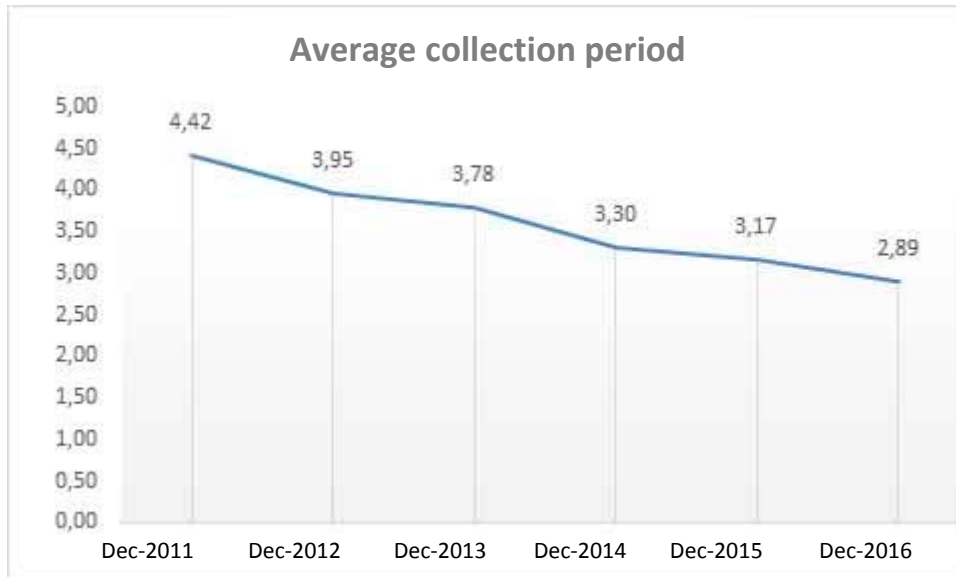
In Latin America, FCC Aqualia has won major contracts in Colombia, Ecuador, Mexico and Chile. The most significant are:

- 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%.

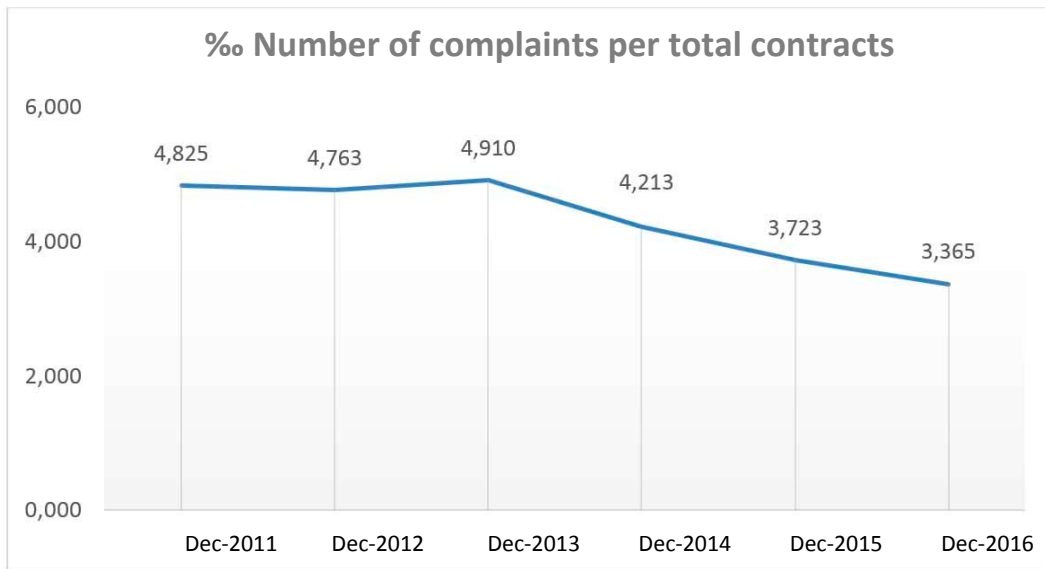


The third communication channel is a website available in 5 languages, which offers general information about the company, and several local websites for certain towns in which FCC Aqualia provides services, offering more specific local and customised information about the company's presence in the relevant 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.

