



**Aigües de  
Barcelona**

**Aigües de Barcelona Finance, S.A.U.**

*(incorporated as a public limited liability company (sociedad anónima) under the laws of Spain)*

€200,000,000 1.944 per cent. Notes due 2021  
unconditionally and irrevocably guaranteed by

**Aigües de Barcelona, Empresa Metropolitana de Gestió del Cicle Integral de l'Aigua, S.A.**

*(incorporated as a public limited liability company (sociedad anónima) under the laws of Spain)*

Issue Price: 100 per cent.

The €200,000,000 1.944 per cent. Notes due 2021 (the “Notes”) are issued by Aigües de Barcelona Finance, S.A.U. (the “Issuer”) and are unconditionally and irrevocably guaranteed by Aigües de Barcelona, Empresa Metropolitana de Gestió del Cicle Integral de l'Aigua, S.A. (“AB” or the “Guarantor”). The Notes will bear interest at a rate of 1.944 per cent. per annum and will be payable annually in arrear on 15 September in each year, commencing on 15 September 2015. Unless previously redeemed or cancelled as described herein under “Terms and Conditions of the Notes” (the “Conditions”), the Notes will mature at their principal amount on 15 September 2021 (the “Maturity Date”).

The Issuer may, on any date prior to 15 June 2021, upon giving notice in accordance with the Conditions, redeem all the Notes at the Optional Redemption Amount together with interest accrued to (but excluding) the date fixed for redemption. In addition, the Issuer may, on any date from (and including) 15 June 2021, upon giving notice in accordance with the Conditions, redeem all the Notes at their principal amount together with interest accrued to (but excluding) the date fixed for redemption. See “Conditions – Redemption and Purchase – Redemptions at the Option of the Issuer”.

The Notes will constitute direct, unconditional, unsubordinated and unsecured obligations of the Issuer which will at all times rank *pari passu* among themselves and at least *pari passu* in right of payment with all other present and future unsecured and unsubordinated obligations of the Issuer, save for such obligations as may be preferred by mandatory provisions of law. The Notes are unconditionally and irrevocably guaranteed by the Guarantor. The guarantee of the Notes (the “Guarantee”) will rank at least *pari passu* with all other present and future unsecured and unsubordinated obligations of the Guarantor, save for such obligations as may be preferred by mandatory provisions of law.

**The Notes and the Guarantee have not been and will not be registered under the United States Securities Act of 1933, as amended (the “Securities Act”) or with any securities regulatory authority of any state or other jurisdiction of the United States. The Notes are being offered and sold outside the United States in accordance with Regulation S under the Securities Act (“Regulation S”), and may not be offered, sold or delivered within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S), except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act.**

Application has been made to list the Notes on the Official List of the Luxembourg Stock Exchange and to trade the Notes on the Luxembourg Stock Exchange’s Euro MTF Market. The Euro MTF Market is not a regulated market pursuant to the provisions of Directive 2004/39/EC on markets in financial instruments.

The Guarantor is rated Baa1 by Moody’s Investors Service, Inc. (“Moody’s”). A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation. Moody’s is established in the European Union and is registered under Regulation (EC) No. 1060/2009 (as amended) (the “CRA Regulation”). As such, Moody’s is included in the list of credit rating agencies published by the European Securities and Markets Authority on its website in accordance with such Regulation.

**An investment in the Notes involves a certain degree of risk. Investors should carefully review the risks described herein under “Risk Factors” beginning on page 13.**

The Notes will be issued in registered form in denominations of €100,000 and integral multiples of €1,000 in excess thereof. It is expected that delivery of the Notes will be made to investors in book-entry form under the New Safekeeping Structure (the “NSS”) with a common safekeeper (the “Common Safekeeper”) for Euroclear Bank S.A./N.V. (“Euroclear”) and Clearstream Banking, *société anonyme* (“Clearstream”), on or about 15 September 2014. The Notes will be represented on issue by a global certificate in registered form (the “Global Certificate”). Interests in the Global Certificate will be exchangeable for definitive certificates (the “Definitive Certificates”) only in certain limited circumstances described in “Summary of Provisions relating to the Notes in Global Form”.

*Joint Coordinators*

**Trea Capital**

**Credit Suisse**

The date of this Offering Circular is 10 September 2014

Each of the Issuer and the Guarantor accepts responsibility for the information contained in this Offering Circular. To the best of the knowledge and belief of each of the Issuer and the Guarantor (each having taken all reasonable care to ensure that such is the case), the information contained in this Offering Circular is in accordance with the facts and does not omit anything likely to affect the import of such information.

This Offering Circular does not constitute an offer to sell or the solicitation of an offer to buy the Notes in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. The distribution of this Offering Circular and the offer or sale of Notes may be restricted by law in certain jurisdictions. None of the Issuer, the Guarantor, any of Trea Capital and Credit Suisse (together, the “**Joint Coordinators**”) or Deutsche Trustee Company Limited (the “**Trustee**”) represents that this Offering Circular may be lawfully distributed, or that the Notes may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assumes any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Issuer, the Guarantor, the Joint Coordinators or the Trustee which is intended to permit a public offering of the Notes or the distribution of this Offering Circular in any jurisdiction where action for that purpose is required. Accordingly, no Notes may be offered or sold, directly or indirectly, and neither this Offering Circular nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this Offering Circular or any Notes may come must inform themselves about and observe any such restrictions on the distribution of this Offering Circular and the offering and sale of Notes. In particular, there are restrictions on the distribution of this Offering Circular and the offer or sale of Notes in the United States, Spain, the United Kingdom and Andorra. See “*Placing and Sale*”.

Each of the Joint Coordinators is acting for the Issuer and the Guarantor and no one else in connection with the offering of the Notes and will not regard any other person (whether or not a recipient of this Offering Circular or any other offering material relating to the Notes and the Guarantee) as its client in relation to the offer, sale and delivery of the Notes. None of the Joint Coordinators shall be responsible to anyone other than the Issuer and the Guarantor for providing the protections afforded to clients of the Joint Coordinators, or for providing advice in relation to the offering of the Notes, the contents of this Offering Circular or any other offering material relating to the Notes and the Guarantee, or any transaction, arrangement or other matter referred to in this Offering Circular.

Neither the Joint Coordinators nor the Trustee have made an independent verification of the information contained in this Offering Circular and no representation or warranty, express or implied, is made by any of the Joint Coordinators or the Trustee as to the accuracy or completeness of such information. Nothing contained in this Offering Circular is to be construed as, or shall be relied on as, a promise, warranty or representation, whether as to the past or future, by any of the Joint Coordinators or the Trustee in any respect. To the fullest extent permitted by law, neither the Joint Coordinators nor the Trustee accepts any responsibility whatsoever for the contents of this Offering Circular. Each of the Joint Coordinators and the Trustee accordingly disclaims all and any liability, whether arising in tort, contract or otherwise, which it might otherwise have in respect of this Offering Circular.

The contents of this Offering Circular are not to be construed as, and shall not be relied on as, legal, business or tax advice, and each investor should consult its own legal, business, tax and other advisers for any such advice that may be relevant to such investor.

No person is or has been authorised by the Issuer, the Guarantor, the Joint Coordinators or the Trustee to give any information or to make any representation not contained in or not consistent with this Offering Circular or any other information supplied in connection with the offering of the Notes and, if given or made, such information or representation must not be relied upon as having been authorised by or on behalf of the Issuer, the Guarantor, the Joint Coordinators or the Trustee.

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

Neither the delivery of this Offering Circular nor the offer, issue, sale or delivery of the Notes shall, under any circumstances, imply that there has been no change in the affairs of the Issuer or the Guarantor since the date hereof or that the information contained herein concerning the Issuer and/or the Guarantor is correct as of any time subsequent to its date or that any other information supplied in connection with the offering of the Notes is correct as of any time subsequent to the date hereof.

In connection with the issue and sale of the Notes, each of the Joint Coordinators and any of their respective affiliates acting as an investor for its own account may take up Notes and in that capacity may retain, purchase or sell for its own account such securities and any securities of the Issuer or the Guarantor or related investments, and may offer or sell such securities or other investments otherwise than in connection with the issue and sale of the Notes. Accordingly, references in this Offering Circular to the Notes being offered, issued or sold should be read as including any offer, issue or sale of securities to the Joint Coordinators and any of their affiliates acting in such capacity. The Joint Coordinators do not intend to disclose the extent of any such transactions or investments otherwise than in accordance with any legal or regulatory obligation to do so.

In addition, the Joint Coordinators and their respective affiliates have performed, and may in the future perform, various financial advisory, investment banking and/or commercial banking services for, and may arrange loans and other non-public market financing for, and enter into derivative transactions with, the Issuer, the Guarantor and/or their respective affiliates, for which they have and may receive customary fees.

This Offering Circular constitutes a Prospectus for the purpose of the Luxembourg Act dated 10 July 2005 on Prospectuses for Securities, as amended.

#### **NOTICE TO INVESTORS IN THE UNITED KINGDOM**

This Offering Circular is being distributed only to and is directed only at (i) persons who are outside the United Kingdom or (ii) to investment professionals falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the “**Order**”) or (iii) persons falling within Article 49(2)(a) to (d) (“High net worth companies, unincorporated associations, etc.”) of the Order or (iv) other persons to whom it may lawfully be communicated (all such persons together being referred to as “**relevant persons**”). The

Notes are only available to, and any invitation, offer or agreement to subscribe, purchase or otherwise acquire such Notes will be engaged in only with, relevant persons. Any person who is not a relevant person should not act or rely on this Offering Circular or any of its contents.

### **NOTICE TO INVESTORS IN SPAIN**

None of the Notes, the Offering or this Offering Circular and its contents have been approved or registered with the Spanish Securities and Exchange Commission (*Comisión Nacional del Mercado de Valores*), and therefore the Notes may not be offered, sold or distributed in Spain by any means, nor may any subsequent resale of Notes be carried out in Spain, except in circumstances which do not qualify as a public offer (*oferta pública*) of securities in Spain in accordance with article 30 bis of the Spanish Securities Market Act 24/1988, of 28 July 1988 (*Ley 24/1988, de 28 de julio, del Mercado de Valores*) as amended and restated, or pursuant to an exemption from registration in accordance with article 41 of the Royal Decree 1310/2005, of 4 November 2005, on the listing of securities, public offers and applicable prospectus (*Real Decreto 1310/2005, de 4 de noviembre, por el que se desarrolla parcialmente la Ley 24/1988, de 28 de julio, del Mercado de Valores, en materia de admisión a negociación de valores en mercados secundarios oficiales, de ofertas públicas de venta o suscripción y del folleto exigible a tales efectos*) as amended or restated.

### **NOTICE TO INVESTORS IN LUXEMBOURG**

The terms and conditions relating to this offering circular and the Notes have not been approved by and will not be submitted for approval to the Luxembourg Financial Services Authority (*Commission de Surveillance du Secteur Financier*) (the “**CSSF**”) for the purposes of public offering or sale in the Grand Duchy of Luxembourg (“**Luxembourg**”) or a competent authority of another EU member state for notification to the CSSF, where applicable, for the purpose of public offering in Luxembourg. Accordingly, the Notes may not be offered or sold to the public in Luxembourg, directly or indirectly, and neither this Offering Circular nor any other circular, prospectus, form of application, advertisement or other material may be distributed, or otherwise made available in or from, or published in, Luxembourg, except for the sole purpose of admission of the Notes to trading on the Euro MTF Market and listing on the official list of the Luxembourg Stock Exchange, and except in circumstances which do not constitute a public offer of securities to the public, subject to prospectus requirements, in accordance with the Luxembourg Act of 10 July 2005 on prospectuses for securities, as amended (the “**Prospectus Act**”), and implementing Directive 2003/71/EC of the European Parliament and of the Council of 4 November 2003 on the prospectus to be published when securities are offered to the public or admitted to trading. Consequently, this Offering Circular and any other offering circular, prospectus, form of application, advertisement or other material may only be distributed to (i) Luxembourg qualified investors as defined in the Prospectus Act and/or (ii) in any other circumstance contemplated by the Prospectus Act.

### **NOTICE TO INVESTORS IN ANDORRA**

The Notes may only be offered, sold and transferred in the Principality of Andorra in compliance with all applicable laws and regulations in force in the Principality of Andorra, including, but not limited to, any technical communication issued by the Andorran National Financial Institute (*Institut Nacional Andorrà de Finances*) in relation to the offer, sale, delivery or transfer of the Notes or the distribution of any offering material in respect of the Notes.

### **STABILISATION**

In connection with the offer, issue and sale of the Notes, Credit Suisse Securities (Europe) Limited (the “**Stabilising Manager**”) (or any person acting on behalf of the Stabilising Manager) may over-allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. There is no assurance, however, that the Stabilising Manager (or any person acting on behalf thereof) will undertake any such stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offering of the Notes is made and, if begun, may be ended at any time, but must end no later than the earlier of 30 days after the issue date of the Notes and 60 days after the date of allotment of the Notes. Any stabilisation action or over-allotment must be conducted by the Stabilising Manager (or any person acting on behalf thereof) in accordance with all applicable laws, regulations and rules.

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## **FORWARD-LOOKING STATEMENTS**

This Offering Circular contains certain “forward-looking statements” which can be identified by the use of forward-looking terminology, such as the terms “believes”, “expects”, “anticipates”, “projects”, “estimates”, “will”, “intends”, “seeks”, “may”, “should” or similar expressions or, in each case, their negative, other variations thereof or comparable terminology. These forward-looking statements include all matters that are not historical facts and they appear in a number of places throughout this Offering Circular and include, without limitation, statements with regard to the Guarantor’s intentions, beliefs or current expectations relating to, among other things, the Guarantor’s future financial position, results, performance, achievements and prospects along with future industry results and performance. By their nature, forward-looking statements involve inherent risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future. Investors are cautioned that the forward-looking statements contained in this Offering Circular are not guarantees of the Guarantor’s future financial position, results, performance, achievements or prospects and that the Guarantor’s actual future financial position, results, performance, achievements and prospects may differ materially from those suggested or implied by the forward-looking statements contained in this Offering Circular.

In addition, these forward-looking statements speak only as of the date of this Offering Circular. Except to the extent required by applicable law, neither the Issuer nor the Guarantor intends to update or revise any of the forward-looking statements contained in this Offering Circular, whether as a result of new information, future events or otherwise, and the Issuer and the Guarantor hereby expressly disclaim any obligation to do so. All subsequent written or oral forward-looking statements attributed to the Guarantor or persons acting for the Guarantor or on the Guarantor’s behalf are expressly qualified in their entirety by the cautionary statements contained throughout this Offering Circular. Investors should not place undue reliance on any such forward-looking statements.

## PRESENTATION OF FINANCIAL AND CERTAIN OTHER INFORMATION AND CURRENCY PRESENTATION

### Audited Financial Statements

The Issuer was incorporated on 17 June 2014 as a direct wholly-owned subsidiary of the Guarantor for the purpose of facilitating certain financing activities of the Guarantor. Consequently, no historical financial information relating to the Issuer is available, other than an unaudited opening balance sheet as at 17 June 2014 as set out in this Offering Circular. The Issuer has not engaged in any activities other than those related to its formation and the transactions contemplated by this Offering Circular. After completion of the issuance of the Notes, the Issuer's principal assets will be amounts receivable under the Credit Facility (as defined below) and its only material liabilities will be its outstanding indebtedness incurred in connection with the Notes.

This Offering Circular includes the unaudited opening balance sheet of the Issuer.

As the Issuer is a finance subsidiary without significant operations, we have included in this Offering Circular the audited financial statements for the Guarantor for the year ended 31 December 2013 (together with the notes thereto, the "**Audited Financial Statements**") that have been prepared in accordance with International Financial Reporting Standards ("**IFRS**").

The Audited Financial Statements have been audited by Ernst & Young, S.L.

The Guarantor's financial year ends on 31 December and references in this Offering Circular to any specific year are to the 12-month period ended on 31 December of such year, save for financial year 2013 which comprised a period of five months ended on 31 December 2013.

Pursuant to Spanish regulatory requirements, "directors' reports" are required to accompany the Audited Financial Statements. The directors' reports are included in this Offering Circular only in order to comply with such regulatory requirements. Investors are strongly cautioned that the directors' reports contain information as of various historical dates and do not contain a current description of our business, affairs or results. The information contained in the directors' reports has been neither audited nor prepared for the specific purpose of the offering of the Notes. Accordingly, the directors' reports should be read together with the other sections of this Offering Circular, and particularly "*Risk Factors*". Any information contained in the directors' reports is deemed to be modified or superseded by any information contained elsewhere in this Offering Circular that is subsequent to or inconsistent with it. Furthermore, the directors' reports include certain forward-looking statements that are subject to inherent uncertainty. See "*Forward-Looking Statements*". Accordingly, investors are cautioned not to rely upon the information contained in such directors' reports.

### Combined Financial Information

We have also included certain combined financial information as of and for the two years ended 31 December 2012 and 2013, covering (i) (in respect of 2013 only) the Guarantor, (ii) the Water Supply Business (see "*Description of the Guarantor - Overview*") of Sociedad General de Aguas de Barcelona, S.A. ("**AGBAR**") for the two years ended 31 December 2012 and 2013, and (iii) the Sewage Transport, Treatment and Reuse Business (see "*Description of the Guarantor - Overview*") of Àrea Metropolitana de Barcelona ("**AMB**") for the two years ended 31 December 2012 and 2013 (together with the notes thereto, the "**Combined Financial Statements**"). The Combined Financial Statements have been prepared in accordance with IFRS.



In certain instances, within this Offering Circular, the balance sheet shown under the Combined Financial Statements as at 31 December 2013 differs from the actual balance sheet of the Guarantor as at such date. These differences stem from the fact that, in preparing a combined balance sheet, not only the assets and liabilities in the Guarantor as at 31 December 2013 have been considered, but also consideration has to be given to the balances outstanding separately in the former entity *Empresa Metropolitana de Sanejament, S.A.* (“**EMSSA**”) (which assigned all its assets to AB and which was a direct wholly-owned subsidiary of AMB) and in AGBAR as of 31 July 2013. Certain outstanding items such as working capital balances were not actually transferred to the Guarantor on incorporation. The initial position and changes in these non-transferred items up to 31 December 2013 had to be taken into account when preparing the combined balance sheet. The primary differences in the combined balance sheet, as compared to the balance sheet of the Guarantor as at 31 December 2013, are therefore higher balances in some of the working capital items, as well as higher equity.

In certain places within this Offering Circular reference is made to EBITDA. EBITDA is not an IFRS measure. “**EBITDA**” is defined as net income before the impact of financing costs, income tax, depreciation and amortisation.

EBITDA has important limitations as an analytical tool and should not be considered in isolation from, or as a substitute for an analysis of, the Issuer and the Guarantor’s operating results as reported under IFRS. Some of the limitations are:

- EBITDA does not reflect cash expenditures or future requirements for capital expenditures or contractual commitments;
- EBITDA does not reflect changes in, or cash requirements for, working capital needs;
- EBITDA does not reflect the interest expense or the cash requirements necessary to service interest or principal payments on debt;
- although depreciation and amortisation are non-cash charges, the assets being depreciated and amortised will often have to be replaced in the future and EBITDA does not reflect any cash requirements for such replacements; and
- other companies may calculate EBITDA differently, limiting its usefulness as a comparative measure.

In this Offering Circular, references to “**euro**”, “**EUR**” or “**€**” are to the single currency of the participating member states of the European and Monetary Union of the Treaty Establishing the European Community, as amended from time to time.

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

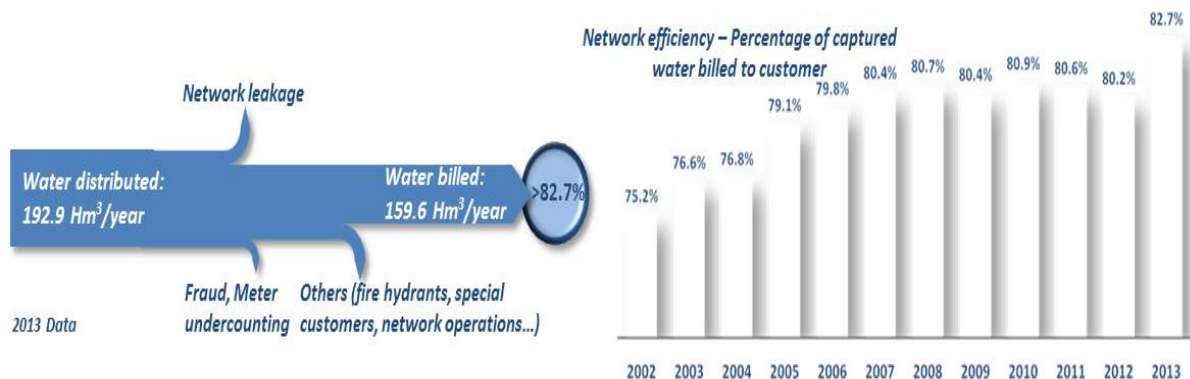
## OVERVIEW

*This summary highlights information contained elsewhere in this Offering Circular. The summary below does not contain all the information that you should consider before investing in the Notes. The following summary should be read in conjunction with and is qualified in its entirety by the more detailed information included elsewhere in this Offering Circular. You should carefully read the entire Offering Circular to understand the business of the Guarantor, the nature and terms of the Notes and the tax and other considerations which are important to your decision to invest in the Notes, including the more detailed information in the financial statement and the related notes included elsewhere in this Offering Circular, before making an investment decision. See the section entitled “Risk Factors” for factors that you should consider before investing in the Notes and the section entitled “Forward-Looking Statements” for information relating to the statements contained in this Offering Circular that are not historical facts.*

### Business

Aigües de Barcelona Empresa Metropolitana de Gestió del Cicle Integral de l’Aigua, S.A. (“**AB**”) is a Spanish public limited liability company (*sociedad anónima*) subject to the Spanish Company Law approved by Royal Legislative Decree 1/2010, of 2 July (*Ley de Sociedades de Capital*) (the “**Spanish Company Law**”). AB was incorporated on 30 July 2013 and began its activity on 1 August 2013, which will continue, according to its articles of association, until 2 June 2047 or until 9 December 2053 (when its concessions to capture water from the Llobregat River expire). AB is registered with the Mercantile Registry of Barcelona. The registered office of AB is at carrer General Batet, 1-7, Barcelona.

AB operates the Integral Water Cycle Service which covers water production, water supply, wastewater transport and treatment and the reuse of purified water in the Barcelona Metropolitan Area. In addition, AB operates concessions to capture water from the Llobregat River and from Wells (as defined below) mainly in the aquifer of the Llobregat River, which are part of a specific system for the provision of water to the Ter-Llobregat System under Catalan legislation. AB’s business comprises the management, operation and maintenance of five water treatment plants with a capacity of 7,960 litres per second (“**l/s**”), seven wastewater treatment plants with a capacity of 1,042,900 cubic meters per day (“**m3/d**”), three regeneration installations related to the wastewater plants with a capacity of 394,848 m3/d, and over 4,628 kilometres of water pipes with a low 0.44 per cent. repair rate per kilometre of water pipes. A table detailing AB’s network efficiency is included below:



“**Hm<sup>3</sup>/year**”: means cubic hectometres per year.

Source: AB.

AB has rights to capture up to 7,915 l/s in surface water from the Llobregat River and groundwater from the Llobregat and Besòs aquifers. AB serves a population of 2.9 million people (in respect of its water supply service) and 3.2 million people (in respect of its sewage treatment service) in the Barcelona Metropolitan Area, and in 2013 had an average headcount of 948 employees.

For the year ended 31 December 2013, the revenues (including other operating income) of the Water Supply Business and of the Sewage Transport, Treatment and Reuse Business (as set out in the Combined Financial Statements) were EUR 341,721 thousand, and EBITDA was EUR 69,387 thousand. As at 31 December 2013, the total assets of the Water Supply Business and of the Sewage Transport, Treatment and Reuse Business (as set out in the Combined Financial Statements) were EUR 657,913 thousand. See “*Presentation of Financial and Certain Other Information and Currency Presentation – Combined Financial Information*”.

AB manages the full water cycle services for the Barcelona Metropolitan Area and, specifically, the operation, maintenance and management of the following processes:

- (i) **Water production:** The first stage of the water supply business is to capture water at source and to treat it in order to generate drinking water. The facilities that are involved in this process are the Sant Joan Despí WTP (as defined below) and the Wells of the Llobregat River and the Besòs River. The production process involves physical and chemical stages, such as dioxide chlorination, sedimentation, sand filtration, ozonisation, activated carbon filtration, post-chlorination, and other advanced treatments, such as ultrafiltration, reverse osmosis filtrations and remineralisation.
- (ii) **Water supply:** AB’s water supply service includes the transport and distribution of drinking water to AB’s customers through the water network.
- (iii) **Sewage transport and treatment:** This part of the water cycle service includes the management, operation and maintenance of the sewers that are owned by AMB, and which collect the wastewater transported by Barcelona’s municipal sewers. A network of collector pipes collects the wastewater and transports it from the municipal sewers to the corresponding wastewater treatment plant. This water is moved along the collector pipes by the force of gravity and, when this is insufficient, by using pumping stations that allow the water to be raised to higher levels.

AB also manages, operates and maintains the wastewater treatment plants that are owned by AMB. At the wastewater treatment plants the waste is subjected to a treatment to remove the pollutant load (biological or chemical waste) so that the water can be returned to the environment or reused. This includes primary, secondary and tertiary treatment involving a variety of physical, chemical and biological processes. Some of the plants use pioneering treatment technologies, including ultrafiltration membranes and reverse osmosis, reverse electro dialysis and the Integrated Fixed-Film Activated Sludge (IFAS) biological treatment systems using activated sludge attached to a moving support.

- (iv) **Regeneration of sewage and reuse:** The water cycle service also includes the regeneration of wastewater that has been treated in wastewater treatment plants and its reuse for non-drinking purposes.

The wastewater treatment plants have installations that regenerate wastewater. This regeneration process allows the regenerated water to be used for several purposes, such as industrial uses and irrigation. However, under Spanish law, regenerated water cannot be supplied to the general public as drinking water.

- (v) **Other:** AB's management of the water cycle service also covers the integrated coordination and management of wastewater drainage and of the sewer networks, as well as technical assistance in the control of the release of wastewater into the sewage network. In addition, AB handles any other activity aimed at meeting water supply, wastewater collection and purification needs, including, in respect of laboratory analyses related to the control, the storage and quality of treated water and wastewater. Finally, AB carries out studies and projects and the execution of hydraulic infrastructure works and any other works related to the supply services of untreated and treated water and purification.

In accordance with the classification of activities established above, AB's activities can be divided into two main business areas:

- (i) the "**Water Supply Business**" which consists of the following activities as described above: (a) water production activities, (b) water supply activities, (c) any other activity aimed at meeting water supply as well as (d) studies and projects and the execution of hydraulic infrastructure works and any other works related to the supply services of untreated and treated water and purification as well as, in respect of laboratory analyses related to the control, the storage and quality of treated water; and
- (ii) the "**Sewage Transport, Treatment and Reuse Business**" which consists of the following activities as described above: (a) sewage wastewater collection and treatment of urban wastewater, (b) regeneration of wastewater and reuse, (c) the integrated coordination and management of wastewater drainage and of the sewer networks, (d) technical assistance in the control of the release of wastewater into the sewage network and (e) any other activity aimed at meeting wastewater collection and purification needs.

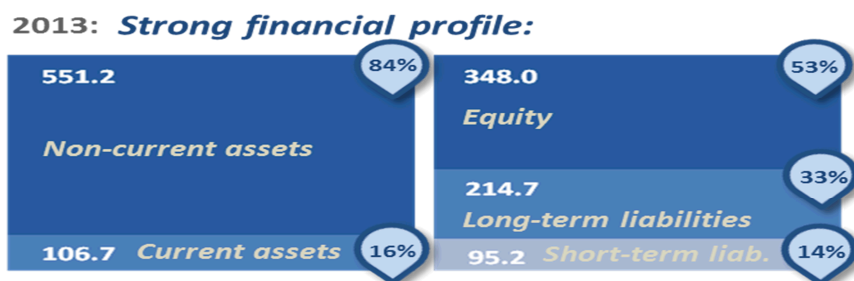
AB also manages and operates the usufruct over concessions to capture water from Wells and the Llobregat River (such as the 1953 Concession), and their related facilities (such as WTPs), which was contributed by AGBAR on AB's incorporation. This water capture business is performed according to the directives of the ACA and the Catalan Legislative Decree 3/2003 of 4 November, which approved the consolidated text of water regulations in Catalonia ("**Legislative Decree 3/2003**").

### **Key strengths**

AB believes it has the following key competitive strengths:

- **Recurring demand and business continuity.** Water is in recurrent demand which ensures the continuity of AB's business.
- **High barriers to entry.** The characteristics of the water sector and the concession-based nature of the AMB-AGBAR Agreement provide high barriers to entry in AB's sector. There is no possibility to choose an alternative water supplier. AB is focused on the low risk business of regulated water and sewage, there are no activities outside this core business which could imply a higher degree of risk.

- **Stability of regulatory framework and asset ownership.** The water business in the Metropolitan Area of Barcelona is supported by strong and stable regulation and the AGBAR group has a proven track record of 147 years in maintaining successful relationships with public administrations. The stability of the business is further also assured by the long term nature of the AMB-AGBAR Agreement, that clearly defines the recovery of residual asset value at termination.
- **Revenue stability.** AB’s strong and recurrent cash flow generation is underpinned by the regulated nature of the water business and the characteristics of the AMB-AGBAR Agreement. The Tariff formula covers AB’s ordinary and extraordinary costs, limits AB’s volume exposure and allows adequate remuneration for AB’s shareholders.
- **Support of major worldwide operator.** AB is part of the AGBAR group, which has recognised international experience in the management of the full water cycle, with high standards of quality and efficiency.
- **Financial stability.** The combination of recurrent cash flows and a conservative capital structure with a low level of debt which debt has a long-term enables AB to achieve sound financial ratios. AB’s financial stability is expected to be maintained in the future with the cash flow broadly covering AB’s capital expenditure and dividends. Given the nature of AB’s shareholders, AB applies a prudent financial policy and, as a result, expects to pay a recurring and stable annual dividend to its shareholders based on the net income generated. See below a table setting out the financial profile of the combined Water Supply Business and the Sewage Transport, Treatment and Reuse Business (extracted from the Combined Financial Statements) as at 31 December 2013. See “*Presentation of Financial and Certain Other Information and Currency Presentation – Combined Financial Information*”. The Water Supply Business and the Sewage Transport, Treatment and Reuse Business are both now carried on by AB.



Source: AB: Combined Financial Statements.

### **New business opportunities**

AB’s strategy is to focus on its core water business and to improve efficiency in the full water cycle. In the future, AB may consider new concessions in the Barcelona Metropolitan Area, and in accordance with the recent Decree-law 2/2014, a revised funding system for its sewage treatment business and related investment needs may be implemented by the ACA and AMB. See “*Regulation*”.

## OVERVIEW OF THE OFFERING

*The following overview of the offering of the Notes is derived from, and should be read in conjunction with, the full text of the Conditions, the Guarantee and the Trust Deed (as defined herein), which shall prevail to the extent of any inconsistency with this overview. Capitalised terms used but not otherwise defined herein have the respective meanings given to such terms in the relevant Conditions.*

<b>Issuer:</b>	Aigües de Barcelona Finance, S.A.U., incorporated as a public limited liability company ( <i>sociedad anónima</i> ) under the laws of Spain.
<b>Guarantor:</b>	Aigües de Barcelona, Empresa Metropolitana de Gestió del Cicle Integral de l'Aigua, S.A., incorporated as a public limited company ( <i>sociedad anónima</i> ) under the laws of Spain.
<b>Notes offered:</b>	€200,000,000 aggregate principal amount of 1.944 per cent. Notes due 2021 (the "Notes").
<b>Issue Price:</b>	100 per cent.
<b>Maturity Date:</b>	15 September 2021
<b>Guarantee:</b>	The Guarantor has agreed, in the Guarantee, unconditionally and irrevocably to the maximum extent permitted by law, to guarantee the due and punctual payment of all sums from time to time payable by the Issuer in respect of the Notes.
<b>Form and Denominations:</b>	The Notes will be issued in registered form in denominations of €100,000 and integral multiples of €1,000 in excess thereof. The Notes will be represented on issue by the Global Certificate in registered form, without interest coupons, and will be delivered to the Common Safekeeper. Interests in the Global Certificate will be exchangeable for Definitive Certificates only in certain limited circumstances outlined therein. See " <i>Summary of Provisions Relating to the Notes in Global Form</i> ".
<b>Interest:</b>	The Notes will bear interest from and including the Issue Date at the rate of 1.944

per cent. per annum and will be payable annually in arrear on 15 September in each year, commencing on 15 September 2015.

**Status of the Notes:**

The Notes will constitute direct, unconditional, unsubordinated and (without prejudice to Condition 5 (*Negative Pledge*)) unsecured obligations of the Issuer which will at all times rank *pari passu* among themselves and at least *pari passu* in right of payment with all other present and future unsecured and unsubordinated obligations of the Issuer, save for such obligations as may be preferred by mandatory provisions of law. See Condition 3 (*Status of the Notes*).

**Status of the Guarantee:**

The Guarantee of the Notes will constitute direct, unconditional, unsubordinated and (without prejudice to Condition 5 (*Negative Pledge*)) unsecured obligations of the Guarantor which will at all times rank at least *pari passu* in right of payment with all other present and future unsecured and unsubordinated obligations of the Guarantor, save for such obligations as may be preferred by mandatory provisions of law. See Condition 4 (*Guarantee*).

**Optional Redemption for Taxation Reasons:**

The Issuer may, but is not required to, redeem the Notes at any time in whole but not in part, upon not less than 30 nor more than 60 days' notice (which notice shall be irrevocable), at 100 per cent. of the principal amount thereof, plus accrued and unpaid interest and all Additional Amounts (if any), to the redemption date in the event that the Issuer or, if the Guarantee were called on for payment, the Guarantor, has become or would become obligated to pay additional amounts as a result of certain changes in tax laws or their interpretation. See Condition 8(b) (*Redemption for Taxation Reasons*).

**Optional Redemptions at the Option of the Issuer:**

The Issuer may, on any date prior to 15 June 2021, upon giving notice in accordance with the Conditions, redeem all the Notes at the Optional Redemption

Amount together with interest accrued and, Additional Amounts, if any, to (but excluding) the date fixed for redemption. In addition, the Issuer may, on any date from (and including) 15 June 2021, upon giving notice in accordance with the Conditions, redeem all the Notes at their principal amount together with interest accrued and, Additional Amounts, if any, to (but excluding) the date fixed for redemption. See “*Conditions – Redemption and Purchase – Redemption at the Option of the Issuer*”.

**Negative Pledge:**

The Notes will have the benefit of a negative pledge as described in Condition 5 (*Negative Pledge*).

**Withholding Tax and Additional Amounts:**

Subject to Condition 9 (*Taxation*), all payments payable by or on behalf of the Issuer or the Guarantor (including any successor person) under or with respect to the Notes and the Guarantee will be made free and clear of, and without withholding or deduction for or on account of Taxes (as defined in Condition 19 (*Definitions*)) imposed or levied by or on behalf of the jurisdiction of organisation of the Issuer or the Guarantor (including any successor person), or any jurisdiction from or through which payment is made and (if different) any jurisdiction in which the payor is resident for tax purposes at the time of payment, and any political subdivision or taxing authority thereof or therein, unless such withholding or deduction is required by law. In that event, the Issuer or the Guarantor (including any successor person), as the case may be, shall pay such additional amounts as will result in Noteholders or beneficial owners of the Notes receiving such amounts as they would have received had no such withholding or deduction been required subject to certain exceptions as are more fully described in Condition 9 (*Taxation*).

**Cross Default:**

The Notes will have the benefit of a cross default. See Condition 11 (*Events of Default*).



– *Cross Default*).

**Governing law:**

The Trust Deed, the Notes and the Guarantee, including any non-contractual obligations arising out of or in connection with the Trust Deed, the Notes and the Guarantee, will be governed by and construed in accordance with English law.

**Use of Proceeds:**

The proceeds from the issue of the Notes will be applied by the Issuer to lend to AB pursuant to the Credit Facility (as defined below), and will be used by AB to refinance an existing intercompany loan and for its general corporate purposes.

**Listing and Admission to Trading:**

Application has been made to list the Notes on the Official List of the Luxembourg Stock Exchange and to trading on the Luxembourg Stock Exchange's Euro MTF Market. The Euro MTF Market is not a regulated market for purposes of the provisions of Directive 2004/39/EC.

**Ratings:**

The Notes are expected to be assigned a rating of Baa1 by Moody's.

A securities rating is not a recommendation to buy, sell or hold the Notes. Ratings may be subject to suspension, reduction or withdrawal at any time by the assigning rating organisation.

**Selling Restrictions:**

The Notes have not been and will not be registered under the Securities Act. The Notes are being offered and sold outside the United States by the Joint Coordinators in accordance with Regulation S, and may not be offered, sold or delivered within the United States or to, or for the account or benefit of, U.S. Persons (as defined in Regulation S), except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. In addition, there are limitations on offers and sales of Notes in certain other jurisdictions. See "*Placing and Sale*".

**Clearance and Settlement:**

The Notes have been accepted for clearance

through Euroclear and Clearstream.

**Security Codes:**

ISIN: XS1107552959

Common Code: 110755295

**Trustee:**

Deutsche Trustee Company Limited

**Principal Paying Agent:**

Deutsche Bank AG, London Branch

**Registrar:**

Deutsche Bank Luxembourg S.A.

**Risk factors:**

An investment in the Notes involves a certain degree of risk. Investors should carefully review the risks described herein under “*Risk Factors*” on page 13 of this Offering Circular.

## RISK FACTORS

*An investment in the Notes involves a certain degree of risk. Prospective investors should carefully consider the risks described below and the other information contained in this Offering Circular before making a decision to invest in the Notes. Any of the following risks, individually or together, could adversely affect AB's business, results of operations, financial condition and prospects, in which case the trading price of the Notes could decline and investors could lose all or part of their investment.*

*AB and the Issuer believe that the following factors may affect their ability to fulfil their obligations under the Notes. Most of these factors are contingencies which may or may not occur and neither AB nor the Issuer is in a position to express a view on the likelihood of any such contingency occurring. In addition, risk factors which are specific to the Notes are also described below.*

*AB and the Issuer believe that the factors described below represent the principal risks inherent in investing in the Notes, but the inability of the Issuer to pay interest, principal or other amounts on or in connection with the Notes may occur for other reasons and neither AB nor the Issuer represents that the statements below regarding the risks of holding the Notes are exhaustive. Prospective investors should also read the detailed information set out elsewhere in this Offering Circular and reach their own views prior to making any investment decision.*

### **Risks relating to AB and its business**

#### ***The economic environment and capital markets conditions could adversely affect AB's profitability***

In recent years, the global banking crisis and economic downturn have impacted the bank-lending environment as well as the debt and equity capital markets. This has resulted in the cost of capital increasing and has made the arranging of finance and the issuance of new equity and debt capital more expensive and difficult to secure. In addition, certain countries in Europe, including Spain, currently have large sovereign debts and/or fiscal deficits and this has led to uncertainty in the markets as to whether or not the governments of those countries will be able to pay in full, and on time, the amounts due in respect of those debts. These concerns have led to significant increases in secondary market yields for sovereign debt of the affected countries, including Spain, and also to significant exchange rate volatility, especially with respect to the euro. Furthermore, continued concern about the fiscal position of the governments of the affected countries has also raised concerns regarding the exposures of banks to such countries, especially banks within Europe. These concerns have led to such banks being unable to obtain funding in the interbank market, or interbank funding becoming available only at high interest rates, which caused such banks to suffer liquidity stress and reduced the credit available to the private sector. AB believes such liquidity risk would not affect AB or the Issuer significantly as AB diversifies its sources of financing between banking and capital markets and has secured credit facilities for sufficient amounts (see "*Capitalisation and Indebtedness – Revolving Credit Facility*").

Although the situation has improved in recent months and Spanish government and corporate yields have decreased significantly in the primary and secondary bond markets, AB is not able to predict how the economic cycle is likely to develop in the coming years, or whether there will be further deterioration of the Spanish economy. A recession or an uncertain macroeconomic climate could have two main impacts on AB's revenues: a possible reduction

in demand and an increase in customers' non-payment rates. Any reduction in demand would be mitigated because the formula used to determine the water supply tariff applicable to AB's customers (the "**Tariff**") set by Àrea de Metropolitana de Barcelona ("**AMB**") includes a mechanism to offset any such reduction. For a more detailed explanation of the Tariff formula, see "*Risk Factors— Non-approval of an adequate Tariff by AMB may lead to the non-coverage of all of AB's costs until a claim for compensation by AB is decided by AMB or the courts*". As regards an increase in non-payment rates, the historic cost of defaults has remained moderate and stable despite the difficult economic environment in recent years. However, in the context of a financial crisis, AB's financial costs could be higher in the future. Any reduction in demand or increase in non-payment rates could have a material adverse effect on AB's business, financial condition, results of operations and prospects.

***Operational failures or interruptions in the Facilities operated by AB may affect AB's financial position and operating results or harm AB's reputation***

AB may suffer a major failure or interruption in its Facilities (as defined in "*Description of the Guarantor*") and may not be able to carry out critical non-network operations. Operational performance could be materially adversely affected by a failure to maintain the health of the system or the network, inadequate forecasting of demand or inadequate record keeping or any failure of information systems and supporting technology. This could cause AB to fail to meet agreed standards of service or incentive and reliability targets (see "*Description of the Guarantor—The Water Supply Tariff*") or be in breach of a licence, authorisation, approval, or any other regulatory requirement or contractual obligation, and even incidents that do not amount to a breach could result in adverse regulatory and financial consequences, affect AB's financial position and operating results or harm AB's reputation. While AB seeks to obtain, and in fact does obtain, insurance cover in respect of those risks which could result in damages and loss of profit, its financial position and operating results may be adversely affected to the extent that any losses are uninsured, exceed the applicable limitations under its insurance policies, are subject to the payment of an excess towards the insured amount or to the extent that the premiums payable in respect of such policies are increased as a result of insurance claims. See "*Description of the Guarantor— Business*".

***Events outside AB's control, service interruptions, system failures, contamination of water, or terrorist attacks could adversely affect profitability***

AB controls and operates the Facilities and maintains the associated assets with the objective of providing a continuous service. AB's operations involve the occasional use, handling, storage, transportation and disposal of hazardous materials for the potabilisation and purification of water. In connection with hazardous materials, AB complies with Regulation (EC) No 1907/2006 of the European Parliament and of the Council of 18 December 2006 concerning the Registration, Evaluation, Authorisation and Restriction of Chemicals (REACH). AB has implemented internal protocols for handling each of the hazardous chemical materials used in the Facilities. AB's Facilities using hazardous materials (such as gas or chlorine) have a corresponding auto-protection plan establishing the performance standards to be followed in hazardous environments.

In exceptional circumstances, a significant interruption of service provision or catastrophic damage could occur, resulting in: significant loss of life, environmental damage, or economic and social disruption. Such circumstances might arise, for example, from explosions, pollution, energy shortages, release of toxic substances or chemical products, fires, adverse weather conditions, sabotage, earthquakes, human error, accidental damage to AB's water

supply network and other hazards and force majeure events.

Any of the abovementioned events that may cause damage to the environment, property or health of individuals could give rise to claims against AB, and if such damage was attributable to AB's actions, AB could be held liable from an administrative, civil, or even criminal perspective. If any such accidents, injuries or incidents do occur, AB's insurance may not adequately cover the associated costs and these events could therefore have an adverse effect on AB's profitability.

In addition, AB could be fined for breaches of legal obligations, civil investigations could be opened or lawsuits could be brought seeking damages for any harm to third parties, and AB and its directors could also be subject to criminal sanctions.

AB is not generally able to predict the occurrence of these or similar events and they may cause unanticipated interruptions in its Water Supply Business and in the Sewage Transport, Treatment, and Reuse Business. Such events could lead to the loss of use of one or more of the Facilities for an extended period of time and disrupt AB's ability to supply and purify water, having a material adverse effect on AB's business, financial condition, results of operations and prospects.

Terrorist attacks have created many economic and political uncertainties. AB cannot predict the extent to which terrorism or security alerts may directly or indirectly impact AB's business and operating results. If any such terrorist event were to affect the Facilities or the region where AB operates, this could have a material adverse impact on AB's business and prospects.

***AB's business is concentrated in the Barcelona Metropolitan Area and any negative circumstances occurring in that area could have an impact on AB's business***

AB's business is focused exclusively in the Barcelona Metropolitan Area. AB's activities are concentrated and depend on the economic, demographic and urban development growth of this region only. Accordingly, all sources of AB's revenue come from operations in a limited geographical area.

As a result, risks such as extreme weather, instances of illness or accidents, political or economic instability, social unrest, environmental events, could have a more extreme effect on AB's business in comparison with more geographically diversified businesses. Any of these events may have a material adverse effect on AB's business, financial condition, results of operations and prospects.

***A reduction in the consumption of water could temporarily affect AB's financial position until the approval of the next annual Tariff***

A reduction in the consumption of water by AB's customers would have an immediate impact on the financial situation of AB. Any such impact would be cured in the following annual Tariff review which would take into account the costs assumed by AB that were not covered by the previous Tariff but arose from such reduction in consumption. Until AMB approved the next annual Tariff, AB would have to assume such costs, which would have a material adverse effect on AB's business, financial condition, results of operations and prospects.

***Any increase in Water Supply Service Costs arising from a deficient performance by AB or its inefficiency would not be compensated by AMB or via the Tariff and AMB's***

***introduction of the service incentive mechanism implemented in the Framework Agreement could adversely affect profitability***

The AMB-AGBAR Agreement provides, in general terms, that, among other things, any increase in the costs related to the water supply service as well as any investments to be made in respect of the water supply network, the related financial expenses, the technical depreciation of the assets related to the water supply service, the ordinary costs associated with the management of the water supply service, and the return due to shareholders (together, the “**Water Supply Service Costs**”) must be covered by the Tariff. However, AMB is not obliged to compensate AB for any increase in the Water Supply Service Costs arising from a deficient performance by AB or from AB’s inefficiency. As a result, any increase in the Water Supply Service Costs arising from a deficient performance by AB or from AB’s inefficiency would have a material adverse effect on AB’s business, financial condition, results of operations and prospects.

The service incentive mechanism implemented in the Framework Agreement (the “**Service Incentive Mechanism**”) compares AB’s actual performance with the targets set by AMB in terms of the quality of the service that AB delivers to its customers. The Service Incentive Mechanism could lead to AB receiving a reduced or increased Tariff depending on its performance. In the event that AB renders a deficient performance according to the Framework Agreement, AMB could award a lesser annual Tariff increase and that would have a material adverse effect on AB’s business, financial condition, results of operations and prospects. For a detailed description of the Service Incentive Mechanism, see “*Description of the Guarantor—The Water Supply Tariff*”.

***AB has exposure to credit risk arising from its commercial activity***

AB’s credit policy regulates the assessment of customers’ and other financial counterparties’ credit standing, the monitoring of expected collection flows, the issue of suitable reminders to customers, the granting of extended credit terms if necessary, the taking of prime bank or insurance guarantees and the implementation of suitable recovery measures. As at the date of this Offering Circular, AB’s payment default rate is very low, at 0.7 per cent. Notwithstanding the foregoing, a significant increase in current default rates by AB’s customers generally could have a material adverse effect on AB’s business, results of operations, financial condition and prospects and the market value of the Notes and/or on AB’s ability to repay the Notes in full at their maturity.

***AB relies on independent contractors and sub-contractors for the provision of certain services to its customers and any breach by such contractors or sub-contractors could harm AB’s ability to effectively operate AB’s business and subject AB to data loss, litigation and liability***

AB uses and/or engages independent third-party contractors and sub-contractors to provide various services, including the supply of water for distribution, the supply of electricity, construction, security and maintenance services. There can be no assurance that the services rendered by any independent third-party contractor or sub-contractor engaged by AB will be satisfactory. Negligence on the part of AB’s contractors and sub-contractors may also cause accidents that could damage the Facilities or result in injuries to AB’s employees or third parties. AB is also exposed to the risk that AB’s contractors and sub-contractors may require additional capital to complete an engagement in excess of the price originally tendered and AB may have to bear additional costs as a result. Furthermore, there is a risk that AB’s major contractors and sub-contractors may experience financial or other difficulties, such as labour

disputes or problems with their supply chains, which may affect their ability to discharge their obligations, thus impacting AB's operations or resulting in additional costs for AB and materially and adversely affecting AB's business, financial condition, results of operations and prospects.