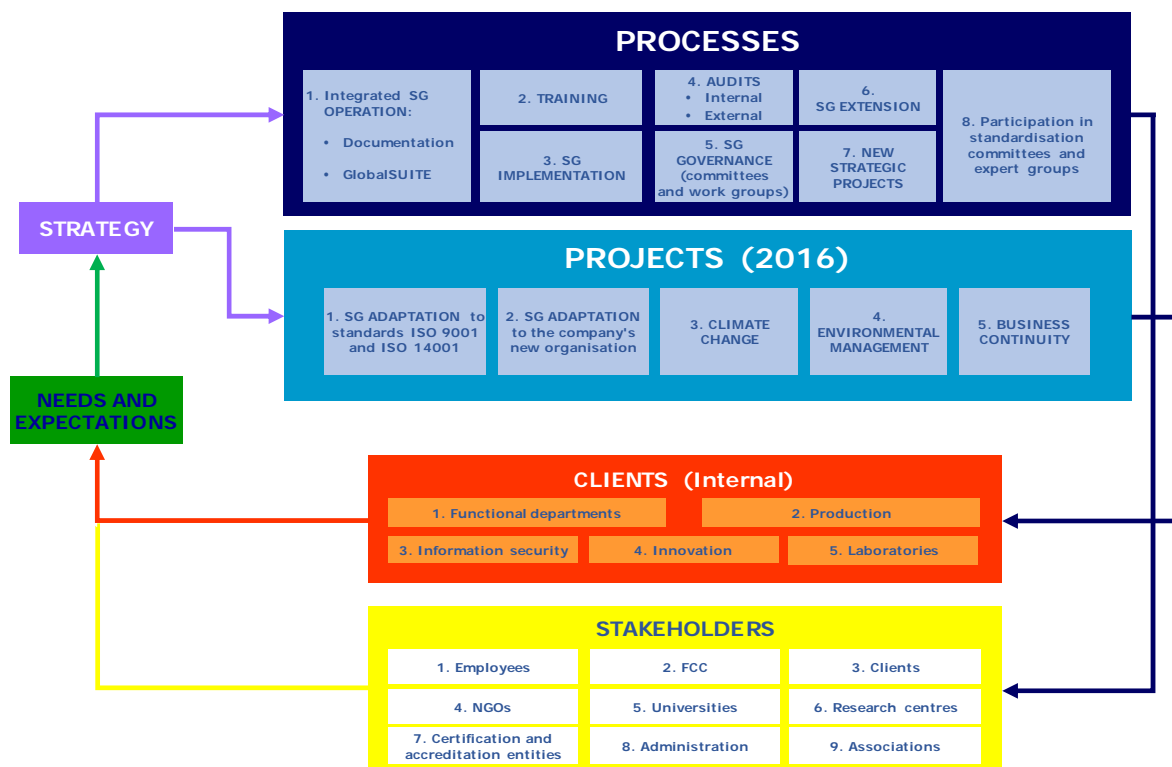
To meet the foreseen targets, we expect to conduct an exhaustive control of energy monitoring, controlling the installed capacity and the evolution of energy consumption at our production facilities. To do so, our actions should be aimed at:

- 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 62,000 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 CO₂ from biogas and hydrogen produced with renewable electricity. Thanks to the catalytic reactor developed by Tecnia, 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 m³ digester. In 2017, the transformation of up to 2,000 m³/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 m² 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 m³ 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 CO₂ 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.
- Life Icirbus (Innovative circular businesses), led by the Intromac technology centre, it brings together 8 companies to demonstrate the reuse of waste from water treatment plants in building materials and the generation of bio-fertilizers, at two Aqualia plants in Extremadura.

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"> ✓CDTI Sólidos Sostenibles (2012*) ✓FP7 SWAT (2013*) ✓CENIT VIDA (2014*) ✓IDEA Regenera (2015*) ✓INNPACTO Downstream (2015*) ✓FP7 All-gas (2018) ✓LIFE Biosol water recycling (2018) ✓H2020 Incover (2019) ✓H2020 Sabana (2020) 	<ul style="list-style-type: none"> ✓ECO Inno Cleanwater (2016) ✓RETOS Renovagas (2016) ✓CIEN SmartGreenGas (2018) ✓H2020 Mides (2020) ✓LIFE Answer (2019) 	<ul style="list-style-type: none"> ✓MIMAM MBBR Hybacs (2010*) ✓INCITE MBR Trainasa (2012*) ✓INCITE ELAN Trainasa (2012*) ✓CDTI ELAN Vigo aqualia (2013*) ✓INNPACTO Filene (2014*) ✓ININTERCONECTA Alegria (2014*) ✓INNPRONTA ITACA (2014*) ✓LIFE Remembrance (2015*) ✓INNOVA Inpactar (2015*) ✓CDTI BESTF2 Biowamet (2017) ✓INNOVA E3N (2017) ✓LIFE Memory (2018) ✓CONECTA PEME Medrar (2018) ✓WATERWORKS Pioneer (2018) ✓LIFE Methamorphosis (2019) 	<ul style="list-style-type: none"> ✓MEC Mantenimiento Predictivo (2012*) ✓INNPRONTA IISIS (2014*) ✓ININTERCONECTA Smartic (2014*) ✓FP7 UrbanWater (2015*) ✓CDTI WATER JPI Motrem (2017) ✓LIFE Icirbus4industries (2019) <p>(*) Completed projects</p> <p>Updated December 2016: 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 H₂S and CO₂

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, 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 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, 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).

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.



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

Félix Parra Mediavilla

Director

Secretary

Isidoro Marbán Fernández

Cristina López Barranco