***AB relies on IT in its operations and any material failure, inadequacy, interruption or breach of security of that technology could harm AB's ability to effectively operate AB's business and subject AB to data loss, litigation and liability***

AB is dependent upon the ability to access, utilise and communicate remotely via electronic software applications, mounted upon corporate information technology hardware and communicating across internal and external networks. AB's computer systems and technology platforms are provided by leading corporations in the sector meeting high quality standards. The more critical and sensitive information technology ("IT") systems are protected by contingency plans and covered with external services and support on a 24/7 basis. In respect of the software, AB's servers are replicated in various locations, and back-ups are performed on a daily basis, in order to mitigate any impact on AB's business, commercial, accounting or financial infrastructure. Nevertheless, the ownership, maintenance and recovery of such applications' hardware and networks are not wholly under AB's control.

Despite AB's efforts and the technology it employs to secure its computer network, security could be compromised. AB collects and retains personal data in respect of its employees and its customers. Third parties may have the technology or know-how to breach the security safeguards that AB has in place to protect this kind of information. If a person is able to circumvent AB's security measures, he or she could destroy or steal valuable information or disrupt AB's operations.

AB collects and retains large volumes of internal and customer data that is entered into, and processed, summarised and reported by AB's various information systems. If the data is not accurate or complete, AB could make faulty decisions. Any virus, security breach, loss, or theft of company, customer or employee data could cause AB to incur significant costs in reimbursing third parties for damages, which could have a material adverse effect on AB's business, financial condition, results of operations and prospects.

***Failure to comply with data protection or privacy laws could result in liability for AB and changes in such laws could adversely affect AB***

AB is subject to a number of data protection and privacy laws. If AB fails to comply with such laws or to follow appropriate procedures with regard to the data of AB's employees, customers or suppliers, AB could face liability. Any leak or misuse of personal data could have a material adverse effect on AB's business, financial condition, results of operations and prospects.

***Work stoppages and other employee related issues could negatively impact AB's future profits***

The impact of any labour conflict is undetermined and could negatively impact AB's profits. AB's employees may engage in protests, work stoppages or strikes in response to any labour policies adopted by AB, whether they deem them to be unfair or otherwise. A strike or other work stoppage at the Facilities, or, among other things, a new collective bargaining agreement that is less favourable to AB, could have an adverse effect on AB's business. Spanish law provides that certain "minimum services" must be provided in the event of a work stoppage in the water services sector, which should prevent a complete supply

interruption. However, AB cannot guarantee that in the event of any work stoppage those “minimum services” would be rendered. In any case, work stoppages could have a material adverse effect on AB’s business, financial condition, results of operations and prospects.

***AB’s insurance coverage may not be adequate to cover all possible losses that it could suffer and AB’s insurance costs may increase***

Companies engaged in the water supply, waste sewage treatment and purified water reuse businesses may be sued for substantial damages in the event of an actual or alleged accident. An accident occurring either at the Facilities or affecting the facilities or the assets of other companies or AB’s customers as a consequence of any such accident may increase AB’s insurance premiums and negatively impact AB’s operating results. Although AB carries annual liability insurance to cover this risk, there can be no assurance that AB’s coverage will be adequate to cover liabilities, or that AB will be able to obtain adequate coverage should a catastrophic incident occur.

AB will continue to use commercially reasonable efforts to maintain sufficient insurance coverage. There can be no assurance, however, that it will be able to obtain adequate levels of insurance to protect against law suits and judgments in connection with accidents that may occur in its Facilities or affect its customers. The international insurance market is volatile and therefore there can be no guarantee that existing cover will remain available or will be available at commercially acceptable rates.

***AB’s tax burden could increase due to changes in tax laws, rules or treaties or their application or interpretation, adverse decisions of tax authorities or current or future tax audits***

As a result of future tax audits or other review actions of the relevant tax authorities, additional taxes could be identified, which could lead to an increase in AB’s tax obligations, either as a result of the relevant tax payment being levied directly on AB or as a result of AB becoming liable for tax as a secondary obligor due to a primary obligor’s (such as, for example, an employee’s) failure to pay. Tax authorities in Spain and in other European countries are routinely challenging corporate transactions, including financings such as the issue of the Notes. Any future audit may require AB to pay additional taxes (and any accrued interest and penalties). Economic instability and difficult economic conditions in Spain have resulted in a decline in tax revenue obtained by the Spanish public administration, which has resulted in the past and may result in the future in higher effective tax rates. AB may not be able to absorb future increases in taxation and, as a result, will have to pass on the increases to its customers. Furthermore, general limitation on the tax deductibility of financial expenses has been modified in the past and may be modified in the future, which could have an impact on the interest tax deductibility of AB.

***Litigation***

The agreement of the Metropolitan Council of AMB, of 6 November 2012, pursuant to which the Integral Water Cycle Service was formally established (the “**AMB Regulation**”), the validity of the incorporation of AB and the agreement entered into on 30 July 2013 between AMB and AGBAR that regulates all aspects of the incorporation of AB (the “**AMB-AGBAR Agreement**”) are being challenged before the Catalan High Court of Justice (*Tribunal Superior de Justicia de Catalunya*) by several competitors of AGBAR: Sociedad Española de Abastecimientos, S.A., Aguas de Valencia, S.A., Aqualia gestión integral del agua, S.A., Acciona Agua, S.A., and ATLL Concessionària de la Generalitat de Catalunya, S.A.



Although AMB, AGBAR and AB do not consider that the claims of AGBAR’s competitors are founded on solid grounds, in the unlikely event that the claims were upheld by the Spanish courts it would be expected that AMB and AGBAR would be reimbursed the contributions they made upon the incorporation of AB and would be returned to the position they were in before the incorporation of AB. Consequently, AMB would operate the Sewage Transport, Treatment and Reuse Business (see “*Description of the Guarantor - Overview*”) and AGBAR or any other subsidiary thereof would operate the metropolitan Water Supply Business (see “*Description of the Guarantor - Overview*”) (directly or indirectly be it through AB (if AB is not wound-up) or another subsidiary). For a more detailed description of this litigation, see “*Description of the Guarantor– Litigation – Judicial review of AMB’s decision to incorporate AB*”, and for a more detailed description of matters relating to AB’s incorporation, see “*Incorporation of AB; joint management of the Integral Water Cycle Service*”. If a Transfer Event (as defined in the Conditions) occurs (i.e., if AGBAR or any other subsidiary thereof (other than AB) were to directly manage the Water Supply Business rather than through AB), the Issuer and the Guarantor have undertaken in the Conditions to cause AGBAR or any such subsidiary thereof (except for AB) to guarantee the obligations of the Issuer under the Notes and the Trust Deed, and AGBAR has undertaken to the Issuer and the Guarantor to assume, and to procure that such other subsidiary of AGBAR will assume, all the duties and obligations of the Guarantor under the Notes and the Trust Deed in accordance with the Conditions. Upon the effective date of the guarantee given by AGBAR or such other subsidiary thereof (except for AB), the Guarantor will be released and discharged from its obligations under the Notes and the Trust Deed (including the Guarantee). However, a Transfer Event does not give rise to an optional redemption right for the Noteholders. See “*Terms and Conditions of the Notes – Undertaking by AGBAR*”.

Furthermore, AB is involved in litigation and regulatory actions in the ordinary course of its business. There can be no guarantee that AB will be successful in defending against civil and administrative suits or regulatory actions, such as matters related to public and employee safety and environmental laws and regulations as well as the claim mentioned above. Regardless of its outcome, any litigation and regulatory action may result in substantial costs and expenses and divert the attention of AB’s management. In addition to pending matters, future litigation, government proceedings, labour disputes or environmental matters could lead to increased costs or interruption of AB’s normal business operations and could have a material adverse effect on its business, financial condition, results of operations and prospects.

### **Risks relating to regulation of AB**

AB operates in an industry which is substantially influenced by the service levels, regulatory targets and price determinations set by its economic regulator, AMB (see “*Description of the Guarantor—Business*”). In addition, water utilities in Spain are governed by rigorous sectorial and environmental regulations. Any decision adopted by a public authority, such as AMB or Agència Catalana de l’Aigua (the “ACA”), which affects AB’s business or rights, can be challenged by AB before the contentious-administrative courts.

There are two different public authorities which can exercise public prerogatives over AB’s business. AMB is the main regulator of AB’s activity and holds the public prerogatives to regulate and intervene in the integral water cycle service, which covers water supply, wastewater treatment and the purification and reuse of purified water (the “**Integral Water Cycle Service**”). The operation of the Integral Water Cycle Service and AMB’s prerogatives are regulated in the AMB-AGBAR Agreement.

The ACA, a public authority integrated in the Catalan Regional Government, is the regulator which holds the public prerogatives in respect of the concessions to capture water (from the Llobregat River and from engineered devices that are used to capture groundwater (the “Wells”)) and the Facilities operated by AB that are part of a specific system under Catalan legislation for the provision of water to the Barcelona Metropolitan Area, called the “**Ter-Llobregat System**” or the “**Ter-Llobregat Basic Network**”. For a detailed description of AB’s Facilities and the Ter-Llobregat System, see “*Description of the Guarantor—Business*”.

***Non-approval of an adequate Tariff by AMB may lead to the non-coverage of all of AB’s costs until a claim for compensation by AB is decided by AMB or the courts***

According to Spanish law and pursuant to the AMB-AGBAR Agreement, AMB has to approve the Tariff on the basis that the Tariff has to be sufficient to cover the Water Supply Service Costs assumed by AB in order to provide water supply services. In the event that the Water Supply Service Costs increase at any time, AMB is obliged to approve a new Tariff which will cover such increase pursuant to the terms of the AMB-AGBAR Agreement or pay compensation to AB.

In addition, AMB has a statutory obligation, established in the Royal Legislative Decree 3/2011 of 14 November, which approves the public sector contracts Law (“**Royal Legislative Decree 3/2011**”), to guarantee the economic and financial balance of the AMB-AGBAR Agreement (the “**Economic Balance**”) (see “*Regulation*”). This obligation entails that the Water Supply Service Costs have to be adequately covered by the income raised by AB through the Tariff. In the event that a breakdown of the Economic Balance occurred (due to an increase in costs or a decrease in income), AMB would be obliged to restore the Economic Balance, by approving a higher Tariff or by paying compensation to AB.

The Tariff is authorised by the Catalan Price Commission (a commission within the Catalan Regional Government). The successive annual Tariff reviews for the period 2015-2019 will be carried out according to the Tariff formula set out in the Framework Agreement, allowing for the recovery of the Water Supply Service Costs.

The Tariff in force in 2014 was approved by AMB in November 2013 on the basis of an application and Tariff study submitted by AB, and amounts to an increase of 8.56 per cent. on the Tariff previously applied.

In the event that AMB decides to approve a Tariff which is lower than the Water Supply Service Costs, AMB would have to compensate AB. However, a dispute could arise between AMB and AB in respect of this compensation, for instance, if AMB considered that an increase of the Water Supply Service Costs had not been adequately proven. AB’s financial position could be temporarily affected by the assumption of this increase in costs, until any dispute was decided by the Spanish courts, and could continue to be affected thereafter if any dispute was not decided in AB’s favour. For a more detailed description of the AMB-AGBAR Agreement and the Framework Agreement, see “*Description of the Guarantor—The AMB-AGBAR Agreement*”.

***Environmental requirements and liabilities and other regulatory changes may have an impact on AB’s result of operation***

AB is subject to extensive environmental regulations on a European, national, regional and local level. Over recent years, these environmental regulations have increased and changed rapidly and have caused a corresponding increase in the cost of compliance and have

impacted AB's operations. These regulations govern, among other things, air and noise emissions, protected spaces, wastewater and storm water discharges and uses, oil spillages, the maintenance of above-ground and underground storage tanks, the use, release, storage, disposal, handling and transportation of, and exposure to, chemicals and hazardous substances, and otherwise relate to health and safety and the protection of the environment, natural resources and the remediation of contaminated soil and groundwater.

Those regulations are often complex and fragmentary, and their application and interpretation by the relevant authorities are sometimes unpredictable or more restrictive, which causes difficulties and uncertainties for companies operating in the water treatment and supply sector, and may give rise to litigation. All these factors could have a material adverse effect on AB's business, financial condition, results of operations and prospects.

Any significant regulatory changes that entail an increase in AB's Water Supply Service Costs would have an immediate impact on the financial situation of AB. In certain circumstances, AB may have the right to adjust the terms of the AMB-AGBAR Agreement or to apply for an increase in the Tariff in order to compensate AB for such increase. However, a dispute could arise between AMB and AB. AB's financial position could be temporarily affected by the assumption of this increment of the Water Supply Service Costs, until any dispute was resolved by the Spanish courts, and could continue to be affected if any dispute was not decided in AB's favour.

Furthermore, violations of environmental laws and regulations could lead to significant fines and penalties and also temporary closures of the Facilities. Such laws and regulations can impose clean-up responsibility and liability without regard to whether the owner knew of or caused the presence of contaminants. If hazardous substances are located on or released from one of AB's properties, AB could incur substantial liabilities through a private party personal injury claim, a claim by an adjacent property owner for property damage or a claim by a governmental entity for other damages, such as natural resource damages.

EC Directive 2004/35/EC on environmental liability with regard to the prevention and remedying of environmental damage (the "**Environmental Liability Directive**") implemented a "polluter pays" principle for remedying environmental damage. Its fundamental aim is to hold operators whose activities have caused environmental damage financially liable for remedying the damage. In addition, the Environmental Liability Directive holds those whose activities cause an imminent threat of environmental damage liable to take preventative actions.

The Environmental Liability Directive was implemented into Spanish law by Law 26/2007 on environmental liability, approved on 27 October 2007, and developed by Royal Decree 2090/2008, approved on 22 December 2008 ("**Law 26/2007**"). Law 26/2007 upholds the "polluter pays" principle and imposes strict prevention, avoidance and remedy obligations on operators for damage and threat of damage to the environment. The Spanish regulation is stricter than the minimum requirements imposed by the Environmental Liability Directive in that it promotes necessary awareness and responsibility within the private sector for damages and risks to the environment that operators' activities carry. Any liability arising under Law 26/2007 could have a material adverse effect on AB's business, financial condition, results of operations and prospects.

***Unilateral modification by AMB of the AMB-AGBAR Agreement could affect AB's rights or obligations or the consideration payable to AB under that agreement and could adversely affect the ability of AB to operate its business***

AMB is entitled to modify the AMB-AGBAR Agreement unilaterally. Any such modification could affect AB's rights or obligations or the consideration payable to AB under the AMB-AGBAR Agreement. Even if AB or AGBAR opposed any such decision to modify the AMB-AGBAR Agreement, AMB could impose any such modification on AB, which would be obliged to comply with it. However, AMB is obliged to compensate AB for any additional costs or any loss of rights pursuant to the terms of the AMB-AGBAR Agreement, which provides that AMB has a legal obligation to guarantee the Economic Balance of the AMB-AGBAR Agreement. Nonetheless, any such unilateral modification could have a material adverse effect on AB's business, financial condition, results of operations and prospects.

***Modification by the ACA of the 1953 Concession and/or the Facilities operated by AB that are part of the Ter-Llobregat System could adversely affect the ability of AB to operate its business***

The ACA holds public prerogatives under Catalan legislation over the concessions to capture water and the Facilities that are part of the Ter-Llobregat System. For instance, AB operates a concession to capture surface water from the Llobregat River to provide drinking water to the Barcelona Metropolitan Area, which was granted to AGBAR by the Spanish Public Works Ministry (*Ministerio de Obras Públicas*) in 1953 (the "**1953 Concession**"), and groundwater via the Facilities that are part of the Ter-Llobregat System, including the water treatment plant ("**WTP**") at Sant Joan Despí, built by AGBAR pursuant to the 1953 Concession (the "**Sant Joan Despí WTP**"), which are owned by AGBAR and which are operated by AB by virtue of a usufruct granted to AB by AGBAR. For a more detailed description of the Facilities, see "*Description of the Guarantor— Business*".

The ACA may modify or revoke the concessions and/or the Facilities operated by AB that are part of the Ter-Llobregat System in order to reduce their capture capacity. Any such modification could only arise because of: (i) changes in the circumstances that justified the original grant of these concessions; (ii) a force majeure event; or (iii) requirements under any hydrological plans approved by the Catalan Regional Government. AB would have the right to be compensated in the event that the modification was due to the hydrological plans approved by the Catalan Regional Government. Any attempt to revise the concession on different grounds could be challenged by AB before the contentious-administrative courts. Nonetheless, any such modification or revocation by the ACA could have a material adverse effect on AB's business, financial condition, results of operations and prospects.

***Termination of the AMB-AGBAR Agreement by AMB, regardless of any fault by AB, with the aim of recovering the management of the Integral Water Cycle Service by AMB would have a significant impact on AB's business***

AMB can terminate the AMB-AGBAR Agreement at any time if such termination is justified for public interest reasons, and AMB would thereafter itself have to operate the Integral Water Cycle Service directly. AB would have to be compensated for investments not amortised, the loss of profits and any other damages arising from any such termination of the AMB-AGBAR Agreement. AB is of the view that this is unlikely to occur because of the high compensation that would have to be paid by AMB, and because AMB would have to directly operate the Integral Water Cycle Service, and would not be permitted to call for offers for a new concession.

In any event, AB would still own and operate the rights and assets which are not related to the Integral Water Cycle Service, such as assets related to the capture of water from the Llobregat River and Wells. These include the 1953 Concession and the Sant Joan Despí

WTP, which is the site of its main drinking water processing activities. Nonetheless, any termination of the AMB-AGBAR Agreement would end the management and operation of the Integral Water Cycle service by AB, and would have a material adverse effect on AB's business, financial condition, results of operations and prospects.

***Termination by AMB of the AMB-AGBAR Agreement on a material breach of the AMB-AGBAR Agreement by AB or the insolvency of AB would have a significant impact on AB's business***

AMB is entitled to terminate the AMB-AGBAR Agreement unilaterally if AB commits a material breach of the AMB-AGBAR Agreement or if AB becomes insolvent. The consequences of the termination of the AMB-AGBAR Agreement on either of these grounds would be that: (i) the Facilities and assets related to the Integral Water Cycle Service, which were contributed to AB on its incorporation by AGBAR would revert to AMB (this reversion would not affect the concessions and the Facilities held by AGBAR and operated by AB for the capture of water from the Llobregat River and Wells such as the 1953 Concession and the Sant Joan Despí WTP); (ii) AMB would have to pay to AB that part of the value of such assets that AB had not recovered through the Tariff, in accordance with the technical depreciation criteria which are set out in the AMB-AGBAR Agreement and are applied to the useful life of the assets initially contributed by AGBAR, or acquired by AB, during the term of the AMB-AGBAR Agreement; and (iii) if the AMB-AGBAR Agreement were to be terminated on the grounds of a material breach attributable to AB, AB would be liable for the damages caused to AMB, which could have a material adverse effect on AB's business, financial condition, results of operations and prospects.

***On the termination of the AMB-AGBAR Agreement for any other reason the Sewage Transport, Treatment and Reuse Business and the Facilities related to it would revert to AMB***

The AMB-AGBAR Agreement may be terminated on other grounds including for the grounds described under risk factor "Litigation" as well as a change to the legal framework governing the Integral Water Cycle Service. The consequences of the termination of the AMB-AGBAR Agreement on these grounds would be different to the applicable general legal regime for material breaches or insolvency. On a termination on these grounds, pursuant to Section 15 of the AMB-AGBAR Agreement, AMB and AGBAR would recover the contributions that they had made upon the incorporation of AB and would be returned to the position they were in before the incorporation of AB. Therefore, the Facilities and assets related to the Water Supply Business (see "Description of the Guarantor - Overview") which were contributed to AB on incorporation by AGBAR would not revert to AMB. AMB would manage the Sewage Transport, Treatment and Reuse Business (see "Description of the Guarantor - Overview") and AGBAR would continue to operate the Water Supply Business to the Barcelona Metropolitan Area directly or indirectly through AB. AGBAR (operating directly or indirectly through AB) would continue to apply the Tariff in force at the time of any such early termination and AGBAR would continue to manage its concessions and the Facilities held by AGBAR and operated directly or indirectly through AB for the capture of water from the Llobregat River and Wells (such as the 1953 Concession and the Sant Joan Despí WTP). If this event occurs and a Transfer Event (as defined in the Conditions) occurs (i.e., if AGBAR or any other subsidiary thereof other than AB were to directly manage the Water Supply Business rather than through AB), the Issuer and the Guarantor have undertaken in the Conditions to cause AGBAR or any such subsidiary thereof (except for AB) to guarantee the obligations of the Issuer under the Notes and the Trust Deed, and

AGBAR has undertaken to the Issuer and the Guarantor to assume, and to procure that such other subsidiary of AGBAR will assume, all the duties and obligations of the Guarantor under the Notes and the Trust Deed in accordance with the Conditions. Upon the effective date of the guarantee given by AGBAR or such other subsidiary thereof (except for AB), the Guarantor will be released and discharged from its obligations under the Notes and the Trust Deed (including the Guarantee). However, a Transfer Event does not give rise to an optional redemption right for the Noteholders. See “*Terms and Conditions of the Notes – Undertaking by AGBAR*”.

If only part of the AMB-AGBAR Agreement were to be terminated, AMB and AGBAR could decide to maintain the agreement and have AB operate the remaining part of the Facilities not affected by the termination, making any necessary adjustments to the AMB-AGBAR Agreement. Accordingly, in the event of a partial termination of the AMB-AGBAR Agreement, AGBAR and AB would not continue to operate the Sewage Transport, Treatment and Reuse Business affected by the termination, but they would continue to operate the metropolitan water supply service directly or indirectly through AB. If the AMB-AGBAR Agreement were to be terminated fully or partially as described above, this could have a material adverse effect on AB’s business, financial condition, results of operations and prospects.

***Expropriation by AMB of AB’s rights to operate the Integral Water Cycle Service would have a material adverse effect on AB’s business, financial condition, results of operations and prospects***

According to Spanish expropriation law, AMB can compulsorily expropriate AB’s assets and rights related to the Integral Water Cycle Service if it deems such action to be in the public interest. In the event of such expropriation, AMB would have to compensate AB for AB’s non-amortised assets and loss of profit for the remainder of the original term of such assets and rights.

AB believes that such expropriation by AMB is unlikely to happen, as these cases are rare in the Spanish water sector and, in addition, AMB would have to compensate AB as described above. However, any expropriation would have a material adverse effect on AB’s business, financial condition, results of operations and prospects.

***Expropriation by the ACA of the concession to capture water and the ownership of the Facilities operated by AB that are part of the Ter-Llobregat System would have a material adverse effect on AB’s business, financial condition, results of operations and prospects***

According to Spanish expropriation law, the ACA (through the Catalan Regional Government) is entitled to expropriate the concessions to capture water and the ownership of the Facilities operated by AB that are part of the Ter-Llobregat System if the ACA deems such action to be in the public interest. The Catalan Regional Government would have to compensate AB for such expropriation for the non-amortised assets and the loss of profit for the remainder of the original term of the concessions.

AB believes that such expropriation by the ACA is unlikely to happen as these cases are rare in the Spanish water sector and, in addition, the Catalan Regional Government would have to compensate AB as described above. However, any expropriation would have a material adverse effect on AB’s business, financial condition, results of operations and prospects.

***Intervention of AMB in the performance of the Integral Water Cycle Service would remove AB from its operational activity***

AMB can intervene in the Integral Water Cycle Service if AB fails to comply with its obligations in a material way, and the continuity of the Integral Water Cycle Service is being jeopardised as a result. Upon such intervention, AMB would take control of the management of the Integral Water Cycle Service and AB would be removed from the provision of that service. Any such intervention would be temporary and last until the risk to the continuity of the public services was removed. Whilst such intervention by AMB (or its predecessors) has never occurred in the Barcelona Metropolitan Area, any such intervention would nonetheless have a material adverse effect on AB's business, financial condition, results of operations and prospects and could affect AB's reputation in a material adverse way.

***Revocation by the ACA of the concessions relating to the Ter-Llobregat System following an infringement by AB of the ACA's conditions would have a significant impact on AB's business***

The ACA may revoke the concessions to capture water and the ownership of the Facilities operated by AB that are part of the Ter-Llobregat System in the event of an infringement by AB of the ACA's conditions (as they relate to the water capacity which can be captured, or the users of the water captured). In such circumstances, AB may have the right to claim compensation for any non-amortised assets and loss of profit relating to the concessions of the Ter-Llobregat System which are revoked by the ACA. However, any such compensation may not compensate AB fully or at all, and any such revocation could accordingly have a material adverse effect on AB's business, financial condition, results of operations or prospects.

**Risks relating to the Issuer**

***The Issuer is a direct wholly-owned subsidiary of AB that has no revenue generating operations of its own and will depend on payments from AB to make payments on the Notes***

The Issuer is a direct wholly-owned subsidiary of AB incorporated for the purpose of facilitating certain financing activities of AB. The Issuer's principal liabilities will comprise the Notes issued by it and its principal assets will comprise its rights under a credit facility agreement to be dated on or about 15 September 2014 under which the net proceeds from the issue of the Notes are on-lent to AB (the "**Credit Facility**") and cash in its bank accounts.

The Issuer will be dependent upon payments from AB to meet its obligations, including its obligations under the Notes. The payments to the Issuer will depend on the profitability and cash flows of AB.

AB's ability to make payments under the Credit Facility will depend on a number of factors, some of which may be beyond AB's control. See "*Risks relating to AB and its business*" and "*Risks relating to regulation of AB*". If AB fails to make scheduled payments under the Credit Facility, the Issuer will not have any other source of funds to meet its payment obligations under the Notes. In such circumstances, the Noteholders would have to rely on claims for payment under the Guarantee.

There can be no assurance that future borrowings will be available to AB or that AB's expected cash flows will be sufficient to satisfy AB's obligations under the Credit Facility in order to enable the Issuer to make payments on the Notes when due. If future cash flows from operations and other capital resources are insufficient for AB to fund AB's obligations under the Credit Facility, in order to enable the Issuer to pay its obligations under the Notes, AB may, among other things, be forced to reduce or delay business activities and capital

expenditures, sell assets, obtain additional debt or equity capital, restructure or refinance all or a portion of AB's debt on or before maturity, or forego opportunities.

There can be no assurance that any of these alternatives could be accomplished on a timely basis or on satisfactory terms, if at all. In addition, the terms of AB's existing and future debt, including the Notes, may limit AB's ability to pursue any of these alternatives.

### **Risks relating to the Notes**

#### ***No limitation on issuing senior or pari passu securities***

There is no restriction on the amount of securities which the Issuer may issue which rank senior to or *pari passu* with the Notes being offered hereby. The issue of any such securities may reduce the amount recoverable by the Noteholders in the event that the Issuer is wound-up or becomes insolvent or may increase the likelihood of a deferral of payments under the Notes.

#### ***There is no existing market for the Notes***

There is no existing market for the Notes, and there can be no assurance regarding the future development of a market for the Notes. Application has been made to list the Notes on the Official List of the Luxembourg Stock Exchange and to trade on the Luxembourg Stock Exchange's Euro MTF Market. However, an active trading market in the Notes may not develop or be maintained after listing. No assurance can be made as to the liquidity of any market that may develop for the Notes, the ability of Noteholders to sell the Notes or the price at which Noteholders may be able to sell the Notes. The liquidity of any market for the Notes will depend on the number of Noteholders, prevailing interest rates, the market for similar securities and other factors, including general economic conditions and AB's financial condition, performance and prospects, as well as recommendations of securities analysts. Disruptions recently experienced in the global capital markets have led to reduced liquidity and increased credit risk premiums and have therefore resulted in a reduction in investment in securities globally.

If an active trading market does not develop or cannot be maintained, this could have a material adverse effect on the liquidity and the trading price of the Notes.

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

The market price of the Notes could be subject to significant fluctuations in response to actual or anticipated variations in AB's operating results and those of AB's competitors, adverse business developments, changes to the regulatory environment in which AB operates, changes in financial estimates by securities analysts and the actual or expected sale of a large number of Notes, as well as other factors. In addition, in recent years the global financial markets have experienced significant price and volume fluctuations which, if repeated in the future, could adversely affect the market price of the Notes.

#### ***Minimum denomination***

The Notes have a minimum denomination of €100,000. The Conditions provide that, for so long as the Notes are represented by the Global Certificate and Euroclear and Clearstream (or any other applicable clearing system) so permit, the Notes will be tradable in nominal amounts (a) equal to, or integral multiples of, the minimum denomination, and (b) the minimum denomination plus integral multiples of an amount lower than the minimum denomination.



If Definitive Certificates are issued, Noteholders should be aware that Definitive Certificates that have a denomination that is not an integral multiple of the minimum denomination may be illiquid and difficult to trade.

***The Noteholders have no direct recourse to AB, except under the Guarantee through an action by the Trustee***

No proprietary or other direct interests exist in favour of the Noteholders in the Issuer's rights under the Credit Facility. Furthermore, under the terms of the Trust Deed and the Conditions, Noteholders cannot directly enforce the Guarantee nor do they have direct recourse to AB, except through an action by the Trustee pursuant to the rights granted to the Trustee under the Trust Deed. Under the Trust Deed, the Trustee shall not be required to initiate proceedings to enforce payment in respect of the Guarantee unless it has been indemnified and/or secured and/or pre-funded by the Noteholders to its satisfaction. In addition, neither the Issuer nor the Trustee is required to monitor the financial performance of AB.

***If a Demerger Event occurs, the Noteholders will not have specific remedies***

If the Sewage Transport, Treatment and Reuse Business (see “*Description of the Guarantor - Overview*”) carried out by the Guarantor on the date hereof and described in this Offering Circular is segregated, notwithstanding that the Water Supply Business (on the date hereof as described in “*Description of the Guarantor – Overview*”) continues to be operated by the Guarantor (a “**Demerger Event**”), Noteholders will not have the benefit of any further contractual rights, including any replacement guarantees or Noteholder put options. The repayment obligations of the Issuer and the Guarantor will continue in the same manner as before the occurrence of a Demerger Event. Following such Demerger Event, the trading price of the Notes may be adversely affected and the credit quality and/or corporate rating of the Guarantor may be negatively impacted, which could have an adverse impact on the price of the Notes.

***The Notes do not contain covenants governing the Issuer's or AB's operations and do not limit their ability to merge, effect asset sales or otherwise effect significant transactions that may have a material and adverse effect on the Notes and the Noteholders***

The Notes do not contain covenants governing the Issuer's or AB's operations and do not limit the Issuer's or AB's ability to enter into a merger, demerger, asset sale or other significant transaction that could materially alter their respective existence, jurisdiction of organisation or regulatory regime and/or their composition or their businesses. In the event the Issuer or AB were to enter into such a transaction, Noteholders could be materially and adversely affected.

***Corporate benefit, capital maintenance and financial assistance laws and other limitations on the obligations under the Guarantee may adversely affect the validity and enforceability of the Guarantee***

The Guarantee and the amounts recoverable thereunder by the Noteholders, acting through the Trustee, will be limited to the maximum amount that can be guaranteed by AB without rendering the Guarantee voidable or otherwise ineffective under Spanish law.

Enforcement of the obligations of the Issuer under the Notes, and enforcement of the obligations of AB under the Credit Facility and the Guarantee will be subject to certain laws and defences available to the Issuer or AB, as the case may be. These laws and defences may include those that relate to fraudulent conveyance, financial assistance, corporate benefit, capital maintenance and regulations or defences affecting the rights of creditors generally,

which, among others, limit the amount that can be guaranteed by reference to the net assets and legal capital of the Issuer or AB, as the case may be. If one or more of these laws and defences are applicable, the Issuer or AB may have no liability or decreased liability under the Notes or the Guarantee, or the Notes or the Guarantee may be unenforceable, as the case may be.

The laws of Spain may limit the ability of AB to guarantee the Notes. Recent Spanish case law indicates, and certain scholars understand that, risk associated with a guarantee or the value of a security interest provided by a Spanish guarantor to secure the indebtedness held by other companies within its corporate group must be reasonable, economically and operationally justified from the guarantor's own perspective, and justified as a matter of the corporate interest of such guarantor.

Moreover, the obligations and liabilities of AB under the Guarantee in favour of the Trustee and the Noteholders cannot extend to any obligation which, if incurred, would amount to a breach of Spanish financial assistance rules. Pursuant to these rules, a Spanish company may not generally advance funds, grant loans, guarantees or security interests or provide any other type of financial assistance in connection with the acquisition of its own shares or those of its parent company, in the case of public limited liability companies, or other companies within the same group, in the case of private limited liability companies. Any guarantee granted in breach of these provisions may be deemed null and void, save in the event that a court considers that the granting of the guarantee was an essential element and condition for the undertaking of the obligation so guaranteed. Furthermore, it is possible that the obligations secured by such guarantee could be deemed null and void in the event that the court considered that the granting of the guarantee was an essential element and condition for the undertaking of the obligation so guaranteed. There are no whitewash procedures available in Spain.

In addition, AGBAR has undertaken to the Issuer and the Guarantor to provide, or to procure that any other subsidiary thereof (other than AB) to which the Water Supply Business is transferred will provide, a guarantee of the Notes pursuant to the Conditions if a Transfer Event (as defined in the Conditions) occurs and the Issuer and the Guarantor have undertaken in the Conditions to cause AGBAR or any such subsidiary thereof (except for AB) to provide such guarantee. Upon the effective date of the guarantee given by AGBAR or such other subsidiary thereof (except for AB), the Guarantor will be released and discharged from its obligations under the Notes and the Trust Deed (including the Guarantee). A failure by the Issuer and the Guarantor to obtain such guarantee from AGBAR or such other subsidiary thereof (except for AB) will be a breach of, and an event of default under, the Conditions. However, a Transfer Event does not give rise to an optional redemption right for the Noteholders. In this scenario, the Issuer and the Guarantor may not be successful in causing AGBAR or such other subsidiary thereof (except for AB) to grant such a guarantee within the required time period or at all. Even if AGBAR or such other subsidiary thereof (except for AB) does grant such a guarantee, the credit quality and/or corporate rating of AGBAR or such other subsidiary thereof (except for AB) may be different from that of the Guarantor which could have an adverse impact on the price of the Notes. See "*Terms and Conditions of the Notes – Undertaking by AGBAR*".

### ***Change of law***

The Conditions are based on English law in effect as at the date of this Offering Circular. No assurance can be given as to the impact of any possible judicial decision or change to English

law or administrative practice after the date of this Offering Circular.

***Credit ratings may not reflect all risks***

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

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

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

***The Global Certificate is held by or on behalf of Euroclear and Clearstream and, therefore, investors will have to rely on their procedures for transfer, payment and communication with the Issuer***

The Notes will be represented by a Global Certificate which will be held under the NSS with a common safekeeper for Euroclear and Clearstream. Except in certain limited circumstances described in the Global Certificate, investors will not be entitled to receive definitive Notes in exchange for interests in the Global Certificate. While the Notes are represented by the Global Certificate, investors will be able to trade their beneficial interests only through Euroclear and Clearstream.

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

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

***Redemption prior to maturity***

The Issuer may redeem all outstanding Notes in accordance with the Conditions: (i) in the event that the Issuer or the Guarantor has been or would become obligated to pay additional amounts as a result of certain changes in tax laws or their interpretation and such obligation cannot be avoided by the Issuer and/or the Guarantor taking reasonable measures available to them at their principal amount, or (ii) on any date prior to 15 June 2021 at the Optional Redemption Amount or (iii) at any time from (and including) 15 June 2021 at their principal amount, in each case together with interest accrued on those Notes up to (but excluding) the date fixed for redemption. It may not be possible for the Noteholders to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Notes and

this may only be possible at a significantly lower rate. See “*Terms and Conditions of the Notes—Redemption and Purchase—Redemption for Taxation Reasons and Redemptions at the Option of the Issuer*”.

### ***Exchange rate risks and exchange controls***

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

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

### ***Noteholders will not benefit from certain rights of holders of debt securities under Spanish law***

In Spain, issuers of debt securities such as the Notes are generally required to have a syndicate of holders (*sindicato de obligacionistas*) that is represented by a commissioner (*comisario*). The Trust Deed, however, will contain mandatory provisions related to the appointment of a trustee that are difficult to reconcile with such requirements of a syndicate of holders and a commissioner. As a result, the Noteholders (a) will not benefit from: (i) any Noteholders’ rights arising from article 411 of the Spanish Capital Companies Law (*Ley de Sociedades de Capital*); (ii) the constitution of a syndicate of holders; or (iii) the appointment of a commissioner (with respect to (ii) and (iii), both as regulated by article 419 et seq. of the Spanish Capital Companies Law); and (b) will be deemed to have irrevocably instructed the Trustee to take any action and/or to execute and deliver any documents or notices that may be necessary or desirable to comply with, and give effect to, (a) above.

Neither Spanish law nor Spanish case law specifically addresses a transaction such as the issuance of the Notes where a Spanish *sociedad anónima*, such as the Issuer, carries out an issuance of debt instruments pursuant to a trust deed and a placing agreement governed by English law. However, based on the opinion of scholars that have addressed such issue, the Issuer has been advised that no such syndicate of holders and commissioner are required under the circumstances of the issuance of the Notes. Notwithstanding the foregoing, the effectiveness of certain amendments, consents, waivers or other actions of the Noteholders taken pursuant to the Trust Deed or the lack of a syndicate of holders or an express appointment of a commissioner could be challenged under Spanish law.

### ***Spanish tax rules***

Article 44 of Royal Decree 1065/2007, as amended (“**Royal Decree 1065/2007**”) sets out the reporting obligations applicable to preferred securities and debt instruments issued under Law 10/2014 of the Regulation, Supervision and Solvency Law of Credit Institutions, approved on 26 June 2014 (“**Law 10/2014**”). The procedures apply to income deriving from preferred shares and debt instruments to which Law 10/2014 refers. According to the literal wording of

Article 44.5 of Royal Decree 1065/2007, income derived from debt instruments to which Law 10/2014 applies that are registered with clearing systems located outside Spain and are recognised by Spanish law or by the law of another OECD country (such as Euroclear or Clearstream) will be paid free of Spanish withholding tax, provided that the relevant Paying Agent submits, in a timely manner, a statement to the Issuer and the Guarantor, a sample of which is attached as Exhibit I to this Offering Circular, containing the following information:

- (i) identification of the Notes;
- (ii) income payment date (or refund if the notes are issued at a discount or are segregated);
- (iii) total amount of income to be paid on the relevant payment date (or total amount to be refunded if the notes are issued at a discount or are segregated); and
- (iv) total amount of the income corresponding to notes held through each clearing system located outside Spain (including Euroclear and Clearstream).

For these purposes, “income” means interest and the difference, if any, between the aggregate amount payable on the redemption of the Notes and the issue price of the Notes.

In accordance with Article 44 of Royal Decree 1065/2007, the relevant Paying Agent should provide the Issuer and the Guarantor with a statement reflecting the relevant position at the close of business on the business day immediately prior to each interest payment date. In the event that on such date, the Paying Agent(s) obliged to provide the declaration fail to do so, the Issuer or the Guarantor (or any successor person), as the case may be, or the relevant Paying Agent on its behalf will make a withholding at the general rate (currently 21 per cent.) on the total amount of the return on the relevant Notes otherwise payable to such entity.

Prospective investors should note that none of the Issuer, the Guarantor or the Joint Coordinators accepts any responsibility relating to the procedures established for the timely provision by the Paying Agent of a duly executed and completed Payment Statement in connection with each income payment under the Notes. Accordingly, none of the Issuer, the Guarantor or the Joint Coordinators will be liable for any damage or loss suffered by any beneficial owner who would otherwise be entitled to an exemption from Spanish withholding tax but whose income payments are nonetheless paid net of Spanish withholding tax because these procedures prove ineffective. Moreover, the Issuer will not pay any Additional Amounts with respect to any such withholding tax, as provided in Condition 9 (*Taxation*).

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

### ***U.S. Foreign Account Tax Compliance Withholding***

Under certain provisions of the U.S. Internal Revenue Code and Treasury regulations promulgated thereunder (commonly referred to as “**FATCA**”) a 30 per cent. withholding tax may apply to (i) certain payments from sources within the United States and (ii) certain “foreign passthru payments” made by a foreign financial institution (an “**FFI**”)—including an FFI in the chain of ownership between an ultimate beneficial owner and the issuer of an obligation—that has entered into an agreement with the U.S. Internal Revenue Service (the “**IRS**”) pursuant to which it agrees to certain due diligence, reporting and withholding functions (such an FFI referred to as a “**PFFI**”). FATCA withholding may apply to payments

made by a PFFI to (a) an FFI that is not a PFFI and is not otherwise exempt from FATCA and to (b) certain other payees who fail to provide sufficient identifying information (including, in certain cases, regarding their substantial U.S. owners). Certain aspects of the application of these rules are modified by agreements between the United States and certain other countries (“**Intergovernmental Agreements**”), including Spain. FATCA withholding does not apply to debt instruments outstanding on 1 July 2014, unless they are materially modified on or after such date. In addition, the term “foreign passthru payment” is not defined currently and withholding on foreign passthru payments will not apply until 1 January 2017 at the earliest. It is also uncertain how foreign passthru payment withholding will apply under Intergovernmental Agreements. Given the uncertainty of FATCA provisions, although the Issuer does not expect FATCA withholding to apply to payments it makes on the Notes, FATCA may impact payments by custodians or intermediaries in the payment chain between the Issuer and the ultimate beneficial owner. The Issuer and the Guarantor have no responsibility for any FATCA withholding applied by any such custodians or intermediaries in the ownership chain and would not be required to pay any additional amounts were any amount deducted or withheld from any payment pursuant to FATCA. Investors should consult their own advisors with respect to FATCA and its application to the Notes and should consider carefully the FATCA compliance status of any financial intermediaries in the chain of ownership through which they hold Notes.

### ***EU Savings Directive***

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

The Savings Directive has been amended by the Council Directive 2014/48/EU which was published on 15 April 2014 (the “**Amending Directive**”). The Amending Directive broadens the scope of the requirements described above. Member States are required to apply these new requirements from 1 January 2017. The changes will expand the range of payments covered by the Savings Directive, in particular to include additional types of income payable on securities. The Savings Directive will also apply a “look through approach” to certain payments where an individual resident in a Member State is regarded as the beneficial owner of that payment for the purposes of the Savings Directive. This approach may apply to payments made to or by, or secured for or by, persons, entities or legal arrangements (including trusts), where certain conditions are satisfied, and may in some cases apply where the person, entity or arrangement is established or effectively managed outside of the European Union.

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

The end of the transitional period is dependent upon the conclusion of certain other

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

***The proposed financial transactions tax***

The European Commission has published a proposal for a Directive for a common financial transaction tax (“**FTT**”) in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the “**participating Member States**”).

The proposed FTT has a very broad scope and could, if introduced in its current form, apply to certain dealings in the Notes (including secondary market transactions) in certain circumstances.

Under current proposals the FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in the Notes where at least one is a financial institution, and at least one party is established in the territory of a participating Member State. A financial institution may be, or be deemed to be, “established” in a participating Member State in a broad range of circumstances, including (a) by transacting with a person established in a participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a participating Member State.

The FTT proposal remains subject to negotiation between the participating Member States. It may therefore be altered prior to any implementation, the timing of which remains unclear. Additional EU Member States may decide to participate. Prospective holders of the Notes are advised to seek their own professional advice in relation to the FTT.

A Noteholder may be liable to itself pay this charge or reimburse a financial institution for the charge, and/or the charge may affect the value of the Notes.

## **USE OF PROCEEDS**

The net proceeds from the issue of the Notes is estimated to be EUR 196,000,000<sup>1</sup> and will be applied by the Issuer to lend to AB pursuant to the Credit Facility, and will be used by AB to refinance an existing intercompany loan and for its general corporate purposes.

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<sup>1</sup> Reflects AB's estimate of fees and expenses associated with the Notes issuance, including commissions, advisory and other professional fees and other transaction costs.



## CAPITALISATION AND INDEBTEDNESS

The following table sets forth AB's cash and cash equivalents and capitalisation as of 31 December 2013, and as adjusted to give effect to the offering of the Notes as if the offering had been completed on 31 December 2013 and the net proceeds from the offering had been on-lent to AB. The historical financial information has been derived from the Combined Financial Statements for the Guarantor for the year ended 31 December 2013 included elsewhere in this Offering Circular. You should read the following table in conjunction with "Use of Proceeds" and AB's Combined Financial Statements.

(€ in millions)	As of 31 December 2013	
	Actual	As adjusted
<b>Cash and cash equivalents and other short term deposits</b>	<b><u>19.0</u></b>	<b><u>25.0</u></b>
<b>Debt, including current portion:</b>		
Revolving credit facility (undrawn)	-	-
Loan from AGBAR (intercompany)	190.0	-
Loan from the Issuer <sup>(1)</sup>	-	<u>196.0</u>
<b>Total debt</b>	<u>190.0</u>	<u>196.0</u>
<b>Equity</b>	<u>348.0</u>	<u>348.0</u>
<b>Total capitalisation</b>	<u>538.0</u>	<u>544.0</u>
<b>Total net debt</b>	<u>171.0</u>	<u>171.0</u>

<sup>(1)</sup> The nominal value of the loan reflects the estimated net proceeds from the issue. Also, the interest rate charged on the loan will include all the expenses associated with the Notes issuance.

### Revolving Credit Facility

The Guarantor has entered into a €30 million unsecured and unguaranteed revolving credit facility dated 19 March 2013 with Caixabank, S.A. ("Caixabank") as lender within the Caixabank AGBAR multi-company framework agreement by virtue of which certain companies in the AGBAR group can draw down funds on a revolving basis (the "RCF"). The RCF matures in March 2016. As of the date of this Offering Circular, there were no amounts drawn down under the RCF.

The RCF contains certain acceleration events, including: (a) a change of control, if the Guarantor ceases to be fully consolidated with AGBAR following a decrease in AGBAR's participation in the Guarantor's share capital; and (b) a change of the legal nature of AB or a merger or spin-off of AB, provided that any of these transactions results in a decrease in AB's solvency of more than 25 per cent. by its total assets.

AB has given and will continue to give technical guarantees to counterparties related to the operations of its business. All of AB's guarantees are operational guarantees related to the

ordinary course of business of AB and AB has not given financial guarantees. The total amount guaranteed is less than €1 million, although AB has a committed guarantee facility of €5 million with Caixabank.

## SELECTED HISTORICAL FINANCIAL INFORMATION

The Issuer was incorporated on 17 June 2014 as a direct wholly-owned subsidiary of the Guarantor for the purpose of facilitating certain financing activities of the Guarantor. The following tables set forth financial information in respect of the Water Supply Business and the Sewage Transport, Treatment and Reuse Business, extracted from the Combined Financial Statements as of and for the periods indicated (see “*Presentation of Financial and Other Information and Currency Presentation – Combined Financial Statements*”). The tables should be read in conjunction with, and are qualified in their entirety by reference to the Combined Financial Statements and the accompanying notes thereto included elsewhere in this Offering Circular.

<b>Income Statement Data</b> (EUR in thousands)	<b>Year ended December 31,</b>	
	<b>2013</b>	<b>2012</b>
<b>Revenue</b>	<b>341,721</b>	<b>308,570</b>
Water revenues (*)	308,493	275,096
Sewage treatment revenues (**)	33,228	33,474
<b>Costs</b>	<b>(272,334)</b>	<b>(235,594)</b>
Water costs	(234,640)	(202,164)
Sewage treatment costs	(33,227)	(33,430)
Other costs	(4,467)	-
<b>EBITDA</b>	<b>69,387</b>	<b>72,976</b>
Amortisation and Provisions	(39,414)	(35,405)
<b>EBIT</b>	<b>29,973</b>	<b>37,571</b>
Net financial result	(13,673)	(15,822)
Non-recurring profit/(loss)	(843)	(1,269)
Income Tax	(4,415)	(5,697)
<b>Net profit</b>	<b>11,042</b>	<b>14,783</b>

(\*) Includes other accessory revenues.

(\*\*) Adjusted to include electricity revenues (netted against cost in accounts in 2012).

<b>Balance Sheet Data</b> (EUR in thousands)	<b>2013</b>	<b>2012</b>
Assets related to the activity	524,846	473,762
Non-current financial assets	14,949	14,004
Deferred tax assets	11,440	-
<b>NON-CURRENT ASSETS</b>	<b>551,235</b>	<b>487,766</b>
Inventories	847	1,522
Debtors	86,833	88,644
Other current assets	-	4
Cash and cash equivalents and other short term deposits	18,998	1,014
<b>CURRENT ASSETS</b>	<b>106,678</b>	<b>91,184</b>
<b>TOTAL ASSETS</b>	<b>657,913</b>	<b>578,950</b>

**Balance Sheet Data**

	2013	2012
<b>TOTAL EQUITY</b>	<b>348,042</b>	<b>230,441</b>
Loan from Agbar	190,000	231,378
Deferred tax liabilities	7,601	14,095
Other non-current liabilities	17,117	16,561
<b>NON-CURRENT LIABILITIES</b>	<b>214,718</b>	<b>262,034</b>
Current provisions	1,669	1,609
Current financial liabilities	50	30
Other current liabilities	93,434	84,836
<b>CURRENT LIABILITIES</b>	<b>95,153</b>	<b>86,475</b>
<b>TOTAL LIABILITIES</b>	<b>657,913</b>	<b>578,950</b>

**Key ratios**

	2013	2012
<b>(FUNDS FROM OPERATIONS “FFO” + NET INTEREST EXPENSES “NIE”)<sup>(1)</sup> / NIE</b>	<b>4.7x*</b>	<b>4.2x</b>
<b>FINANCIAL DEBT<sup>(2)</sup> / CAPITALISATION<sup>(3)</sup></b>	<b>35.0%</b>	<b>49.5%</b>
<b>FFO / NET FINANCIAL DEBT<sup>(4)</sup></b>	<b>30.0%</b>	<b>22.3%</b>
<b>NET FINANCIAL DEBT / EBITDA</b>	<b>2.5x</b>	<b>3.2x</b>

<sup>(1)</sup> NET INTEREST EXPENSES is the same as “Net Financial Result” from Income Statement Data.

<sup>(2)</sup> FINANCIAL DEBT is calculated as “Loan from Agbar” + “Current financial liabilities” from Balance Sheet Data.

<sup>(3)</sup> CAPITALISATION is calculated as “Total Equity” from Balance Sheet Data + “Financial Debt” as defined above.

<sup>(4)</sup> NET FINANCIAL DEBT is calculated as “Financial Debt” – “Cash and cash equivalents and other short term deposits” from Balance Sheet Data.

(\*) Based on a financial cost of 7.25% (from August to December 2013)

**Cash Flow Data****(EUR in thousands)****Year ended December 31,**

	2013	2012
<b>Initial Net Financial Debt (A) (*)</b>	<b>(230,394)</b>	<b>(223,748)</b>
Earnings before tax (EBT)	15,457	20,480
Non-cash items	40,218	36,622
Capex investments	(38,020)	(40,991)
Taxes	(20,902)	4,731

Changes in working capital	13,142	(19,219)
<b>Free cash flow</b>	<b>9,895</b>	<b>1,623</b>
Other variations	49,447	(8,269)
<b>Adjusted cash flow (B)</b>	<b>59,342</b>	<b>(6,646)</b>
<b>Final Net Financial Debt (A) + (B)</b>	<b>(171,052)</b>	<b>(230,394)</b>
<b>Funds From Operations <sup>(1)</sup></b>	<b>51,260</b>	<b>51,405</b>
<b>Retained Cash Flow <sup>(2)</sup></b>	<b>36,477</b>	<b>36,672</b>

(\*) The Initial Net Financial Debt is calculated as “Loan from Agbar” + “Current financial liabilities” – “Cash and cash equivalents and other short term deposits” from previous year balance sheet position.

(1) Funds From Operations are calculated as “Earnings before tax (EBT)” + “Non-cash items” + “Income Tax” from Income Statement Data.

(2) Retained Cash Flow is calculated as “Funds From Operations” - “Net Profit” from previous year Income Statement Data.

Additionally, the following table shows the balance sheet data of the Guarantor on a stand-alone basis (and not a combined basis). The table should be read in conjunction with, and is qualified in its entirety by reference to the Financial Statements for the five-month period ended 31 December 2013 and the accompanying notes included elsewhere herein:

<b>Balance Sheet Data</b>			
<b>(EUR in thousands)</b>	<b>2013</b>		<b>2013</b>
Assets related to the activity	524,846	<b>TOTAL EQUITY</b>	<b>337,333</b>
Financial investments	14,949	Loan from Agbar	190,000
Deferred tax assets	11,440	Deferred tax liabilities	7,601
		Non-current liabilities	17,117
<b>NON-CURRENT ASSETS</b>	<b>551,235</b>	<b>NON-CURRENT LIABILITIES</b>	<b>214,718</b>
Inventories	847	Provisions	314
Debtors	61,184	Current bank borrowings	50
Cash and cash equivalents and other short term deposits	18,968	Other current liabilities	79,819
<b>CURRENT ASSETS</b>	<b>80,999</b>	<b>CURRENT LIABILITIES</b>	<b>80,183</b>
		<b>TOTAL EQUITY AND LIABILITIES</b>	<b>632,234</b>
<b>TOTAL ASSETS</b>	<b>632,234</b>		

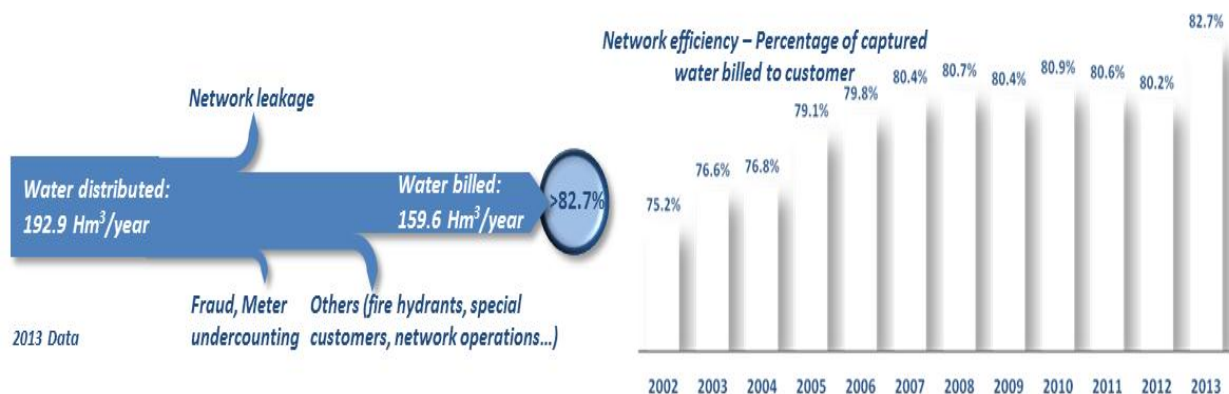
## DESCRIPTION OF THE GUARANTOR

### Overview

Aigües de Barcelona Empresa Metropolitana de Gestió del Cicle Integral de l’Aigua, S.A. (“**AB**”) is a Spanish public limited liability company (*sociedad anónima*) subject to the Spanish Company Law approved by Royal Legislative Decree 1/2010, of 2 July (*Ley de Sociedades de Capital*) (the “**Spanish Company Law**”). AB was incorporated on 30 July 2013 and began its activity on 1 August 2013, which will continue, according to its articles of association, until 2 June 2047 or until 9 December 2053 (when its concessions to capture water from the Llobregat River expire).

AB is registered with the Mercantile Registry of Barcelona. The registered office of AB is carrer General Batet, 1-7, Barcelona.

AB operates the Integral Water Cycle Service which covers water production, water supply, wastewater transport and treatment and the reuse of purified water in the Barcelona Metropolitan Area. In addition, AB operates concessions to capture water from the Llobregat River and from Wells mainly in the aquifer of the Llobregat River, which are part of a specific system for the provision of water to the Ter-Llobregat System under Catalan legislation. AB’s business comprises the management, operation and maintenance of five water treatment plants with a capacity of 7,960 litres per second (“**l/s**”), seven wastewater treatment plants with a capacity of 1,042,900 cubic meters per day (“**m<sup>3</sup>/d**”), three regeneration installations related to the wastewater plants with a capacity of 394,848 m<sup>3</sup>/d, and over 4,624 kilometres of water pipes with a low 0.44 per cent. repair rate per kilometre of water pipes. A table detailing AB’s network efficiency is included below:



“**Hm<sup>3</sup>/year**”: means cubic hectometres per year.

Source: AB.

AB has rights to capture up to 7,915 l/s in surface water from the Llobregat River and groundwater from the Llobregat and Besòs aquifers. AB serves a population of 2.9 million people (in respect of its water supply service) and 3.2 million people (in respect of its sewage treatment service) in the Barcelona Metropolitan Area, and in 2013 had an average headcount of 948 employees.

For the year ended 31 December 2013, the revenues (including other operating income) of the Water Supply Business and of the Sewage Transport, Treatment and Reuse Business (as set out in the Combined Financial Statements) were EUR 341,721 thousand, and EBITDA

was EUR 69,387 thousand. As at 31 December 2013, the total assets of the Water Supply Business and of the Sewage Transport, Treatment and Reuse Business (as set out in the Combined Financial Statements) were EUR 657,913 thousand. See “*Presentation of Financial and Certain Other Information and Currency Presentation – Combined Financial Information*”.

AB manages the full water cycle services for the Barcelona Metropolitan Area and, specifically, the operation, maintenance and management of the following processes:

- (i) **Water production:** The first stage of the Water Supply Business (see “*Description of the Guarantor – Overview*”) is to capture water at source and to treat it in order to generate drinking water. The facilities that are involved in this process are the Sant Joan Despí WTP (as defined below) and the Wells of the Llobregat River and the Besòs River. The production process involves physical and chemical stages, such as dioxide chlorination, sedimentation, sand filtration, ozonisation, activated carbon filtration, post-chlorination, and other advanced treatments, such as ultrafiltration, reverse osmosis filtrations and remineralisation.
- (ii) **Water supply:** AB’s water supply service includes the transport and distribution of drinking water to AB’s customers through the water network.
- (iii) **Sewage transport and treatment:** This part of the water cycle service includes the management, operation and maintenance of the sewers that are owned by AMB, and which collect the wastewater transported by Barcelona’s municipal sewers. A network of collector pipes collects the wastewater and transports it from the municipal sewers to the corresponding wastewater treatment plant. This water is moved along the collector pipes by the force of gravity and, when this is insufficient, by using pumping stations that allow the water to be raised to higher levels.

AB also manages, operates and maintains the wastewater treatment plants that are owned by AMB. At the wastewater treatment plants the waste is subjected to a treatment to remove the pollutant load (biological or chemical waste) so that the water can be returned to the environment or reused. This includes primary, secondary and tertiary treatment involving a variety of physical, chemical and biological processes. Some of the plants use pioneering treatment technologies, including ultrafiltration membranes and reverse osmosis, reverse electro dialysis and the Integrated Fixed-Film Activated Sludge (IFAS) biological treatment systems using activated sludge attached to a moving support.

- (iv) **Regeneration of sewage and reuse:** The water cycle service also includes the regeneration of wastewater that has been treated in wastewater treatment plants and its reuse for non-drinking purposes.

The wastewater treatment plants have installations that regenerate wastewater. This regeneration process allows the regenerated water to be used for several purposes, such as industrial uses and irrigation. However, under Spanish law, regenerated water cannot be supplied to the general public as drinking water.

- (v) **Other:** AB’s management of the water cycle service also covers the integrated co-ordination and management of wastewater drainage and of the sewer networks, as well as technical assistance in the control of the release of wastewater into the sewage network. In addition, AB handles any other activity aimed at meeting water supply,

wastewater collection and purification needs, including, in respect of laboratory analyses related to the control, the storage and quality of treated water and wastewater. Finally, AB carries out studies and projects and the execution of hydraulic infrastructure works and any other works related to the supply services of untreated and treated water and purification.

In accordance with the classification of activities established above, AB's activities can be divided into two main business areas:

- (i) the “**Water Supply Business**” which consists of the following activities as described above: (a) water production activities, (b) water supply activities, (c) any other activity aimed at meeting water supply as well as (d) studies and projects and the execution of hydraulic infrastructure works and any other works related to the supply services of untreated and treated water and purification as well as, in respect of laboratory analyses related to the control, the storage and quality of treated water; and
- (ii) the “**Sewage Transport, Treatment and Reuse Business**” which consists of the following activities as described above: (a) sewage wastewater collection and treatment of urban wastewater, (b) regeneration of wastewater and reuse, (c) the integrated co-ordination and management of wastewater drainage and of the sewer networks, (d) technical assistance in the control of the release of wastewater into the sewage network and (e) any other activity aimed at meeting wastewater collection and purification needs.

AB also manages and operates the usufruct over concessions to capture water from Wells and the Llobregat River (such as the 1953 Concession), and their related facilities (such as WTPs), which was contributed by AGBAR on AB's incorporation. This water capture business is performed according to the directives of the ACA and the Catalan Legislative Decree 3/2003 of 4 November, which approved the consolidated text of water regulations in Catalonia (“**Legislative Decree 3/2003**”).

### **Key strengths**

AB believes it has the following key competitive strengths:

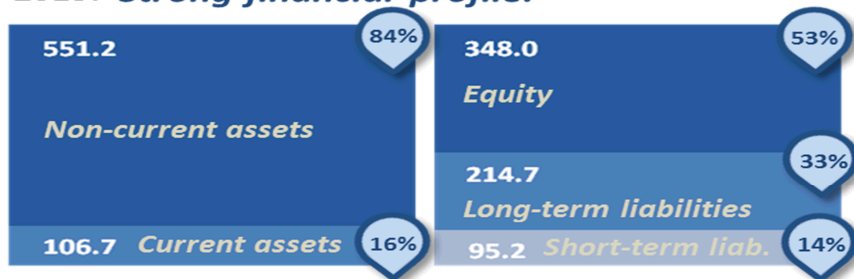
- **Recurring demand and business continuity.** Water is in recurrent demand which ensures the continuity of AB's business.
- **High barriers to entry.** The characteristics of the water sector and the concession-based nature of the AMB-AGBAR Agreement provide high barriers to entry in AB's sector. There is no possibility to choose an alternative water supplier. AB is focused on the low risk business of regulated water and sewage, there are no activities outside this core business which could imply a higher degree of risk.
- **Stability of regulatory framework and asset ownership.** The water business in the Metropolitan Area of Barcelona is supported by strong and stable regulation and the AGBAR group has a proven track record of 147 years in maintaining successful relationships with public administrations. The stability of the business is further also assured by the long term nature of the AMB-AGBAR Agreement, that clearly defines the recovery of residual asset value at termination.
- **Revenue stability.** AB's strong and recurrent cash flow generation is underpinned by the regulated nature of the water business and the characteristics of the AMB-AGBAR



Agreement. The Tariff formula covers AB's ordinary and extraordinary costs, limits AB's volume exposure and allows adequate remuneration for AB's shareholders.

- **Support of major worldwide operator.** AB is part of the AGBAR group, which has recognised international experience in the management of the full water cycle, with high standards of quality and efficiency.
- **Financial stability.** The combination of recurrent cash flows and a conservative capital structure with a low level of debt which debt has a long-term enables AB to achieve sound financial ratios. AB's financial stability is expected to be maintained in the future with the cash flow broadly covering AB's capital expenditure and dividends. Given the nature of AB's shareholders, AB applies a prudent financial policy and, as a result, expects to pay a recurring and stable annual dividend to its shareholders based on the net income generated. See below a table setting out the financial profile of the combined Water Supply Business and the Sewage Transport, Treatment and Reuse Business (extracted from the Combined Financial Statements) as at 31 December 2013. See "*Presentation of Financial and Certain Other Information and Currency Presentation – Combined Financial Information*". The Water Supply Business and the Sewage Transport, Treatment and Reuse Business are both now carried on by AB.

**2013: Strong financial profile:**



Source: AB: Combined Financial Statements.

**New business opportunities**

AB's strategy is to focus on its core water business and to improve efficiency in the full water cycle. In the future, AB may consider new concessions in the Barcelona Metropolitan Area, and in accordance with the recent Decree-law 2/2014, a revised funding system for its sewage treatment business and related investment needs may be implemented by the ACA and AMB. See "*Regulation*".

**History**

***History of the public water supply service in the Barcelona Metropolitan Area***

AGBAR was incorporated in 1867 under the name *Compagnie des Eaux de Barcelone* to provide public water supply services to the city of Barcelona, and has continued to provide public water supply services to the city of Barcelona since that time.

Barcelona is one of the most important cultural and sports centres in Europe and one of the most visited destinations in the world with around 7,500,000 tourists visiting the city every year. Fira de Barcelona (the trade fair location in the city) hosts a growing number of important trade fair exhibitions such as GSMA Mobile World Congress.

Since 1867, AGBAR has gradually expanded its activity to other municipalities in the Barcelona Metropolitan Area, including l'Hospitalet de Llobregat, Cornellà de Llobregat,

Esplugues de Llobregat, Sant Feliu de Llobregat, Sant Just Desvern, Sant Joan Despí, Sant Boi de Llobregat, Gavà, Viladecans, Sant Climent de Llobregat, Santa Coloma de Cervelló, Begues, Castelldefels, Montcada i Reixac, Badalona, Santa Coloma de Gramenet, Sant Adrià de Besòs, Cerdanyola del Vallès, Montgat, Torrelles de Llobregat, el Papiol and Pallejà.

AGBAR provides public water supply services in these municipalities pursuant to a number of authorisations that have been granted to it by the city councils of such municipalities and through the rights that AGBAR holds to capture groundwater from Wells in those municipalities.

In 1953, the Spanish Public Works Ministry (*Ministerio de Obras Públicas*) granted AGBAR a concession to capture surface water from the Llobregat River (the “**1953 Concession**”) to provide drinking water to the city of Barcelona and its metropolitan area. Pursuant to the terms of the 1953 Concession, AGBAR built the WTP located in the Llobregat basin in 1955 (the “**Llobregat WTP**”), which is the site of its main drinking water processing activities.

Spanish law provides that public water supply services must be managed by a relevant local authority which has to expressly assume its legal prerogatives regarding such public services in order to acquire the public powers as regulator. AMB is the local authority for the 36 municipalities that make up the Barcelona Metropolitan Area.

In 1982, this public service was assumed by the *Corporació Municipal de Barcelona* (which preceded AMB) by means of a resolution of the *Consell Metropolità de Barcelona* dated 28 November 1982. The *Corporació Municipal de Barcelona* acknowledged AGBAR’s legal rights to continue to provide the public water supply service which AGBAR continued to do until the incorporation of AB.

### ***History of the wastewater treatment and purification and reuse of purified water services in the Barcelona Metropolitan Area***

Catalan Law 31/2010 of 3 August which created the AMB (“**Law 31/2010**”) provides that AMB is the public local authority that also handles the wastewater treatment and purification and reuse of purified water services in the Barcelona Metropolitan Area.

Until the incorporation of AB, AMB managed these public services and the assets and facilities related to them directly through EMSSA, a company wholly owned by AMB and controlled by the Barcelona metropolitan public administration.

### ***Incorporation of AB; joint management of the Integral Water Cycle Service***

In 2012, AMB considered that it was in the public interest to optimise the management of the public water services in the Barcelona Metropolitan Area. Technical reports were commissioned by AMB, and it was concluded that greater efficiency could be achieved by the combined management of all the public water services, namely water supply, waste sewage treatment and the reuse of purified water. As a result, AMB incorporated AB as a “mixed economy company” (Institutionalised Public-Private Partnership) (“**PPP**”) with AGBAR in order to manage the Integral Water Cycle Service.

The selection of AGBAR as the private shareholder in AB did not follow a public procurement process. AMB selected AGBAR directly because it was not possible to call for tenders to manage the Integral Water Cycle Service. Accordingly, AMB incorporated AB in accordance with article 283.2b) of the Regulations on Works, Activities and Services of Local Entities (“**ROAS**”) approved by Decree 179/1995 of 13 June 1995 which permits local authorities to incorporate a PPP with the “only existing company” which already manages the

public service.

Whilst AGBAR was the “only existing company” managing the water supply service for 23 of the municipalities in the Barcelona Metropolitan Area, AGBAR did not have any pre-existing rights in respect of wastewater collection, the purification and treatment of urban wastewater public services, or the regeneration and reuse of purified wastewater public services, which had been managed by EMSSA previously. Accordingly, the incorporation of AB granted AGBAR new rights to indirectly manage these public services.

AMB took the view that AGBAR should be considered the “only existing company” of the Integral Water Cycle Service (and not only in respect of the water supply service) because (i) AGBAR held the existing rights to manage the water supply service; (ii) the joint management and operation of the Integral Water Cycle Service answered a major public service need regarding the efficient consumption of water; (iii) this project could not be achieved without AGBAR’s rights and assets, which were fundamental to the joint management of all the metropolitan water services in the Barcelona Metropolitan Area; and (iv) AMB was not in a financial position to expropriate AGBAR’s rights and assets.

Accordingly, to achieve the combined management of the public water services through AB:

- (i) a new public service was established named the Integral Water Cycle Service which covers water production and water supply on the one hand and sewage transport, treatment and reuse on the other hand. On 6 November 2012 the Metropolitan Council of AMB approved the regulation of the Integral Water Cycle Service (the “**AMB Regulation**”) covering the operation and management of the public water supply service and AB’s performance and setting out the tariff rules for the public water supply service;
- (ii) the management of the Integral Water Cycle Service was transferred to AB to carry out the unified management of this public service;
- (iii) AMB and AGBAR entered into the AMB-AGBAR Agreement regulating all aspects of the incorporation of AB; and
- (iv) AMB and AGBAR contributed to the incorporation of AB their rights, assets and resources related to the public water services that had been performed by them until that date.

The board of directors of AGBAR approved the project and the proposed AMB-AGBAR Agreement on 13 September 2012.

On 6 November 2012, the Metropolitan Council of AMB resolved, with effect from 1 January 2013, to establish and provide the Integral Water Cycle Service and establish AB as a PPP.

On 21 May 2013, the Metropolitan Council of AMB resolved that the establishment and provision of the service would take effect as from the date AB began operating, namely 1 August 2013.

The Catalan Regional Government (*Generalitat de Catalunya*) granted its authorisation on 26 July 2013. This authorisation permitted AGBAR to create a usufruct right in favour of AB over the concessions to capture water from Wells and the Llobregat River (such as the 1953 Concession), and related facilities (such as the Sant Joan Despí WTP).

On 30 July 2013, AMB and AGBAR executed the AMB-AGBAR Agreement and

incorporated AB as the PPP that manages the Integral Water Cycle Service.

## **Business**

### ***Facilities of the Integral Water Cycle Service (the “Facilities”)***

- ***Five water treatment plants with a capacity of 7,960 l/s***

The water treatment carried on by AB consists of dioxychlorination, sedimentation, sand filtration, ozone treatment, active carbon filtration, ultra-filtration, reverse osmosis and post-chlorination.

The Sant Joan Despí WTP is the plant where the main drinking water processing is carried out. The water collected and treated in the Sant Joan Despí WTP is primarily surface water from the Llobregat River. This WTP came into service in 1955 and was expanded in 1962. The concession volumes awarded to AB by the ACA are 6,300 l/s. In this WTP the surface water resources collected from the Llobregat River are treated, in addition to groundwater resources from the aquifer of the Llobregat River. In addition, the sludge generated from such production process is treated in this WTP. The most recent of the major improvements to the water treatment line was put into service during 2009, by the introduction of ultra-filtration membranes, reverse osmosis and remineralisation. This new technology enables compliance by the plant with health regulation relating to trihalomethane limits (by-products from disinfection) thanks to the elimination of practically all the organic and inorganic precursors generated by that compound, but also makes it possible to notably improve the organoleptic quality of the outlet flows from the Sant Joan Despí WTP. This technology has converted the Sant Joan Despí WTP into one of the most comprehensive drinking water plants in Europe.

The Besòs WTP, with a capacity of 490 l/s, captures the water from the Wells located on the aquifer of the Besòs River basin. The current potabilisation process consists of four treatment lines (one of nano filtration and the other three using reverse osmosis technology) that treat water from the aquifer.

The La Llagosta WTP, with a capacity of 150 l/s, also captures the water from the Wells located on the aquifer of the Besòs River basin (the “**La Llagosta WTP**”). The technology used by this facility is reverse osmosis combined with a stripping stage. The stripping exchange is a mass transfer process in which the volatile compost dissolved in a liquid phase goes through a gaseous phase. Subsequently, the water treated is remineralised with a dose of carbon dioxide and calcium hydroxide and is disinfected with sodium hypochlorite.

The Les Estrelles WTP (the “**Les Estrelles WTP**”) and the El Papiol WTP (the “**El Papiol WTP**”), with capacities of 1,000 l/s and 20 l/s, respectively, capture the water by the Wells located in the Llobregat River basin. In general, the treatment applied by both of them, is through stripping towers. Air stripping is based on separation of the organic compounds present in the water by upstream aeration in a distillation column.

- ***48 catchment Wells with a total installed power of 4,215.75 kW***

The most important Wells, both in number and, in terms of their flow, are located in the municipality of Cornellà de Llobregat. These catchment Wells are vertical Wells where the water is normally located a few metres below sea level and is raised to be included at the post-treatment stage of the Sant Joan Despí WTP, where it is mixed with the captured surface water that has already been treated. The Sant Feliu de Llobregat Wells

provide the water to the Les Estrelles WTP. There are also certain Wells located on the aquifer of the Besòs River basin.

Currently, the Wells represent only 10% of the total Water Supply Business. In exceptional circumstances, the water obtained from Wells could cover up to 40% of the water needs of the Barcelona Metropolitan Area.

- ***Over 4,624 kilometres of water pipes, 99 tanks with a capacity of 464,900 m<sup>3</sup> (93 of which are managed by AB) and 94 pumping stations with a nominal flow of 25.5 m<sup>3</sup>/s and a total installed power of 24,150 kW***

The drinking water, obtained from several sources as described above, is delivered and transported through AB's distribution network. The average daily water distributed is approximately 528,500 m<sup>3</sup>/d. The water must reach the customers in the required quantities and be of a high quality. In order to achieve that objective, the network is divided into a set of pressure floors, with four main levels at 70, 100, 130 and 200 metres. The supply network is divided into sectors and monitored by a network operations control centre with more than 25 years of experience in network remote control. The operations control centre supervises on a continuous basis the key parameters of the Water Supply Business in the Barcelona Metropolitan Area so as to ensure a reliable supply service with the necessary pressure, and has become the drinking water supply nerve centre for around 2,900,000 people.

- ***Over 300 kilometers of sewerage network***

The sewerage network carries 900,000 m<sup>3</sup> of wastewater daily to the WTPs. It includes 33 pumping stations to pump the sewage through the transport network, and evacuates rainwater and helps reduce the risk of flooding.

- ***Seven wastewater treatment plants with a capacity of around 1,042,900 m<sup>3</sup>/d***

AB operates the following wastewater treatment plants:

- (i) **Begues:** treats all the wastewater generated by Begues which is a municipality located in the Baix Llobregat area and has a wastewater treatment capacity of 1,200 m<sup>3</sup>/d;
- (ii) **Gavà-Viladecans:** treats the wastewater generated by the municipalities of Gavà, Viladecans, Sant Climent de Llobregat (part of Sant Boi de Llobregat), Les Botigues de Sitges and Castelldefels and has a wastewater treatment capacity of 64,000 m<sup>3</sup>/d;
- (iii) **El Prat de Llobregat:** treats the wastewater generated by the municipalities of Cornellà de Llobregat, El Prat de Llobregat, Esplugues de Llobregat, L'Hospitalet de Llobregat, Sant Joan Despí, part of Sant Boi de Llobregat and 35 per cent. of Barcelona and has a wastewater treatment designed flow of 315,000 m<sup>3</sup>/d;
- (iv) **Vallvidrera:** treats the wastewater generated by the Barcelona neighbourhoods of Vallvidrera, Les Planes and other small populated areas of the Collserola ridge and has a wastewater treatment capacity of 1,100 m<sup>3</sup>/d;
- (v) **Besòs (Barcelona):** treats the wastewater generated by the municipalities of Badalona, Sant Adrià de Besòs, Santa Coloma de Gramenet, Montgat, Tiana, part of the Montcada i Reixac municipality and 65 per cent. of Barcelona's wastewater and has a wastewater treatment capacity of 525,000 m<sup>3</sup>/d;

- (vi) **Montcada i Reixac:** treats the wastewater generated by the municipalities of Montcada i Reixac, part of Sant Cugat del Vallès, Cerdanyola del Vallès, Ripollet, Badia del Vallès and Barberà del Vallès and has a wastewater treatment capacity of around 72,600 m<sup>3</sup>/d; and
- (vii) **Sant Feliu de Llobregat:** treats the wastewater generated by the municipalities of Sant Feliu de Llobregat, Castellbisbal, El Papiol, Sant Andreu de la Barca, Pallejà, Sant Vicenç dels Horts, Corbera de Llobregat, La Palma de Cervelló, Vallirana, Cervelló, Molins de Rei, the Congost neighbourhood of Sant Just Desvern, the Can Sunyer neighbourhood of Castellví de Rosanes and La Floresta neighbourhood of Sant Cugat del Vallès and has a wastewater treatment designed flow of 64,000 m<sup>3</sup>/d.

The El Prat de Llobregat, Gavà-Viladecans, Sant Feliu de Llobregat and Vallvidrera plants have tertiary water treatments to reuse the water using pioneering treatment technologies, including ultrafiltration membranes and reverse osmosis, reverse electro-dialysis and the IFAS biological treatment systems using activated sludge attached to a moving support. The reuse of reclaimed water is essential in order to address the scarcity of water resources in the Barcelona Metropolitan Area and to be able to meet certain demands of the metropolitan environment. In addition, systems to save energy and optimise the operation of the treatment processes were introduced into the treatment plants recently.

- ***Four sea outfalls with tertiary treatment in the treatment plants of Baix Llobregat (El Prat), Gavà-Viladecans and Besòs***

A sea outfall is an infrastructure which allows wastewater to be taken along a pipe to be buried on the sea bed. Once there, the salinity, the temperature, the ultraviolet radiation and the sea currents participate in the chemical, physical and biological process of the water to reduce its organic and bacterial load. This is an essential infrastructure to maintain an optimal quality of the water on the beaches of the Barcelona Metropolitan Area.

- ***Laboratory***

Since 2009, AB has operated a water health risk preventive management system, certified by international standard ISO 22000 on food quality. The AB laboratory collaborates with various universities and other institutions on the performance of research projects related to water quality. In relation to sewage treatment, the laboratory has ISO 17025 certification, which accredits the fulfilment of all the analytical requirements demanded for wastewater treatment plants.

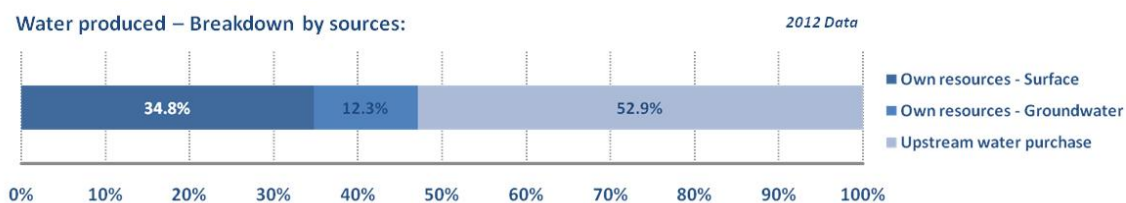
***Water capture (the Ter-Llobregat System)***

The first stage of the Water Supply Business (see “*Description of the Guarantor – Overview*”) is to capture water at source and to treat it in order to generate drinking water. Catalan legislation has established the Ter-Llobregat System, which includes several concessions to capture water and facilities for the provision of water within the Ter and Llobregat Rivers’ basins. The Ter-Llobregat System is integrated by concessions to capture water which are owned and operated by private operators (AGBAR and AB), and other concessions and facilities which are owned by the Catalan Regional Government and operated by ATLL Concessionària de la Generalitat de Catalunya, S.A. (“**ATLL Concessionària**”). ATLL Concessionària sells water to AB for supply in the Barcelona

Metropolitan Area. In accordance with the Ter-Llobregat System, AB captures the water that it distributes in the 23 municipalities of the Barcelona Metropolitan Area from the following sources:

- (i) Surface water captured from the Llobregat River and treated by the Sant Joan Despí WTP, pursuant to the 1953 Concession, which is owned by AGBAR and operated by AB.
- (ii) Groundwater captured by (A) the Wells located in the mouth of the Llobregat River (the “**Llobregat River Wells**”), which is mainly treated by the Sant Joan Despí WTP and the Les Estrelles plants in the municipality of Sant Feliu de Llobregat (the “**Les Estrelles Plants**”), which are owned by AGBAR and operated by AB, and (B) the wells located on the aquifer of the Besòs River basin (the “**Besòs River Wells**”), which is mainly treated by the Besòs WTP and the La Llagosta WTP, and which are owned by AGBAR and operated by AB.
- (iii) Water supplied by public facilities of the Ter-Llobregat Basic Network owned by the Catalan Regional Government and operated by ATLL Concessionària. This water comes mainly from the Ter River, treated at the WTP located at Cardedeu (the “**Cardedeu WTP**”), and a smaller amount from the Llobregat River, treated at the WTP located at Abrera (the “**Abrera WTP**”), and from sea water intake, treated by the desalination plant located at the mouth of the Llobregat river. This source is operated by ATLL Concessionària, which is a private company and a concessionaire of the Catalan Regional Government.

See below a table highlighting the water produced by AB divided by sources:



Source: AB.

The sources described at (i) and (ii) above are operated and managed by AB (by virtue of the usufruct that AGBAR contributed at the time of AB’s incorporation) pursuant to public concessions to capture water that were granted to AGBAR, such as the 1953 Concession. These concessions have a fixed expiry date, at which point they will revert to the Catalan Regional Government without any compensation or other payment due to AB or AGBAR. Certain conditions of the concessions have been recently modified by the ACA, after an 18-month review process, through a resolution dated 16 June 2014, by which (i) AGBAR’s ownership rights under these concessions have been reconfirmed; (ii) the concessions have been reorganised in order to facilitate the joint operation of the 1953 Concession and the Wells; and (iii) the volumes of water captured by virtue of these concessions have been clarified (see “*Description of the Guarantor – Business – Facilities of the Integral Water Cycle Service*”).

### **Water supply**

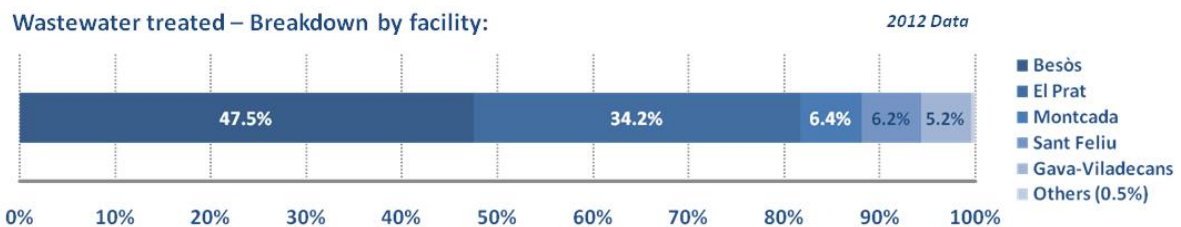
AB has the exclusive right to distribute and supply the water from the sources described above to customers in 23 municipalities of the Barcelona Metropolitan Area, including private customers, businesses and industry. No other operator can distribute and supply water

in these 23 municipalities.

AB holds an individual contract with each customer in these 23 municipalities. These contracts are governed by private law and set out AB’s obligation to provide water to the customers and the customers’ obligation to pay the Tariff charged by AB and approved by the relevant local authorities. In the event that a customer does not pay the Tariff, AB has the power to suspend that customer’s water supply.

***AB’s sewage transportation and treatment of urban wastewater***

AB has the right to provide the sewerage service to the 36 municipalities of the Barcelona Metropolitan Area and serves around 3,250,000 people in that area. The sewage service includes the entire wastewater transportation process from the municipal sewer networks to its treatment in the wastewater treatment plants. AB has seven wastewater treatment plants, as described in “*Facilities of the Integral Water Cycle Service - Seven wastewater treatment plants with a capacity of 1,042,900 m3/d*”. See the below table highlighting the wastewater treated by each of AB’s relevant Facilities:



Source: AB.

***AB’s regeneration of purified wastewater and its reuse***

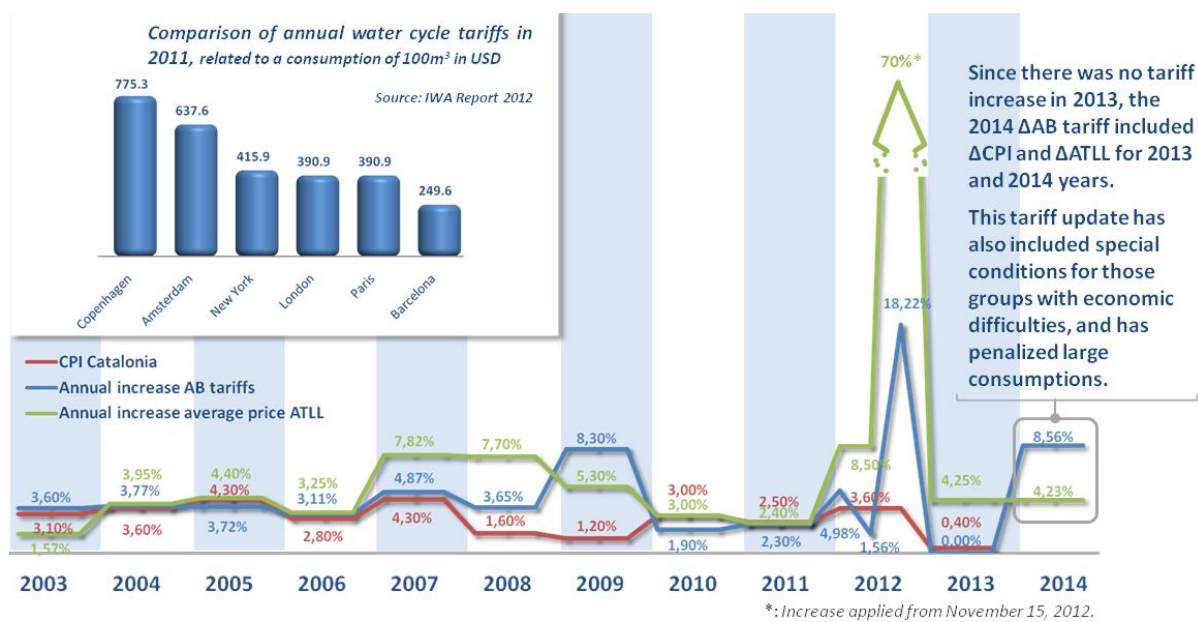
The wastewater treatment allows part of the water to be reused for other uses, such as irrigation or street cleaning, and helps improve the environmental quality of the rivers and of the coast where the rest is discharged. The reuse of reclaimed water is essential in order to confront the scarcity of water resources of the Barcelona Metropolitan Area.

***The Water Supply Tariff***

The Tariff is regulated by the AMB-AGBAR Agreement. The AMB-AGBAR Agreement provides in general terms that the Tariff must cover the Water Supply Service Costs, which are the costs associated with the water supply service, the financial expenses on the fixed asset base, the technical depreciation of the assets related to the water supply service and an adequate return level for AB’s shareholders. Such costs notably include the canon paid by AB to AMB according to the depreciation schedule agreed with AMB.

Pursuant to the terms of the AMB-AGBAR Agreement, the Tariff is proposed by AB and approved by the Metropolitan Council of AMB. Thereafter, the Tariff has to be authorised by the Catalan Price Commission (*Comissió de Preus de Catalunya*), following which AB may apply the Tariff to its customers. The Tariff that is in force in 2014 was approved by the Metropolitan Council of AMB in November 2013 on the basis of an application and tariff study submitted by AB and reflects an increase of 8.56 per cent. compared to the Tariff applicable in 2013. Among other things, this tariff study set out the Water Supply Service Costs, by the application of certain percentages to the different operating expense components. A table detailing the annual increase in the Tariff is included below:





The tariff increase for 2012 consisted of 3 parts:

- The **ordinary annual increase**, that in 2012 resulted in 4.98%, based on the polynomial formula included in the Framework Agreement.
- An **extraordinary increase of 1.56%**, starting in June 2012, as a result of the ACA Canon on upstream network.
- A second **extraordinary increase of 18.22%**, starting in November 2012, due to the rise of 70% of ATLL's water purchase price.

Source: AB.

Furthermore, to facilitate and preserve concentration of effort on strategic aspects, such as service quality and investment commitments as well as to maintain a stable tariff framework, AMB and AB signed a framework agreement relating to the period 2015/2019 (the “**Framework Agreement**”). This period can be extended by mutual agreement of AMB and AB for two additional periods of five years each. The Framework Agreement sets objectives in terms of service quality and includes a five-year ordinary investment plan as well as a polynomial formula for setting the annual Tariff. The successive annual Tariff reviews for the period 2015/2019 will be carried out according to such polynomial tariff formula which includes:

- an ordinary factor that adjusts the Tariff by the average increase of the water purchase cost and the Catalonia consumer price index (the “**CPI**”) for the rest of the operating costs, according to the proportional weight of water purchase costs and of all other operating costs. This ordinary element is multiplied by a factor that reflects the Service Incentive Mechanism that compares AB's actual performance with the targets set by AMB in terms of the quality of the service that AB delivers to its customers. The Service Incentive Mechanism could lead to AB receiving a reduced or increased Tariff depending on its performance. The indicators to be considered relate to water quality (e.g., physical-chemical quality of the water served), environmental management and sustainability (e.g., energy efficiency), guarantee of supply and service management (e.g., efficiency of distribution network) and customer care quality (e.g., complaint reply time). A Service Incentive Mechanism result of 1 or higher signifies that AB's service quality is above the level that is required by AMB and, therefore, implies a positive impact on the Tariff. The Service Incentive Mechanism result in order to comply with the ordinary factor for years 2012 and 2013 was 1.0015; and

- (b) an extraordinary factor that includes extraordinary investments and the operating costs associated with these extraordinary investments and a correction factor in order to mitigate consumption impacts (on a yearly basis).

The annual Tariff will be set in accordance with this formula during the next five years, unless there is a breakdown of the Economic Balance. AMB is legally obliged to maintain this Economic Balance which means that the Water Supply Service Costs have to be adequately covered by the Tariff. In the event that a breakdown of the Economic Balance occurred (due to an increase of the Water Supply Service Costs, or a decrease in AB's income), AMB would be obliged to restore the Economic Balance, by approving a higher Tariff, or by paying compensation to AB.

See below a table detailing the breakdown of AB's water bill by means of which the Tariff is charged to the customers and a table detailing the funds flow in AB's activities:

**Water service + Water purchase = Water tariff**

Tranches	General tariff (EUR/m <sup>3</sup> )	Tranche limit (m <sup>3</sup> /month)
1st	0.6188	6
2nd	1.2376	9
3rd	1.8564	15
4th	2.4752	18
5th	3.0940	> 18

**Water service + Water purchase = Water tariff**

**Water Canon**

**Sewage Collection Charge**

**TMTR**

**VAT**

**Customer Breakdown:**

- Households: 88%
- Businesses and Industrials: 11.5%
- Municipals and Others: 0.5%

**Bill Components:**

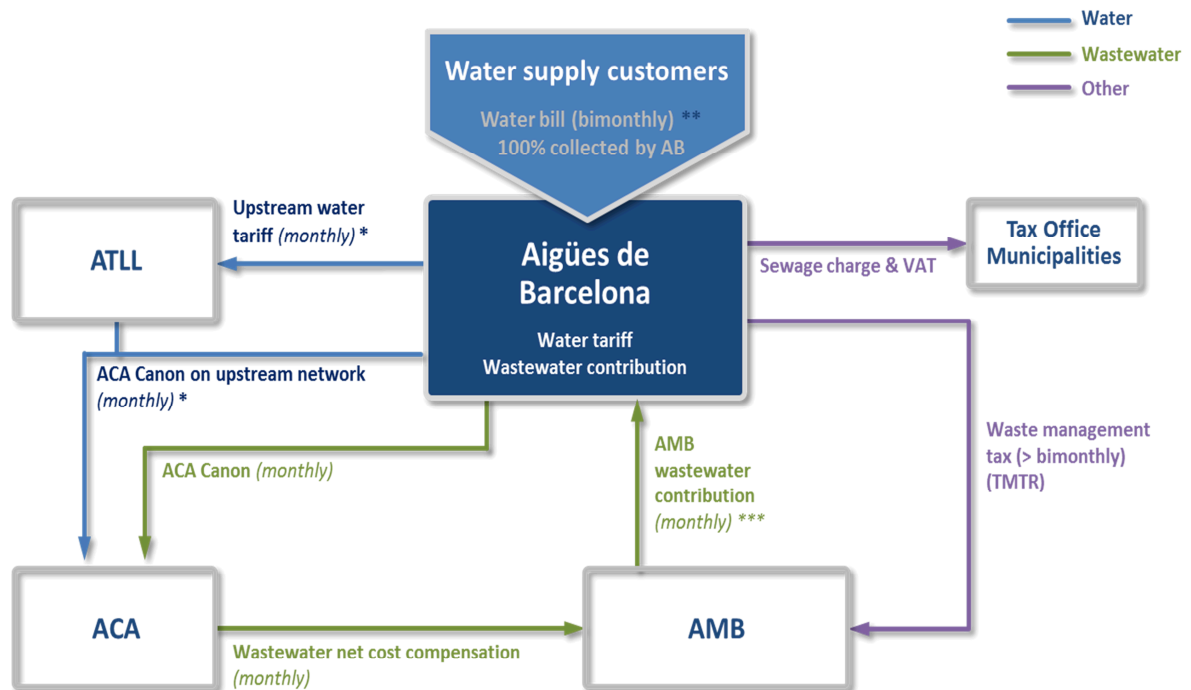
- Water service + Water purchase: 54%
- Water Canon: 15%
- Municipality: 5%
- TMTR: 19%
- VAT: 7%

**Customer Statistics:**

- AB collects the entire bill, including components on behalf of ACA, tax office, etc..
- Bill paid to AB by final customer.
- Highly diversified risk: # of customers (in Thousands): 1,411
- Non-payment Ratio: 0.7%

Source: AB.

## Water cycle in Barcelona metropolitan area



\* Cost included in water tariff.

\*\* Except for large customers (1-monthly).

\*\*\* Framework Agreement

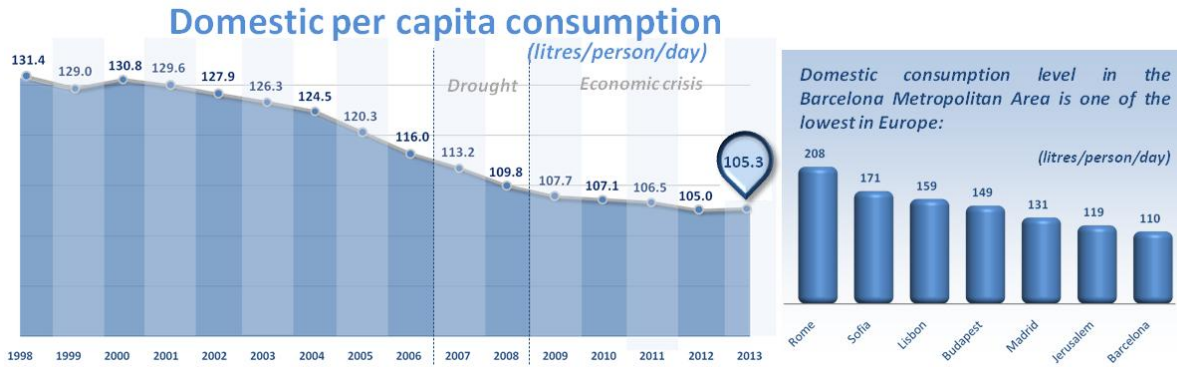
Source: AB.

### Consumption

The domestic consumption level of water in the Barcelona Metropolitan Area is one of the lowest in Europe. In recent years, the awareness of citizens in respect of saving water and the conservation of natural resources has increased. Consumption has also fallen as a result of the economic crisis that Spain is suffering. This decrease in consumption has been especially pronounced in the Barcelona Metropolitan Area due to the drought in 2007, which required water saving measures to be taken at all levels.

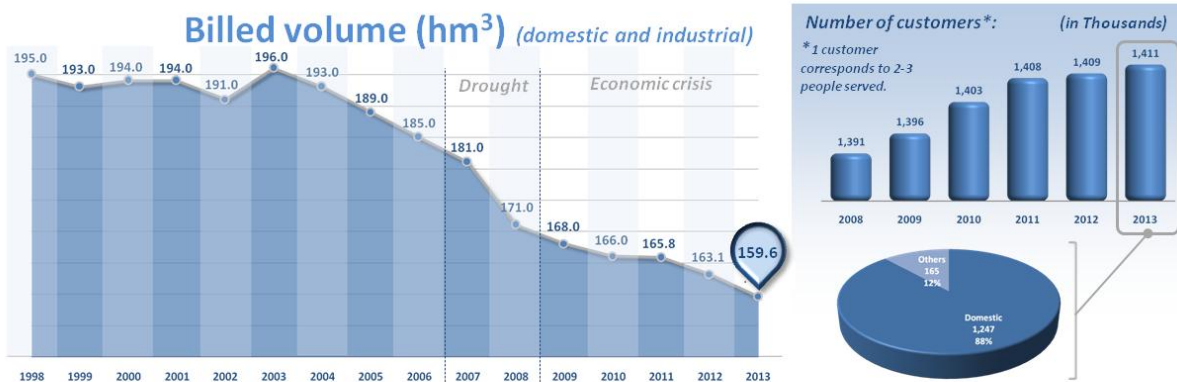
With regard to domestic use, new habits have been consolidated and have allowed a reduction in consumption. The consumption per capita was about 105.3 litres per inhabitant per day in 2013 compared to 105.0 litres per inhabitant per day in 2012. However, this prolonged downturn in water consumption is unlikely to last or increase. The World Health Organisation's minimum standard for water consumption is at least 100 litres per person per day. In addition, commercial and industrial consumption is expected to increase as the economic situation of Spain and of the Barcelona Metropolitan Area improves.

Tables detailing domestic per capita consumption (including a comparison with the consumption of other similar European cities), water billed volume and number of customers are included below:



Source: AB.

Source: IWA report 2010 (figures as of 2008).



Source: AB.

### Insurance

In line with industry practice AB maintains insurance which provides cover against a number of risks arising in connection with AB's operations, including property damage (including environmental damage), fire and third party liability, in certain instances.

### Contractors, subcontractors and suppliers

Apart from the AMB-AGBAR Agreement and the Framework Agreement, AB has not entered into any contracts (being contracts not entered into in the ordinary course of business) which are, or may be, material or which contain a provision under which AB has an obligation or entitlement which is material to AB's ability to meet its obligations to Noteholders in respect of the Notes. AB has executed the following agreements or has the following relationships in its ordinary course of business:

- (i) a relationship with ATLL Concessionària in respect of the water supply;
- (ii) electricity supply agreements with electricity utilities;
- (iii) contracts for the ordinary maintenance and replacement of parts of the water supply infrastructures with ACSA Obras e Infraestructuras, S.A.; and

- (iv) contracts with various subsidiaries of AGBAR relating to information systems, customer services, etc. (see the Combined Financial Statements for more detail).

### **The AMB-AGBAR Agreement**

#### ***AB's obligations in respect of the operation of the Integral Water Cycle Service***

The AMB-AGBAR Agreement is a public service management contract that regulates AB's exclusive right to manage the Integral Water Cycle Service and AMB's prerogatives in respect of this service. See "*Overview of the Spanish Water Sector*".

AB's obligations under the AMB-AGBAR Agreement in respect of the Water Supply Business are as follows:

- (i) to supply water pursuant to the technical and financial specifications on availability, quality, health and other parameters set out in the technical specification sheet (the "**Technical Specification Sheet**") and in the regulations approved by AMB relating to the Integral Water Cycle Service. The Technical Specification Sheet, approved by the Metropolitan Council of AMB, establishes the technical conditions governing the activities carried out by AB related to the management of the Facilities of the Integral Water Cycle Service. The Technical Specification Sheet provides a functional description of these Facilities and the definition of the service: overall organisation, maintenance, operation and management of installations, commercial management and technical support and advice;
- (ii) to maintain the infrastructure required for the water supply service in a good state of repair;
- (iii) to invest in water supply infrastructure according to the terms established in the Framework Agreement. The amount assigned to "ordinary investments" is €38.6 million in 2014, and this will be increased annually in line with the Spanish CPI in the month of December. Ordinary investments are investments which must be made systematically each year in order to guarantee the level of the service provided by AB. This includes investments required to meet the three strategic objectives established in the Framework Agreement, namely: guarantee of the water supply and quality, environmental management and sustainability; and quality in customer care;
- (iv) to pay AGBAR for its contributions as a private shareholder of AB an amount per annum initially equivalent to 3.5 per cent. of the estimated turnover of AB related to the Water Supply Business in its first year of operation, updated in line with the official Catalan CPI; and
- (v) any other obligation imposed by AMB, including, in particular, the payment to AMB of an annual canon of EUR 20,000,000, in the legitimate exercise of the powers it holds as the public authority responsible for the water supply service.

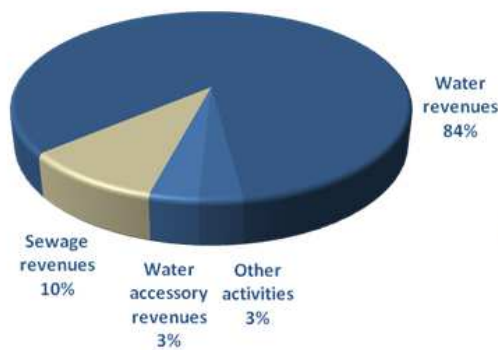
#### ***Economic and financial aspects of AB's management of the Integral Water Cycle Service***

As described above, AMB sets and approves Tariffs that must cover the Water Supply Service Costs. If the AMB-approved Tariffs are not sufficient to cover these Water Supply Service Costs, AMB must put in place a mechanism to cover any such shortfall. This shortfall can be charged to the AMB budget or deducted from the annual fee payable to AMB by AB. The Tariffs are proposed to AMB by AB and must be approved by the Metropolitan Council of AMB and authorised by the Catalan Price Commission before they can be applied to AB's customers. AB receives the Tariffs directly from the customers of the water supply service

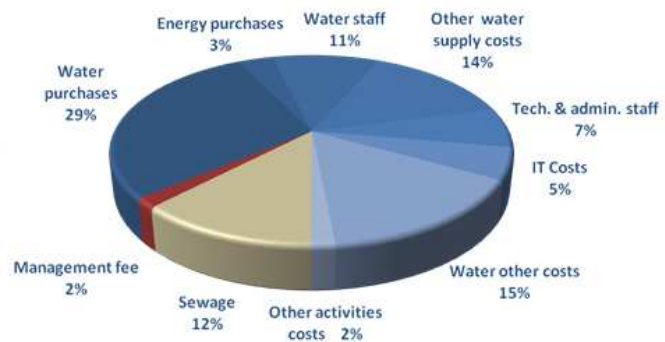
and may suspend the water supply of any customers who fail to pay their Tariffs. For a further description see “Risk Factors - AB has exposure to credit risk arising from its commercial activity”.

AMB also sets the consideration payable to AB for the sewage and wastewater treatment and reuse service pursuant to additional provision 14 of Legislative Decree 3/2003. This compensation consists of an amount equal to the costs and expenses incurred by AB in carrying out those activities. Diagrams illustrating the split of costs and the split of revenues among the different business areas are included below:

Split of revenues:



Split of costs:



Source: AB.

Under the AMB-AGBAR Agreement, liabilities for events that occurred prior to the date of commencement of the operations of AB are assigned to AMB, and revenues and expenses arising from the purification and reuse service as of the date of commencement of the operations of AB together with liabilities for events that arise after the date of commencement of the operations of AB are assigned to AB.

Finally, AB has the right to receive financial compensation or demand a review of the Tariffs in order to maintain the Economic Balance if such Economic Balance ceases to be fair and balanced for reasons not attributable to AB. For example, if a modification of the current regulations imposed additional obligations on AB which entailed additional costs, then such costs should be covered by a restoration of the Economic Balance.

#### ***AGBAR’s rights under the AMB-AGBAR Agreement***

Under the terms of the AMB-AGBAR Agreement, AB acquired the assets of AGBAR that were not contributed to AB upon its incorporation in return for which AGBAR is entitled to an amount of €190 million plus taxes. A payment schedule has been established for the payment of this amount ten years after the commencement of AB’s operations at the latest. Until the principal is paid in full, AB must pay AGBAR interest on the unpaid principal at an annual interest rate which is reviewed annually according to the average rate of 10-year Spain sovereign bonds, plus a risk premium. The interest rate payable up to 31 July 2014 is 7.25 per cent.

In addition, AGBAR provides AB with its know-how in relation to the provision of the Integral Water Cycle Service relating to integrated water cycle management, laboratory

analysis of water samples, drinking sewage treatment, and management of water transport and distribution networks.

As consideration for the know-how, AGBAR is entitled to receive an amount initially equivalent to 3.5 per cent. of AB's estimated turnover for water supply according to the AB's audited financial statements for the first year of its operation as a payment for management expenses. This amount is updated annually on the basis of the CPI for the last twelve months.

### ***AB's capital expenditure***

According to the AMB-AGBAR Agreement and the Framework Agreement, AB is responsible for carrying out necessary maintenance and conservation work on the facilities assigned to the Integral Water Cycle Service; and conducting improvement and extension works related to the Integral Water Cycle Service.

AMB can require AB to make other capital expenditures, including in respect of the replacement, improvement and new investment plan for public drainage services. Such capital expenditures are partially financed by AMB in accordance with Legislative Decree 3/2003 which approves the Catalan legislation on water.

### **Capital expenditure plans**

In recent years, AGBAR, as operator of the water supply service, has made the necessary investments to maintain the level of service, while reducing some deficits in the provision of infrastructure. According to the Framework Agreement, AB must assign €38.6 million to ordinary investments in 2014, updated annually by the Spanish CPI. See "*AB's obligations in respect of the operation of the Integral Water Cycle Service*".

The table below shows the historical capital expenditure in 2012 and 2013 in respect of the Water Supply Business and the Sewage Transport, Treatment and Reuse Business, (based on the Combined Financial Statements – see "*Presentation of Financial and Certain Other Information and Currency Presentation – Combined Financial Information*"):

<b>Capital expenditure (EUR in million)</b>	<b>2013</b>	<b>2012</b>
Treatment stations	4.9	5.9
Network renewal	15.5	17.5
Network expansion and improvement	7.7	9.3
Tanks	2.7	3.6
Sant Boi de Llobregat	1.3	0.9
Other	5.9	3.8
<b>TOTAL CAPEX</b>	<b>38.0</b>	<b>41.0</b>

In relation to extraordinary capital expenditure, there is a plan to improve water supply to the right bank of the Llobregat River. The municipalities of Begues, Castelldefels, Gavà, Sant Boi de Llobregat, Sant Climent, Viladecans and les Botigues de Sitges are highly dependent on two vulnerable junctions of the Llobregat River, which are difficult to repair in case of failure. In addition, there is a significant lack of water reservoirs in this area.

The project, which is expected to be completed during 2017, involves (i) improving the existing 1,250/900 millimetre pipe at a height of 70 metres, connecting it to a new reservoir at

this height; (ii) building a new reservoir at a height of 100 metres and connecting it to the corresponding pipeline; and (iii) building a new pumping station at a height of between 70 and 100 metres.

The remaining amount to be invested for this project is €34.5 million as at the date of this Offering Circular (out of a total project amount of €45 million).

### **Information technology and control network**

AB is dependent upon the ability to access, utilise and communicate remotely via electronic software applications mounted upon corporate information technology hardware and communicating through internal and external networks. AB's computer systems and technology platforms are provided by the leading corporations of the sector meeting applicable quality standards. The more critical and sensitive IT systems are protected by contingency plans and covered with external services and support on a 24/7 basis. AB's hardware servers are replicated in various locations, and back-ups are performed on a daily basis, in order to mitigate any impact on AB's business, commercial, accounting or financial infrastructure.

### **Litigation**

The AMB Regulation, the validity of the incorporation of AB and the AMB-AGBAR Agreement are being challenged before the Catalan High Court of Justice (*Tribunal Superior de Justicia de Cataluña*) by several competitors of AGBAR: Sociedad Española de Abastecimientos, S.A., Aguas de Valencia, S.A., Aqualia gestión integral del agua, S.A., Acciona Agua, S.A., and ATLL Concessionària de la Generalitat de Catalunya, S.A. (the "**Claimants**"). For a detailed description of matters relating to AB's incorporation, see "*Incorporation of AB; joint management of the Integral Water Cycle Service*".

The Claimants are claiming, *inter alia*, that only the Catalan Regional Government has the power to manage and operate the public water supply via the Ter-Llobregat System and, accordingly, AMB is not entitled to make any changes to the management or operation of that service. Further, whilst AGBAR may have the adequate and necessary competence to manage and operate the public water supply, the Claimants assert that it is not the "only existing company" within the provisions of Article 283 of ROAS that operates in the field of water supply in the Barcelona Metropolitan Area and, accordingly, the exemption in ROAS that applies where there is an "only existing company" was not available to AMB, and AMB should have called for an open, transparent and competitive tender process in order to select a private partner in accordance with the public procurement law (Royal Legislative Decree 3/2011). Finally, the Claimants claim that AGBAR did not validly hold the concession and licences (including the 1953 Concession), the management of which is now handled by AB pursuant to the terms of the AMB-AGBAR Agreement, because, according to the Claimants, the terms of those concessions had been reduced from a 99 year term to a 50 year term as a result of certain amendments to local regulation.

Prior to the incorporation of AB, the Claimants applied to the Catalan High Court of Justice for injunctions to stop AB's incorporation, arguing that there had been a breach of the public procurement law (Royal Legislative Decree 3/2011) because there had been no public tendering process prior to the incorporation of AB.

The Catalan High Court of Justice has rejected the request for injunctions on 14 separate occasions on the basis that the legal requirements to adopt precautionary measures were not fulfilled. The Spanish Supreme Court has rejected a cassation appeal filed by one of the



Claimants and has confirmed the decisions of the Catalan High Court of Justice which were challenged by that Claimant.

AMB, AGBAR and AB have filed a defence to the action and will vigorously defend the claim as they do not consider that any of the above-mentioned claims of the Claimants are founded on solid grounds. However, in the unlikely event that the claims were upheld by the Spanish Courts it would be expected that AMB and AGBAR would be reimbursed the contributions they made upon the incorporation of AB and would be returned to the position they were in before the incorporation of AB. Consequently, AMB would operate the Sewage Transport, Treatment and Reuse Business (see “*Description of the Guarantor - Overview*”) and AGBAR or any other subsidiary thereof would operate the metropolitan Water Supply Business (see “*Description of the Guarantor - Overview*”) (directly or indirectly be it through AB (if AB is not wound-up) or another subsidiary). For a more detailed description of matters relating to AB’s incorporation, see “*Incorporation of AB; joint management of the Integral Water Cycle Service*”. If a Transfer Event (as defined in the Conditions) occurs (i.e., if AGBAR or any other subsidiary thereof other than AB were to directly manage the Water Supply Business rather than through AB), the Issuer and the Guarantor have undertaken in the Conditions to cause AGBAR or any such subsidiary thereof (except for AB) to guarantee the obligations of the Issuer under the Notes and the Trust Deed, and AGBAR has undertaken to the Issuer and the Guarantor to assume, and to procure that such other subsidiary of AGBAR will assume all the duties and obligations of the Guarantor under the Notes and the Trust Deed in accordance with the Conditions. Upon the effective date of the guarantee given by AGBAR or such other subsidiary thereof (except for AB), the Guarantor will be released and discharged from its obligations under the Notes and the Trust Deed (including the Guarantee). However, a Transfer Event does not give rise to an optional redemption right for the Noteholders. See “*Terms and Conditions of the Notes – Undertaking by AGBAR*”.

Although it is not possible to predict with any degree of certainty when the Catalan High Court of Justice will issue its judicial ruling, it is expected that this will be happen at some point during 2015. The losing party may appeal this judicial ruling before the Spanish Supreme Court, which may postpone the final judicial ruling for a further two years.

In addition, ATLL Concessionària has challenged the authorisation granted by the ACA on 26 July 2013, which permitted AGBAR to create a usufruct right in favour of AB over the concessions to capture water from Wells and the Llobregat River (such as the 1953 Concession), and related facilities (such as the Sant Joan Despí WTP). See “*Incorporation of AB; Joint Management of the Integral Water Cycle Service*”. ATLL Concessionària has not filed its claim and, therefore, the grounds thereto have not been disclosed. In any event, ATLL Concessionària will be asking the courts for its challenge and the details of its claim to declare that the ACA authorisation is null and void and, therefore, AGBAR could not contribute the mentioned usufruct right to AB.

ATLL Concessionària has also challenged before the ACA the resolution of the ACA dated 16 June 2014, by which (i) AGBAR’s ownership rights under these concessions were reconfirmed; (ii) the concessions were reorganised in order to facilitate the joint operation of the 1953 Concession and the Wells; and (iii) the volumes of water captured by virtue of these concessions were clarified. See “*Description of the Guarantor – Business – Facilities of the Integral Water Cycle Service*”. ATLL Concessionària claims that this decision is null and void. The rejection of this appeal by ACA could be challenged before the contentious-administrative courts.

Set out below is a summary of the key aspects of each of the above-referenced claims:

**Claimant:** Aqualia Gestión Integral del Agua, S.A. (“**Aqualia**”)

**Date:** 18 June 2013

**Claim:** Aqualia challenged the AMB Regulation under which the Integral Water Cycle Service is formally established and the direct award of the concession to ABGAR without a competitive tender process.

**Injunction measures claimed:** On 21 December 2012 Aqualia requested an injunction to suspend the implementation of the AMB Regulation.

**Case status:** On 15 May 2013 the Catalan High Court of Justice rejected the injunction on the basis that certain technical legal requirements for such request were not met and on 19 July 2013 dismissed the appeal filed against the initial rejection

The main proceeding is still pending.

**Claimant:** Sociedad Española de Abastecimiento, S.A. (“**SEASA**”)

**Date:** 28 June 2013

**Claim:** SEASA challenged the AMB Regulation under which the Integral Water Cycle Service is formally established and the direct award of the concession to ABGAR without a competitive tender process.

**Injunction measures claimed:** On 27 November 2012 SEASA requested an injunction to suspend the implementation of the AMB Regulation.

**Case status:** On 15 May 2013 the Catalan High Court of Justice rejected the injunction on the basis that certain technical legal requirements for such request were not met and on 19 July 2013 dismissed the appeal filed against the initial rejection.

On 22 October 2013 SEASA also filed a cassation appeal before the Spanish Supreme Court challenging the rejection of the injunction. On 9 July 2014 the Spanish Supreme Court rejected this appeal and has confirmed the previous decisions of the Catalan High Court of Justice.

The main proceeding is still pending.

**Claimant:** Aguas de Valencia, S.A. (“**AVSA**”)

**Date:** 26 June 2013

**Claim:** AVSA challenged the AMB Regulation under which the Integral Water Cycle Service is formally established and the direct award of the concession to ABGAR without a competitive tender process.

**Injunction measures claimed:** On 28 November 2012 AVSA requested an injunction to suspend the implementation of the AMB Regulation.

**Case status:** On 15 May 2013 the Catalan High Court of Justice rejected the injunction on the basis that certain technical legal requirements for such request were not met and on 19 July 2013 dismissed the appeal filed against the initial rejection.

On 18 October 2013 AVSA also filed a cassation appeal before the Spanish Supreme Court challenging the rejection of the injunction. The resolution of the appeal is pending.

The main proceeding is still pending.

**Claimant:** Acciona Agua, S.A. (“**Acciona**”).

**Date:** 19 December 2013

**Claim:** Acciona challenged the AMB Regulation under which the Integral Water Cycle Service is formally established and an amendment to the AMB Regulation dated 21 May 2013.

**Injunction measures claimed:** On 18 January 2013 Acciona requested an injunction to suspend the implementation of the AMB Regulation.

On 21 June 2013 Acciona also requested an injunction to suspend the implementation of the amendment to the AMB Regulation dated 21 May 2013.

**Case status:** Regarding the AMB Regulation, on 15 May 2013 the Catalan High Court of Justice rejected the injunction on the basis that certain technical legal requirements for such request were not met offer and on 19 July 2013 dismissed the appeal filed against the initial rejection.

On 24 October 2013 Acciona also filed a cassation appeal before the Spanish Supreme Court challenging the rejection of the injunction. The resolution of the appeal is pending.

Regarding the amendment of the AMB Regulation dated 21 May 2013, on 9 December 2013 the Catalan High Court of Justice rejected the injunction on the basis that certain technical legal requirements for such request were not met and on 24 February 2014 dismissed the appeal filed against the initial rejection.

The main proceeding is still pending.

**Claimant:** ATLL Concessionària

**Date:** 21 January 2013 (regarding the AMB Regulation), 2 September 2013 (regarding an amendment to the AMB Regulation dated 21 May 2013), 19 March 2014 (regarding the authorisation granted by the ACA by which AGBAR was allowed to create a usufruct right in favour of AB) and 18 July 2014 (regarding the resolution of ACA of reorganization of AGBAR’s concessions).

**Claim:** ATLL Concessionària challenged the AMB Regulation under which the Integral Water Cycle Service is formally established, an amendment to the AMB Regulation dated 21 May 2013 and the authorisation of the ACA by which the creation of a usufruct right in favour of AB is created over the concessions to capture water from Wells and the Llobregat River (such as the 1953 Concession), and related facilities (such as the Sant Joan Despí WTP).

**Injunction measures claimed:** On 21 January 2013 ATLL requested an injunction to suspend the implementation of the AMB Regulation.

On 2 September 2013 ATLL also requested an injunction to suspend the implementation of the amendment to the AMB Regulation dated 21 May 2013.

**Case status:** Regarding the AMB Regulation, on 4 April 2013 the Catalan High Court of Justice declared that the claim brought by ATLL was inadmissible and on 10 May 2013 dismissed the appeal filed against the initial rejection for inadmissibility.

Regarding an amendment to the AMB Regulation dated 21 May 2013, on 16 December 2013 the Catalan High Court of Justice declared that the claim brought by ATLL was inadmissible and on 12 March 2014 dismissed the appeal filed against the initial rejection for inadmissibility.

The main proceeding is still pending.

The appeal before the ACA of its resolution in respect of the reorganisation of AGBAR's concessions has yet to be decided by the ACA. The decision of the ACA regarding this appeal can be challenged before the contentious-administrative courts.

## DIRECTORS, SENIOR MANAGEMENT AND CORPORATE GOVERNANCE

### Board of directors

#### Board of Directors of the Issuer

Set out below are the names and ages of, and the positions held by, each member of the board of directors of the Issuer as at the date of this Offering Circular:

<u>Name</u>	<u>Age</u>	<u>Position</u>
Paul Bourdillon.....	42	Chairman and Managing Director
Rosa María Ruzafa Luna.....	44	Director
José Antonio Castillo Valero.....	52	Director
Alejandro Jiménez Marconi.....	44	Secretary

The following are brief biographies of each of the current members of the board of directors of the Issuer.

**Paul Bourdillon.** Mr. Bourdillon is the Deputy Chief Financial Officer of AGBAR, with specific responsibility for investments and divestments as well as treasury and financing activities within the AGBAR group. He has an honours degree in economics with statistics from the University of Bristol and a masters in management from the Ecole Supérieure de Commerce de Paris. He has worked within the Suez Environnement Group since 2002 in various roles including Chief Financial Officer of SITA Australia based in Sydney, Director of M&A of Suez Environnement based in Paris, and within AGBAR in his current role in Barcelona since 2010.

**Rosa María Ruzafa Luna.** Mrs. Ruzafa is the AGBAR's Treasury, Financing and Investor Relations Director. She is responsible for cash-management, long and short-term financing and derivatives, among other matters. She has an economics degree from the Universitat de Barcelona, with a double major in Investments and Business Finance, and in Marketing and Market Research. She graduated in business, university and society from the Universitat de Barcelona and the Fundació Bosch i Gimpera. Prior to joining the AGBAR group in 1998, she had held several financial management positions in other corporations.

**José Antonio Castillo Valero.** Mr. Castillo is the planning and control manager and general services manager of AB. He has worked for the AGBAR group since 1980 and has held the position of general services manager for environmental matters, CFO in the Canary Islands, economic and financial manager of the north national direction of AGBAR Sorea, Sociedad Regional de Abastecimiento de Agua, S.A.U. ("**Sorea**"), PTFA and their subsidiaries, and has been the economic and financial officer for Catalonia. Mr. Castillo's activities within AB include the purchasing and contracting of assets and supplies and the controlling functions and the cash management of AB.

**Alejandro Jiménez Marconi.** Mr. Jiménez is the head of AGBAR's legal department. He has a law degree from the Universitat de Barcelona and is an attorney of the Catalan Regional Government (*Generalitat de Catalunya*) (currently on a leave of absence). In the public sector, he was the head of the Legal Department of the Catalan Institute of Finances and was in charge of environmental litigation.

The business address of the board of director of the Issuer is Carrer General Batet, 1-7, Barcelona, Spain.

### **Board of Directors of the Guarantor**

Set out below are the names and ages of, and the positions held by, each member of the board of directors of the Guarantor as at the date of this Offering Circular:

<b><u>Name</u></b>	<b><u>Age</u></b>	<b><u>Position</u></b>
Àngel Simon Grimaldos.....	56	Chairman
Arsenio Olmo Chaos.....	55	Vice Chairman
AGBAR represented by Albert Martínez Lacambra.....	46	Managing Director
Salvador Illa Roca.....	48	Director
Jordi Prat i Soler.....	69	Director
Albert Vilalta i Cambra.....	50	Director
Carlos Tusquets Trias de Bes.....	63	Director
Josep Dolz Ripollés.....	64	Director
Ramon Folch Guillén.....	68	Director
Esteban Arimany Lamoglia.....	60	Secretary
Alejandro Jiménez Marconi.....	44	Vice Secretary non-member

The following are brief biographies of each of the current members of the board of directors of the Guarantor.

**Àngel Simon Grimaldos.** Mr. Simon has been CEO of Water Europe in Suez Environnement since March 2013 and, since June 2010, he has been the chairman of AGBAR's board of directors. Previously, within the AGBAR group, he was appointed CEO-Director and held the position of general manager of Aguas Andinas, S.A. (Chile), as well as international managing director of the water and treatment sector. Mr. Simon is a civil engineer with an MBA from ESADE and worked as an engineer and manager for AMB for six years prior to joining the AGBAR group.

**Arsenio Olmo Chaos.** Mr. Olmo is AGBAR's CEO and is in charge of the corporate functions of internal organisation and human resources, communication and concessions in Spain. Mr. Olmo joined the AGBAR group in 2001 as head of human resources in Catalonia and was appointed to that role for the whole group in 2004. From 2005 onwards his role has also included that of organisational manager. Before he joined the AGBAR group, he had held several management positions at the AMB. He graduated from the Universitat de Barcelona with a degree in psychology, has an MBA from the Universitat Autònoma de Barcelona, Universitat de Barcelona and the Universitat Politècnica de Catalunya and in 2001 obtained a master's degree in human resources management from EADA.

**Albert Martínez Lacambra.** Mr. Martínez holds the position of representative of AGBAR as managing director of AB and second vice chairman of Companyia d'Aigües de Sabadell among other positions in AGBAR group companies. Mr. Martínez has a degree in economics and law and is a professor at the Universitat Autònoma de Barcelona in the Department of Economic and Business Sciences. Prior to joining the AGBAR group in 2005, he had held several management positions in the public sector.

**Salvador Illa Roca.** Mr. Illa is a member of the board of directors of AB and of its executive committee. He has a degree in philosophy and an MBA from IESE and is an associate professor in economics at the Ramon Llull University in the Blanquerna School of Communications and International Relations. Mr. Illa has been mayor of La Roca del Vallès and has held several management positions in the public sector.

**Jordi Prat i Soler.** Mr. Prat has a degree in civil engineering from the Universidad de Madrid and has been associate professor in the Escola Tècnica Superior d'Enginyers de Camins, Canals i Ports de Barcelona. Before being appointed director of AB, Mr. Prat was the delegate of the Ministry of Development for the coordination of the railway system in Catalonia and technical director of the Barcelona Metropolitan Transport Authority.

**Albert Vilalta i Cambra.** Mr. Vilalta is a member of the board of directors of AB and has a degree in civil engineering with a major in transports from the Universitat Politècnica de Catalunya. He also has a master's degree in business administration from the Universitat Politècnica de Catalunya, specialising on the construction sector. He has been chief engineer of the mayor of Barcelona and, after working in the private sector, has developed his career collaborating, as manager or director, with companies in the public sector, especially in the areas of environment and mobility.

**Carlos Tusquets Trias de Bes.** Mr. Tusquets has a PhD in economics from the Universitat de Barcelona. He is the founder of the financial entity FIBANC, currently Banco Mediolanum, and is the chairman of that bank as well as of Trea Capital Partners. Mr. Tusquets is also the chairman of Efpá España (European Financial Planning Association). Mr. Tusquets is and has been a member of the board of directors of several companies and chairman of the Círculo de Economía.

**Josep Dolz Ripollés.** Mr. Dolz has a PhD in engineering. Since 1989 he has chaired the hydraulics engineering group in the School of Civil Engineers of the Universitat Politècnica de Catalunya. Mr. Dolz is currently a director of AB and a consultant for several public authorities and companies.

**Ramon Folch Guillén.** Mr Folch is a biologist and socio-ecologist. In a professional career spanning forty years, he has developed and communicated ideas, strategies, plans and projects rooted in sustainability in Catalonia, Spain, Latin America and Africa. He has chaired the Social Council at the Technical University of Catalonia (2004-08). He has acted as a consultant in environmental management for the UNESCO, as member and general secretary of the Spanish Committee of the UNESCO MAB Programme (Madrid-Paris, 1982-94) and as member of the UNESCO commission set up to follow up developments after the Rio Summit (Paris, 1992-97).

**Esteban Arimany Lamoglia.** Mr. Arimany is the secretary member of AB's board of directors and partner emeritus at the law firm Uría Menéndez. State lawyer (*abogado del estado*) on temporary voluntary leave, he is a public law professor at the University of Barcelona. Mr. Arimany has a law degree with honours from the Autonomous University of Barcelona.

**Alejandro Jiménez Marconi.** Mr. Jiménez is the head of AGBAR’s legal department. He has a law degree from the Universitat de Barcelona and is an attorney of the Catalan Regional Government (*Generalitat de Catalunya*) (currently on a leave of absence). In the public sector, he was the head of the Legal Department of the Catalan Institute of Finances and was in charge of environmental litigation.

The business address of the board of directors of AB is Carrer General Batet, 1-7, Barcelona, Spain.

### **Management team**

Set out below are the name, age and position held by each member of the management team of the Guarantor as at the date of this Offering Circular:

<b><u>Name</u></b>	<b><u>Age</u></b>	<b><u>Position</u></b>
Ignacio Escudero García.....	49	General Manager
Francisco Javier de Fuentes Muñiz.....	45	Public Concessions Manager
José Antonio Castillo Valero.....	52	Planning and Control Manager
Marc Mascareñas Sardà.....	39	Human Resources and Internal Organisation Manager
Francesc Xavier Iraegui Navarro.....	43	Technical and Operations Manager
Nuria Latorre Claudio.....	44	Client Strategy Manager
Victòria Eugenia Martínez Fraile.....	53	Communication and External Relations Manager
Jorge Cabot Ple.....	53	Sewage System Manager

The following are short biographies of the current members of the Guarantor’s management team:

**Ignacio Escudero García.** Mr. Escudero is AB’s General Manager and the chairman of the board of directors of *Agrupación de Serveis d’Aigua de Catalunya* and deputy chairman of Barcelona Cicle de l’Aigua, S.A. He is a telecommunications engineer and has held, within the AGBAR group, positions such as technical and operations manager of AB, operational manager of Aguas Andinas, S.A. (Chile) and technical manager of Aguas del Saltillo (Mexico).

**Francisco Javier de Fuentes Muñiz.** Mr. de Fuentes is AB’s public concessions manager. He graduated in industrial engineering from the Universitat Politècnica de Catalunya and from ESADE Business School’s management development programme. He joined the AGBAR group in 1994 and has held several positions such as regional technical manager, sales manager for l’Hospitalet de Llobregat, Barcelona south and Manager of the southern and northern Barcelona areas. Mr. de Fuentes is responsible for the concessions in the Besòs river area, the southern and northern Llobregat river area, the southern and northern Barcelona area and the customer management of AB.



**José Antonio Castillo Valero.** Mr. Castillo is the planning and control manager and general services manager of AB. He has worked for the AGBAR group since 1980 and has held the position of general services manager for environmental matters, CFO in the Canary Islands, economic and financial manager of the north national direction of AGBAR, Sorea, PTFA and their subsidiaries, and has been the economic and financial officer for Catalonia. Mr. Castillo's activities within AB include the purchasing and contracting of assets and supplies and the controlling functions and the cash management of AB.

**Marc Mascareñas Sardà.** Mr. Mascareñas is the human resources and internal organisational manager. He has held management positions since he joined the AGBAR group in 2001. He was the human resources manager for the regions of Valencia, Extremadura, Murcia and Catalonia. He has a degree in labour relations from the Universitat de Barcelona and a degree in labour sciences from the Universitat Oberta de Catalunya. As human resources and organisation manager, Mr. Mascareñas is responsible for labour relations, training and development of staff, administration control and social welfare, and the organisation of AB's workforce.

**Francesc Xavier Iraegui Navarro.** Mr. Iraegui has been Technical and Operations Manager since June 2010 and previously held several management positions in the AGBAR group: manager for the regions of Tarragona and Maresme in Sorea, technical manager of Sorea and commercial officer of AAA, one of AGBAR's subsidiaries in Colombia. He graduated from the Universitat Politècnica de Catalunya with a civil engineering degree and has a post-graduate degree from the Instituto de Empresa in Madrid. Within AB, Mr. Iraegui is in charge of controlling, quality and occupational risk prevention, planning, technical management, operational support, water quality management and water production management.

**Nuria Latorre Claudio.** Ms. Latorre is AB's client strategy manager. She has a degree in chemical engineering from Institut Químic de Sarrià, a master's degree in water management and a master's degree in agro-food chemistry. She joined AGBAR's analysis laboratory in 1997 and later the quality control and environment department, which she directed from 2004 to 2011 while also being in charge of the equality project. She was also appointed coordinator of solutions and technology of the area manager of the region of Catalonia.

**Victòria Eugènia Martínez Fraile.** Ms. Martínez graduated in law and joined the Metropolitan Corporation of Barcelona in 1985. From 1991 to 2005 she was the corporate image manager for the Metropolitan Area of Barcelona and in 2006 she was appointed head of the mayor's office of the village of Viladecans, a position she held until she was appointed manager of communication and external relations of AGBAR and manager of AGBAR's Foundation in 2009.

**Jorge Cabot Ple.** Mr. Cabot has been a civil engineer since 1985 and has devoted his career to the water engineering field, particularly urban drainage and water planning. Since 2014, he has been the head of the sewage treatment department of AB, where he is responsible for the metropolitan sewerage system and, in particular, for collectors and provision of operational support to wastewater treatment plans.

### ***Board of directors***

AB's main governing body is currently its board of directors. AB's board of directors has the power to represent AB and to manage AB's corporate affairs. The day-to-day operations of AB are run by its senior management. Except in respect of matters reserved by law and the articles of association to the general shareholders' meeting, the board of directors is the highest decision-making body of AB.

According to AB's articles of association, AB's board of directors must be formed by a minimum of seven directors up to a maximum of 20 directors. The term of office for each director is six years and the directors can be indefinitely re-elected for additional six-year periods. The directors may be freely appointed and removed by AB's shareholders at the general shareholders' meeting.

The board of directors must appoint: (i) from among its members, a chairman and a vice-chairman; and (ii) a secretary, who needs not to be a member of the board of directors. A vice-secretary can also be appointed with the same requirements as for the secretary.

In addition, the board of directors has appointed AGBAR, represented by Mr. Albert Martínez Lacambra, as managing director (*consejero delegado*) of AB and therefore has conferred all its delegable powers to the said managing director.

AB's board of directors believes that its actions, composition, organisation and responsibilities comply with the applicable law.

### ***Executive committee***

AB's board of directors has also conferred all its delegable powers to an executive committee. The executive committee is currently formed by the following three directors of AB:

- Mr. Arsenio Olmo Chaos (acting as chairman of the executive committee).
- AGBAR (represented by Mr. Albert Martínez Lacambra).
- Mr. Salvador Illa i Roca.

In addition, AB's general manager (*director general*) (i.e., Mr. Ignacio Escudero García) is entitled to attend to the executive committee meetings.

### ***Monitoring committees***

In accordance with the Framework Agreement, two monitoring committees have been created:

- (i) an institutional committee that must be formed by two representatives of AMB, who must be appointed by decree of AMB's chairman and two representatives appointed by AB. This institutional committee meets when appropriate, in order to discuss strategic and high-level coordination issues of AB's business; and
- (ii) an operating committee that must be formed by four representatives of AMB appointed by a resolution of the manager of AMB, and by four representatives of AB. This operating committee shall meet every two months and monitors the fulfilment of all the issues related to the Framework Agreement, taking the relevant decisions that ordinary technical-economic operation of AB, according to the Framework Agreement, may require.

## SHARE CAPITAL AND PRINCIPAL SHAREHOLDERS

AB's share capital is EUR 337,000,000, fully subscribed and paid up, and represented by 337,000 nominative shares with a face value of EUR 1,000 each that are divided into Class A shares and Class B shares.

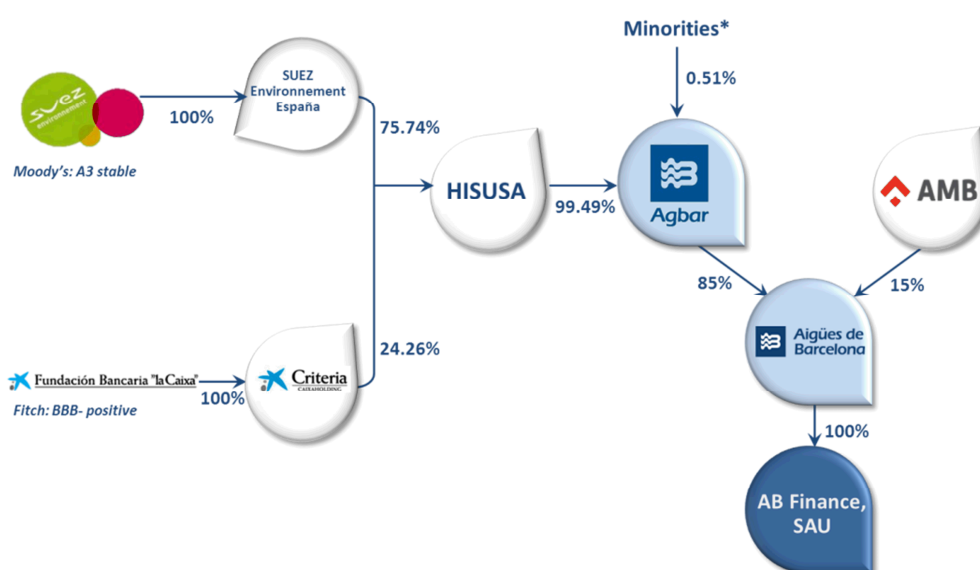
The Class A shares comprise 50,550 shares (numbers 1 to 50,550), which represent 15 per cent. of AB's share capital. The Class A shares are all owned by AMB. AMB is a local authority and the regulator and holder of the public services of water supply, waste sewage treatment and reuse of treated wastewater in the 36 municipal districts of the Barcelona Metropolitan Area (*àrea metropolitana de Barcelona*), and was created by Law 31/2010. AMB also carries out other activities including real estate, transport and waste management.

AMB contributed to the incorporation of AB by assigning to AB until 2 June 2047 the right to use the infrastructures and installations owned by AMB and that are needed for and related to the provision of the waste sewage treatment and reuse of treated wastewater services. AMB has been recently awarded the prestigious "Water Prize, 2014 edition" granted by the *Associació Catalana d'Amics de l'Aigua*.

The Class B Shares comprise 286,450 shares (numbers 50,551 to 337,000), which represent 85 per cent. of AB's share capital.

The Class B shares are all owned by AGBAR. AGBAR has historically provided the water supply service to 23 of the 36 municipal districts that make up the Barcelona Metropolitan Area, representing 86 per cent. of the water consumed by the Barcelona Metropolitan Area customers.

AGBAR is 99.49 per cent. owned by Hisusa Holding de Infraestructuras y Servicios Urbanos, S.A. ("**Hisusa**") and the remaining 0.51 per cent. is held by minority shareholders. Hisusa is indirectly controlled (75.74 per cent.) by the Suez Environnement group (with an A3 stable rating by Moody's) through its Spanish subsidiary Suez Environnement España, S.L. In addition, Hisusa is partially owned by Critería Caixaholding, S.A.U. ("**Critería**") (24.26 per cent.) which is a 100 per cent. subsidiary of Fundació Bancaria Caixa d'Estalvis i Pensions de Barcelona "la Caixa" (with a BBB- rating by Fitch with a positive outlook). See AB and the Issuer ownership structure chart below:



\* Shareholders who did not sell in the 2010 stock market delisting.

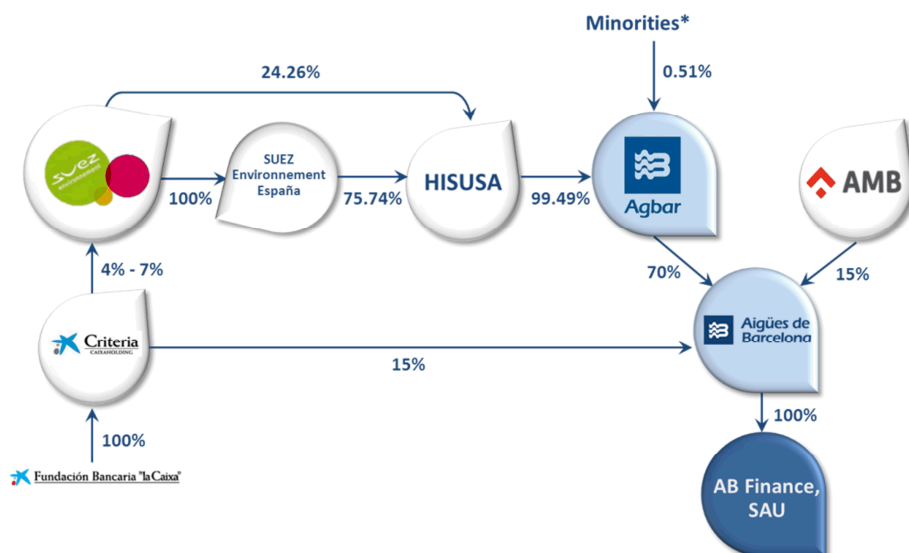
Upon the incorporation of AB, AGBAR contributed 60 per cent. of its water supply assets to AB and granted to AB a usufruct over the titles and installations owned by AGBAR related to the water supply service. Moreover, AMB contributed by assigning the right of use of the sewage treatment assets.

On 30 July 2013, AGBAR and AB entered into a contract by virtue of which AB acquired the remaining 40 per cent. of AGBAR's water supply assets and a usufruct over the remaining titles and installations owned by AGBAR related to the water supply service.

On 17 July 2014, Suez Environnement and Criteria signed an agreement by which: (a) Suez Environnement would acquire the 24.26 per cent. of Hisusa's shares owned by Criteria; and (b) Suez Environnement would (i) issue to Criteria 22 million new shares of Suez Environnement, representing a 4.1 per cent. stake post-closing, and (ii) make a €288,000,000 payment in cash, to be reinvested to acquire, amongst other things, a 15 per cent. stake in AB from AGBAR. AB may have to amend its articles of association as a result of the acquisition of its shares by Criteria potentially including the creation of a new class of shares. If this transaction closes, the shareholders of AB will be: AMB (15 per cent.), AGBAR (70 per cent.), and Criteria (15 per cent.). In addition, the acquisition of the shares of AB by Criteria may require changes in the governing bodies of AB with the inclusion of directors appointed by Criteria. The acquisition of AB shares by Criteria would be subject to certain conditions precedent:

- (a) the prior completion of the acquisition of AGBAR shares by Suez Environnement described in (a) above;
- (b) the approval of the transaction by AMB and the waiver by AMB of its right of first refusal in respect of AB's shares established in AB's articles of association; and
- (c) the amendment of the articles of association of AB, potentially contemplating the creation of a new class of shares for Criteria.

The expected timetable for the completion of the transaction is as follows: (a) signing of the master agreement between Suez Environnement and Criteria on 17 July 2014; (b) acquisition of 24.26 per cent. of the shares in Hisusa by Suez Environnement at the end of September 2014; and (c) acquisition of 15 per cent. of the shares in AB from AGBAR by Criteria by the end of December 2014. Following the completion of the transaction, the ownership structure of the Issuer would be as follows:



\* Shareholders who did not sell in the 2010 stock market delisting.

Source: AB

AGBAR is a leading private operator in the Spanish full water cycle market, with more than 147 years of experience. AGBAR periodically renews concessions and adds to its scope new municipalities that need an appropriate supplier or partner to ensure good supply and service for full water cycle. AGBAR provides services in all of Spain's Autonomous Communities, serving approximately 14.35 million inhabitants. The public sector manages the 45 per cent of the Spanish water market. AGBAR manages 53 per cent. of the Spanish private water market with the remaining 47 per cent. distributed between other private operators.

The AGBAR group is a group of more than 150 companies, present in 1,173 municipalities worldwide, serving more than 26 million inhabitants in more than 16 countries (including, Spain, Chile, United Kingdom, Mexico, Colombia, Brazil, Peru, Algeria and Cuba). The AGBAR group manages concessions through local brands with a lengthy history such as Aigües de Barcelona, Sorea (Catalonia), Emuasa (Murcia), Emasagra (Granada), Bristol Water (UK), Aguas Andinas (Chile), among others. AGBAR demonstrates its ability to adapt to several countries and regions through the implementation of different management models, ranging from administrative concessions and delegated management structures to setting up joint enterprises, with the involvement of town councils and AGBAR.

Over 10,000 professionals working for the AGBAR group constitute the key elements of the group's model to move from asset management to knowledge management. The AGBAR group is currently one of the largest global experts for all processes associated with water management: catchment, transport, water treatment, distribution, control of health guarantees and water supply. It provides sewage, wastewater treatment, purification and the subsequent reuse or return of the treated water to the environment. It develops technologies related to the water cycle, offers consultancy services and the outsourcing of processes, carries out infrastructure projects and provides management solutions for operators of the full water cycle. The AGBAR group manages 285 water treatment plants and 542 wastewater treatment plants.

The AGBAR group is committed to research, development and innovation ("R&D&I"). It invests continuously in research and development oriented towards innovation, in cooperation with universities, public administrations and Suez Environnement through the

R+I Alliance in the different countries in which it is present. The R+I Alliance funds projects in incremental and applied research. These include the protection of business, operational and investment optimisation, as well as the identification of new market opportunities for the water business. Its projects result in transposable solutions for operations, enhancing the product and services portfolio. AGBAR works on the most productive R&D&I areas with the greatest impacts on society, participates in large collaborative projects with strategic partners, and generates key knowledge in the area of technology, implanting it in technological companies and protecting the intellectual property of those technologies in the AGBAR group. The table below includes the number of R&D&I projects of the AGBAR group classified by area:

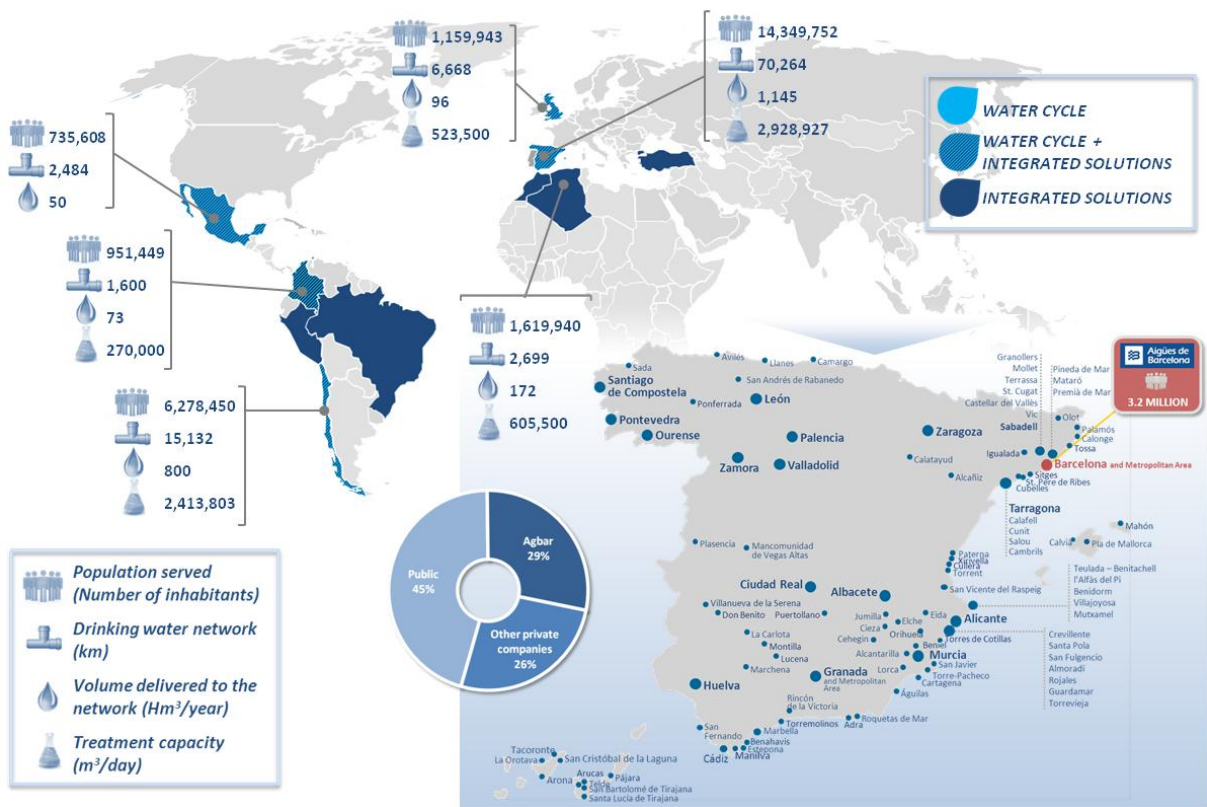


Source: AB.

AGBAR group companies have received several awards in their fields of business and in R&D&I, including:

- (i) the Silver Class Award in the 2014 Sustainability Yearbook prepared by RobecoSAM and KPMG granted to AGBAR;
- (ii) an environmental work award by Foment del Treball to AGBAR. The Catalan employers' association recognises people who have contributed to improving the environmental behaviour of a particular company or service; for eco-efficient production; or environmental training or raising environmental awareness;
- (iii) a Customer Service 2014 award in the category of water distribution and supply, in the third edition of the Leaders in Service Contest granted to AB;
- (iv) two AGBAR group projects (Biocell and Water Change projects) were prize winners at the Project Innovation Awards 2012, given by the International Water Association (IWA). The Biocell project, which received the Honour Award for Applied Research, investigates the potential of fuel cells in wastewater treatment. The Water Change project, given the Honour Award for Planning, assesses global impact on water resources in order to undertake long-term planning; and
- (v) the magazine Cambio Financiero granted Aqualogy its award for best project at the first edition in 2014 of their awards ceremony. With these awards, the magazine's editorial board recognises the talent of people who, through their ideas, efforts and sacrifice, create business, generate wealth and contribute to strengthen the economic foundations of Spain.

See below a table detailing some of the most important facts about the AGBAR group:



Source: AB

## DESCRIPTION OF THE ISSUER

### ***General Information***

On 17 June 2014, Aigües de Barcelona Finance, S.A.U., was incorporated as a public limited liability company (*sociedad anónima*) under the laws of Spain, having its corporate domicile (*domicilio social*) at Carrer General Batet, 1-7, Barcelona, Spain and registered with the Barcelona Commercial Registry under volume 44,369, folio 98 and sheet B-454150.

### ***Share capital and shareholder***

The Issuer's share capital is EUR 60,000, consisting of 6,000 shares of EUR 10 face value fully subscribed and paid up and all of the same class. The Issuer's share capital is wholly-owned by AB. The Issuer has no subsidiaries.

No recent events relating to the Issuer exist which are important for evaluating its solvency.

### ***Business***

The corporate purpose of the Issuer is to grant and to obtain finance including the issuance of debt securities.

### ***Selected Financial Information***

The Issuer has not engaged, since its incorporation, in any business or financial activities other than those incidental to its incorporation, matters referred to as contemplated in this Offering Circular and matters which are incidental or ancillary to the above. The Issuer does not have any audited accounts as at the date hereof.



## REGULATION

### The Public Sector Contracts Law

Royal Legislative Decree 3/2011 regulates the public procurement procedures and governs the effects, the fulfilment and the termination of public contracts including the AMB-AGBAR Agreement.

Royal Legislative Decree 3/2011 attributes to AMB (the awarding entity) public prerogatives in order to unilaterally modify the AMB-AGBAR Agreement for public interest reasons, as well as the right to terminate the AMB-AGBAR Agreement in the event of a material breach by AB or if AB (the contractor) becomes insolvent (*See “Risk Factors – Risks relating to regulation of AB”*). Royal Legislative Decree 3/2011 imposes on AMB the obligation to guarantee the Economic Balance of the AMB-AGBAR Agreement. This obligation means that in the event that a breakdown of the Economic Balance occurred (due to an increase in costs or a decrease in income not attributable to the contractor), the Economic Balance may be restated by AMB paying a compensation to AB or by increasing the amount of the Tariff.

Any decision taken by AMB under the prerogatives granted by Royal Legislative Decree 3/2011 can be challenged before the Spanish contentious-administrative courts.

### Regulation of the Integral Water Cycle Service

Local public water supply and wastewater treatment services can be managed in the following ways:

- (i) Directly by the local public authority responsible for the public service (for example, through a company whose share capital is wholly-owned by the public authority).
- (ii) Indirectly by a private company that the local authority contracts to provide the public service. This can be achieved by the local authority granting a concession of a public service (an exclusive right), or the private company and the public authority incorporating a PPP (an Institutionalised Public-Private Partnership) to provide the public service.

In both cases, the public procurement regulations apply and the public authority, as a general rule, has to call for tenders for the contract to provide the public service. The successful bidder will be granted the concession or the position of private shareholder in the PPP. There can be exceptions to this rule if, for example, there are technical criteria that justify that the contract to provide the public service can only be awarded to a particular company.

In this case, AB (a PPP) was incorporated without a public procurement process because AMB considered that an exception to this general rule applied. AMB considered that AGBAR had exclusive rights on the water supply service of 23 municipalities of the Barcelona Metropolitan Area which attributed to it the condition of the *only existing company*. See *“Description of the Guarantor– History – Incorporation of AB; joint management of the Integral Water Cycle Service”*.

In the event that a public service is managed indirectly by a private operator or a PPP, the management of the public service is regulated according to:

- (i) a public service management contract (the concession contract; or the articles of association of the PPP together with the agreement between the public authority and the private shareholder – in this case the AMB-AGBAR Agreement –);

- (ii) the specific regulations approved by the local public authority that govern the public service; and
- (iii) the sectorial and environmental regulations that are applicable to the specific public service.

## **Regulators**

### ***Overview***

Spanish law attributes every public service to a specific public authority. This public authority will hold the public prerogatives upon this public service as, for instance, the decision to manage it directly or indirectly, the approval of the regulation governing this public service, the approval of the tariff, etc. As a general rule, the water cycle services are attributed to local authorities as AMB. However, other public authorities may have public prerogatives according to specific regulations on the public service activity.

### ***AMB***

In AB's case, Spanish law attributes to AMB the services included in the Integral Water Service. Therefore, AMB is the regulator of the Integral Water Cycle Service and approves the regulations applicable to this public service and exercises regulatory powers over the public service and its operator (AB).

AMB has the power to:

- (i) approve the tariffs for the Integral Water Cycle Service which must be approved by the Catalan Price Commission before they can be applied;
- (ii) monitor AB's performance and operation of the Integral Water Cycle Service;
- (iii) impose sanctions on AB or any other party that breaches the AMB Regulation;
- (iv) intervene if AB seriously fails to comply with its obligations in respect of the Integral Water Cycle Service and the continuity of the public service is jeopardised. Upon such intervention AMB will be in charge of the management of the Integral Water Cycle Service until such time as the risk to the continuity of the public service has been removed;
- (v) unilaterally terminate the AMB-AGBAR Agreement on grounds such as a breach by AB;
- (vi) terminate the AMB-AGBAR Agreement for public interest reasons following which AMB will operate the public service directly, meaning that neither a private entity nor any competitor of AGBAR or AB may operate the public service following such termination; and
- (vii) reverse the installations of the Integral Water Cycle Service once the term of the AMB-AGBAR Agreement expires in 2047. In such case AMB will have to reimburse AGBAR for all non-depreciated assets.

AMB's decisions as regards the exercise of these powers can be challenged by AB before the Spanish contentious-administrative courts.

### ***ACA***

The ACA (a public authority integrated in the Catalan Regional Government) is the regulator which holds the public prerogatives over the concessions to capture water (from the

Llobregat River and from Wells) and the Facilities operated by AB that are part of a specific system under Catalan legislation for the provision of water to the Barcelona area called the Ter-Llobregat System. For a detailed description of the concessions to capture water and the Facilities of AB of the Ter-Llobregat System. See “*Description of the Guarantor – Water supply*”.

According to Legislative Decree 3/2003, the Catalan Regional Government, acting through the ACA, holds public prerogatives over the concessions to capture surface water from the Llobregat River and groundwater, which are owned by AGBAR and which are operated by AB.

These public prerogatives arise under Catalan legislation on water which has established a specific system for the provision of water to the Barcelona area called the Ter-Llobregat System or the Ter-Llobregat Basic Network. The Ter-Llobregat System encompasses (i) the installations and rights owned by the Catalan Regional Government, which are managed by ATLL Concessionària; and (ii) private installations and concessions (such as those held by AGBAR and operated by AB).

The ACA holds the following powers over the private installations and concessions held by AGBAR and operated by AB:

- (i) its authorisation must be sought for any legal transaction involving these concessions and installations, as well as for the transfer of rights under them, or the creation of guarantees or security interest over them;
- (ii) it monitors the operation of the concessions (such as checking that water capture limits are observed, and that the captured water is used to supply the Barcelona Metropolitan Area);
- (iii) it can revise the terms of these concessions: (a) owing to changes in the reasons that justified their original grant; (b) in the event of force majeure and upon the concessionaire’s request; or (c) when required pursuant to the hydrological plans approved by the Catalan Regional Government. Any such modification can entail the reduction or even the extinction of the rights to capture water;
- (iv) it can impose sanctions on the concessionaire for breaches of the terms of the concession or the water regulations; and
- (v) it will recover ownership of the facilities, free of charge, once the concessions expire (for example, on the expiration of the 1953 Concession in 2053).

According to a recent modification of Legislative Decree 3/2003 by Law 2/2014 of 27 January, the ACA will be entitled in the future to participate in the approval of the Tariff by means of a right to approve the costs of activity to capture water under the 1953 Concession and the Wells that are part of the Ter-Llobregat System (see “*Description of the Guarantor – Business – Facilities of the Integral Water Cycle Service*”). The scope of this potential participation requires to be further defined, according to Legislative Decree 3/2003, via regulation approved by the Catalan Regional Government. Therefore, the scope of this participation is unclear. The potential participation of the ACA would continue to be governed by the principle that the Water Supply Service Costs must be covered by the Tariff.

The ACA’s decisions taken in the exercise of these powers can be challenged by AB before the Spanish contentious-administrative courts.

### ***Decree-law 2/2014***

The Catalan Regional Government has recently approved Decree-law 2/2014, of 10 June amending Law 31/2010 (“**Decree-law 2/2014**”). Decree-law 2/2014 permits the ACA and AMB to execute an agreement in order to agree on a new framework for the relationship between them that would substantially improve AMB’s position by funding AMB’s activities in respect of:

- (i) the sewage transport, treatment and reuse assets; as well as
- (ii) funding and expanding its activities in other areas such as rain water or other environmental activities;

by means of the allocation of funds received by the ACA through the water canon directly to AMB.

In exchange for the implementation of the improvements referred to above, ACA would receive an upfront payment from AMB equivalent to its historic contribution towards the construction of existing sewage transport, treatment and reuse infrastructure in the AMB area (the “**Compensation**”).

The new Decree-law 2/2014 also establishes that the funds for paying the Compensation to the ACA may be contributed by AB, as managing company of the Integral Water Cycle Service, through the securitisation of receivables, which would be paid to the investors with proceeds from the water canon raised in the AMB area over the next 30 years.

AB’s participation in such structure would be subject to such securitisation being without any recourse back to AB and, as such, being off AB’s balance sheet. Royal Decree 926/1998, of 14 May on securitisation funds and their management companies establishes that, in a securitisation subject to Spanish law, the assignor (which in this case would be AB) must not grant any security or guarantee to the securitisation fund and also must not guarantee the payment of the receivables assigned to the securitisation fund.

### **The sectorial and environmental regulations**

The management of public services of the Integral Water Cycle Service is governed by the rigorous sectorial and environmental regulations at different levels: national, regional and local.

#### *State regulations:*

- (i) Law 23/2006 of 26 October on Environmental Liability;
- (ii) Royal Decree 2090/2008 of 22 December which develops the implementing rules in Law 26/2007;
- (iii) Royal Legislative Decree 1/2010 of 20 July, which approves the consolidated text of the Water Law (the “**Water Law**”);
- (iv) Royal Decree 849/1986 of 11 April, which develops the Preliminary Title and I, IV, V, VI, VII and VIII Titles of the consolidated text of the Water Law;
- (v) Royal Decree-Law 11/1995 of 28 December, concerning urban wastewater treatment;
- (vi) Royal Decree 509/1996 of 15 March, which develops Royal Decree-Law 11/1995 rules;

- (vii) Coastal Law 22/1988 of 28 July;
- (viii) Royal Decree 1471/1989 which develops the implementing rules in Coastal Law;
- (ix) Law 7/1985 of 2 April, which regulates basis of the local regime;
- (x) Royal Decree 903/2010 of 9 July on the assessment and management of flood risks;
- (xi) Royal Decree 140/2003, of 7 February, which governs the health criteria for the quality of water for human consumption; and
- (xii) Royal Decree 60/2011, of 21 January, on environmental quality standards in the field of water policy.

*Regional regulations:*

- (i) Decree 179/1995 of 13 June, which approves the Regulations on Works, Activities and Services of Local Entities;
- (ii) Decree 130/2003 of 13 May, which approves the regulations of the public provision of sanitation services;
- (iii) Legislative Decree 3/2003 of 4 November, which approves the consolidated text of water regulations in Catalonia;
- (iv) Legislative Decree 2/2003 of 28 April, which approves the consolidated text of the Catalan municipal and local regime Law; and
- (v) Law 31/2010.

*Local regulations:*

- (i) Metropolitan Regulation of 6 November 2012, on the Integral Water Cycle Service; and
- (ii) Metropolitan Regulation of 5 May 2011, on discharging of wastewater.

## LIMITATIONS ON VALIDITY AND ENFORCEABILITY OF THE GUARANTEE AND CERTAIN INSOLVENCY LAW CONSIDERATIONS

The validity and enforceability of the Guarantee will be subject to certain limitations on enforcement and may be limited under applicable law or subject to certain defences that may limit its validity and enforceability. The following is a summary description of certain limitations on the validity and enforceability of the Guarantee, and a summary of certain insolvency law considerations in Spain. In the event that any one or more of the Issuer and the Guarantor experience financial difficulties, it is not possible to know with certainty what the outcome of any related proceeding would be. Applicable insolvency laws may affect the enforceability of the obligations of the Issuer and the Guarantor. The descriptions below are only a summary and do not purport to be complete or to discuss all of the limitations or considerations that may affect the validity and enforceability of the Guarantee. If additional guarantees are required to be granted pursuant to the Offering Circular in the future, such guarantees will also be subject to limitations on enforceability and validity, which may differ from those discussed below. See “*Risk Factors— Risks Relating to the Notes— Corporate benefit, capital maintenance and financial assistance laws and other limitations on the obligations under the Guarantee may adversely affect the validity and enforceability of the Guarantee*”.

### ***Limitations on Validity and Enforcement of the Guarantee Granted by the Guarantor***

In general terms, under Spanish law, any guarantee must guarantee a primary obligation to which it is ancillary. The primary obligation must be clearly identified in the guarantee agreement, and the nullity or termination of the primary obligation entails the nullity or termination of the ancillary guarantee. Consequently, if the primary obligation is deemed null and void, the ancillary guarantee will also be deemed null and void.

In the event that the Guarantor is able to prove that there are no existing and valid guaranteed obligations, Spanish courts may consider that the Guarantor’s obligations under the relevant Guarantee are not enforceable.

Moreover, the obligations and liabilities of the Guarantor granting the Guarantee in favour of the Noteholders cannot extend to any obligation which, if incurred, would constitute a breach of Spanish financial assistance rules.

In addition, certain defences available to the Guarantor may limit the amount guaranteed under the Guarantee by reference to the net assets and share capital of the Guarantor.

Under Spanish law, claims may become time barred (15 years being the general term established for obligations *in personam* under article 1,964 of the Spanish Civil Code (*Código Civil*)) or may be or become subject to the defence of setoff or counterclaim.

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

- the nature of the remedies available; and
- the availability of defences such as (without limitation) setoff (unless validly waived), circumvention of law (*fraude de ley*), abuse in the exercise of rights (*abuso de*

*derecho*), misrepresentation, force majeure, unforeseen circumstances, undue influence, duress, abatement and counterclaim.

### ***Trustee structure. Spanish formalities.***

Guarantees must be granted in favour of each and every guaranteed party under the relevant guarantee agreement, and each guaranteed party must accept said guarantee.

Spanish law does not recognise the concept of trustee and, therefore, the trustee structure may not be recognised by Spanish courts. Therefore, in those cases where an entity acts as trustee for the actual beneficiaries of a guarantee (i.e., the Noteholders), such trustee must be duly empowered for that purpose at the time it accepts the guarantee on behalf of the Noteholders. Otherwise the guarantee will not be validly created in favour of its purported beneficiaries.

If a Spanish law guarantee is entered into only by the trustee (i.e. not by the creditors on account of whom it would act), the trustee will be the only party entitled to enforce the relevant guarantee.

In addition, it cannot be fully disregarded that, if enforcement of the Guarantee is carried out by the Trustee in Spain, it may be necessary to prove that the Trustee is duly and expressly empowered for such purpose by means of a power of attorney granted in favour of the Trustee by each of the beneficiaries of the Guarantee that is duly notarized and, if applicable, with the Apostille of The Hague Convention dated 5 October 1961 or legalised.

In the absence of the abovementioned powers of attorney, the trustee may not be able to enforce in Spain the relevant guarantee on behalf of all of the Noteholders.

Further, it is worth noting that there is a risk that the relevant court or notary public before whom any guarantee may potentially be enforced might request both the notarization of the documents from which the main guaranteed obligations arise, and the notarization of each and every one of the transfer certificates regarding each and every transfer of the Notes.

Finally, the admissibility of evidence or as supporting documentation before a Spanish court or authorities, of any document that is not in the Spanish language may be subject to the provision of an officially sworn translation into Spanish.

### ***Spanish Insolvency Law***

Each of the Issuer and the Guarantor is incorporated under the laws of Spain. As a general rule, in the event of an insolvency of the Issuer or the Guarantor, insolvency proceedings may be initiated in Spain and governed by Spanish law. The Spanish Act 22/2003 of July 9, 2003 on Insolvency Proceedings as amended from time to time (the “**Spanish Insolvency Law**”) regulates court insolvency proceedings (*concurso de acreedores*), as opposed to out-of-court liquidation (which is only available when the debtor has sufficient assets to meet its liabilities).

#### ***Insolvency Filing***

In Spain, insolvency proceedings are only triggered in the event of a debtor’s current insolvency (*insolvencia actual*) or imminent insolvency (*insolvencia inminente*). Under the Spanish Insolvency Law, a debtor is insolvent when it becomes unable to regularly meet its obligations as they become due or when it expects that it will shortly be unable to do so. A petition for insolvency may be initiated by the debtor, by any creditor (provided that it has not acquired the credit within the six months prior to the filing of the petition for insolvency,

for *inter vivos* acts, on a singular basis and once the credit was mature) or by certain other interested third parties.

#### *Voluntary Insolvency*

Insolvency is considered voluntary (*concurso voluntario*) if filed by the debtor or by certain other interested third parties. The debtor is obliged to file a petition for insolvency within two months after it becomes aware, or should have become aware, of its state of insolvency. It is presumed that the debtor becomes aware of its insolvency, unless otherwise proved, if any of the circumstances that qualify as the basis for a petition for mandatory insolvency occur.

Notwithstanding the foregoing, the general obligation to file for insolvency within two months from the date of being in a situation of current insolvency (*insolvencia actual*) does not apply if the debtor notifies the applicable Court that it has initiated negotiations with its creditors to obtain accessions to an anticipated composition agreement or to reach a refinancing agreement set out in article 71 bis.1 or in the Fourth Additional Disposition of the Spanish Insolvency Law (the so-called 5 bis communication). Effectively, by means of such notice (i.e., the 5 bis communication), in addition to these two months, the debtor gains an additional three month period to achieve an agreement with its creditors or to obtain accessions to an anticipated composition agreement and one further month to file for insolvency. During such period of time, creditors' applications for insolvency will not be accepted and court enforcement actions, other than those arising from public law claims, over those assets deemed necessary for the continuity of the debtor's business activities are prohibited.

#### *Mandatory Insolvency*

Insolvency is considered mandatory (*concurso necesario*) if filed by a third-party creditor. Under article 2.4 of the Spanish Insolvency Law, a creditor can apply for a declaration of insolvency if, inter alia: (i) there is a generalised default on payments by the debtor; (ii) there is a seizure of assets affecting or comprising the generality of the debtor's assets; (iii) there is a misplacement, "fire sale" or ruinous liquidation of the debtor's assets; or (iv) there is a generalised default on certain tax, social security and employment obligations during the applicable statutory period (three months).

#### *Conclusion of Insolvency: Proposal of Agreement or Liquidation*

The Spanish Insolvency Law provides that insolvency proceedings conclude following either the restructuring of the business financing in place through the implementation of a "company voluntary agreement" between the creditors and the debtor (the "CVA") or the liquidation of the debtor.

#### *Certain Effects of the Declaration of Insolvency for the Debtor and on Contracts*

As a general rule, the debtor in a voluntary insolvency retains its management power, but is subject to the intervention (*intervención*) of the insolvency administrator (*administrador concursal*), who is appointed by the court. In the case of mandatory insolvency, as a general rule, the debtor's management will be replaced (*sustitución*) by the insolvency administrator. However, the court has the power to modify this general regime subject to the specific circumstances of the case.

Under article 61 of the Spanish Insolvency Law, all clauses in contracts with mutual obligations that entitle any party to terminate an agreement based solely on the other party's declaration of insolvency are deemed not to be included in the agreement and, therefore,



unenforceable, except if expressly permitted by specific laws (i.e., agency laws or financial collateral).

A declaration of insolvency does not affect agreements with reciprocal obligations pending performance by either the insolvent party or the counterparty, which remain in full force and effect, and the obligations of the insolvent debtor will be fulfilled against the insolvent estate. The court can nonetheless terminate any such contracts at the request of the insolvency administrator, the company itself or the non-debtor when such termination is in the interest of the estate or if there has been a breach of such contract. The termination of such contracts may result in the insolvent debtor having to return consideration received or indemnify its counterparty.

Additionally, the declaration of insolvency suspends interest accrual, except for claims secured with an *in rem* right, in which case interest accrues up to the value of the security, and except for any wage credits in favour of employees, which will accrue the legal interest set forth in the corresponding Law of the State Budget (*Ley de Presupuestos del Estado*).

As a general rule, insolvency proceedings are not compatible with other enforcement proceedings. When compatible, in order to protect the interests of the debtor and creditors, the Spanish Insolvency Law extends the jurisdiction of the court dealing with insolvency proceedings, which is then legally authorised to handle any enforcement proceedings or interim measures affecting the debtor's assets (whether based upon civil, labour or administrative law).

The enforcement of any security over assets necessary for the continuity of the commercial or professional activity of the insolvent company (*in rem* securities) is prohibited until the earlier of: (i) an arrangement of CVA being reached provided that the CVA does not affect such right, or (ii) one year having elapsed as of the declaration of the insolvency without the opening of a liquidation. The foregoing notwithstanding, financial collateral arrangements under Royal Decree-Law 5/2005, of March 11, 2005 which implements in Spain Directive 2002/47/EC of the European Parliament and of the Council of June 6, 2002, on financial collateral arrangements, can be immediately enforced separately from the insolvency state under an insolvency scenario.

### *Ranking of Claims*

Creditors are required to report their claims to the insolvency administrators within one month from the last official publication of the court order declaring the insolvency, providing original documentation to justify such claims. Based on the documentation provided by the creditors and documentation held by the debtor, the court administrators draw up a list of acknowledged creditors/claims and classify them according to the categories established in the Spanish Insolvency Law.

Under the Spanish Insolvency Law, claims are classified in two groups:

- Estate Claims: article 84 of the Spanish Insolvency Law sets out the so-called “estate claims” which can in essence be defined as claims arising from the operations of the insolvent debtor after the date of the declaration of insolvency (although there are some exceptions such as certain employment claims arising in the 30 days prior to the declaration of insolvency, subject to certain caps). These claims are preferred to all others except for specially privileged claims specifically with regard to the assets (collateral) subject to the relevant security interest or special privilege.
- Insolvency Claims: Insolvency claims are classified as follows:

- Specially Privileged Claims: Creditors benefiting from special privileges, representing security over certain assets (*in rem* securities). These privileges may entail separate proceedings, though are subject to certain restrictions derived from a waiting period that may last up to one year and certain additional limitations set forth by the Spanish Insolvency Law. Privileged creditors are not subject to the CVA, except if they give their express support by voting in favour of the CVA. In the event of liquidation, they are the first to collect payment against the assets on which they are secured up to the secured amount. However, the insolvency administrators have the option to halt any enforcement of the securities and pay these claims as administrative expenses under specific payment rules.
- Generally Privileged Claims: Creditors benefiting from a general privilege, including, among others, specific labour claims and specific claims brought by public entities or authorities are recognised for half their amount, and claims held by the creditor taking the initiative to apply for the insolvency proceedings, for up to half of the amount of such debt. The holders of general privileges are not to be affected by the CVA if they do not agree to the said CVA and, in the event of liquidation, they are the first to collect payment against assets other than those secured by a specially privileged claim after specially privileged creditors, in accordance with the ranking established under the Spanish Insolvency Law.
- Ordinary Claims: Ordinary creditors (non-subordinated and non-privileged claims) are paid pro rata.
- Subordinated Claims: Subordinated creditors is a statutory category of claims which includes, among others: credits communicated late (outside the specific one-month period mentioned above); credits which are contractually subordinated vis-à-vis all other credits of the debtor; credits relating to unpaid interest claims (including default interest) except for those credits secured with an *in rem* right up to the secured amount; fines; and claims of creditors which are “specially related parties” to the insolvent debtor.
- In the case of a legal entity, the following (as a general rule) shall be deemed as “specially related parties”: (i) shareholders with unlimited liability; (ii) limited liability shareholders holding 10 per cent. or more of the insolvent company’s share capital (or 5 per cent. or more if the company is listed) at the time the credit is generated; or (iii) directors, shadow directors and those holding general powers of attorney from the insolvent company; and (iv) companies pertaining to the same group as the debtor and their respective common shareholders provided such shareholders meet the minimum shareholding requirements set forth in (ii) above.

Furthermore, in the absence of evidence to the contrary, assignees or awardees of claims belonging to any of the persons mentioned in the preceding paragraphs are presumed to be persons specially related to the insolvent debtor as long as the acquisition has taken place within two years prior to the insolvency proceedings being declared open.

- Subordinated creditors do not vote on the CVA but are subject to its terms being paid once ordinary claims are satisfied pursuant to the terms of the CVA. Thus, subordinated creditors have limited chances of collecting payment according to the ranking established in the Spanish Insolvency Law.

### *Hardening Periods*

There is no claw back date by operation of law. Therefore, there are no prior transactions that automatically become void as a result of the initiation of insolvency proceedings, but instead the insolvency administrators must expressly challenge those transactions. Under the Spanish Insolvency Law, upon the declaration of insolvency, only transactions that could be deemed as having damaged (*perjudiciales*) the insolvent debtor's estate (i.e., causing a so-called "patrimonial damage") during the two years prior to the date the insolvency is declared, may be challenged, even if there was no fraudulent intention. Transactions taking place earlier than two years prior to the declaration of insolvency may be rescinded subject to ordinary Spanish Civil Code based actions, though in this latter case a fraudulent intention is required.

The Spanish Insolvency Law does not define the meaning of "patrimonial damage". Damage does not refer to the intention of the parties, but to the consequences of the transaction on the debtor's interest resulting on the damage to the insolvent debtor's estate or the prejudice to the equality of the treatment among creditors which drives insolvency proceedings (*pars condition creditorum*). There are several "irrebuttable presumptions" of "patrimonial damage" expressly set forth by the Spanish Insolvency Law (i.e., free disposals and prepayment or cancellation of the company's claims or obligations prior to them being due and where the due dates of the relevant claims or payment obligations fall after the date of declaration of insolvency), except if such obligations were secured by an in rem security, in which case such transactions are subject to a rebuttable presumption of "patrimonial change" as set forth below. In addition to the above, the Spanish Insolvency Law sets forth certain actions which are deemed to cause a "patrimonial damage" to the insolvent company, but which are "rebuttable presumptions" and therefore subject to being contested by the other party (i.e., disposals in favour of "specially related parties" (as described above), the provision of security in respect of previously existing obligations or in respect of new obligations replacing existing ones and the payment or other acts to terminate obligations being secured by an in rem security and which mature after the declaration of insolvency). Ordinary transactions carried out within the debtor's ordinary course of the business shall not be rescinded, provided that they are carried out at an arm's length.

### *Fraudulent conveyance*

Under Spanish law, the insolvency administrator, and any creditor, may bring an action to rescind a contract or agreement against its debtor and the third party which is a party to such contract or agreement, provided the same is performed or entered into fraudulently and the creditor cannot obtain payment of the amounts owed in any other way. Although case law is not entirely consistent, it is broadly accepted that the following requirements must be met in order for a creditor to bring such action:

- the debtor owes the creditor an amount under a valid contract and the fraudulent action took place after such debt was created;
- the debtor has carried out an act that is detrimental to the creditor and beneficial to the third party;
- such act was fraudulent;
- there is no other legal remedy available to the creditor to obtain compensation for the damages suffered; and

- debtor's insolvency, construed as the situation where there has been a relevant decrease in the debtor's estate making it impossible or more difficult to collect the claim.

The existence of fraud (which must be evidenced by the claimant) is one of the essential requirements under Spanish law for the action to rescind to succeed. Pursuant to article 1,297 of the Spanish Civil Code: (i) agreements by virtue of which the debtor transfers assets for no consideration, and (ii) transfers for consideration carried out by parties who have been held liable by a court (*sentencia condenatoria*) or whose assets have been subject to a writ of attachment (*mandamiento de embargo*) will be considered fraudulent. The term for exercising this rescission action is four years from the date when the fraudulent act occurred.

## TERMS AND CONDITIONS OF THE NOTES

*The following is the text of the terms and conditions of the Notes which, subject to amendment and completion and except for the text in italics, will be endorsed on each Definitive Certificate (if issued) and incorporated by reference into the Global Certificate:*

The €200,000,000 1.944 per cent. Notes due 2021 (the “**Notes**”, which expression includes any further notes issued pursuant to Condition 16 (*Further Issues*) and forming a single series therewith) of Aigües de Barcelona Finance, S.A.U. (the “**Issuer**”) are (a) constituted by and subject to, and have the benefit of, a trust deed dated 15 September 2014 (as amended or supplemented from time to time, the “**Trust Deed**”) between the Issuer, Aigües de Barcelona, Empresa Metropolitana de Gestió del Cicle Integral de l’Aigua, S.A. (the “**Guarantor**”) and Deutsche Trustee Company Limited as trustee (the “**Trustee**”, which expression includes all Persons for the time being appointed as trustee for the holders of the Notes under the Trust Deed), and (b) the subject of an agency agreement dated 15 September 2014 (as amended or supplemented from time to time, the “**Agency Agreement**”) between, *inter alios*, the Issuer, the Guarantor, the Trustee and Deutsche Bank AG, London Branch as principal paying agent (the “**Principal Paying Agent**”), which expression includes any successor principal paying agent appointed from time to time in connection with the Notes), any other paying agents named therein (together with the Principal Paying Agent, the “**Paying Agents**”, which expression includes any successor or additional paying agents appointed from time to time in connection with the Notes), the transfer agents named therein (the “**Transfer Agents**”, which expression includes any successor or additional transfer agents appointed from time to time in connection with the Notes), and Deutsche Bank Luxembourg S.A. in its capacity as Registrar (the “**Registrar**”, which expression shall include any successor registrar appointed from time to time in connection with the Notes). The Principal Paying Agent, the Paying Agents, the Transfer Agents and the Registrar are together referred to herein as the “**Agents**”.

The Guarantor will guarantee, unconditionally and irrevocably to the maximum extent permitted by law, the due and punctual payment of all sums from time to time payable by the Issuer in respect of the Notes. The Guarantee will be contained in the Trust Deed.

Certain provisions of these Conditions are summaries of the Trust Deed and the Agency Agreement and are subject to their detailed provisions. The Noteholders (as defined below) are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and are deemed to have notice of the provisions of the Agency Agreement applicable to them. Copies of the Trust Deed and the Agency Agreement are available for inspection during normal business hours at the Specified Offices (as defined in the Agency Agreement) of the Principal Paying Agent and the other Paying Agents.

Unless defined elsewhere in these Conditions, words and expressions used in these Conditions shall have the meanings given to them in Condition 19 (*Definitions*).

### 1. FORM, DENOMINATION AND TITLE

#### (a) *Form and denomination*

The Notes are in registered form, serially numbered, and in minimum denominations of €100,000 and integral multiples of €1,000 in excess thereof. A Definitive Certificate will be issued to each Noteholder in respect of its registered holding.

(b) ***Title***

Title to the Notes will pass by transfer and registration as described in Condition 2 (*Transfers of Notes and Issue of Definitive Certificates*). The holder of any Note will (except as otherwise required by law or as ordered by a court of competent jurisdiction) be treated as its absolute owner for all purposes whether or not such Note is overdue and regardless of any notice of ownership, trust or any other interest in such Note, any writing thereon by any Person (other than a duly executed transfer thereof in the form endorsed thereon) or any notice of any previous theft or loss thereof, and no Person will be liable for so treating the Noteholder.

**2. TRANSFERS OF NOTES AND ISSUE OF DEFINITIVE CERTIFICATES**

(a) ***Transfers***

A Note may be transferred by depositing the Definitive Certificate issued in respect of that Note, with the form of transfer on the back duly completed and signed, at the Specified Office of the Registrar or any of the Agents.

(b) ***Delivery of new Definitive Certificates***

Each new Definitive Certificate to be issued upon a transfer of Notes will, within five Business Days of receipt by the Registrar or the relevant Agent of the duly completed form of transfer endorsed on the relevant Definitive Certificate, be mailed by uninsured mail at the risk of the Noteholder entitled to the Note to the address specified in the form of transfer.

Except in the limited circumstances described herein, owners of an interest in the Notes will not be entitled to receive physical delivery of Definitive Certificates. Issues of Definitive Certificates upon a transfer of Notes are subject to compliance by the transferor and the transferee with the certification procedures described above and in the Agency Agreement.

Where some but not all of the Notes in respect of which a Definitive Certificate is issued are to be transferred, a new Definitive Certificate in respect of the Notes not so transferred will, within five Business Days of receipt by the Registrar or the relevant Agent of the original Definitive Certificate, be mailed by uninsured mail at the risk of the holder of the Notes not so transferred to the address of such Noteholder appearing on the Register or as specified in the form of transfer. Neither the part transferred nor the balance not transferred may be less than €100,000.

(c) ***Formalities Free of Charge***

Registration of a transfer of Notes will be effected without charge by or on behalf of the Issuer or any Agent subject to (i) the Person making such application for transfer paying or procuring the payment of any taxes, duties and other governmental charges in connection therewith, (ii) the Registrar being satisfied with the documents of title and/or identity of the Person making

the application, and (iii) such reasonable regulations as the Issuer may from time to time agree with the Registrar and the Trustee.

(d) ***Closed Periods***

Neither the Issuer nor the Registrar will be required to register the transfer of any Note (or part thereof) during the period of 15 days immediately prior to the due date for any payment of principal or interest in respect of the Notes or after all such Notes have been called for redemption or during the period of seven days ending on (and including) any Record Date.

(e) ***Regulations***

All transfers of Notes and entries on the Register will be made subject to the detailed regulations concerning transfers of Notes scheduled to the Agency Agreement. The regulations may be changed by the Issuer to (i) reflect changes in legal requirements, or (ii) in any other manner which is not prejudicial to the interests of Noteholders with the prior approval of the Registrar and the Trustee (such approval not to be unreasonably withheld or delayed). A copy of the current regulations will be mailed (free of charge) by the Registrar to any Noteholder who requests in writing a copy of the regulations.

**3. STATUS OF THE NOTES**

The Notes constitute direct, unconditional, unsubordinated and (without prejudice to Condition 5 (*Negative Pledge*)) unsecured obligations of the Issuer. The Notes will at all times rank *pari passu* among themselves and at least *pari passu* in right of payment with all other present and future unsecured and unsubordinated obligations of the Issuer, save for such obligations as may be preferred by mandatory provisions of law.

**4. GUARANTEE**

(a) ***The Guarantee***

The Guarantor has agreed, in the Guarantee, unconditionally and irrevocably, to the maximum extent permitted by law, to guarantee the due and punctual payment of all sums from time to time payable by the Issuer in respect of the Notes.

The Guarantee constitutes direct, unconditional, unsubordinated and (without prejudice to Condition 5 (*Negative Pledge*)) unsecured obligations of the Guarantor which will at all times rank at least *pari passu* in right of payment with all other present and future unsecured and unsubordinated obligations of the Guarantor, save for such obligations as may be preferred by mandatory provisions of law.

(b) ***Undertaking by AGBAR***

If the Water Supply Business and the Sewage Transport, Treatment and Reuse Business carried out by the Guarantor are segregated and the Water Supply Business is returned or repatriated or otherwise reverts to AGBAR or is transferred to any subsidiary thereof (except for AB) for any reason (the “**Transfer Event**”), each of the Issuer and the Guarantor undertakes to cause AGBAR or the subsidiary assuming the Water Supply Business, as soon as practicable (but in any event no later than 60 calendar days) after the date on which the Transfer Event is effective, to:

- (i) execute and deliver to the Trustee a deed supplemental to the Trust Deed (the “**Supplemental Deed**”) pursuant to which AGBAR or such other subsidiary thereof (except for AB) will become vested with all the duties and obligations of the Guarantor under the Notes and the Trust Deed, as if originally named a guarantor hereunder and thereunder and, therefore, will unconditionally and irrevocably guarantee to the maximum extent permitted by law the Issuer’s obligations under the Notes and the Trust Deed; and
- (ii) do all such other acts and things as the Trustee may require to give effect to AGBAR’s or such other subsidiary thereof’s (except for AB) obligations as a guarantor of the Issuer’s obligations under the Notes and the Trust Deed.

AGBAR has given an undertaking to the Issuer and the Guarantor dated the Issue Date whereby AGBAR has undertaken to enter into, or to procure that such subsidiary of AGBAR (except for AB) assuming the Water Supply Business will enter into, the above-mentioned Supplemental Deed at the Issuer’s and the Guarantor’s request and do all such acts or things as may be required to give effect thereto.

Upon the entry into of the Supplemental Deed by AGBAR or such other subsidiary thereof (except for AB), the Guarantor will be automatically and unconditionally released and discharged from its obligations under the Notes and the Trust Deed and all references to “Guarantor” shall from such time be construed accordingly so that following such automatic and unconditional release and discharge all references to “Guarantor” in every document entered into in connection with the Notes shall be construed as references to the entity which has entered into the Supplemental Deed.

For the avoidance of any doubt, only the entity that finally assumes the Water Supply Business will become vested with all the duties and obligations of the Guarantor under the Notes and the Trust Deed. Therefore, in the event that a subsidiary of AGBAR (other than AB) assumes the Water Supply Business, AGBAR will not be obliged to take the duties and obligations of the Guarantor under the Notes and the Trust Deed and these duties and obligations will be vested with the subsidiary of AGBAR that has assumed the Water Supply Business.



## 5. NEGATIVE PLEDGE

So long as any Note remains outstanding (as defined in the Trust Deed), neither the Issuer nor the Guarantor will create, and the Issuer and the Guarantor will ensure that none of their respective Subsidiaries will, or permit to subsist any Security Interest, upon the whole or any part of their present or future undertaking, assets or revenues (including any uncalled capital) to secure any Relevant Indebtedness or to secure any guarantee or indemnity in respect of any Relevant Indebtedness, without at the same time or prior thereto according to the Notes the same security as is created or subsisting to secure any such Relevant Indebtedness, guarantee or indemnity or such other security as shall be approved by an Extraordinary Resolution (as defined in the Trust Deed) of the Noteholders.

## 6. INTEREST

### (a) *Interest Accrual*

Each Note bears interest from and including 15 September 2014 (the “**Issue Date**”) at the rate of 1.944 per cent. per annum payable annually in arrear on 15 September in each year, commencing on 15 September 2015 (each, an “**Interest Payment Date**”), subject as provided in Condition 7 (*Payments*). Each period beginning on (and including) the Issue Date or any Interest Payment Date and ending on (but excluding) the next succeeding Interest Payment Date is herein called an “**Interest Period**”.

When interest is required to be calculated in respect of a period of less than a full year, it shall be calculated on the basis of (a) the actual number of days in the period from and including the date from which interest begins to accrue (the “**Accrual Date**”) to but excluding the date on which it falls due divided by (b) the actual number of days from and including the Accrual Date to but excluding the next following Interest Payment Date.

### (b) *Cessation of Interest*

Each Note will cease to bear interest from the due date for final redemption unless, upon due surrender of the relevant Note, payment of principal is improperly withheld or refused. In such case it will continue to bear interest at such rate (after as well as before judgment) until whichever is the earlier of (i) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant Noteholder and (ii) the day after the Principal Paying Agent or the Trustee has notified the Noteholders that it has received all sums due in respect of the Notes up to that day (except to the extent that there is any subsequent default in payment) in accordance with Condition 14 (*Notices*).

### (c) *Day Count Fraction*

If interest is required to be calculated for any period other than an Interest Period, it will be calculated on the basis of a year of 360 days consisting of

twelve 30 day months each and, in the case of an incomplete month, the actual number of days elapsed.

The determination of the amount of interest payable under this Condition 6(c) by the Principal Paying Agent shall, in the absence of manifest error, be binding on all parties.

## **7. PAYMENTS**

### **(a) *Principal and Interest***

Payments of principal and interest in respect of each Note will be made to the Person shown in the Register at the close of business on the Record Date and subject to the surrender (or, in the case of part payment only, endorsement) of the relevant Definitive Certificate at the Specified Office of any Paying Agent.

### **(b) *Method of Payments***

Each payment in respect of the Notes pursuant to Condition 7(a) (*Principal and Interest*) will be made by transfer to the registered account of the Noteholder.

Payment instructions (for value the due date, or, if the due date is not a TARGET2 Settlement Day, for value the next succeeding TARGET2 Settlement Day) will be initiated by the Paying Agents, in the case of principal, on the later of the due date for payment and the day on which the relevant Definitive Certificate is surrendered (or, in the case of part payment only, endorsed) at the Specified Office of any of the Paying Agents and, in the case of interest and other amounts, on the due date for payment.

For the purposes of these Conditions, a Noteholder's "registered account" means the euro account maintained by or on behalf of it, details of which appear in the Register on the Record Date.

### **(c) *Delay in Payment***

Noteholders will not be entitled to any interest or other payment in respect of any delay in payment resulting from (i) the due date for payment not being a TARGET2 Settlement Day, or (ii) the Noteholder being late in surrendering its Definitive Certificate (if required pursuant to these Conditions).

### **(d) *Payments Subject to Fiscal Laws***

All payments in respect of the Notes are subject in all cases to any applicable fiscal or other laws and regulations in the place of payment, but without prejudice to the provisions of Condition 9 (*Taxation*). No commissions or expenses shall be charged to the Noteholders in respect of such payments save as provided in Condition 7(b) (*Method of Payments*).

### **(e) *Partial Payments***

If the amount of principal or interest which is due on the Notes on any date is not paid in full, the Registrar will annotate the Register and any Definitive Certificates surrendered for payment with a record of the amount of principal or interest in fact paid and the date of such payment.

(f) ***Agents***

The names of the initial Agents and their Specified Offices are set out below. The Issuer and the Guarantor reserve the right under the Agency Agreement at any time, by giving to the Principal Paying Agent and any other Agent concerned at least 5 days' prior written notice, to vary or terminate the appointment of or remove any Agent and/or to appoint successor or additional Agents, in each case of recognised standing, provided that the Issuer will at all times maintain:

- (i) a Principal Paying Agent;
- (ii) an Agent (which may be the Principal Paying Agent) having a Specified Office in London;
- (iii) a Paying Agent with a Specified Office in a European Union member state that will not be obliged to withhold or deduct tax pursuant to European Union Council Directive 2003/48/EC on the taxation of savings income in the form of interest payments or any law implementing or complying with, or introduced in order to conform to, such Directive or any successor law thereto; and
- (iv) a Registrar.

Notice of any such removal or appointment and of any change in the Specified Office of any Agent will be given to Noteholders in accordance with Condition 14 (*Notices*) as soon as practicable.

**8. REDEMPTION AND PURCHASE**

(a) ***Scheduled redemption***

Unless previously redeemed or purchased and cancelled as provided below, the Notes will be redeemed at their principal amount on the Maturity Date.

(b) ***Redemption for Taxation Reasons***

The Notes may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days' irrevocable notice to the Noteholders in accordance with Condition 14 (*Notices*), at their principal amount, together with interest accrued to (but excluding) the date fixed for redemption, and Additional Amounts, if any, if, immediately before giving such notice, the Issuer satisfies the Trustee that it (or, if the Guarantee were called on for payment, the Guarantor) has or will become obliged to pay, on the next day on which any amount would be payable with respect to the Notes or the Guarantee, any Additional Amounts as a result of:

- (i) any change in, or an amendment to, the laws affecting taxation (including any regulations or rulings promulgated thereunder) of any Relevant Taxing Jurisdiction (as defined in Condition 9 (*Taxation*)); or
- (ii) any change in or amendment to the existing official interpretation of any official position regarding the application or interpretation of such laws or regulations or rulings (including a judgment by a court of competent jurisdiction) (each of the events described in (i) and (ii), a “**Change in Tax Law**”),

in each case which change or amendment is announced and becomes effective on or after the Issue Date, and the Issuer or the Guarantor, as the case may be, cannot avoid such obligation by taking reasonable measures available to them (including making payments through a Paying Agent located in another jurisdiction; provided that in the case of a payment by the Guarantor causing Additional Amounts to be payable, only if such payment cannot be made by the Issuer who can make such payments without the obligation to pay any Additional Amounts), provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer (or the Guarantor) would be obliged to pay such Additional Amounts if a payment in respect of the Notes were then due and unless at the time such notice is given, the obligation to pay Additional Amounts remains in effect.

In the case of Additional Amounts required to be paid as a result of the Issuer or the Guarantor conducting business in a jurisdiction other than its place of organisation, the Change in Tax Law must become effective after the date the Issuer or the Guarantor begins to conduct the business giving rise to the relevant withholding or deduction.

Prior to the publication of any notice of redemption pursuant to this paragraph, the Issuer shall deliver to the Trustee (i) an Officers’ Certificate stating that the obligation to pay Additional Amounts cannot be avoided by the Issuer or the Guarantor, as the case may be, taking reasonable measures available to it, and (ii) a written opinion of independent tax counsel of recognised standing, qualified under the laws of the Relevant Taxing Jurisdiction in form and substance satisfactory to the Trustee to the effect that the Issuer is or would be obliged to pay such Additional Amounts as a result of a Change in Tax Law. The Trustee shall be entitled to accept such certificate as sufficient evidence of the satisfaction of the conditions precedent described above in which event it shall be conclusive and binding on the Noteholders.

For the avoidance of doubt, the implementation of European Union Council Directive 2003/48/EC on the taxation of savings income or any law implementing, or complying with, or introduced in order to conform to, such directive and the conclusions of the ECOFIN Council meetings of 26 and 27 November 2000 on the taxation of savings income will not be a Change in Tax Law for such purposes.

Upon the expiry of any such notice referred to above, the Issuer shall be bound to redeem the Notes in accordance with this Condition 8(b).

(c) ***Redemptions at the Option of the Issuer***

(1) The Issuer may, on any date prior to 15 June 2021 (an “**Optional Redemption Date**”), having given:

- (i) not less than 15 nor more than 30 days’ notice to the Noteholders in accordance with Condition 14 (*Notices*); and
- (ii) notice to the Trustee and the Principal Paying Agent not less than 15 days before the giving of the notice referred to in (i),

(which notices shall be irrevocable and shall specify the date fixed for redemption), redeem all of the Notes at their Optional Redemption Amount (as defined below) together with interest accrued, to (but excluding) the date fixed for of redemption, and Additional Amounts, if any.

For the purposes of this Condition 8(c):

“**Calculation Agent**” means an investment bank or financial institution of international standing selected by the Issuer.

“**Euro Reference Date**” means the date which is three TARGET2 Settlement Days prior to the Optional Redemption Date.

“**Margin**” means 0.25 per cent.

“**Optional Redemption Amount**” means whichever is the higher of:

- (i) 100 per cent of the principal amount outstanding of the Notes (being €1,000 per Calculation Amount); and
- (ii) an amount equal to the sum of the present values of the principal amount outstanding and the Remaining Term Interest of the Notes to be redeemed discounted to the date of redemption on an annual basis at the Reference Bund Yield (determined by reference to the middle market price) at 11.00am (London time) on the Reference Date of the Reference Bund plus the Margin, all as determined by the Calculation Agent.

“**Primary Bond Dealer**” means any credit institution or financial services institution that regularly deals in bonds and other debt securities.

“**Reference Bund**” means the 3.25 per cent. German Bundesobligationen due 4 July 2021, or if such security is no longer in issue such other German Bundesobligationen with a maturity date as near as possible to the Maturity Date as the Calculation Agent may, with the advice of the Reference Bund Dealers, determine to be appropriate by way of substitution for the 3.25 per cent. German Bundesobligationen due 4 July 2021.

“**Reference Bund Dealer**” means either the Calculation Agent or any other Primary Bond Dealer selected by the Calculation Agent after consultation with the Issuer.

“**Reference Bund Dealer Quotations**” means the average, as determined by the Calculation Agent, of the bid and ask process for the Reference Bund (expressed as a percentage of its Calculation Amount) quoted in writing to the Calculation Agent by such Reference Bund Dealer at 11.00am (London time) on the Euro Reference Date.

“**Reference Bund Price**” means (i) the average of five Reference Bund Dealer Quotations, after excluding the highest and lowest Reference Bund Dealer quotations, or (ii) if the Calculation Agent obtains fewer than five such Reference Bund Quotations, the average of all such Reference Bund Dealer Quotations.

“**Reference Bund Yield**” means the rate per annum equal to the annual yield to maturity of the Reference Bund, assuming a price equal to the Reference Bund Price for the Euro Reference Date.

“**Reference Date**” means the date which is three TARGET2 Settlement Days prior to the Optional Redemption Date.

“**Remaining Term Interest**” means with respect to any Note, the aggregate amount of scheduled payment(s) of interest on such Note for the remaining term of such Note determined on the basis of the rate of interest applicable to such Note from and including the date on which such Note is to be redeemed by the Issuer in accordance with this Condition 8 (c) (1).

(2) The Issuer may, on any date from (and including) 15 June 2021, having given:

- (i) not less than 15 nor more than 30 days’ notice to the Noteholders in accordance with Condition 14 (*Notices*); and
- (ii) notice to the Trustee and the Principal Paying Agent not less than 15 days before the giving of the notice referred to in (i),

(which notices shall be irrevocable and shall specify the date fixed for redemption), redeem all of the Notes at their principal amount together with interest accrued to (but excluding) the date fixed for redemption, and Additional Amounts, if any.

(d) ***Purchases***

The Issuer and the Guarantor may at any time purchase or procure others to purchase for their account Notes in the open market or otherwise and at any price. The Notes so purchased may be held or resold (provided that such resale is in compliance with all applicable laws) or surrendered to the Registrar for cancellation at the option of the Issuer or the Guarantor or otherwise, as the case may be, in compliance with Condition 8(e) (*Cancellation of Notes*) below. The Notes so purchased, while held by or on behalf of the Issuer or the

Guarantor, shall not entitle the Issuer or the Guarantor to vote at any meeting of the Noteholders and shall not be deemed to be outstanding for the purposes of calculating quorums at meetings of the Noteholders or for the purposes of Condition 13(a) (*Meetings of Noteholders*). Any purchase of Notes by tender shall be made available to all Noteholders alike.

(e) ***Cancellation of Notes***

All Notes which are redeemed pursuant to this Condition 8 (*Redemption and Purchase*) or repurchased and submitted to the Registrar for cancellation pursuant to Condition 8(d) (*Purchases*) will be cancelled and may not be reissued or resold. For so long as the Notes are admitted to trading on a stock exchange and the rules of such exchange so require, the Issuer shall promptly inform the stock exchange of the cancellation of any Notes under this Condition 8(e).

**9. TAXATION**

***Additional Amounts***

All payments payable by or on behalf of the Issuer or the Guarantor under or with respect to the Notes and the Guarantee will be made free and clear of, and without withholding or deduction for or on account of Taxes imposed or levied by or on behalf of the jurisdiction of organisation of the Issuer or the Guarantor (including any successor Persons), or any jurisdiction from or through which payment is made and (if different) any jurisdiction in which the payor is resident for tax purposes at the time of payment, and any political subdivision or taxing authority thereof or therein (each a “**Relevant Taxing Jurisdiction**”), unless such withholding or deduction is required by law and which withholding or deduction cannot be avoided by the use of reasonable measures available to it (including making payment through the Issuer or, as the case may be, the Guarantor).

If any amounts are required to be withheld or deducted for or on account of Taxes imposed by a Relevant Taxing Jurisdiction from any payment made under or with respect to the Notes or the Guarantee, the Issuer or the Guarantor (including any successor Persons), as applicable, will be required to pay such additional amounts (“**Additional Amounts**”) as may be necessary so that the net amount received by a Noteholder (including Additional Amounts) after such withholding or deduction will not be less than the amount such Noteholder would have received if such Taxes had not been withheld or deducted; provided, however, that the foregoing obligation to pay Additional Amounts does not apply:

- (a) to payments under Notes held by or on behalf of a Noteholder or beneficial owner of such Note which is liable to such Taxes in respect of such Note by reason of the Noteholder or beneficial owner of such Note having some connection with the jurisdiction by which such Taxes have been imposed, levied, collected, withheld or assessed other than the mere acquisition, holding, enforcement or receipt of payment in respect of the Notes or with respect to the Guarantee or the Trust Deed; or

- (b) to any Taxes that would not have been so imposed if the Noteholder or beneficial owner of such Note had made a declaration of non-residence or any other claim or filing for exemption to which it is entitled (provided that (i) such declaration of non-residence or other claim or filing for exemption is required by applicable law, regulation, administrative practice or treaty of a Relevant Taxing Jurisdiction as a precondition to the exemption from the requirement to deduct or withhold all or a part of such taxes and (ii) at least 90 days prior to the first payment date with respect to which such declaration of non-residence or other claim or filing for exemption is required under the applicable law of a Relevant Taxing Jurisdiction, the relevant Noteholder at that time has been notified by the Issuer or the Guarantor or any other Person through whom payment may be made in accordance with Condition 14 (Notices) that a declaration of non-residence or other claim or filing for exemption is required to be made), but, in each case, only to the extent the Noteholder or beneficial owner of such Note is legally eligible to make such declaration or other claim or filing;
- (c) while the Notes are represented by the Global Certificate and such Global Certificate is deposited with a common safekeeper for Euroclear and/or Clearstream, Luxembourg, to any Taxes imposed because the Issuer or the Guarantor does not receive in a timely manner a duly executed and completed certificate from the Principal Paying Agent, pursuant to Law 10/2014, of June 26 and Royal Decree 1065/2007 of July 27, as amended by Royal Decree 1145/2011 of July 29, and any implementing legislation or regulation, or pursuant to any other law or regulation substituting or amending such law or regulation;
- (d) to any estate, inheritance, gift, sales, transfer or similar taxes; or
- (e) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to the European Council Directive 2003/48/EC on the taxation of savings income or any other directive amending, implementing or replacing such Directive or any law implementing or complying with, or introduced in order to conform to, such Directive; or
- (f) to any Tax imposed with respect to a payment made to a Noteholder or beneficial owner of such Note who would have been able to avoid such withholding or deduction by presenting the relevant Note to another Paying Agent in a Member State of the European Union; or
- (g) where the relevant Note or Definitive Certificate is presented or surrendered for payment more than 30 days after the Relevant Date except to the extent that the holder of such Note would have been entitled to such Additional Amounts on presenting or surrendering such Note or Definitive Certificate for payment on the last day of such period of 30 days; or
- (h) any Taxes that are imposed or withheld pursuant to Sections 1471 through 1474 of the Internal Revenue Code of 1986 (or any amended or successor version of such sections that is substantively comparable and not materially more onerous to comply with), any regulations promulgated thereunder, any



official interpretations thereof or any agreements entered into in connection with the implementation thereof.

In addition, Additional Amounts will not be payable with respect to (i) any Taxes that are imposed in respect of any combination of the items set forth above and to (ii) any Taxes imposed on any payment to a Noteholder who is a fiduciary or a partnership or any other similar entity which is not deemed a taxable Person for tax purposes other than the sole beneficial owner of that payment, to the extent that payment would be required by the laws of the relevant taxing authority to be included in the income, for tax purposes, of a beneficiary or settlor with respect to the fiduciary, a member of that partnership, a member of any entity which is not deemed a taxable Person for tax purposes or a beneficial owner, in each case, who would not have been entitled to the Additional Amounts had it been the Noteholder.

The Issuer and the Guarantor (including any successor Persons) will make all required withholdings and deductions and will remit the full amount required to be deducted or withheld to the Relevant Taxing Jurisdiction in accordance with applicable law. The Issuer or the Guarantor will, upon request, make available to the Noteholders, within 30 days after the date on which the payment of any Taxes so deducted or withheld is due pursuant to applicable law, certified copies of tax receipts evidencing such payment by the Issuer or the Guarantor, or if, notwithstanding the Issuer's or the Guarantor's reasonable efforts to obtain such receipts, the same are not obtainable, other evidence reasonably satisfactory to the Trustee of such payment by the Issuer or the Guarantor.

At least 30 calendar days prior to each date on which any payment under, or with respect to, the Notes is due and payable, if the Issuer or the Guarantor will be obliged to pay Additional Amounts with respect to such payment (unless such obligation to pay Additional Amounts arises after the 30th day prior to the date on which payment under or with respect to the Notes is due and payable, in which case it will be promptly thereafter), the Issuer or the Guarantor will deliver to the Trustee an Officers' Certificate stating that such Additional Amounts will be payable and the amounts so payable and setting forth such other information as is necessary to enable the Trustee or the Paying Agent to pay such Additional Amounts to the Noteholders on the payment date. The Issuer will promptly publish a notice in accordance with Condition 14 (Notices) stating that such Additional Amounts will be payable and describing the obligation to pay such amounts.

In addition, the Issuer and the Guarantor will also pay and indemnify the Noteholders for any present or future stamp, issue, registration, transfer or similar levies or Taxes which are levied on the execution, delivery, issuance, registration or enforcement of any of the Notes, the Trust Deed and the Guarantee, or any other document or instrument referred to therein or any payment referred thereto, imposed in any Relevant Taxing Jurisdiction.

Whenever in the Trust Deed or the Conditions there is mentioned, in any context (i) the payment of principal; (ii) purchase prices in connection with a purchase of Notes; (iii) interest; or (iv) any other amount payable on or with respect to any of the Notes or the Guarantee, such reference shall be deemed to include payment of Additional Amounts as described under this heading to the extent that, in such context,

Additional Amounts are, were or would be payable in respect thereof.

The above obligations will survive any termination or discharge of the Trust Deed, any transfer by a holder or beneficial owner of its Notes, and will apply, *mutatis mutandis*, to any jurisdiction in which any successor Person to the Issuer or the Guarantor is incorporated, organised, engaged in business or otherwise resident for tax purposes or any jurisdiction from or through which any payment on the Notes or the Guarantee is made or any political subdivision or taxing authority or agency thereof or therein.

## 10. PRESCRIPTION

Claims in respect of principal and interest will become void unless the relevant Definitive Certificate is surrendered for payment as required by Condition 7 (*Payments*) within a period of ten years in the case of principal and five years in the case of interest from the relevant date for payment thereof.

## 11. EVENTS OF DEFAULT

The Trustee at its discretion may, and if so requested in writing by the holders of not less than one quarter in aggregate principal amount of the Notes then outstanding or if so directed by an Extraordinary Resolution (subject in each case to being indemnified and/or prefunded and/or secured to its satisfaction) shall give notice to the Issuer and the Guarantor that the Notes are and they shall immediately become due and repayable in each case at their principal amount together with accrued interest, if any of the following events (each, an “**Event of Default**”) occurs and is continuing:

- (a) Non-Payment: default is made for more than 14 days (in the case of interest) or seven days (in the case of principal) in the payment on the due date of interest or principal in respect of any of the Notes; or
- (b) Breach of other obligations: the Issuer or the Guarantor does not perform or comply with any one or more of its other obligations under the Notes or the Guarantee which default is incapable of remedy or is not remedied within 30 days after notice of such default shall have been given to the Issuer by the Trustee (following notice of such breach to the Trustee at its Specified Office by any Noteholder); or
- (c) Cross default:
  - (i) any Indebtedness of the Issuer, the Guarantor or any Principal Subsidiary is not paid when due or, as the case may be, within any applicable grace period; or
  - (ii) any Indebtedness of the Issuer, the Guarantor or any Principal Subsidiary is declared to be or otherwise becomes due and payable prior to its specified maturity as a result of non-payment or an event of default (however described); or
  - (iii) any commitment for any Indebtedness of the Issuer, the Guarantor or any Principal Subsidiary is cancelled or suspended by a creditor of the

Issuer, the Guarantor or any Principal Subsidiary as a result of an event of default (however described),

provided that the aggregate principal amount of such Indebtedness falling within paragraphs (i) to (iii) above is equal to or exceeds €10,000,000 (or its equivalent in any other currency or currencies); or

- (d) Enforcement proceedings: a distress, attachment, execution or other legal process in an amount equal to or in excess of €10,000,000 (or its equivalent in any other currency or currencies) is levied, enforced or sued out on or against any part of the property, assets or revenues of the Issuer or the Guarantor or any of their respective Principal Subsidiaries (if any) and is not discharged or stayed within 90 days; or
- (e) Security enforced: a secured party takes possession of, or a receiver, manager or other similar officer is appointed in respect of, the whole or any part of the undertaking, assets and revenues of the Issuer, the Guarantor or any of their respective Principal Subsidiaries (if any) in an amount equal to or in excess of €10,000,000 (or its equivalent in any other currency or currencies); or
- (f) Insolvency etc.: (i) the Issuer, the Guarantor or any of their respective Principal Subsidiaries (if any) becomes insolvent, is adjudicated bankrupt (or applies for an order of bankruptcy) or is unable to pay its debts as they fall due, (ii) an administrator or liquidator of the Issuer, the Guarantor or any of their respective Principal Subsidiaries (if any) or of the whole or any part of the undertaking, assets and revenues of the Issuer, the Guarantor or any of their respective Principal Subsidiaries (if any) is appointed (or application for any such appointment is made), (iii) the Issuer, the Guarantor or any of their respective Principal Subsidiaries (if any) takes any action for a readjustment or deferment of all its obligations or makes a general assignment or an arrangement or composition with or for the benefit of its creditors or declares a moratorium in respect of any of its Indebtedness or any guarantee of any Indebtedness given by it or (iv) the Issuer, the Guarantor or any of their respective Principal Subsidiaries (if any) ceases or threatens to cease to carry on all or any substantial part of its business (otherwise than, in the case of a Principal Subsidiary of the Guarantor (other than the Issuer), for the purposes of or pursuant to an amalgamation, reorganisation or restructuring whilst solvent or except, in the case of AB as Guarantor, where arising as a result of or in connection with a Transfer Event); or
- (g) Winding-up etc.: an order is made or an effective resolution is passed for the winding-up, liquidation or dissolution of the Issuer, the Guarantor or any of their respective Principal Subsidiaries (if any) (otherwise than for the purposes of or pursuant to an amalgamation, reorganisation or restructuring whilst solvent or except, in the case of AB as Guarantor, where arising as a result of or in connection with a Transfer Event); or
- (h) Unlawfulness: it is or will become unlawful for the Issuer or the Guarantor to perform or comply with any one or more of its obligations under or in respect of the Notes or the Guarantee; or

- (i) Analogous Event: any event occurs which under the laws of any relevant jurisdiction has an analogous effect to any of the events referred to in any of paragraphs (d) to (g) above; or
- (j) Guarantee of the Notes: the Guarantee is not (or is claimed by the Guarantor not to be) in full force and effect, except following a Transfer Event pursuant to Condition 4(b) (*Undertaking by AGBAR*).

## **12. REPLACEMENT OF NOTES**

If any Definitive Certificate is lost, stolen, mutilated, defaced or destroyed it may be replaced at the Specified Office of the Registrar or any Transfer Agent subject to all applicable laws and stock exchange or other relevant authority requirements, upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence, security, indemnity and otherwise as the Issuer, the Registrar or the Transfer Agent may require (provided that the requirement is reasonable in the light of prevailing market practice). Mutilated or defaced Definitive Certificates must be surrendered before replacements will be issued.

## **13. MEETINGS OF NOTEHOLDERS; MODIFICATION, WAIVERS AND FINANCIAL INFORMATION**

### **(a) *Meetings of Noteholders***

The Trust Deed contains provisions for convening meetings of Noteholders to consider any matters relating to the Notes, including the modification of any provision of these Conditions or the Trust Deed. Any such modification may be made if sanctioned by an Extraordinary Resolution. Such a meeting may be convened by the Trustee, the Issuer or the Guarantor, or by the Trustee upon the request in writing of Noteholders holding not less than one-tenth of the aggregate principal amount of the outstanding Notes. The quorum at any meeting convened to vote on an Extraordinary Resolution will be one or more Persons holding or representing a majority in aggregate principal amount of the Notes for the time being outstanding, or, at any adjourned meeting, one or more Persons being or representing Noteholders whatever the principal amount of the Notes for the time being outstanding so held or represented; provided, however, that at any meeting the business of which includes a Reserved Matter, the quorum shall be one or more Persons holding or representing not less than three-quarters or, at any adjourned meeting, not less than one-quarter of the aggregate principal amount of the outstanding Notes. Any Extraordinary Resolution duly passed at any such meeting shall be binding on all the Noteholders, whether present at the meeting(s) or not.

### **(b) *Written resolution***

A resolution in writing will take effect as if it were an Extraordinary Resolution if it is signed (i) by or on behalf of all Noteholders who for the time being are entitled to receive notice of a meeting of Noteholders under the Trust Deed or (ii) if such Noteholders have been given at least 21 days' notice of

such resolution, by or on behalf of Persons holding three quarters of the aggregate principal amount of the outstanding Notes. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Noteholders.

(c) ***Modification without Noteholders' consent***

The Trustee may agree, without the consent of the Noteholders, (i) to any modification of these Conditions or the Trust Deed (other than in respect of a Reserved Matter) which it is, in the opinion of the Trustee, proper to make if, in the opinion of the Trustee, such modification will not be materially prejudicial to the interests of Noteholders and/or (ii) to any modification of the Notes or the Trust Deed which is of a formal, minor or technical nature or to correct a manifest or proven error.

In addition, the Trustee may, without the consent of the Noteholders, authorise or waive any breach or proposed breach of the Notes or the Trust Deed (other than a breach or proposed breach relating to the subject of a Reserved Matter) if, in the opinion of the Trustee, the interests of the Noteholders will not be materially prejudiced thereby. Any such authorisation, waiver, modification or substitution shall be binding on the Noteholders and shall be notified to the Noteholders as soon as practicable thereafter.

(d) ***Financial information***

The Issuer and the Guarantor will send to the Trustee and to the Listing Agent three copies in English of the annual audited financial statements of the Issuer and the Guarantor within 180 days of the end of each financial year.

## **14. NOTICES**

Save as set out below, all notices to the Noteholders regarding the Notes will be valid if mailed to them at their respective addresses as set out in the Register from time to time and will be deemed to have been given on the fourth Business Day after the date of mailing.

The Issuer shall also ensure that notices are duly given or published in a manner which complies with the rules and regulations of any stock exchange or other relevant authority on which the Notes are for the time being listed.

So long as the Notes are represented by the Global Certificate and such Global Certificate is held on behalf of a clearing system, notices to the Noteholders may be given by delivery of the relevant notice to that clearing system for communication by it to entitled accountholders and such notice will be deemed to be given on the date of such delivery.

## **15. TRUSTEE**

(a) ***Indemnification***

Under the Trust Deed, the Trustee is entitled to be indemnified and relieved from responsibility in certain circumstances and to be paid its costs and expenses in priority to the claims of the Noteholders. In addition, the Trustee is entitled to enter into business transactions with the Issuer and/or the Guarantor and any entity relating to the Issuer and/or the Guarantor without accounting for any profit and to act as trustee for the holders of any other securities issued or guaranteed by, or relating to, the Issuer and/or the Guarantor.

(b) ***Exercise of power and discretion***

In the exercise of its powers and discretion under these Conditions and the Trust Deed, the Trustee will have regard to the interests of the Noteholders as a class and will not be responsible for any consequence for individual Noteholders as a result of such Noteholders being connected in any way with a particular territory or taxing jurisdiction, and the Trustee shall not be entitled to require, nor shall any Noteholder be entitled to claim, for the Issuer or the Guarantor, any indemnification in respect of any tax consequences of any such exercise upon individual Noteholders.

(c) ***Enforcement; Reliance***

The Trustee may at any time after the Notes become due and payable, at its discretion and without notice, institute such proceedings as it thinks fit to enforce its rights under the Trust Deed and these Conditions in respect of the Notes, but it shall not be bound to do so unless:

- (i) it has been so requested in writing by the holders of not less than one quarter in principal amount of the outstanding Notes or has been so directed by an Extraordinary Resolution; and
- (ii) it has been indemnified and/or prefunded and/or secured to its satisfaction.

No Noteholder shall be entitled to proceed directly against the Issuer or the Guarantor to enforce the provisions of the Notes under the Trust Deed or these Conditions, unless the Trustee, having become bound so to proceed on behalf of the Noteholders, fails to do so within a reasonable time and such failure is continuing.

The Trustee may, in making any determination under these Conditions, act on the opinion or advice of, or information obtained from, any expert and will not be responsible for any loss, liability, cost, claim, action, demand, expense or inconvenience which may result from it so acting.

The Trustee may rely without liability to Noteholders on any certificate or report prepared by any of the above mentioned experts, including specifically the Auditors (as defined in the Trust Deed), or any auditor, pursuant to the Conditions or the Trust Deed, whether or not the expert or auditor's liability in respect thereof is limited by a monetary cap or otherwise.

Until the Trustee has actual knowledge or express notice to the contrary, the Trustee may assume that no Event of Default or Potential Event of Default has occurred.

The Trustee has no obligation to and is therefore not liable for any failure to monitor compliance by the Issuer or the Guarantor with the Conditions (including, without limitation, Condition 11 (*Events of Default*)).

## 16. FURTHER ISSUES

The Issuer may from time to time, without notice to or the consent of the Noteholders and in accordance with the Trust Deed, create and issue further notes having the same terms and conditions as the Notes in all respects (or in all respects except for the date for and amount of the first payment of interest) so as to be consolidated and form a single series with the Notes (“**Further Notes**”). The Further Notes and the Notes shall be treated as a single class for all purposes of the Trust Deed, including waivers, amendments, redemptions and offers to purchase. Any further Notes shall be constituted by a deed supplemental to the Trust Deed. The Issuer may from time to time, with the consent of the Trustee, create and issue other series of notes having the benefit of the Trust Deed.

## 17. CONTRACTS (RIGHTS OF THIRD PARTIES) ACT 1999

No Person shall have any right to enforce any term or condition of the Notes or the Trust Deed under the Contracts (Rights of Third Parties) Act 1999.

## 18. GOVERNING LAW AND SUBMISSION TO JURISDICTION

### (a) *Governing law*

The Trust Deed, the Notes and the Guarantee, including any non-contractual obligations arising out of or in connection with the Trust Deed, the Notes and/or the Guarantee, are governed by, and shall be construed in accordance with, English law.

### (b) *Jurisdiction*

Each of the Issuer and the Guarantor has agreed in the Trust Deed for the benefit of the Trustee and the Noteholders that the courts of England shall have jurisdiction to hear and determine any dispute (a “**Dispute**”) and, for such purposes, irrevocably submits to the jurisdiction of such courts. Nothing in this Condition shall (or shall be construed so as to) limit the right of the Trustee to bring proceedings (“**Proceedings**”) for the determination of any Dispute(s) in any other court of competent jurisdiction, nor shall the bringing of such Proceedings in any one or more jurisdictions preclude the bringing of Proceedings by the Trustee in any other jurisdiction (whether concurrently or not) if and to the extent permitted by law.

### (c) *Appropriate Forum*

For the purposes of Condition 18(b) (*Jurisdiction*), the Issuer and the Guarantor have each irrevocably waived any objection which it might now or hereafter have to the courts of England being nominated as the forum to hear and determine any Proceedings and agreed not to claim that any such court is not a convenient or appropriate forum.

(d) ***Service of Process***

Each of the Issuer and the Guarantor has agreed in the Trust Deed that any documents which start any Proceedings and any other documents required to be served in relation to those proceedings may be served on it by being delivered to Capita Asset Services at 4th Floor, 40 Dukes Place, London, EC3A 7NH or, if different, its registered office for the time being or at any address of the Issuer or the Guarantor, as applicable, in the United Kingdom at which process may be served on it in accordance with Part 34 of the Companies Act 2006 or any successor provision thereto. If such Person is not or ceases to be effectively appointed to accept service of process on behalf of the Issuer or the Guarantor, as applicable, the Issuer or the Guarantor, as applicable, shall, on the written demand of the Trustee, appoint a further Person in England to accept service of process on its behalf and, failing such appointment within 15 days, the Trustee shall be entitled to appoint such a Person by written notice to the Issuer or the Guarantor, as applicable. Nothing in this paragraph shall affect the right of the Trustee and the Noteholders to serve process in any other manner permitted by law.

**19. DEFINITIONS**

For the purposes of these Conditions:

“**Accounting Principles**” means generally accepted accounting principles in The Kingdom of Spain.

“**Accrual Date**” is defined in Condition 6(a) (*Interest Accrual*).

“**Additional Amounts**” is defined in Condition 9 (*Taxation*).

“**AGBAR**” means Sociedad General de Aguas de Barcelona, S.A. with Spanish tax ID number A-08.000.234.

“**Agency**” means any agency, authority, central bank, department, committee, government, legislature, minister, ministry, official or public or statutory Person (whether autonomous or not).

“**Board of Directors**” means, as to any Person, the board of directors or other equivalent executive body of such Person or any duly authorised committee thereof.

“**Business Day**” means a day which is a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealings in foreign exchange and foreign currency deposits) in London and Barcelona and (where surrender is required by these Conditions) in the place of the Specified



Office of the Registrar or the relevant Paying Agent to whom the relevant Definitive Certificate is surrendered.

“**Change in Tax Law**” is defined in Condition 8(b) (*Redemption for Taxation Reasons*).

“**continuing**” means, with respect to any Potential Event of Default or Event of Default, that such Potential Event of Default or Event of Default has not been cured or waived.

“**Event of Default**” is defined in Condition 11 (*Events of Default*).

“**Extraordinary Resolution**” has the meaning set out in the Trust Deed.

“**Further Notes**” is defined in Condition 16 (*Further Issues*).

“**guarantee**” means a guarantee other than by endorsement of negotiable instruments for collection in the ordinary course of business, direct or indirect, in any manner including, without limitation, by way of a pledge of assets or through letters of credit or reimbursement agreements in respect thereof, of all or any part of any Indebtedness (whether arising by virtue of partnership arrangements, or by agreements to keep-well, to purchase assets, goods, securities or services, to take or pay or to maintain financial statement conditions or otherwise).

“**Guarantee**” means the guarantee entered into by the Guarantor of the Issuer’s obligations with respect to the Notes, in accordance with Condition 4 (*Guarantee*) and as set out in the Trust Deed.

“**Guarantor**” means Aigües de Barcelona, Empresa Metropolitana de Gestió del Cicle Integral de l’Aigua, S.A., incorporated as a public limited company (*sociedad anónima*) under the laws of Spain or, following the entry into the Supplemental Deed, any successor thereto according to that established in Condition 4(b) (*Undertaking by AGBAR*).

“**Indebtedness**” means (without double counting) any indebtedness for or in respect of:

- (a) moneys borrowed;
- (b) any amount raised by acceptance under any acceptance credit facility or dematerialised equivalent;
- (c) any amount raised pursuant to any note purchase facility or the issue of bonds, notes, debentures, loan stock or any similar instrument;
- (d) the amount of any liability in respect of any lease or hire purchase contract which would, in accordance with Accounting Principles, be treated as a finance or capital lease;
- (e) receivables sold or discounted (other than any receivables to the extent they are sold or discounted on a non-recourse basis);

- (f) any amount raised under any other transaction (including any forward sale or purchase agreement) required by Accounting Principles to be treated as a borrowing;
- (g) any derivative transaction entered into in connection with protection against or benefit from fluctuation in any rate or price (and, when calculating the value of any derivative transaction, only the marked to market value shall be taken into account to the extent such amount has become due but unpaid);
- (h) any counter-indemnity obligation in respect of a guarantee, indemnity, bond, standby or documentary letter of credit or any other instrument issued by a bank or financial institution, in each case in respect of indebtedness of a type referred to in paragraphs (a) to (g) above; and
- (i) the amount of any liability in respect of any guarantee or indemnity for any of the items referred to in paragraphs (a) to (h) above.

“**Interest Payment Date**” is defined in Condition 6(a) (*Interest Accrual*).

“**Interest Period**” is defined in Condition 6(a) (*Interest Accrual*).

“**Issue Date**” is defined in Condition 6(a) (*Interest Accrual*).

“**Maturity Date**” means 15 September 2021.

“**Noteholder**” means the Person in whose name a Note is for the time being registered in the Register.

“**Offering Circular**” means the offering circular issued by the Issuer and the Guarantor dated 10 September 2014.

“**Officer**” means, with respect to a Person, the Chairman of the Board of Directors, the General Director, the Chief Executive Officer, the President, the Chief Financial Officer, the Controller, the Treasurer or the General Counsel or any other duly empowered representative of such Person.

“**Officers’ Certificate**” means a certificate signed by one Officer of the Issuer or of the Guarantor, as the case may be.

“**Person**” means any individual, corporation, firm, partnership, joint venture, association, trust, unincorporated organisation or government or judicial entity or any Agency or political subdivision thereof, in each case, whether or not having a separate legal personality.

“**Potential Event of Default**” means any event that is, or with the passage of time or the giving of notice or both would be, an Event of Default.

“**Principal Subsidiary**” means at any time a Subsidiary of the Issuer or the Guarantor:

- (a) whose gross revenues attributable to the Issuer or the Guarantor, as the case may be, (consolidated in the case of a Subsidiary which itself has Subsidiaries)

or whose total assets (consolidated in the case of a Subsidiary who itself has Subsidiaries) represent not less than 5 per cent. of the consolidated gross revenues (attributable to the shareholders of the Issuer or the Guarantor, as the case may be) or, as the case may be, consolidated total assets, of the Issuer or the Guarantor and their respective Subsidiaries taken as a whole, all as calculated, respectively, by reference to the then latest audited accounts (consolidated or, as the case may be, unconsolidated) of the Subsidiary and the then latest audited consolidated accounts of the Issuer or the Guarantor, as the case may be, and its Subsidiaries; or

- (b) to which is transferred the whole or substantially the whole of the undertaking and assets of a Subsidiary of the Issuer or the Guarantor, as the case may be, which immediately before the transfer was a Principal Subsidiary.

“**Record Date**” means the Business Day falling before the due date for the relevant payment.

“**Register**” means a register of noteholders kept by the Registrar at its Specified Office in which will be entered the names and addresses of the Noteholders and the particulars of the Notes held by them and all transfers and redemptions of the Notes.

“**Relevant Indebtedness**” means any Indebtedness which is in the form of, or represented or evidenced by, bonds, notes, debentures, loan stock or other securities which for the time being are, or are intended to be or capable of being, quoted, listed or dealt in or traded on any stock exchange or over-the-counter or other securities market.

“**Relevant Taxing Jurisdiction**” is defined in Condition 9 (*Taxation*).

“**Reserved Matter**” means any of the following:

- (a) reducing, or changing the maturity of, the principal of any Note;
- (b) reducing the rate of or extending the time for payment of interest on any Note;
- (c) reducing any premium payable upon redemption of the Notes or changing the date on, or the circumstances under, which any Notes are subject to redemption;
- (d) making any Note payable in money or currency other than that stated in the Notes;
- (e) modifying or changing any provision of the Trust Deed or the related definitions to affect the ranking of the Notes or the Guarantee in a manner that adversely affects the holders;
- (f) reducing the percentage of Noteholders necessary to consent to an amendment or waiver to the Trust Deed, the Notes or the Guarantee;
- (g) waiving a default in the payment of principal of or premium or interest on any Notes (except a rescission of acceleration of the Notes by the holders thereof)

as provided in the Trust Deed and a waiver of the payment default that resulted from such acceleration);

- (h) impairing the rights of Noteholders to receive payments of principal of or interest on the Notes on or after the due date therefor or to institute suit for the enforcement of any payment on the Notes;
- (i) releasing the Guarantor from any of its obligations under the Guarantee or the Trust Deed, except as permitted by these Conditions; or
- (j) making any change in these amendment and waiver provisions or changing the quorum requirements relating to meetings or the majority required to pass an Extraordinary Resolution.

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

“**Sewage Transport, Treatment and Reuse Business**” means the sewage transport, treatment and reuse services business of the Guarantor as described in the Offering Circular and/or any substantially similar business conducted by the Guarantor from time to time.

“**Specified Office**” has the meaning given to it in the Agency Agreement.

“**Subsidiary**” means, at any time, an entity (a) whose affairs and policies the Issuer or the Guarantor controls or has the power to control, whether by ownership or share capital, contract, the power to appoint or remove members of the governing body of such entity or otherwise; or (b) whose financial statements are, in accordance with applicable law and generally accepted accounting principles or standards, consolidated with those of the Issuer or the Guarantor, as the case may be.

“**TARGET2 Settlement Day**” means any day on which the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET2) System is open.

“**Taxes**” means any taxes, duties, levies, imposts, deductions, assessments or other similar governmental charges of whatsoever nature and any interest, surcharges, penalties and other liabilities with respect thereto.

“**Transfer Event**” is defined in Condition 4(b) (*Undertaking by AGBAR*).

“**Water Supply Business**” means the water supply business of the Guarantor as described in the Offering Circular and/or any substantially similar business conducted by the Guarantor from time to time.

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

*The following is a summary of the provisions to be contained in the Global Certificate which will apply to, and in some cases modify, the Conditions as they apply to the Notes evidenced by the Global Certificate.*

The Notes will be represented by a Global Certificate, which will be held under the NSS with the Common Safekeeper.

### **Exchange**

The Global Certificate will become exchangeable in whole, but not in part, for Definitive Certificates if (i) Euroclear or Clearstream is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business or does in fact do so and no alternative clearing system satisfactory to the Trustee is available or (ii) any of the circumstances described in Condition 11 (*Events of Default*) occurs.

Whenever the Global Certificate is to be exchanged for Definitive Certificates, such Definitive Certificates will be issued in an aggregate principal amount equal to the principal amount of the Global Certificate within five business days of the delivery, by or on behalf of the registered holder of the Global Certificate, Euroclear and/or Clearstream, to the Registrar of such information as is required to complete and deliver such Definitive Certificates (including, without limitation, the names and addresses of the persons in whose names the Definitive Certificates are to be registered and the principal amount of each such person's holding) against the surrender of the Global Certificate at the specified office of the Registrar. Such exchange will be effected in accordance with the provisions of the Agency Agreement and the regulations concerning the transfer and registration of Notes scheduled thereto and, in particular, shall be effected without charge to any holder or the Trustee, but against such indemnity as the Registrar may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such exchange.

In addition, the Global Certificate will contain provisions that modify the Conditions as they apply to the Notes evidenced by the Global Certificate. The following is a summary of those provisions:

### **Notices**

Notwithstanding Condition 14 (*Notices*), for so long as the Global Certificate is held on behalf of Euroclear, Clearstream or any other clearing system (an “**Alternative Clearing System**”), notices to holders of Notes represented by the Global Certificate may be given by delivery of the relevant notice to Euroclear, Clearstream or (as the case may be) such Alternative Clearing System. Any such notice shall be deemed to be given to the holders of the Notes on the day on which such notice is delivered to Euroclear, Clearstream or (as the case may be) the Alternative Clearing System.

### **Payments**

Payments of principal and premium, if any, in respect of, and interest on, the Notes represented by the Global Certificate will be made against presentation for endorsement and, if no further payment falls to be made on or in respect of the Notes, surrender of the Global Certificate to or to the order of the Principal Paying Agent or such other Paying Agent as shall have been notified to the holders of the Notes for such purpose. The Issuer shall procure that details of each such payment shall be entered *pro rata* in the records of the relevant

clearing system and in the case of payments of principal, the nominal amount of the Notes recorded in the records of the relevant clearing system and represented by the Global Certificate will be reduced accordingly. Each payment so made will discharge the Issuer's obligations in respect thereof. Any failure to make the entries in the records of the relevant clearing system shall not affect such discharge.

### **Prescription**

Claims against the Issuer and the Guarantor in respect of principal or premium and interest on the Notes while the Notes are represented by the Global Certificate will be prescribed after ten years (in the case of principal and premium) and five years (in the case of interest) from the appropriate due date.

### **Meetings**

The holder of the Global Certificate will be treated as being two persons for the purposes of any quorum requirements of, or the right to demand a poll at, a meeting of holders of the Notes and, at any such meeting, as having one vote in respect of each €1,000 in principal amount of Notes for which the Global Certificate may be exchanged.

### **Trustee's Powers**

In considering the interests of holders of the Notes while the Global Certificate is held on behalf of a clearing system, the Trustee may have regard to any information provided to it by such clearing system or its operator as to the identity (either individually or by category) of its accountholders with entitlements to the Global Certificate and may consider such interests as if such accountholders were the holder of the Global Certificate.

### **Information Concerning Euroclear and Clearstream**

All book-entry interests will be subject to the operations and procedures of Euroclear and Clearstream, as applicable. The Issuer provides the following summaries of those operations and procedures solely for the convenience of investors. The operations and procedures of each settlement system are controlled by that settlement system and may be discontinued or changed at any time. None of the Issuer, the Guarantor or the Joint Coordinators is responsible for those operations or procedures.

Euroclear and Clearstream hold securities for participant organisations and facilitate the clearance and settlement of securities transactions between their respective participants through electronic book-entry charges in accounts of such participants. Euroclear and Clearstream provide to their participants, among other things, services for safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear and Clearstream interface with domestic securities markets. Euroclear and Clearstream participants are financial institutions such as underwriters, securities brokers and dealers, banks, trust companies and certain other organisations. Indirect access to Euroclear or Clearstream is also available to others such as banks, brokers, dealers and trust companies that clear through or maintain a custodian relationship with a Euroclear or Clearstream participant, either directly or indirectly.

Because Euroclear and Clearstream can only act on behalf of participants, who in turn act on behalf of indirect participants and certain banks, the ability of an owner of a beneficial interest to pledge such interest to persons or entities that do not participate in the Euroclear and/or Clearstream systems, or otherwise take actions in respect of such interest, may be limited by the lack of a definite certificate for that interest. The laws of some jurisdictions

require that certain persons take physical delivery of securities in definitive form. Consequently, the ability to transfer beneficial interests to such person may be limited.

### ***Initial Settlement***

Initial settlement for the Notes will be made in euro. The book-entry interests owned through Euroclear or Clearstream accounts will follow the settlement procedures applicable to conventional Eurobonds in registered form. The book-entry interests will be credited to the securities custody accounts of Euroclear and Clearstream holders on the business day following the settlement date against payment for value on the settlement date.

### ***Secondary Market Trading***

The book-entry interests will trade through participants of Euroclear or Clearstream and will settle in same-day funds. Since the purchaser determines the place of delivery, it is important to establish at the time of trading of any book-entry interests where both the purchaser's and the seller's accounts are located to ensure that settlement can be made on the desired value date.

### ***Eurosystem Eligibility***

The Notes are intended to be held in a manner which would allow Eurosystem eligibility, which simply means that the Notes are intended upon issue to be deposited with one of the International Central Securities Depositories (“**ICSDs**”) as common safekeeper, and registered in the name of a nominee of one of the ICSDs acting as common safekeeper, and does not necessarily mean that the Notes will be recognised as eligible collateral for Eurosystem monetary policy and intra day credit operations by the Eurosystem either upon issue or at any or all times during their life. Such recognition will depend upon the European Central Bank being satisfied that Eurosystem eligibility criteria have been met.

## PLACING AND SALE

Trea Capital and Credit Suisse have entered into a placing agreement with the Issuer and the Guarantor dated 10 September 2014 with respect to the Notes (the “**Placing Agreement**”) whereby the Notes will be placed by the Joint Coordinators, on a best efforts basis, with, and made available for distribution to, such persons as shall be selected in the sole and absolute discretion of the Joint Coordinators after prior consultation with the Guarantor.

The purchase price for the Notes will be the issue price of 100 per cent of the principal amount of the Notes (the “**Issue Price**”), less certain commissions and fees. The Joint Coordinators shall use their best efforts to procure purchasers to purchase the Notes at the Issue Price but nothing in the Placing Agreement constitutes an obligation by the Joint Coordinators to underwrite the Notes and the entry into the Placing Agreement by the Joint Coordinators does not constitute a commitment to purchase any Notes nor to provide any financing to the Issuer or the Guarantor. The Issuer and the Guarantor have given certain representations and warranties to the Joint Coordinators in the Placing Agreement, and the Issuers and the Guarantor have agreed to indemnify the Joint Coordinators on a joint and several basis against certain liabilities in connection with the placing and sale of the Notes.

### UNITED STATES

The Notes have not been and will not be registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction of the United States. The Notes are being offered and sold outside the United States by the Joint Coordinators in accordance with Regulation S, and may not be offered, sold or delivered within the United States or to, or for the account or benefit of, U.S. Persons, except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S.

Each Joint Coordinator has represented and agreed that, except as permitted by the Placing Agreement, it has not offered, sold or delivered, and will not offer, sell or deliver, the Notes:

- (a) as part of their distribution at any time; or
- (b) otherwise, until 40 days after the later of the commencement of the offering and the issue date of the Notes (the “distribution compliance period”), within the United States or to, or for the account or benefit of, U.S. Persons, and that it will have sent to each dealer to which it sells any Notes during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. Persons. Terms used in this paragraph have the meanings given to them by Regulation S. In addition, until 40 days after the commencement of the offering, an offer or sale of Notes within the United States by a dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act.

### UNITED KINGDOM

Each Joint Coordinator has represented and agreed that:

- (a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act 2000 the “**FSMA**”) in connection with the issue or sale of the Notes in circumstances in which



Section 21(1) of the FSMA does not apply to the Issuer or the Guarantor; and

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

## **KINGDOM OF SPAIN**

None of the Notes, the Offering or this Offering Circular and its contents have been approved or registered with the Spanish Securities and Exchange Commission (*Comisión Nacional del Mercado de Valores*), and therefore the Notes may not be offered, sold or distributed in Spain by any means, nor may any subsequent resale of Notes be carried out in Spain, except in circumstances which do not qualify as a public offer (*oferta pública*) of securities in Spain in accordance with article 30 bis of the Spanish Securities Market Act 24/1988, of 28 July 1988 (*Ley 24/1988, de 28 de Julio, del Mercado de Valores*) as amended and restated, or pursuant to an exemption from registration in accordance with article 41 of the Royal Decree 1310/2005, of 4 November 2005, on the listing of securities, public offers and applicable prospectus (*Real Decreto 1310/2005, de 4 de noviembre, por el que se desarrolla parcialmente la Ley 24/1988, de 28 de Julio, del Mercado de Valores, en material de admisión a negociación de valores en mercados secundarios oficiales, de ofertas públicas de venta o suscripción y del folleto exigible a tales efectos*) as amended or restated.

## **ANDORRA**

Each of the Joint Coordinators has represented and agreed that (a) it will comply with all laws, regulations or guidelines in The Principality of Andorra from time to time, including, but not limited to, any technical communication issued by the Andorran National Financial Institute (*Institut Nacional Andorrà de Finances*), in relation to the offer, sale, delivery or transfer of the Notes or the distribution of any offering material in respect of the Notes and in particular with the provisions set forth in Act 7/2013 on the legal regime of entities operating in the Andorran financial system and in Andorran advertising legislation, (b) it will only offer or sell the Notes into, in or from Andorra in compliance with all applicable laws and regulations in force in The Principality of Andorra, and (c) it will to the extent necessary and in particular when they do not act through a duly licensed local distributor or financial intermediary, they will obtain all consents, approvals, government permissions and licences required, for the offer or sale by it of Notes under the laws and regulations in force in The Principality of Andorra.

## **GENERAL**

No action has been taken or will be taken in any jurisdiction by the Joint Coordinators, the Issuer or the Guarantor that would, or is intended to, permit a public offering of the Notes, or possession or distribution of this Offering Circular or any supplement hereto or any other offering or publicity material relating to the Notes, in any country or jurisdiction where action for that purpose is required.

Each Joint Coordinator has undertaken that it will (to the best of its knowledge and belief) comply with all applicable laws and regulations in each jurisdiction in which it offers, sells or delivers Notes or has in its possession or distributes this Offering Circular or supplement hereto or any other offering or publicity material.

Persons into whose possession this Offering Circular comes are required by the Issuer, the Guarantor and the Joint Coordinators to comply with all applicable laws and regulations in each country or jurisdiction in which they purchase, offer, sell or deliver Notes or have in

their possession, distribute or publish this Offering Circular or any other offering or publicity material relating to the Notes, in all cases at their own expense.

#### **OTHER RELATIONSHIPS**

The Joint Coordinators and their affiliates have performed certain commercial banking, investment banking or advisory services for us from time to time for which they have received customary fees and expenses. The Joint Coordinators may, from time to time, continue to engage in transactions with and perform services for us in the ordinary course of their business.

## TAXATION

*The statements herein regarding taxation are based on the laws in force in Spain and elsewhere as at the date of this Offering Circular and are subject to any changes in law occurring after such date, which changes could be made on a retroactive basis.*

*The following summary does not purport to be a comprehensive description of all the tax considerations which may be relevant to a decision to subscribe for, purchase, own or dispose of the Notes and does not purport to deal with the tax consequences applicable to all categories of investors, some of which (such as dealers in securities or commodities) may be subject to special rules. Prospective purchasers of the Notes are advised to consult their own tax advisers concerning the overall tax consequences of their ownership of the Notes.*

*Also prospective investors should note that the appointment by an investor in the Notes, or any person through which an investor holds Notes, of a custodian, collection agent or similar person in relation to such Notes in any jurisdiction may have tax implications. Prospective investors should consult their own tax advisers in relation to the tax consequences for them of any such appointment.*

### SPANISH TAX CONSIDERATIONS

The information provided below does not purport to be a complete analysis of the tax law and practice currently applicable in Spain and does not purport to address the tax consequences applicable to all categories of investors, some of which may be subject to special rules. Prospective purchasers of the Notes are advised to consult their own tax advisers as to the tax consequences, including those under the tax laws of the country of which they are resident, of purchasing, owning and disposing of Notes. This tax section is based on Spanish law as in effect on the date of this Offering Circular as well as on administrative interpretation thereof, and is subject to any change in such law that may take effect after such date.

In addition, investors should note that the appointment by an investor in the Notes or any person through which an investor holds Notes, of a custodian, collection agent or similar person in relation to such Notes in any jurisdiction may have tax implications. Investors should consult their own tax advisers in relation to the tax consequences for them of any such appointment

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

- (i) of general application: Additional Provision One of Law 10/2014, as well as Royal Decree 1065/2007 of 27 July, approving the General Regulations of the tax inspection and management procedures and developing the common rules of the procedures to apply taxes, as amended by Royal Decree 1145/2011, of 29 July;
- (ii) for individuals resident for tax purposes in Spain which are subject to the Individual Income Tax (“IIT”): Law 35/2006 of 28 November on the IIT Law and on the partial amendment of the Corporate Income Tax Law, the Non-Resident Income Tax Law and the Net Wealth Tax Law, as amended, and Royal Decree 439/2007 of 30 March, promulgating the IIT Regulations, along with Law 19/1991 of 6 June, on the Net Wealth Tax and Law 29/1987 of 18 December on Inheritance and Gift Tax;
- (iii) for legal entities resident for tax purposes in Spain which are subject to the Corporate Income Tax (“CIT”): Royal Legislative Decree 4/2004 of 5 March promulgating the

Consolidated Text of the CIT Law, as amended, and Royal Decree 1777/2004 of 30 July promulgating the CIT Regulations; and

- (iv) for individuals and entities who are not resident for tax purposes in Spain which are subject to the Non-Resident Income Tax (“NRIT”): Royal Legislative Decree 5/2004 of 5 March promulgating the Consolidated Text of the NRIT Law, as amended, and Royal Decree 1776/2004 of 30 July promulgating the NRIT Regulations, along with Law 19/1991 of 6 June, on the Net Wealth Tax and Law 29/1987 of 18 December on Inheritance and Gift Tax.

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

### ***Individuals with Tax Residency in Spain***

#### *Individual Income Tax (Impuesto sobre la Renta de las Personas Físicas)*

Both interest periodically received and income derived from the transfer, redemption or repayment of the Notes constitute a return on investment obtained from the transfer of a person’s own capital to third parties in accordance with the provisions of Section 25.2 of the IIT Law, and must be included in the investor’s IIT savings taxable base and taxed at a flat rate of 21 per cent. on the first €6,000 25 per cent. on the following €18,000 and 27 per cent. for any amount in excess of €24,000.

No withholding on account of IIT will be imposed on interest or on income derived from the redemption or repayment of the Notes, by individual investors subject to IIT provided that certain requirements are met, including that the Paying Agent provides the Issuer, in a timely manner, with a duly executed and completed Payment Statement (as defined below). See “—*Compliance with Certain Requirements in Connection with Income Payments*”. However, income derived from the transfer of the Notes may be subject, under certain circumstances, to a withholding on account of IIT at the rate of 21 per cent. In any event, as the case may be, the individual holder may credit the withholding against his or her final IIT liability for the relevant tax year.

#### *Reporting Obligations*

The Issuer will comply with the reporting obligations set out in the Spanish tax laws with respect to beneficial owners of the Notes who are individuals resident in Spain for tax purposes.

#### *Net Wealth Tax (Impuesto sobre el Patrimonio)*

For tax year 2014, Spanish resident tax individuals are subject to Spanish Net Wealth Tax (Spanish Law 19/1991), which imposes a tax on property and rights in excess of €700,000 held on the last day of any year. Spanish tax resident individuals whose net worth is above €700,000 and who hold Notes on the last day of any year would therefore be subject to Spanish Net Wealth Tax for such year at marginal rates varying between 0.2 per cent. and 2.5 per cent. of the average market value of the Notes during the last quarter of such year.

### *Inheritance and Gift Tax (Impuesto sobre Sucesiones y Donaciones)*

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

### ***Legal Entities with Tax Residency in Spain***

#### *Corporate Income Tax (Impuesto sobre Sociedades)*

Both interest periodically received and income derived from the transfer, redemption or repayment of the Notes are subject to CIT (at the current general flat tax rate of 30 per cent. for 2013) in accordance with the rules for this tax.

No withholding on account of CIT will be imposed on interest as well as on income derived from the redemption or repayment of the Notes by Spanish CIT taxpayers provided that certain requirements are met, including that the Paying Agent provides the Issuer, in a timely manner, with a duly executed and completed Payment Statement. See “—*Compliance with Certain Requirements in Connection with Income Payments*”.

With regard to income derived from the transfer of the Notes, in accordance with article 59.s of the CIT regulations, there is no obligation to withhold on income obtained by Spanish CIT taxpayers (which include Spanish tax resident investment funds and Spanish tax resident pension funds) from financial assets traded on organised markets in OECD countries. We have made or will make an application for the Notes to be listed on the Luxembourg Stock Exchange’s Euro MTF Market and listed on the Official List of the Luxembourg Stock Exchange. Upon admission to trading on the Luxembourg Stock Exchange, the Notes should fulfil the requirements set forth in the legislation for exemption from withholding.

The Directorate General for Taxation (*Dirección General de Tributos*), on 27 July 2004, issued a ruling stating that in the case of issuances of debt securities by entities resident in Spain, as in the case of the Issuer, application of the exemption requires that, in addition to being traded on an organised market in an OECD member state, the placement of the Notes is made outside Spain and in another OECD member state. We believe that the issuance of the Notes will fall within this exemption as the Notes are to be sold outside Spain and in the international capital markets. Consequently, no withholding on account of CIT should be made on income derived from the transfer of the Notes by Spanish CIT taxpayers that provide relevant information to qualify for such exemption.

#### *Reporting Obligations*

The Issuer will comply with the reporting obligations set out in the Spanish tax laws with respect to Beneficial Owners of the Notes who are legal persons or entities resident in Spain for tax purposes.

### *Inheritance and Gift Tax (Impuesto sobre Sucesiones y Donaciones)*

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

## ***Individuals and Legal Entities that are not Tax Resident in Spain***

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

#### (i) Non-Spanish tax resident investors acting through a permanent establishment in Spain

If the Notes form part of the assets of a permanent establishment in Spain of a person or legal entity who is not resident in Spain for tax purposes, the tax rules applicable to income deriving from such Notes are, generally, the same as those set out above for Spanish CIT taxpayers. See “*Legal Entities with Tax Residency in Spain—Corporate Income Tax (Impuesto sobre Sociedades)*”. Ownership of the Notes by investors who are not resident in Spain for tax purposes will not in itself create the existence of a permanent establishment in Spain.

The Issuer will comply with the reporting obligations set out in the Spanish tax laws with respect to Beneficial Owners of the Notes who are individuals or legal entities not resident in Spain for tax purposes who act with respect to the Notes through a permanent establishment in Spain.

#### (ii) Non-Spanish tax resident investors not acting through a permanent establishment in Spain

Both interest payments periodically received and income derived from the transfer, redemption or repayment of the Notes, obtained by individuals or entities who are not resident in Spain for tax purposes and do not act, with respect to the Notes, through a permanent establishment in Spain, are exempt from NRIT and therefore no withholding on account of NRIT will be levied on such income provided certain requirements are met, including that the Paying Agent provides the Issuer, in a timely manner, with a duly executed and completed Payment Statement. See “*—Compliance with Certain Requirements in Connection with Income Payments*”.

If the Paying Agent fails or for any reason is unable to deliver a duly executed and completed Payment Statement to the Issuer in a timely manner in respect of a payment of income under the Notes, the Issuer will withhold Spanish withholding tax at the then-applicable rate (currently 21 per cent.) on such payment of income on the Notes and the Issuer will not pay Additional Amounts with respect to any such withholding tax.

Beneficial Owners not resident in Spain for tax purposes and entitled to exemption from NRIT, but the payment to whom was not exempt from Spanish withholding tax due to the failure by the Paying Agent to deliver a duly executed and completed Payment Statement, will receive a refund of the amount withheld, with no need for action on their part, if the Paying Agent provides the Issuer with a duly executed and completed Payment Statement no later than the 10th calendar day of the month immediately following the relevant payment date.

Beneficial Owners entitled to receive income payments in respect of the Notes free of Spanish withholding taxes but in respect of whom income payments have been made net of Spanish withholding tax may apply directly to the Spanish tax authorities for any refund to which they may be entitled.

Beneficial Owners may claim the amount withheld from the Spanish Treasury following 1 February of the calendar year following the year in which the relevant payment date falls and within the first four years following the last day on which the Issuer may pay any amount

so withheld to the Spanish Treasury (which is generally the 20th calendar day of the month immediately following the relevant payment date), by filing with the Spanish tax authorities (i) the relevant Spanish tax form and (ii) the original nominative document evidencing the amount withheld to the taxpayer asking for the refund; and (iii) a certificate of residence issued by the tax authorities of the country of tax residence of such Beneficial Owner, among other documents (the “**Direct Refund from Spanish Tax Authorities Procedures**”).

#### *Net Wealth Tax (Impuesto sobre el Patrimonio)*

For tax year 2014 Spanish non-resident tax individuals are subject to Spanish Net Wealth Tax (Spanish Law 19/1991), which imposes a tax on property and rights in excess of €700,000 that are located in Spain, or can be exercised within the Spanish territory, on the last day of any year.

However, to the extent that income derived from the Notes is exempt from NRIT, individual Beneficial Owners not resident in Spain for tax purposes who hold Notes on the last day of any year will be exempt from Spanish Net Wealth Tax. Furthermore, Beneficial Owners who benefit from a convention for the avoidance of double taxation with respect to wealth tax that provides for taxation only in the Beneficial Owner’s country of residence will not be subject to Spanish Net Wealth Tax.

If the provisions of the foregoing paragraph do not apply, non-Spanish tax resident individuals whose net worth related to property located, or rights that can be exercised, in Spain is above €700,000 and who hold Notes on the last day of any year would therefore be subject to Spanish Net Wealth Tax for such year at marginal rates varying between 0.2 per cent. and 2.5 per cent. of the average market value of the Notes during the last quarter of such year.

#### *Inheritance and Gift Tax (Impuesto sobre Sucesiones y Donaciones)*

Individuals not resident in Spain for tax purposes who acquire ownership or other rights over the Notes by inheritance, gift or legacy, will be subject to the Spanish Inheritance and Gift Tax in accordance with the applicable Spanish regional and state rules, unless they reside in a country for tax purposes with which Spain has entered into a convention for the avoidance of double taxation in relation to Inheritance and Gift Tax. In such case, the provisions of the relevant convention for the avoidance of double taxation will apply. Spain and the United States have not entered into such a convention. If no treaty for the avoidance of double taxation in relation to Spanish Inheritance and Gift Tax applies, applicable Spanish Inheritance and Gift Tax rates would range between 7.65 per cent. and 81.6 per cent. for 2014, depending on relevant factors.

Non-Spanish tax resident legal entities which acquire ownership or other rights over the Notes by inheritance, gift or legacy are not subject to the Spanish Inheritance and Gift Tax. Such acquisitions will be subject to NRIT (as described above), without prejudice to the provisions of any applicable convention for the avoidance of double taxation entered into by Spain. In general, conventions for the avoidance of double taxation provide for the taxation of this type of income in the country of tax residence of the beneficiary.

## **Tax Rules for Notes not listed on a regulated market, multilateral trading facility or other organised market**

### *Withholding on Account of IIT, NRIT and CIT*

As of the issue date of the Notes, the Notes are listed on the Official List of the Luxembourg Stock Exchange and admitted to trading on the Luxembourg Stock Exchange's Euro MTF Market. If the Notes cease to be listed on a regulated market, multilateral trading facility or other organised market on any date on which income in respect of the Notes will be paid (i.e., either an Interest Payment Date or a redemption date), payments of income to Beneficial Owners in respect of the Notes will be subject to Spanish withholding tax at the then-applicable rate (currently 21 per cent.) except in the case of Beneficial Owners which are: (A) residents of a European Union member state other than Spain and obtain such income either directly or through a permanent establishment located in another European Union member state, provided that such Beneficial Owners (i) do not obtain such income on the Notes through a permanent establishment in Spain and (ii) are not resident of, are not located in, nor obtain income through, a tax haven (as defined by Royal Decree 1080/1991 of July 5 as amended); or (B) residents for tax purposes in a country which has entered into a convention for the avoidance of double taxation with Spain which provides for an exemption from Spanish tax or a reduced withholding tax rate with respect to income payable to any Beneficial Owner. Individuals and entities that may benefit from such exemptions or reduced tax rates should apply directly to the Spanish tax authorities for any refund to which they may be entitled pursuant to the Direct Refund from Spanish Tax Authorities Procedures.

### *Tax Havens*

Pursuant to Royal Decree 1080/1991 of July 5 as amended, the following are each considered to be a tax haven at the date of this Offering Circular: Anguilla, Antigua and Barbuda, Bermuda, British Virgin Islands, Cayman Islands, Channel Islands (Jersey and Guernsey), Falkland Islands, Fiji Islands, Gibraltar, Grenada, Hashemite Kingdom of Jordan, Isle of Man, Kingdom of Bahrain, Macau, Marianas Islands, Mauritius, Montserrat, Principality of Liechtenstein, Principality of Monaco, Republic of Dominica, Republic of Lebanon, Republic of Liberia, Republic of Nauru, Republic of Seychelles, Republic of Vanuatu, Saint Lucia, Saint Vincent & the Grenadines, Solomon Islands, Sultanate of Brunei, Sultanate of Oman, The Cook Islands, Turks and Caicos Islands and United States Virgin Islands.

### *Tax Rules for Payments Made by the Guarantor*

Payments which may be made by the Guarantor to the beneficial owners of the Notes, if the Guarantee were enforced, is subject to the same tax rules previously set out for payments made by the Issuer.

### *Compliance with Certain Requirements in Connection with Income Payments*

As described under “—Individual and Legal Entities that are not Tax Residents in Spain”, “—Legal Entities with Tax Residency in Spain—Corporate Income Tax (*Impuesto sobre Sociedades*)” and “—Individuals with Tax Residency in Spain—Individual Income Tax (*Impuesto sobre la Renta de las Personas Físicas*)”, provided the conditions set forth in Law 10/2014, of June 26 are met (including that the Paying Agent provides the Issuer, in a timely manner, with a duly executed and completed Payment Statement), income paid in respect of the Notes for the benefit of non-Spanish tax resident investors, or for the benefit of Spanish CIT or IIT taxpayers, will not be subject to Spanish withholding tax. For these



purposes, “income” means interest paid on an Interest Payment Date or the amount of the difference, if any, between the aggregate redemption price paid upon the redemption of the Notes of a series (or a portion thereof) and the aggregate principal amount of such Notes.

In accordance with sub-section 5 of article 44 of Royal Decree 1065/2007, as amended by Royal Decree 1145/2011, a duly executed and completed Payment Statement must be submitted to the Issuer by the Paying Agent at the time of each relevant payment date. In accordance with the form attached as Annex to Royal Decree 1145/2011, the Payment Statement shall include the following information:

- (a) identification of the Notes;
- (b) income payment date;
- (c) total amount of income to be paid on the relevant payment date; and
- (d) total amount of income corresponding to Notes held through each clearing system located outside Spain (including Euroclear and Clearstream).

For these purposes, “income” means interest and the difference, if any, between the aggregate amount payable on the redemption of the Notes and the issue price of the Notes.

In light of the above, the Issuer and the Principal Paying Agent will enter into an agency agreement which, among other things, will provide for the timely provision by the Principal Paying Agent of a duly executed and completed payment statement in connection with each interest payment under the Notes (the “**Payment Statement**”) and set forth certain procedures agreed by the Issuer and the Paying Agent which aim to facilitate such process, along with a form of the Payment Statement to be used by the Principal Paying Agent.

Prospective investors should note that none of the Issuer, the Guarantor or the Joint Coordinators accepts any responsibility relating to the procedures established for the timely provision by the Principal Paying Agent of a duly executed and completed Payment Statement in connection with each income payment under the Notes. Accordingly, none of the Issuer, the Guarantor or the Joint Coordinators will be liable for any damage or loss suffered by any beneficial owner who would otherwise be entitled to an exemption from Spanish withholding tax but whose income payments are nonetheless paid net of Spanish withholding tax because these procedures prove ineffective. Moreover, the Issuer will not pay any Additional Amounts with respect to any such withholding tax. See “*Risk Factors—Risks Relating to the Notes— Spanish Tax rules*”.

If the Principal Paying Agent fails or for any reason is unable to deliver a duly executed and completed Payment Statement to the Issuer in a timely manner in respect of a payment of income under the Notes, such payment will be made net of Spanish withholding tax, currently at the rate of 21 per cent. If this were to occur, affected Beneficial Owners will receive a refund of the amount withheld, with no need for action on their part, if the Principal Paying Agent submits a duly executed and completed Payment Statement to the Issuer no later than the 10th calendar day of the month immediately following the relevant payment date. In addition, Beneficial Owners may apply directly to the Spanish tax authorities for any refund to which they may be entitled pursuant to the Direct Refund from Spanish Tax Authorities Procedures.

In addition to the timely provision of a duly executed and completed Payment Statement, the Notes must be admitted to listing on a regulated market, multilateral trading facility or other

organised market in order to allow payments on Notes to be made free and clear of Spanish withholding tax. We believe the Notes will comply with this requirement as long as they are listed on the Official List of the Luxembourg Stock Exchange and to trading on the Euro MTF Market. See “—*Tax Rules for Notes not Listed on a regulated market, multilateral trading facility or other organised market*”.

## **EU SAVINGS DIRECTIVE**

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

The Savings Directive has been amended by the Amending Directive. The Amending Directive broadens the scope of the requirements described above. Member States are required to apply these new requirements from 1 January 2017. The changes will expand the range of payments covered by the Savings Directive, in particular to include the additional types of income payable on securities. The Savings Directive will also apply a “look through approach” to certain payments where an individual resident in a Member State is regarded as the beneficial owner of that payment for the purposes of the Savings Directive. This approach may apply to payments made to or by, or secured for or by, persons, entities or legal arrangements (including trusts), where certain conditions are satisfied, and may in some cases apply where the person, entity or arrangement is established or effectively managed outside of the European Union.

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

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

## LISTING AND GENERAL INFORMATION

### 1. Authorisations

The issue of the Notes has been authorised by a resolution of the board of directors of the Issuer dated 1 September 2014.

The issue of the Guarantee has been authorised by a resolution of the board of directors of the Guarantor dated 12 June 2014.

### 2. Approval, Listing and Admission to Trading

Application has been made to list the notes on the Official List of the Luxembourg Stock Exchange and for the admission of the notes to trading on the Euro MTF Market of the Luxembourg Stock Exchange. It is expected that admission to trading of the Notes on the regulated market will be granted on or before 15 September 2014, subject only to the issue of the Global Certificate.

The total expenses related to the admission of the Notes to trading are estimated at EUR7,500.

### 3. Documents Available

So long as the Notes are listed on the Official List of the Luxembourg Stock Exchange and are admitted to trading on the Euro MTF Market and the rules and regulations of the Luxembourg Stock Exchange so require, the Issuer will publish notices (including financial notices) in a leading newspaper having a general circulation in Luxembourg (which is currently expected to be the *Luxemburger Wort*) or on the official website of the Luxembourg Stock Exchange ([www.bourse.lu](http://www.bourse.lu)).

So long as the Notes are listed on the Official List of the Luxembourg Stock Exchange and are admitted to trading on the Euro MTF Market and the rules and regulations of the Luxembourg Stock Exchange require, copies of the following documents may be inspected and obtained free of charge at the specified office of the Issuer and the Guarantor and from the specified office of the Listing Agent during normal business hours on any weekday (Saturdays, Sundays and public holidays excepted):

- (a) the constitutive documents (with an English translation thereof) of the Issuer and of the Guarantor;
- (b) the audited financial statements included in this Offering Circular (i.e., the unaudited opening balance sheet of the Issuer and the Combined Financial Statements). See "*Presentation of Financial and Certain other Information and Currency Presentation – Combined Financial Information*". According to the Trust Deed, the Issuer and the Guarantor will send to the Trustee and to the Listing Agent three copies in English of the annual audited financial statements within 180 days of the end of each financial year so that those financial statements are also available in Luxembourg;
- (c) the Trust Deed and the Agency Agreement; and
- (d) this Offering Circular.

The Issuer has appointed Deutsche Bank Luxembourg S.A. as listing agent and as initial registrar and initial transfer agent. The Issuer reserves the right to change these appointments in accordance with the terms of the Trust Deed and will publish a notice of such change of

appointment in a newspaper having a general circulation in Luxembourg (which is currently expected to be the *Luxemburger Wort*) or, to the extent and in the manner permitted by the rules and regulations of the Luxembourg Stock Exchange, on the official website of the Luxembourg Stock Exchange ([www.bourse.lu](http://www.bourse.lu)). Application may also be made to the Euro MTF Market to have the Notes removed from listing on the Euro MTF Market, including if necessary to avoid any new withholding taxes in connection with the listing.

#### **4. Clearing Systems**

The Notes have been accepted for clearing and settlement through Euroclear and Clearstream. The ISIN and the Common Code for the Notes are XS1107552959 and 110755295, respectively.

The address of Euroclear is 1 Boulevard du Roi Albert II, B-1210 Brussels, and the address of Clearstream is 42 Avenue JF Kennedy, L-1855 Luxembourg.

The payments in connection with the Notes will be carried out through the Clearing Systems.

#### **5. No Significant or Material Adverse Change**

There has been no significant change in the financial or trading position, and no material adverse change in the prospects, of (i) the Guarantor since 31 December 2013; and (ii) the Issuer since 17 June 2014.

#### **6. Litigation**

Save for the proceedings described in the section “*Description of the Guarantor*”, neither the Issuer nor the Guarantor is or has been involved in any governmental, legal or arbitration proceedings (including any such proceedings that are pending or threatened of which the Issuer or the Guarantor are aware) in the 12 months preceding the date of this Offering Circular which may have or have in such period had a significant effect on the financial position or profitability of the Issuer or the Guarantor.

#### **7. Auditors**

The auditors of the Issuer are Ernst & Young, S.L., who are chartered accountants and are members of the Institute of Chartered Accountants (*Registro Oficial de Auditores de Cuentas del Instituto de Contabilidad y Auditoría*) in Spain and registered with number S0530 to practice in Spain.

#### **9. Yield**

On the basis of the issue price of the Notes of 100 per cent. of the principal amount thereof, the gross yield of the Notes will be 1.944 per cent. on an annual basis.

#### **11. Material Contracts**

There are no other material contracts, other than contracts entered into in the ordinary course of business, to which the Issuer or the Guarantor is a party, for the two years immediately preceding the date hereof, or any other contracts, other than contracts entered into in the ordinary course of business, entered into by the Issuer or the Guarantor, which contain any provisions under which such company has any obligation or entitlement material to it as at the date hereof.

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**Aigües de  
Barcelona**

**WATER SUPPLY ACTIVITY OF “SOCIEDAD GENERAL DE AGUAS DE  
BARCELONA, S.A.”**

**SANITATION AND SEWAGE TREATMENT ACTIVITY OF “EMPRESA  
METROPOLITANA DE SANEJAMENT, S.A.”**

**(Jointly, AIGÜES DE BARCELONA)**

**COMBINED FINANCIAL STATEMENTS FOR THE YEAR 2012**

## AIGÜES DE BARCELONA

### COMBINED STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER 2012 AND 2011

(Thousands of Euros)

ASSETS	Notes	2012	2011
Non-current assets related to the activity	7	473,762	467,867
Non-current financial assets	9.1	14,004	13,537
<b>Total non-current assets</b>		<b>487,766</b>	<b>481,404</b>
Inventories	10	1,522	1,502
Trade and other receivables:		88,644	102,019
Trade receivables for sales and services	9.1	78,800	83,264
Other receivables		9,844	18,755
Other current financial assets		38	62
Other current assets (accruals)		4	18
Cash and cash equivalents		976	51
<b>Total current assets</b>		<b>91,184</b>	<b>103,652</b>
<b>Total assets</b>		<b>578,950</b>	<b>585,056</b>

LIABILITES	Notes	2012	2011
Comprehensive income for the year		14,783	14,733
Resources applied/used SGAB - Equity		215,658	209,140
<b>Total Equity</b>	<b>11</b>	<b>230,441</b>	<b>223,873</b>
Deferred tax liabilities	13.2	14,095	3,667
Other non-current liabilities	12	16,561	16,047
Resources applied/used SGAB - Debt	12	231,378	223,861
<b>Total non-current liabilities</b>		<b>262,034</b>	<b>243,575</b>
Current provisions		1,609	1,775
Current financial liabilities	12	30	-
Other current liabilities	12	84,836	115,833
<b>Total current liabilities</b>		<b>86,475</b>	<b>117,608</b>
<b>Total liabilities</b>		<b>578,950</b>	<b>585,056</b>



## AIGÜES DE BARCELONA

### COMBINED STATEMENT OF PROFIT OR LOSS 31 DECEMBER 2012 AND 2011

(Thousands of Euros)

	Notes	2012	2011
Income from Water		254,624	238,050
Purchase of Water		(48,825)	(38,273)
Energy Water		(9,198)	(11,055)
Staff costs Water		(28,020)	(26,636)
Charges		(9,020)	(6,975)
Other expenses from Water		(27,709)	(28,913)
<b>Profit from Water Activity</b>		<b>131,852</b>	<b>126,198</b>
Income from Sewage Treatment		25,366	25,778
Expenses from Sewage Treatment		(17,558)	(17,608)
<b>Margin on Sewage Treatment Activity</b>		<b>7,808</b>	<b>8,170</b>
Income from Other Activities		10,931	21,982
Expenses from Other Activities		(4,667)	(12,727)
<b>Margin on Other Activities</b>		<b>6,264</b>	<b>9,255</b>
<b>Income from Activities</b>	14.1	<b>290,921</b>	<b>285,810</b>
<b>Direct costs from Activities</b>		<b>(144,997)</b>	<b>(142,187)</b>
Indirect costs from Activities		(10,140)	(10,176)
<b>Profit from Activities</b>		<b>135,784</b>	<b>133,447</b>
Ancillary income / Other income		9,541	11,323
Technical and Administrative Personnel Costs		(25,473)	(25,227)
Other general operating expenses		(30,429)	(35,682)
IT costs		(13,988)	(12,426)
Distribution of Structure Costs		(2,459)	(2,274)
Total Structure Costs		(72,349)	(75,609)
<b>EBITDA</b>		<b>72,976</b>	<b>69,161</b>
Amortisation Water	7	(33,911)	(32,364)
Amortisation Sewage Treatment	7	(15)	(16)
Provisions		(1,479)	(293)
<b>EBIT</b>		<b>37,571</b>	<b>36,488</b>
Financial result	14.2	(15,822)	(14,451)
<b>Operating Margin</b>		<b>21,749</b>	<b>22,037</b>
Non-recurring profit/(loss)		(1,269)	(1,571)
<b>EBT</b>		<b>20,480</b>	<b>20,466</b>
Income Tax	13.1	(5,697)	(5,733)
<b>Net Profit</b>		<b>14,783</b>	<b>14,733</b>

**AIGÜES DE BARCELONA**

**COMBINED STATEMENT OF OTHER COMPREHENSIVE INCOME 31  
DECEMBER 2012 AND 2011**

(Thousands of Euros)

	2012	2011
Profit for the year	14,783	14,733
Other comprehensive income	-	-
Net other comprehensive income to be reclassified to profit or loss in subsequent periods	-	-
Net other comprehensive income not to be reclassified to profit or loss in subsequent periods	-	-
Other comprehensive income for the year, net of tax	-	-
<b>Total comprehensive income for the year, net of tax</b>	<b>14,783</b>	<b>14,733</b>

**COMBINED STATEMENT OF CHANGES IN EQUITY 31 DECEMBER 2012 AND  
2011**

(Thousands of Euros)

	Share Capital	Resources applied/used SGAB	Net profit	Total
<b>Balance at 1 January 2011</b>	-	218,056	-	218,056
Net change in Resources applied/used SGAB	-	(8,916)	-	(8,916)
Comprehensive income for the year	-	-	14,733	14,733
<b>Balance at 31 December 2011</b>	-	209,140	14,733	223,873
<b>Balance at 1 January 2012</b>	-	209,140	14,733	223,873
Net change in Resources applied/used SGAB	-	6,518	(14,733)	(8,215)
Comprehensive income for the year	-	-	14,783	14,783
<b>Balance at 31 December 2012</b>	-	215,658	14,783	230,441

## AIGÜES DE BARCELONA

### COMBINED STATEMENT OF CASH FLOW AT 31 DECEMBER 2012 AND 2011

(Thousands of Euros)

	Notes	2012	2011
<b>Cash flows from operating activities</b>		<b>42,614</b>	<b>46,854</b>
<b>Profit for the year before tax</b>		<b>20,480</b>	<b>20,466</b>
<b>Adjustments to profit</b>		<b>52,444</b>	<b>49,285</b>
Depreciation and amortisation of assets related to the activity	7	33,926	32,380
Impairment losses on inventories	10	-	621
Losses from disposals of fixed assets	7	1,217	1,540
Changes in provisions		1,479	293
Financial result	14.2	15,822	14,451
<b>Changes in working capital</b>		<b>(19,219)</b>	<b>(2,392)</b>
Inventories		(20)	242
Trade and other receivables		13,375	(5,407)
Other current assets		38	(15)
Other current liabilities		(32,612)	2,788
<b>Other cash flows from operating activities</b>		<b>(11,091)</b>	<b>(20,505)</b>
Net cost of debt service for resources applied / used SGAB		(15,822)	(14,451)
Income tax applied / used SGAB	13.1	4,731	(6,054)
<b>Cash flows from investing activities</b>		<b>(40,991)</b>	<b>(43,736)</b>
<b>Payments on investments</b>		<b>(41,505)</b>	<b>(44,547)</b>
Non-current assets related to the activity	7	(41,038)	(43,941)
Non-current financial assets		(467)	(454)
Other financial assets		-	(152)
<b>Proceeds from investments</b>		<b>514</b>	<b>811</b>
Non-current assets related to the activity		-	811
Other financial liabilities		514	-
<b>Cash flows from financing activities</b>		<b>(698)</b>	<b>(3,154)</b>
<b>Proceeds from and payments of financial liabilities</b>		<b>7,517</b>	<b>5,762</b>
Net change in Resources applied/used SGAB - Debt		7,517	5,762
<b>Proceeds from and payments on equity instruments</b>		<b>(8,215)</b>	<b>(8,916)</b>
Net change in Resources applied/used SGAB - Equity		(8,215)	(8,916)
<b>Net increase / (decrease) in cash and cash equivalents</b>		<b>925</b>	<b>(36)</b>
Cash and cash equivalents at 1 January		51	87
Cash and cash equivalents at 31 December		976	51

**NOTES TO THE COMBINED FINANCIAL STATEMENTS FOR THE YEAR  
ENDED 31 DECEMBER 2012**

**1. Nature of the combined financial statements**

Aigües de Barcelona, Empresa Metropolitana de Gestió del Cicle Integral de l'Aigua, S.A. was incorporated on 30 July 2013 as a result of an agreement signed between Àrea Metropolitana de Barcelona (hereinafter AMB) and Sociedad General de Aguas de Barcelona, S.A. (hereinafter SGAB), on the regulation of the proceedings and legal and economic system for the incorporation of the new semi-public company, and based on which AMB transferred the right to use the necessary infrastructures and installations related to the rendering of the Sewage treatment, managed until then by the company Empresa Metropolitana de Sanejament, S.A., and SGAB transferred the instalment and the right of usufruct on the licenses and installations associated to the water supply service, depending on the case, in the Barcelona conurbation.

Therefore, in order to present the financial information for the year 2012 related to the integrated water cycle activity in the Barcelona conurbation, the combined financial statements have been prepared through the aggregation of the following activity segments of the companies involved in the incorporation of Aigües de Barcelona, Empresa Metropolitana de Gestió del Cicle Integral de l'Aigua, S.A. on 30 July 2013 (hereinafter, Aigües de Barcelona, or the Entity):

- Water supply activity of the company “Sociedad General de Aguas de Barcelona, S.A.” (AB Division) for the year 2012, obtained as a segregation of the assets and results related to this operating division.
- Management of installations related to the sanitation and Sewage treatment activity of the company Empresa Metropolitana de Sanejament, S.A. (EMSSA Concession) for the year 2012, corresponding to the net current assets and results related to this activity.

The combined financial statements comprise the combined statement of financial position, the combined statement of profit or loss, the combined statement of other comprehensive income, the combined statement of changes in equity and combined statement of cash flows corresponding to the integrated water cycle activity, which consists of water supply and Sewage treatment and reuse in the Barcelona conurbation.

The combined financial statements have been prepared solely to provide financial combined information in accordance with certain basis of preparation, assumptions and accounting policies, described in Notes 4, 5 and 6, respectively, in relation to the obtaining of new financing sources of Aigües de Barcelona, Empresa Metropolitana de Gestió del Cicle Integral de l'Aigua, S.A.

The preparation of the combined financial statements for the year ended 31 December 2012 has been prepared by management of Aigües de Barcelona, Empresa Metropolitana de Gestió del Cicle Integral de l'Aigua, S.A. dated April 4, 2014.

## **2. Mercantile information on the companies involved**

Aigües de Barcelona, Empresa Metropolitana de Gestió del Cicle Integral de l'Aigua, S.A. is domiciled in Barcelona at Calle General Batet 1-7. The company belongs to the Agbar Group, of which Sociedad General de Aguas de Barcelona, S.A., is the parent, which is in turn controlled by the Suez Environnement Group through its Spanish subsidiary Suez Environnement España, S.L., domiciled in Barcelona, at Avenida Diagonal, 211.

Sociedad General de Aguas de Barcelona, S.A. is domiciled in Barcelona, at Avenida Diagonal, 211 (Torre Agbar). It was incorporated on 20 January 1882, in Paris, and adapted its bylaws by means of a public deed authorised by the Barcelona Notary Raúl Vall Vilardell on 5 June 1991, recorded under number 2,136 of his protocol and registered at the Mercantile Registry of Barcelona in Volume 8,880, Sheet no. 62, page B-16,487, entry no. 1,032. The Company belongs to the Suez Environnement España Group, the parent company of which is Suez Environnement España, S.L., domiciled in Barcelona, at Avenida Diagonal, 211, which is the company that prepares consolidated financial statements. The 2012 consolidated financial statements of Suez Environnement España, S.L. were approved by the partners in the general meeting held on 6 June 2013 and duly filed with Barcelona Mercantile Registry. The Suez Environnement Group holds control over SGAB through its 75.74% ownership interest in HISUSA, Holding de Infraestructuras y Servicios Urbanos, S.A., which is the majority shareholder of the Company with a 99.49% ownership interest.

Empresa Metropolitana de Sanejament, S.A. is a public limited company incorporated on 13 September 1985 by means of a public deed authorised by the Notary Alfonso Arroyo Alonso, registered at the Mercantile Registry of Barcelona, Volume 5,486, Sheet no. 166, page 62,292, Book 4,788. It is domiciled in Barcelona at calle Madrazo 50-42.

## **3. Entity activity**

The combined financial information herein provided relates to the integrated water cycle services management activity, and specifically, the execution of hydraulic works, and operation, maintenance and management of the following services:

- a) Low-level water supply.
- b) High-level water sanitation and urban Sewage treatment, as well as its regeneration for other uses.
- c) Regenerated water supply.
- d) Coordination and integrated management of rainwater and Sewage disposal and of sewage networks, as well as technical assistance in intervention duties in Sewage discharge into sanitation systems.

**Entity activity (continued)**

- e) Any other activity aimed at meeting low-level water supply, sanitation and treatment needs, and specifically, any other activity related to the control, inhibition and quality of purified water and Sewage, through lab analysis techniques.
- f) The performance of studies and projects and execution of hydraulic infrastructure works and any other works related to the low-level water supply, sanitation and treatment.

**4. Basis of preparation and accounting policies**

**4.1 Basis of preparation**

The combined financial statements have been prepared in accordance with International Financial Reporting Standards (EU-IFRS) as adopted by the European Union, except for the following premises, which differ from the abovementioned standards and are described below:

Consolidation principles

IAS 27 does not consider the combination of financial statements (“horizontal integration”); instead, it requires the consolidation of groups (“vertical integration”) based on the parent company–subsidiary relationship. As mentioned, the purpose of these financial statements is to jointly present the financial situation and equity at December 31, 2012 and the results of operation and cash flow of the activity segments of AB Division and EMSSA Concession for the year then ended, that is, to provide relevant information on the Entity’s net assets, capacity to generate liquidity, and solvency as a whole. Therefore, the aforementioned activity segments have been aggregated horizontally to obtain the Entity’s figures.

Information to be included in the statement of financial position

IAS 1 establishes that the statement of financial position will include items that present separately the amounts of property, plant and equipment and intangible assets. For the purposes of these combined financial statements, it has been considered appropriate to group such items under a single line called ‘Non-current assets related to the activity’.

Breakdown of the statement of profit or loss

The accompanying statement of profit or loss has been broken down according to the ‘function of expenses’ method. For the purposes of the preparation of these combined financial statements, it was not considered relevant to include additional information on the nature of such expenses.

**AIGÜES DE BARCELONA**

**Notes to the Combined Financial Statements (continued) for the year ended 31  
December 2012**



**4. Basis of preparation and accounting policies (continued)**

**4.1 Basis of preparation (continued)**

Except for the premises above, the accounting principles and criteria applied to measure and present the assets and liabilities and income and expenses of the Entity are the same as those established by IFRS. However, due to such exceptions, the combined financial statements are not presented in conformity with IFRS, but with the specific accounting basis described in this Note and Notes 5 and 6 further below.

**4.2 Changes in accounting policies**

**a) Mandatory standards and interpretations approved by the European Union**

The accounting policies used to prepare the combined financial statements for the year ended 31 December 2012 are the same as those used to prepare the combined financial statements for the prior year, except for the following amendment, which is effective for annual periods beginning on or after 1 January 2012.

- Amendment to IFRS 7 ‘Disclosures – Transfer of financial assets’: Effective for annual periods beginning on or after 1 July 2011.

However, its application has not had any significant impact on the combined financial statements.

**b) Standards and interpretations issued by the IASB and approved by the European Union, but not yet mandatory**

At the date of issue of these combined financial statements, the following standards, amendments and interpretations had been issued by the IASB and approved by the European Union, but were not yet mandatory:

- Amendment to IAS 1 ‘Presentation of items of Other Comprehensive Income’: Effective for annual periods beginning on or after 1 July 2012.
- IAS 19 revised “Employee Benefits”: Effective for annual periods beginning on or after 1 January 2013.
- IFRS 10, ‘Consolidated Financial Statements’: Effective for annual periods beginning on or after 1 January 2014.
- IFRS 11, ‘Joint Arrangements’: Effective for annual periods beginning on or after 1 January 2014.
- IFRS 12, ‘Disclosures of Interests in Other Entities’: Effective for annual periods beginning on or after 1 January 2014.

**Notes to the Combined Financial Statements (continued) for the year ended 31 December 2012**

**4. Basis of preparation and accounting policies (continued)**

**4.2 Changes in accounting policies (continued)**

- IFRS 13 “Fair Value Measurement”: Effective for annual periods beginning on or after 1 January 2013.
- IAS 28 revised, ‘Investments in Associates and Joint Ventures’: Effective for annual periods beginning on or after 1 January 2014.
- IFRIC 20 “Stripping costs in the production phase of a surface mine”: Effective for annual periods beginning on or after 1 January 2013.
- Amendment to IAS 32 ‘Offsetting financial assets and financial liabilities’. Effective for annual periods beginning on or after 1 January 2014.
- Amendment to IFRS 7 “Disclosures – Offsetting financial assets and financial liabilities”: Effective for annual periods beginning on or after 1 January 2013.
- Amendment to IAS 12 “Deferred tax: Recovery of underlying assets”: Effective for annual periods beginning on or after 1 January 2013.

Additionally, the following standards and amendments had been issued by the IASB, but were not yet mandatory and had not been approved by the European Union:

- IFRS 9, ‘Financial instruments’: Effective for annual periods beginning on or after January 1, 2015.
- Improvements in IFRS. Effective for annual periods beginning on or after January 1, 2013.
- Amendment to IFRS 9 and IFRS 7 ‘Mandatory Effective Date and Transition Disclosures’. Effective for annual periods beginning on or after January 1, 2015.
- Amendment to IFRS 10, IFRS 11 and IFRS 12 ‘Transition guidance’. Effective for annual periods beginning on or after January 1, 2013.
- Amendment to IFRS 10, IFRS 11 and IAS 27, ‘Investment entities’: Effective for annual periods beginning on or after January 1, 2014.

The Entity intends to adopt these standards, amendments and interpretation, if applicable, when they become effective. Based on analysis performed, the Entity estimates that their application will not have any significant impact on the combined financial statements.

**4. Basis of preparation and accounting policies (continued)**

**4.3 Critical issues concerning the assessment of uncertainty**

The Entity's management has prepared the financial statements occasionally using judgments and estimates to establish the amounts of certain assets, liabilities, income and expenses and commitments recorded therein. These estimates basically refer to:

- The useful life of non-current assets related to the activity (Note 6.1),
- Impairment losses on certain assets (Note 6.2),
- Income from unbilled supplies (Note 6.6).

Although these judgements and estimates were made based on the basis of the best information available at 31 December 2012 on the events analysed, future events may arise (economic events, changes in regulations, etc.), that oblige to modify them (upwardly or downwardly) in future periods, which would be made prospectively, where applicable.

**5. Assumptions considered**

The assumptions used in the preparation of these combined financial statements have been as follows:

- a) The net financial debt attributed by the segregation of SGAB from the activity segment "AB Division" is assumed to correspond to 'Cash and cash equivalents' plus 50% of its "Total net assets", which have been considered as the sum of 'Non-current assets', 'Inventories', 'Trade and other receivables' and 'Other current assets (accruals)' less 'Deferred tax liabilities', 'Other Non-current liabilities' and 'Current liabilities'. The percentage mentioned above has been obtained from the financial statements of Aigües de Barcelona, Empresa Metropolitana de Gestió del Cicle Integral de l'Aigua, S.A. at 31 December 2013, estimating that this is the measure that best reflects the financial reality of the Entity. Such calculation of the financial debt has been included in the statement of financial position under 'Resources applied/used SGAB – Debt'.
- b) The component of Equity called 'Resources applied/used SGAB – Equity' has been determined as "Total net assets" less 'Resources applied/used SGAB – Debt' (both calculated as mentioned in point a) above), less 'Comprehensive income for the year' plus 'Other current financial assets' and plus 'Cash and cash equivalents'.
- c) Regarding the debt mentioned in point a) above, the related financial cost has been determined as the annual average of 10-year treasury bonds (reference rate in the agreement signed between AMB and SGAB in 2013), plus a spread of 120 basis points. From such calculation, an interest rate of 7.07% and 6.64% has been applied in 2012 and 2011, respectively, on 50% of previous year's "Total net assets".

**5. Assumptions considered (continued)**

- d) Current income tax is included under ‘Resources applied/used SGAB – Debt’.
- e) In 2013 the Entity has signed its most significant operating lease agreement, which corresponds to the space occupied in Torre Agbar. For the purposes of the information on the minimum lease payments under the operating lease, the amount payable has been indicated as signed in such agreement.
- f) Except for financial liabilities, Note a), and financial cost, Note c), the related-party transactions and balances detailed in Note 15 have been calculated according to the proportion of these transactions and balances over the corresponding total transactions and balances obtained from the financial statements of Aigües de Barcelona, Empresa Metropolitana de Gestió del Cicle Integral de l’Aigua, S.A. for the 5-month period ended 31 December 2013.
- g) The remuneration of and obligations to Senior Manager have been determined proportionally from the information for the 5-month period referred to the statutory accounts of Aigües de Barcelona, Empresa Metropolitana de Gestió del Cicle Integral de l’Aigua, S.A. at December 31, 2013.

**6. Accounting policies**

The main accounting policies used by the Entity in the preparation of the combined financial statements are as follows:

**6.1 Non-current assets related to the activity**

These assets related to the activity are initially measured at either acquisition or production cost.

Following initial measurement, they are stated at cost less accumulated amortisation and any impairment loss.

- Concessions: they are amortised on a straight-line basis over the term of the concession.
- Software: In this caption the Entity recognises the costs incurred in the acquisition and development of computer programs. Expenses for software maintenance are recognised in the statement of profit or loss in the year incurred. Software is amortised on a straight-line basis over a period of 5 years.
- Property, Plant and Equipment: are stated at acquisition or production cost and are subsequently reduced by the related accumulated depreciation and by any impairment losses recognised, as indicated in Note 6.2.

## Notes to the Combined Financial Statements (continued) for the year ended 31 December 2012

**6. Accounting policies (continued)****6.1 Non-current assets related to the activity (continued)**

Property, plant and equipment upkeep and maintenance expenses are recognised in the statement of profit or loss for the year in which they are incurred. However, the costs of improvements leading to increased capacity or efficiency or to a lengthening of the useful lives of the assets are capitalised.

Where applicable, for non-current assets that necessarily take a period of more than twelve months to get ready for their intended use, the capitalised costs include such borrowing costs as might have been incurred before the assets are ready for their intended use and which have been charged by the supplier or relate to loans or other specific-purpose or general-purpose borrowings directly attributable to the acquisition or production of the assets.

The depreciation method used for revertible assets, based on the shorter of their estimated useful lives and the concession term, guarantees that they will be fully depreciated by the end of the concession period.

The Company depreciates property, plant and equipment on a straight-line basis over the remaining years of estimated useful life of the assets, as follows:

	<b>Years of useful life</b>
Buildings	20 to 50
Pipelines	20 to 34
Machinery	12
Other fixtures and furniture	10 to 20
Other items of property, plant and equipment	4 to 12

Expenses related to the preservation of the infrastructures will be recognised in the combined statement of profit or loss when incurred. Works for improvement and capacity extension, as well as other actions on the infrastructures, are capitalised.

Direct staff salary costs and asset design, installation and start-up costs are capitalised.

**6.2 Impairment of Non-current assets related to the activity**

At each year end date the Entity reviews the carrying amounts of related assets with finite useful lives to assess whether there is any indication that the assets might have suffered an impairment loss. If any such indication exists, the recoverable amount of the assets is estimated in order to determine the impairment loss suffered. Where the asset analysed itself does not generate cash flows that are independent from other assets, the Entity estimates the fair value of the cash-generating unit to which the asset belongs.

**6. Accounting policies (continued)**

**6.2 Impairment of Non-current assets related to the activity (continued)**

Assets with indefinite useful lives not subject to systematic depreciation/amortisation are tested for impairment at least annually, or where there is an indication that the asset might have suffered an impairment loss.

The recoverable amount of an asset subject to impairment is the higher of fair value less costs to sell and value in use. In order to estimate value in use, the future cash flows of the asset analysed (or of the cash-generating unit to which it belongs, as appropriate) are discounted to their present value using a discount rate that reflects both the time value of money and the risk specific to the asset. Where the recoverable amount of an asset is considered to be less than its carrying amount, the difference is recognised with a charge to the caption in the statement of profit or loss. Asset impairment losses recognised are reversed with a credit to this caption when the related recoverable amounts are considered to increase, thereby increasing the value of the asset up to the limit of the carrying amount that the asset would have had if no write-down had taken place.

**6.3 Leases**

Operating leases: Operating leases are deemed to be those in which the risks and rewards associated with ownership of the asset are not transferred by the lessor. Operating lease costs are systematically recognised as an expense in the statement of profit or loss.

**6.4 Financial instruments**

6.1.1 Financial assets

The Entity's financial assets are classified into this category:

Loans and receivables: financial assets arising from the sale of goods or the rendering of services in the ordinary course of the Entity's activity, 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.

Financial assets in the category above are initially recognised at fair value plus directly attributable transaction costs. After initial measurement, loans and receivables are measured at amortised cost less impairment.

Financial assets are tested for impairment at least at year end. Objective evidence of actual impairment exists when the recoverable amount of the financial asset is lower than the carrying amount. Impairment losses are recognised in the statement of profit or loss, if any.

**6. Accounting policies (continued)**

**6.4 Financial instruments (continued)**

6.1.2 Financial liabilities

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

Trade and other payables are initially measured at the fair value of the consideration received, adjusted by directly attributable transaction costs. Following initial recognition, these liabilities are measured at amortised cost.

The Entity derecognises a financial liability when the obligation under the liability is extinguished.

**6.5 Inventories**

Stocks are initially valued at the lower of the acquisition price or production cost. Trade discounts, rebates and other similar items, and interest included in the face value of related payables are included determining the costs of purchase.

Work in progress basically consists of work performed for third parties and is measured at production cost, which includes the cost of materials, direct labour and production overheads.

The cost of inventories is assigned by using the weighted average cost formula.

The Entity recognises any impairment losses as an expense in the statement of profit or loss when the net realisable value of the inventories is lower than acquisition price (or production cost).

Net realisable value is the estimated selling price less the estimated costs of completion and costs to be incurred in marketing, selling and distribution.

**6.6 Income Tax**

The income tax expense includes both the current tax arising from the application of the tax rate to the taxable profit for the year, after deducting the tax credits allowable for tax purposes, and the change in deferred tax assets and liabilities and in tax loss and tax credit carryforwards.

Deferred tax assets and liabilities 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

## **AIGÜES DE BARCELONA**

### **Notes to the Combined Financial Statements (continued) for the year ended 31 December 2012**

are measured at the tax rates that are expected to apply in the period when the asset is realised or the liability is settled.



**6. Accounting policies (continued)**

**6.6 Income tax (continued)**

Deferred tax liabilities are recognised for all temporary differences that will be taxable in the future, while deferred tax assets corresponding to temporary differences or tax credits are recognised only to the extent that it is considered probable that the Entity will obtain sufficient taxable profits in the future against which the deferred tax asset can be utilised.

Deferred tax assets and liabilities arising from items directly charged or credited to equity accounts are also recognised with a charge or credit, respectively, in equity.

The deferred taxes and tax assets recognised are reassessed at each year end date in order to ascertain whether they still exist and the appropriate adjustments are made.

**6.7 Income and expenses**

Income and expenses are recognised on an accrual basis, i.e. when the actual flow of the related goods and services occurs, regardless of when the resulting monetary or financial flow arises. Such income is measured at the fair value of the consideration received, after deducting discounts and taxes.

Where the outcome of the transaction can be reliably estimated, income from the rendering of services is recognised by reference to the stage of completion at the date of the combined statement of financial position.

**Supplies not yet billed**

The Entity recognises as water sales supplies actually provided, including the amount of water supplied that at 31 December has not yet been billed.

**6.8 Provisions and contingencies**

The Entity recognises a provision where it has an obligation or liability to a third party arising from past events, the settlement of which will give rise to an outflow of economic benefits whose amount and/or timing are not known with certainty but can be estimated with reasonable reliability.

**6. Accounting policies (continued)**

**6.8 Provisions and contingencies (continued)**

Provisions are quantified on the basis of the best information available on the event and the consequences of the event and are reviewed and adjusted at the end of each year. Provisions are used to cater for the specific risks for which they were originally recognised, and are fully or partially reversed when such risks cease to exist or are reduced.

**6.9 Related-party transactions**

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

**6.10 Classification of current and non-current balances**

Balances are classified as non-current and current in the accompanying statement of financial position. Current balances include balances which the Entity expects to sell, consume, pay or realise during its normal operating cycle; those which are expected to mature, be disposed of or realised within twelve months; those classified as held-for-trading, except for long-term derivatives, and cash and cash equivalents. All other assets are classified as non-current.

**6.11 Capital risk management**

The Entity manages its capital to ensure its ability to continue as a going concern. Management is committed to maintaining gearing levels that are consistent with its growth, solvency and profitability objectives.

As mentioned in Notes 5.a) and 5.b), the items 'Resources applied/used SGAB – Debt' and 'Resources applied/used SGAB – Equity', respectively, are determined based on total net assets; thus, the Entity's Management considers appropriate not to provide quantitative information on the capital risk management, according to the reasons set forth above.

## Notes to the Combined Financial Statements (continued) for the year ended 31 December 2012

## 7. Non-current assets related to the activity

## Changes in 2012

Changes in the non-current assets related to the activity and in the accumulated amortisation in 2012 are as follows, in thousands of euros:

	1 January 2012	Additions or allowances	Disposals	31 December 2012
<b>Cost</b>				
Concessions	748	-	-	748
Transfer rights	60	-	-	60
Software	47,825	3,959	(3,582)	48,202
Other intangible assets	7,746	20	-	7,766
Land	6,288	(11)	-	6,277
Buildings	114,173	5,927	(112)	119,988
Plant and other PP&E items	895,595	40,373	(10,843)	925,125
Property, plant and equipment under construction	19,276	(9,230)	-	10,046
<b>Total cost</b>	<b>1,091,711</b>	<b>41,038</b>	<b>(14,537)</b>	<b>1,118,212</b>
<b>Accumulated amortisation</b>				
Concessions	(429)	(11)	-	(440)
Transfer rights	(60)	-	-	(60)
Software	(42,854)	(2,102)	3,582	(41,374)
Other intangible assets	(3,045)	(148)	-	(3,193)
Buildings	(53,401)	(3,001)	88	(56,314)
Plant and other PP&E items	(524,055)	(28,664)	9,650	(543,069)
<b>Total accumulated amortisation</b>	<b>(623,844)</b>	<b>(33,926)</b>	<b>13,320</b>	<b>(644,450)</b>
<b>Net cost</b>				
Concessions	319	(11)	-	308
Transfer rights	-	-	-	-
Software	4,971	1,857	-	6,828
Other intangible assets	4,701	(128)	-	4,573
Land	6,288	(11)	-	6,277
Buildings	60,772	2,926	(24)	63,674
Plant and other PP&E items	371,540	11,709	(1,193)	382,056
Property, plant and equipment under construction	19,276	(9,230)	-	10,046
<b>Total net cost</b>	<b>467,867</b>	<b>7,112</b>	<b>(1,217)</b>	<b>473,762</b>

During 2012 the most significant additions relate to the renovation and extension of the distribution and transportation networks and installations, the amount of which is included under 'Plant and other PP&E items'.

In 2012 the Company has reviewed the software inventory, resulting in the recognition of certain disposals of software due to obsolescence.

## **AIGÜES DE BARCELONA**

### **Notes to the Combined Financial Statements (continued) for the year ended 31 December 2012**

Losses related to disposals for the period amounts to EUR 1,217 thousand and have been recorded in the “Non-recurring profit/(loss)” caption on the statement of profit or loss.

## Notes to the Combined Financial Statements (continued) for the year ended 31 December 2012

## 7. Non-current assets related to the activity (continued)

In 2012 the Company has not capitalised any financial costs in this caption.

Fully amortised assets at 31 December 2012 amount to EUR 292,795 thousand and mainly correspond to Property, plant and equipment.

The Entity arranges insurance policies to recover the carrying amount of assets.

The investments commitment in assets for 2013 amounts to EUR 40 million.

## Changes in 2011

Changes in the non-current assets related to the activity and in the accumulated amortisation in 2011 are as follows, in thousands of euros:

	1 January 2011	Additions or allowances	Disposals	31 December 2011
<b>Cost</b>				
Concessions	748	-	-	748
Transfer rights	60	-	-	60
Software	46,752	1,439	(366)	47,825
Other intangible assets	8,408	109	(771)	7,746
Land	6,285	4	(1)	6,288
Buildings	109,580	4,647	(54)	114,173
Plant and other PP&E items	869,285	30,408	(4,098)	895,595
Property, plant and equipment under construction	11,942	7,334	-	19,276
<b>Total cost</b>	<b>1,053,060</b>	<b>43,941</b>	<b>(5,290)</b>	<b>1,091,711</b>
<b>Accumulated amortisation</b>				
Concessions	(418)	(11)	-	(429)
Transfer rights	(60)	-	-	(60)
Software	(41,028)	(2,062)	236	(42,854)
Other intangible assets	(2,978)	(149)	82	(3,045)
Buildings	(50,598)	(2,823)	20	(53,401)
Plant and other PP&E items	(499,321)	(27,335)	2,601	(524,055)
<b>Total accumulated amortisation</b>	<b>(594,403)</b>	<b>(32,380)</b>	<b>2,939</b>	<b>(623,844)</b>
<b>Net cost</b>				
Concessions	330	(11)	-	319
Transfer rights	-	-	-	-
Software	5,724	(623)	(130)	4,971
Other intangible assets	5,430	(40)	(689)	4,701
Land	6,285	4	(1)	6,288
Buildings	58,982	1,824	(34)	60,772
Plant and other PP&E items	369,964	3,073	(1,497)	371,540
Property, plant and equipment under construction	11,942	7,334	-	19,276
<b>Total net cost</b>	<b>458,657</b>	<b>11,561</b>	<b>(2,351)</b>	<b>467,867</b>



**Notes to the Combined Financial Statements (continued) for the year ended 31 December 2012**

**7. Non-current assets related to the activity (continued)**

The most significant additions related to the renovation and extension of the distribution and transportation networks and installations for an amount of EUR 36,958 thousand.

Losses related to disposals for the period amounted to EUR 1,540 thousand and were recorded in the “Non-recurring profit/(loss)” caption on the statement of profit or loss.

Fully amortised assets at 31 December 2011 amounted to EUR 296,628 thousand and mainly corresponded to Property, plant and equipment.

The investments commitment in assets for 2012 amounted to EUR 40 million.

**8. Leases**

**The Entity as lessee**

At 2012 and 2011 year end, the Entity’s most significant operating lease agreement relates to the lease on the space occupied in Torre Agbar for an amount of EUR 2,769 thousands and EUR 2,906 thousands, respectively. The expenses are recorded in the “Other general operating expenses” caption of the combined statement of profit or loss.

At 2012 and 2011 year end, the Entity has lease expenses that result in the following minimum lease payments, without considering the charge of common expenses, future increases in CPI, and agreed future rent updates, in thousands of euros:

	<b>2012</b>	<b>2011</b>
<b>Minimum payments under operating leases</b>	<b>Nominal value</b>	<b>Nominal value</b>
Within one year	3,147	3,147
Between one and five years	11,208	11,208
More than 5 years	-	-
<b>Total</b>	<b>14,355</b>	<b>14,355</b>

**9. Financial assets (Non-current / current)**

**9.1. Financial Investments**

**Notes to the Combined Financial Statements (continued) for the year ended 31 December 2012**

Non-current financial investments mainly relate to 90% of non-current deposits in Institut Català del Sòl (Note 12), received from registered consumers and recognised at nominal value, since the effect of recognising them at present value would not generate any significant impact.

**9. Financial assets (Non-current / current) (continued)**

**9.1. Financial Investments (continued)**

The caption ‘Trade receivables for sales and services’ mainly relates to receivable amounts for works performed and services rendered, as well as to forecasted income not yet billed for such services rendered.

**9.2. Nature and extent of risks arising from financial instruments**

The Entity’s risk management policies are established by SGAB Management. Based on these policies, the Company’s directors have established a series of procedures and controls to identify and manage the risks faced by the Entity.

The main financial risks that have an impact on the Entity are as follows:

Credit risk

Credit risk arises from the potential breach of a financial counterparty’s obligations. To all intents and purposes, the Entity’s cash and cash equivalents are deposited in high credit rating financial entities and there is no significant concentration of credit risk with third parties.

Liquidity risk

Liquidity risk is the possibility of adverse situations in the capital markets and the banking market preventing the Company from financing, at reasonable market prices, its obligations relating to both non-current financial assets and working capital requirements, or of the Entity being unable to carry out its business plans using stable financing sources.

The management of the Entity takes various preventative measures to manage liquidity risk at SGAB level:

- SGAB capital structure is established taking into account the decreased or increased volatility of its cash generation.
- Debt repayment periods and schedules are established on the basis of the nature of the needs being financed.
- SGAB diversifies its sources of financing through continued access to banking.

SGAB secures committed credit facilities for sufficient amounts and with sufficient flexibility.

Interest rate risk



Notes to the Combined Financial Statements (continued) for the year ended 31 December 2012

Interest rate risk relates to the effect on profit or loss of rises in interest rates which increase borrowing costs. The Company's finance debt is exposed to interest rate risk, which is linked to the average interest rate of 10-year treasury bonds, plus a risk premium calculated based on similar products offered by the financial market. The Entity has arranged no financial hedging instruments.

**10. Inventories**

At 31 December 2012 and 2011 there are no firm commitments to purchase goods.

The Entity arranges insurance policies to recover the carrying amount of inventories.

The movements in impairment losses are as follows, in thousands of euros:

	<b>2012</b>	<b>2011</b>
Balance at 1 January	(621)	-
Impairment losses	-	(621)
<b>Balance at 31 December</b>	<b>(621)</b>	<b>(621)</b>

Impairment losses recognised in 2011 corresponded to impairment for obsolescence or goods no longer used.

**11. Equity**

As mentioned in Note 5, the component of Equity called 'Resources applied/used SGAB – Equity' has been determined as "Total net assets" less 'Resources applied/used SGAB – Debt' (both calculated as mentioned in point a) above), less 'Comprehensive income for the year' plus 'Other current financial assets' and plus 'Cash and cash equivalents'.

**12. Financial liabilities (Non-current and current)**

Financial liabilities at 31 December 2012 and 2011 are classified as follows, in thousands of euros:

	<b>Non-current</b>	<b>Current</b>	<b>Total</b>
<b>2012</b>			
Resources applied/used SGAB – Debt (Note 15)	231,378	30	231,408
Other liabilities			
Deposits	16,561	-	16,561
Trade and other payables	-	84,836	84,836
<b>Total</b>	<b>247,939</b>	<b>84,866</b>	<b>332,805</b>
<b>2011</b>			
Resources applied/used SGAB – Debt (Note 15)	223,861	-	223,861

## Notes to the Combined Financial Statements (continued) for the year ended 31 December 2012

Other liabilities			
Deposits	16,047	-	16,047
Trade and other payables	-	115,833	115,833
<b>Total</b>	<b>239,908</b>	<b>115,833</b>	<b>355,741</b>

**12. Financial liabilities (Non-current / current) (continued)**

As indicated in Note 5, the net financial debt attributed by the segregation of SGAB from the activity segment “AB Division” is assumed to correspond to ‘Cash and cash equivalents’ plus 50% of its “Total net assets”, which have been considered as the sum of ‘Non-current assets’, ‘Inventories’, ‘Trade and other receivables’ and ‘Other current assets (accruals)’ less ‘Deferred tax liabilities’, ‘Other Non-current liabilities’ and ‘Current liabilities’. The percentage mentioned above has been obtained from the financial statements of Aigües de Barcelona, Empresa Metropolitana de Gestió del Cicle Integral de l’Aigua, S.A. at 31 December 2013, estimating that this is the measure that best reflects the financial reality of the Entity. Such calculation of the financial debt has been included in the statement of financial position under ‘Resources applied/used SGAB – Debt.’

The caption ‘Other liabilities’ at 31 December 2012 and 2011 includes mainly deposits received from consumers (Note 9), the maturity of which is determined by the customers’ unregistration from the water supply service.

**13. Taxes****13.1. Income tax**

Income tax expense is calculated from profit/loss, which does not necessarily match the tax result, which is understood as the taxable base.

The reconciliation between profit/loss before tax and the tax base, and the calculation of the income tax expense, is as follows, in thousands of euros:

	<b>2012</b>	<b>2011</b>
Profit/loss for the period (before tax)	20,480	20,466
Permanent differences	9,421	9,023
Tax base	29,901	29,489
Temporary differences	(34,760)	1,070
<b>Tax result</b>	<b>(4,859)</b>	<b>30,559</b>

In 2012 and 2011 permanent differences are due to donations made to the Fundació Agbar and Cetaqua for an amount of EUR 9,328 thousand (2011: EUR 9,054 thousand).

## **AIGÜES DE BARCELONA**

### **Notes to the Combined Financial Statements (continued) for the year ended 31 December 2012**

In 2012 and 2011 temporary differences are mainly due to the items detailed in Note 13.2.

## Notes to the Combined Financial Statements (continued) for the year ended 31 December 2012

## 13. Taxes (continued)

## 13.1 Income tax (continued)

The calculation of the current income tax applied/used by SGAB in 2012 and 2011 has been as follows, in thousands of euros:

	2012	2011
Tax base	29,901	29,489
Tax liability at 30%	8,970	8,847
Deductions	(3,265)	(3,169)
Other adjustments	(8)	55
<b>Income tax expense / (income)</b>	<b>5,697</b>	<b>5,733</b>

The breakdown of accrued and recorded tax credits is as follows, in thousands of euros:

	2012	2011
Current tax	(1,458)	9,168
Deductions	(3,265)	(3,169)
Other adjustments	(8)	55
<b>Current tax applied/used by SGAB</b>	<b>(4,731)</b>	<b>6,054</b>

## 13.2. Deferred taxes

Due to the temporary differences between accounting and tax recognition criteria for certain income and expenses related to the income tax applied/used by SGAB, at 31 December 2012 and 2011, the following items have arisen, which have been recorded in the deferred tax liabilities accounts of the combined financial statements, in thousands of euros:

	2012		2011	
	Differences accumulated in the tax bases	Effect accumulated in tax liability	Differences accumulated in the tax bases	Effect accumulated in tax liability
<b>Deferred tax liabilities:</b>				
Amortisation RDL 2/85 and Law 12/88	1,823	547	2,052	616
Amortisation RDL 3/93	9,370	2,811	10,171	3,051
Unrestricted amortisation RDL	35,790	10,737	-	-

## Notes to the Combined Financial Statements (continued) for the year ended 31 December 2012

13/2010

<b>Total Deferred tax liabilities</b>	<b>46,983</b>	<b>14,095</b>	<b>12,223</b>	<b>3,667</b>
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**13. Taxes (continued)****13.3. Years open to inspection**

Under prevailing tax regulations, tax returns may not be considered final until they have either been inspected by tax authorities or until the four-year inspection period has expired. Entity's management considers that in the event of a tax inspection for the years open to inspection no contingencies would arise that would have a significant effect on the combined financial statements taken as a whole.

**14. Income and expenses****14.1. Operating income**

The distribution of operating income for the year ended 31 December 2012 and 2011 is as follows, in thousands of euros:

	<b>2012</b>	<b>2011</b>
Income from water	254,624	238,050
Income from Sewage treatment	25,366	25,778
Income from other activities	10,931	21,982
<b>Total</b>	<b>290,921</b>	<b>285,810</b>

All transactions have been carried out in the Spanish market.

**14.2. Financial result**

The breakdown of this caption by nature for the year ended 31 December 2012 and 2011 is as follows, in thousands of euros:

	<b>2012</b>	<b>2011</b>
Finance costs	(15,822)	(14,451)
<b>Total financial result</b>	<b>(15,822)</b>	<b>(14,451)</b>

Finance costs recognised in the combined statement of profit or loss have been determined based on the assumption included in Note 5.c).



**15. Related parties**

**15.1. Related-party transactions and balances**

Transactions with related entities (Agbar Group and AMB) have been made under normal market conditions, taking into account the consideration that an unrelated party would be willing to pay for contracting the services mentioned. The price policy applied in the main related-party transactions is as follows:

Management and administration services rendered by other related entities:

The payment for these types of services is determined based on a defined model applying a percentage over revenue.

Leases:

The price of the leases is established based on the m2 leased, using the comparable uncontrolled price method.

Related parties according to the nature of the relationship are as follows:

	<b>Nature of the relationship</b>
Aqua Development Network, S.A.	Agbar group company
Aqualogy Aqua Ambiente Servicios Integrales, S.A.U.	Agbar group company
Aqualogy Medio Ambiente, S.A.U.	Agbar group company
Aqualogy Services Company, S.A.U.	Agbar group company
Aqualogy Solutions, S.A.U.	Agbar group company
Cetaqua, Centro Tecnológico del Agua, Fundación Privada	Agbar group company
Fundació Agbar, Centre d'Estudis i Investigació del Medi Ambient	Agbar group company
Integrated Facility Management, S.A.U.	Agbar group company
Labaqua, S.A.	Agbar group company
Logistium Servicios Logísticos, S.A.	Agbar group company
Sociedad General de Aguas de Barcelona, S.A.	Contributor
Àrea Metropolitana de Barcelona	Contributor
Sorea, Sociedad Regional de Abastecimiento de Aguas, S.A.U.	Agbar group company

## Notes to the Combined Financial Statements (continued) for the year ended 31 December 2012

## 15. Related parties (continued)

## 15.1 Related-party transactions and balances (continued)

The breakdown of the main transactions with an impact on the statement of profit or loss, as well as the balances with related entities, is as follows, in thousands of euros:

2012	Contributors	Agbar group companies
Supplies	-	(4,165)
Leases	(2,001)	-
Services rendered	23,844	2,515
Services received	(10,527)	(31,668)
Financial cost	(15,822)	-
Trade receivables	17,296	697
Financial liabilities	(231,378)	-
Suppliers	(1,443)	(14,244)

2011	Contributors	Agbar group companies
Supplies	-	(4,201)
Leases	(2,019)	-
Services rendered	23,580	2,487
Services received	(10,617)	(31,940)
Financial cost	(14,451)	-
Trade receivables	18,276	736
Financial liabilities	(223,861)	-
Suppliers	(1,980)	(19,542)

Additionally, see the contributions to foundations related to SGAB, indicated in Note 13.1.

## 15.2. Remuneration of and obligations to Senior Executives

For the purposes of the information related to this note, it has been determined to include the members of the Management Committee in 2013, who are not part of the Board of Directors, and in the financial statements of 0020EMSSA for the year 2011 (the last financial statements prepared of this company). At 31 December 2011 EMSSA had no key senior executives.

In 2012 and 2011 the remuneration earned by senior executives amounted to EUR 885 and 859 thousand, respectively.



**16. Subsequent events**

From December 31, 2013 to the date on which these combined financial statements were prepared, no additional significant events took place that required the extension or modification of their contents.

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Director  
Albert Martínez Lacambra

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Chief Financial Officer  
José Antonio Castillo Valero



**AIGÜES DE BARCELONA, EMPRESA METROPOLITANA DE GESTIÓ DEL  
CICLE INTEGRAL DE L'AIGUA, S.A.**

**FINANCIAL STATEMENTS AND  
MANAGEMENT REPORT  
FOR THE PERIOD COMPRISED BETWEEN 1 AUGUST 2013  
(START DATE) AND 31 DECEMBER 2013**

**AIGÜES DE BARCELONA, EMPRESA METROPOLITANA DE GESTIÓ  
DEL CICLE INTEGRAL DE L'AIGUA, S.A.**

**STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER 2013**

(Euros)

ASSETS	Notes	2013
<b>Intangible assets</b>	5	<b>524,845,993</b>
Concessions		297,520
Software		6,182,888
Concession arrangements		463,307,351
Other intangible assets		55,058,234
<b>Financial investments</b>	7	<b>14,948,595</b>
Equity instruments		23,250
Other financial assets		14,925,345
<b>Deferred tax assets</b>	11	<b>11,440,085</b>
<b>Total Non-Current Assets</b>		<b>551,234,673</b>
<b>Inventories</b>		<b>846,823</b>
<b>Trade and other receivables</b>		<b>61,184,461</b>
Trade receivables for sales and services		55,143,504
Receivables from group companies and associates	13	927,035
Other receivables		2,190
Receivable from employees		9,292
Current income tax assets	11	1,404
Other receivables from public administrations	11	5,101,036
<b>Financial investments</b>	7	<b>9,000,000</b>
Other financial investments		9,000,000
<b>Cash and cash equivalents</b>	8	<b>9,967,558</b>
Cash		9,967,558
<b>Total Current Assets</b>		<b>80,998,842</b>
<b>Total assets</b>		<b>632,233,515</b>

**AIGÜES DE BARCELONA, EMPRESA METROPOLITANA DE GESTIÓ  
DEL CICLE INTEGRAL DE L'AIGUA, S.A.**

**STATEMENT OF PROFIT OR LOSS FOR THE PERIOD COMPRISED BETWEEN 1  
AUGUST 2013 (START DATE) AND 31 DECEMBER 2013**

(Euros)

<b>LIABILITIES</b>	<b>Notes</b>	<b>2013</b>
<b>Shareholders' equity</b>		<b>337,333,167</b>
Share capital	9	337,000,000
Profit for the period	3	333,167
<b>Total Equity</b>		<b>337,333,167</b>
<b>Borrowings</b>	10	<b>17,116,675</b>
Other financial liabilities		17,116,675
<b>Borrowings from group companies and associates</b>	10 & 13	<b>190,000,000</b>
<b>Deferred tax liabilities</b>	11	<b>7,601,134</b>
<b>Total Non-Current Liabilities</b>		<b>214,717,809</b>
<b>Provisions</b>		<b>314,219</b>
<b>Borrowings</b>	10	<b>49,708</b>
Bank borrowings		49,708
<b>Trade and other payables</b>		<b>78,435,395</b>
Suppliers		51,975,328
Suppliers, group companies and associates	13	11,848,701
Other payables		188,379
Employee benefits payable		933,900
Current tax liabilities	11	1,447,131
Other payables to public administrations	11	11,866,715
Customer advances		175,241
<b>Accruals</b>		<b>1,383,217</b>
<b>Total Current Liabilities</b>		<b>80,182,539</b>
<b>Total liabilities</b>		<b>632,233,515</b>

The accompanying Notes 1 to 16 are an integral part of the Statement of Financial Position at December 31, 2013.

**AIGÜES DE BARCELONA, EMPRESA METROPOLITANA DE GESTIÓ  
DEL CICLE INTEGRAL DE L'AIGUA, S.A.**

**STATEMENT OF PROFIT OR LOSS FOR THE PERIOD COMPRISED BETWEEN 1  
AUGUST 2013 (START DATE) AND 31 DECEMBER 2013 (Continued)**

(Euros)

	Note	2013
<b>Continuing operations</b>		
<b>Revenue</b>	12.1	<b>141,952,754</b>
Sales		120,089,279
Services		8,768,452
Work performed by the entity and capitalised	12.2	13,095,023
<b>Changes in inventories of finished goods and work in progress</b>		<b>(32,837)</b>
<b>Procurement</b>		<b>(56,603,367)</b>
Consumption of goods		(33,372,374)
Consumption of raw materials and other consumables		(15,026,180)
Work performed by other companies		(7,583,845)
Impairment of goods for resale, raw materials and other consumables		(620,968)
<b>Other operating income</b>		<b>9,594,413</b>
Ancillary income		9,361,500
Grants related to income		232,913
<b>Staff costs</b>	12.3	<b>(23,252,176)</b>
Wages, salaries and similar expenses		(16,899,295)
Employee benefit cost		(5,171,553)
Provisions		(1,181,328)
<b>Other operating expenses</b>		<b>(49,563,460)</b>
External services		(46,985,053)
Taxes		(2,095,614)
Other current operating expenses		(482,793)
<b>Depreciation and amortisation</b>	5	<b>(15,577,727)</b>
<b>Impairment and gains or losses on disposals of non-current assets</b>	5	<b>(241,850)</b>
<b>Operating profit</b>		<b>6,275,750</b>
<b>Finance income</b>		<b>5,098</b>
From marketable securities and non-current loans		5,098
<b>Finance cost</b>		<b>(5,913,803)</b>
On debts to group companies and associates	13.1	(5,854,375)
On debts to third parties		(59,428)
<b>Exchange differences</b>		<b>429</b>
<b>Financial result</b>	12.4	<b>(5,908,276)</b>
<b>Profit before tax</b>		<b>367,474</b>
<b>Income tax</b>	11	<b>(34,307)</b>
<b>Profit for the period</b>	3	<b>333,167</b>

The accompanying Notes 1 to 16 are an integral part of the Income Statement for the period comprised between 1 August 2013 (start date) and December 31, 2013.



**AIGÜES DE BARCELONA, EMPRESA METROPOLITANA DE GESTIÓ  
DEL CICLE INTEGRAL DE L'AIGUA, S.A.**

**STATEMENT OF OTHER COMPREHENSIVE INCOME FOR THE PERIOD  
COMPRISED BETWEEN 1 AUGUST 2013 (START DATE) AND 31 DECEMBER  
2013 AND 2012**

(Euros)

	Note	2013
Profit for the period	3	333,167
Other comprehensive income		-
Net other comprehensive income to be reclassified to profit or loss in subsequent periods		-
Net other comprehensive income not to be reclassified to profit or loss in subsequent periods		-
Other comprehensive income for the period, net of tax		-
<b>Total comprehensive income for the period, net of tax</b>		<b>333,167</b>

The accompanying Notes 1 to 16 are an integral part of the Statement of Comprehensive Income for the period comprised between 1 August 2013 (start date) and December 31, 2013.

**STATEMENT OF CHANGES IN EQUITY FOR THE PERIOD COMPRISED  
BETWEEN 1 AUGUST 2013 (START DATE) AND 31 DECEMBER 2013 AND 2012**

(Euros)

2013	Share capital	Profit for the period	Total Equity
<b>Balance at 1 August 2013</b>	337,000,000	-	337,000,000
I. Comprehensive income for the period	-	333,167	333,167
II. Transactions with shareholders or owners	-	-	-
III. Other changes in equity	-	-	-
<b>Balance at 31 December 2013</b>	<b>337,000,000</b>	<b>333,167</b>	<b>337,333,167</b>

The accompanying Notes 1 to 16 are an integral part of the Statement of Changes in Equity for the period comprised between 1 August 2013 (start date) and December 31, 2013.

**AIGÜES DE BARCELONA, EMPRESA METROPOLITANA DE GESTIÓ  
DEL CICLE INTEGRAL DE L'AIGUA, S.A.**

**STATEMENT OF CASH FLOW FOR THE PERIOD COMPRISED BETWEEN 1  
AUGUST 2013 (START DATE) AND 31 DECEMBER 2013 AND 2012**

(Euros)

	Note	2013
<b>Cash flows from operating activities ( I )</b>		<b>33,102,128</b>
<b>Profit for the period before tax</b>		<b>367,474</b>
<b>Adjustments to profit</b>		<b>22,663,040</b>
Depreciation and amortisation	5	15,577,727
Impairment losses on inventories		620,968
Changes in provisions		314,219
Gains (losses) from derecognition and disposals of non-current assets		241,850
Finance income		(5,098)
Finance expenses		5,913,803
Exchange gains (losses)		(429)
<b>Change in working capital</b>		<b>16,850,251</b>
Inventories		32,215
Trade and other receivables		(61,184,461)
Trade and other payables		76,619,280
Other current liabilities		1,383,217
<b>Other cash flows from operating activities</b>		<b>(6,778,637)</b>
Interest paid		(5,913,803)
Interest received		5,098
Income tax receipts / (payments)	11.1	(869,932)
<b>Cash flows from investing activities ( II )</b>		<b>(23,346,433)</b>
<b>Payments on investments</b>		<b>(23,346,433)</b>
Intangible assets		(13,784,926)
Other financial assets		(9,561,507)
<b>Cash flows from financing activities (III )</b>		<b>211,863</b>
<b>Proceeds from and payments of financial liabilities</b>		<b>211,863</b>
Issue of other borrowings		211,863
<b>Effect of foreign exchange rate changes ( IV )</b>		<b>-</b>
<b>Net increase/(decrease) in cash and cash equivalents ( I+II+III+IV )</b>		<b>9,967,558</b>
Cash and cash equivalents at 1 August 2013		-
Cash and cash equivalents at 31 December 2013		<b>9,967,558</b>

The accompanying Notes 1 to 16 are an integral part of the Cash Flow Statement for the period comprised between 1 August 2013 (start date) and December 31, 2013.



# **AIGÜES DE BARCELONA, EMPRESA METROPOLITANA DE GESTIÓ DEL CICLE INTEGRAL DE L'AIGUA, S.A.**

## **NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD COMPRISED BETWEEN 1 AUGUST 2013 (START DATE) AND 31 DECEMBER 2013 AND 2012**

### **1. COMPANY ACTIVITY**

#### **1.1 Company incorporation**

Aigües de Barcelona, Empresa Metropolitana de Gestió del Cicle Integral de l'Aigua, S.A. (hereinafter the Company) is domiciled in Barcelona at Carrer General Batet 1-7. It was incorporated on 30 July 2013, in Barcelona by means of a public deed authorised by the Notary Maria Isabel Gabarró Miquel, recorded under number 1996 of her protocol and registered in the Mercantile Registry of Barcelona on 1 August 2013, start date of operations, in Volume 43,889, Sheet no. 142, page B-441.030, entry no. 1.

Àrea Metropolitana de Barcelona (hereinafter AMB), in accordance with the public purpose of optimising the management of such a scarce natural resource as water, resolved to start administrative proceedings to implement the administrative actions and legal businesses necessary to establish the metropolitan public service of the integrated water cycle in Barcelona conurbation, which includes the sectorial services the owner of which is AMB (low-level water supply, wastewater treatment and reuse of purified water), and its indirect management through the incorporation of a semi-public company that ensures the unified management of the service.

Additionally, the Board of Directors of Sociedad General de Aguas de Barcelona, S.A. (hereinafter SGAB), in the meeting held on September 13, 2012, resolved to adhere to the agreement to establish this semi-public company, as well as to contribute the equity related to the water supply service.

On July 30, 2013, AMB and SGAB signed the agreement (hereinafter the Agreement) on the regulation of the proceedings and legal and economic system for the incorporation of the new semi-public company, under the proceedings of Article 283.2b) of the Regulations on works, activities and services of local entities (ROAS) approved by Decree 179/1994 of June 13.

The Company has been incorporated with a share capital of EUR 337,000,000, fully subscribed and paid up according to the following detail:

- AMB has contributed the amount of EUR 50,550,000 for the subscription and payment of shares representing 15% of the Company's share capital, through the transfer, until June 2, 2017, of the right to use the necessary infrastructures and installations related to the rendering of the wastewater treatment and reuse public services.
- SGAB has contributed the amount of EUR 286,450,000 for the subscription and payment of shares representing 85% of the new company's share capital, through two different legal transactions:
  - The non-monetary contribution of an undivided instalment representative of 60.12% of fully controlled equity and the right of usufruct on the licences and

**AIGÜES DE BARCELONA, EMPRESA METROPOLITANA DE GESTIÓ DEL  
CICLE INTEGRAL DE L'AIGUA, S.A.**

**Notes to the financial statements for the period comprised between 1 august 2013 (start date) and 31 december 2013**

installations owned by SGAB associated to the water supply service, depending on the case.

# **AIGÜES DE BARCELONA, EMPRESA METROPOLITANA DE GESTIÓ DEL CICLE INTEGRAL DE L'AIGUA, S.A.**

## **Notes to the financial statements for the period comprised between 1 august 2013 (start date) and 31 december 2013**

### **1. COMPANY ACTIVITY (continued)**

#### **1.1. Company incorporation (continued)**

- The sale or usufruct, where appropriate, in favour of the Company of the remaining instalment of 39.88% of the equity related to the service. This transaction has materialised by means of a public deed dated July 30, 2013 submitted before the Notary Maria Isabel Gabarró Miquel, under number 1997 of her protocol, and within the framework and monitoring of applicable prevailing tax regulations. The purchase price has been set at EUR 190,000,000. A deferred payment system has been established for the principal, which will be made effective, within ten years from the start of operations, at the latest.

The breakdown of the non-monetary contribution and of the acquisition is detailed in Note 1.3.

The Company started its activity on the date in which the deed of incorporation was registered at the Mercantile Registry, that is, August 1, 2013, and will last until June 2, 2047.

Once the term of the indirect management assignment received by the Company expires, the installations related to these services will be returned in accordance with the provisions of the Local Government Law, the Revised text of the Catalan Water Legislation, approved by Decree-Law 3/2003, and other applicable legislation, and in accordance with the criteria established in the management Agreement signed with AMB.

Once the Company term expires, the liquidation period will start, in accordance with Title VII of the By-laws, and the management Agreement signed with AMB.

Once the public water concession licence is extinguished, which is expected to occur on December 9, 2053, except in the event of early extinguishment, the licences and installations related to the high-level water supply activity will be returned to Generalitat de Catalunya in accordance with the Catalan Water Legislation and Article 2 of the Company's By-laws.

The main points of the Agreement applicable to the concession arrangement are detailed in Note 5.2.

The main regulations to which the Company is subject are as follows:

- a) Royal Decree-Law 3/2011, of November 14, approving the Revised text of the Law on Public Sector Agreements;
- b) Law 31/2010, of August 3, of Àrea Metropolitana de Barcelona;
- c) Decree-Law 179/1995, of June 13, approving the Regulations on works, activities and services of local entities;

**AIGÜES DE BARCELONA, EMPRESA METROPOLITANA DE GESTIÓ DEL  
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**Notes to the financial statements for the period comprised between 1 august 2013 (start date) and 31 december 2013**

- d) Revised text of the Catalan Water Legislation, approved by Decree-Law 3/2003 of November 4.

# **AIGÜES DE BARCELONA, EMPRESA METROPOLITANA DE GESTIÓ DEL CICLE INTEGRAL DE L'AIGUA, S.A.**

**Notes to the financial statements for the period comprised between 1 august 2013 (start date) and 31 december 2013**

## **1. COMPANY ACTIVITY (continued)**

### **1.1. Company incorporation (continued)**

The Company belongs to the Agbar Group, of which Sociedad General de Aguas de Barcelona, S.A., is the parent, which is in turn controlled by the Suez Environnement Group through its Spanish subsidiary Suez Environnement España, S.L., domiciled in Barcelona, at Avinguda Diagonal, 211. The 2012 consolidated financial statements of Suez Environnement España, S.L. and investees were approved by the partners in the general meeting held on June 6, 2013 and duly filed with Barcelona Mercantile Registry. The consolidated financial statements and consolidated management report for the year 2013 will be approved in due time and form, and filed, together with the corresponding audit report, with the Barcelona Mercantile Registry within the legally established deadlines.

### **1.2 Company activity**

Pursuant to Article 2 of the Company By-laws, the Company's corporate purpose is as follows:

'The Company's purpose is to manage integrated water cycle services and, specifically, the execution of hydraulic works, and operation, maintenance and management of the following services (hereinafter the Services):

- a) Low-level water supply.
- b) High-level water sanitation and urban wastewater treatment, as well as its regeneration for other uses.
- c) Regenerated water supply.
- d) Coordination and integrated management of rainwater and wastewater disposal and of sewage networks, as well as technical assistance in intervention duties in wastewater discharge into sanitation systems.
- e) Any other activity aimed at meeting low-level water supply, sanitation and treatment needs, and specifically, any other activity related to the control, inhibition and quality of purified water and wastewater, through lab analysis techniques.

**AIGÜES DE BARCELONA, EMPRESA METROPOLITANA DE GESTIÓ DEL CICLE INTEGRAL DE L'AIGUA, S.A.**

**Notes to the financial statements for the period comprised between 1 august 2013 (start date) and 31 december 2013**

- f) The performance of studies and projects and execution of hydraulic infrastructure works and any other works related to the low-level water supply, sanitation and treatment.

**AIGÜES DE BARCELONA, EMPRESA METROPOLITANA DE GESTIÓ DEL CICLE INTEGRAL DE L'AIGUA, S.A.**

**Notes to the financial statements for the period comprised between 1 august 2013 (start date) and 31 december 2013**

**1. COMPANY ACTIVITY (continued)**

**1.3 Incorporation of statement of financial position**

As commented in Note 1, the Company was incorporated through a non-monetary contribution from the shareholders and, in a single act, an acquisition of assets. The breakdown of this transaction is as follows:

<b>ASSETS</b>	<b>01.08.2013</b>
<b>Intangible assets</b>	<b>526,880,644</b>
Concessions	301,906
Software	5,797,960
Concession arrangements	465,719,822
Other intangible assets	55,060,956
<b>Financial investments</b>	<b>14,387,088</b>
Equity instruments	23,250
Other financial assets	14,363,838
<b>Deferred tax assets</b>	<b>9,503,185</b>
<b>Total Non-Current Assets</b>	<b>550,770,917</b>
<b>Inventories</b>	<b>1,500,627</b>
<b>Total Current Assets</b>	<b>1,500,627</b>
<b>Total assets</b>	<b>552,271,544</b>
<b>LIABILITIES</b>	<b>01.08.2013</b>
<b>Shareholders' equity</b>	<b>337,000,000</b>
Share capital	337,000,000
<b>Total Equity</b>	<b>337,000,000</b>
<b>Borrowings</b>	<b>16,954,520</b>
Other financial liabilities	16,954,520
<b>Borrowings from group companies and associates</b>	<b>190,000,000</b>
<b>Deferred tax liabilities</b>	<b>7,948,039</b>
<b>Total Non-Current Liabilities</b>	<b>214,902,559</b>
<b>Trade and other payables</b>	<b>368,985</b>
Customer advances	368,985
<b>Total Current Liabilities</b>	<b>368,985</b>
<b>Total liabilities</b>	<b>552,271,544</b>

**AIGÜES DE BARCELONA, EMPRESA METROPOLITANA DE GESTIÓ DEL CICLE INTEGRAL DE L'AIGUA, S.A.**

**Notes to the financial statements for the period comprised between 1 august 2013 (start date) and 31 december 2013**

In accordance with Article 67 of Royal Decree Law 1/2010 of July 2, approving the Revised text of the Spanish Capital Companies Law, the contributed assets have been measured by an independent expert appointed by the Mercantile Registry.



# **AIGÜES DE BARCELONA, EMPRESA METROPOLITANA DE GESTIÓ DEL CICLE INTEGRAL DE L'AIGUA, S.A.**

**Notes to the financial statements for the period comprised between 1 august 2013 (start date) and 31 december 2013**

## **1. COMPANY ACTIVITY (continued)**

### **1.3 Incorporation of statement of financial position (continued)**

Additionally, the shareholders in the Annual General Meeting held in 30 July 2013, in compliance with Article 72.1 of Royal Decree Law 1/2010 of July 2, approving the Revised text of the Spanish Capital Companies Law, approved the onerous nature of EUR 190,000,000 representative of 39.88% of the equity contributed by SGAB, in accordance with the report prepared by the Board of Directors and the independent expert's report on the measurement of the purchase/usufruct.

This incorporation transaction is not subject to the corporate transactions modality of the tax on capital transfers and documented legal acts, in accordance with Article 19.2 of the Revised text of the Tax Regulatory Law (RDL 1/1993 of September 24) since it is a business restructuring transaction.

## **2. BASIS OF PRESENTATION AND ACCOUNTING POLICIES**

### **2.1 Basis of presentation**

The Company's directors have prepared these financial statements in accordance with International Financial Reporting Standards (EU-IFRS) as adopted by the European Union, in conformity with Regulation (EC) no. 1606/2002 of the European Parliament and of the Council. They were prepared from the accounting records of the Company and they present fairly the Company's equity, financial position and results of operations under EU-IFRS.

The accounting policies used to prepare these financial statements comply with all IFRS in force at the date of preparation. The EU-IFRS provide for certain alternatives regarding their application. The alternatives applied by the Company are described in Note 4.

The figures shown in these financial statements are presented in euros unless otherwise indicated.

### **2.2 Changes in the accounting policies and in the disclosures of information effective in 2013**

Since this is the first year in which the International Financial Reporting Standards are adopted, the Company has applied the regulations prevailing at January 1, 2013.

In the preparation of the financial statements the Company has taken into account the following amendments to applicable IFRS:

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**2. BASIS OF PRESENTATION AND ACCOUNTING POLICIES (continued)**

**2.2 Changes in the accounting policies and in the disclosures of information effective in 2013 (continued)**

- IAS 19 revised “Employee Benefits”: Effective for annual periods beginning on or after January 1, 2013.
- IFRS 13 “Fair Value Measurement”: Effective for annual periods beginning on or after January 1, 2013.
- Amendment to IAS 1 “Presentation of items of Other Comprehensive Income”: Effective for annual periods beginning on or after July 1, 2012.
- Amendment to IFRS 7 “Disclosures – Offsetting financial assets and financial liabilities”: Effective for annual periods beginning on or after January 1, 2013.
- Amendment to IAS 12 “Deferred tax: Recovery of underlying assets”: Effective for annual periods beginning on or after January 1, 2013.
- IFRIC 20 “Stripping costs in the production phase of a surface mine”: Effective for annual periods beginning on or after January 1, 2013.
- Improvements to IFRS period 2009-2011: Effective for annual periods beginning on or after January 1, 2013.

At the date of preparation of these financial statements, the following standards, amendments and interpretations had been issued by the IASB, were not yet mandatory and had been approved by the European Union:

- IFRS 10, ‘Consolidated Financial Statements’: Effective for annual periods beginning on or after January 1, 2014.
- IFRS 11, ‘Joint Arrangements’: Effective for annual periods beginning on or after January 1, 2014, and effective retrospectively for joint arrangements in force at the date of first-time application.
- IFRS 12, ‘Disclosures of Interests in Other Entities’: Effective for annual periods beginning on or after January 1, 2014.
- IAS 28 revised, ‘Investments in Associates and Joint Ventures’: Effective for annual periods beginning on or after January 1, 2014.
- Amendment to IAS 32 ‘Offsetting financial assets and financial liabilities’. Effective for annual periods beginning on or after January 1, 2014.
- Amendment to IFRS 10, IFRS 11 and IFRS 12 “Transition guidance”: Effective for annual periods beginning on or after January 1, 2014.

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- Improvements to IFRS period 2010-2012.

- Improvements to IFRS period 2011-2013.

## 2. BASIS OF PRESENTATION AND ACCOUNTING POLICIES (continued)

### 2.2 Changes in the accounting policies and in the disclosures of information effective in 2013 (continued)

Additionally, the following standards and amendments had been issued by the IASB, but were not yet mandatory and had not been approved by the European Union:

- IFRS 9, 'Financial instruments': Effective for annual periods beginning on or after January 1, 2015.
- Amendment to IFRS 9 and IFRS 7 'Mandatory Effective Date and Transition Disclosures'. Effective for annual periods beginning on or after January 1, 2015.
- Amendment to IFRS 10, IFRS 12, and IAS 27, 'Investment entities': Effective for annual periods beginning on or after January 1, 2014.
- Amendment to IAS 36 "Recoverable Amount Disclosures for Non-financial Assets": Effective for annual periods beginning on or after January 1, 2014.
- Amendment to IAS 39 "Novation of Derivatives and Continuation of Hedge Accounting": Effective for annual periods beginning on or after January 1, 2014.
- IFRIC 21 "Levies": Effective for annual periods beginning on or after January 1, 2014.

The Entity has not adopted any standard, interpretation or modification in advance, issued but not yet in force. The impacts derived from their adoption are currently being analysed.

### 2.3 Critical issues concerning the assessment of uncertainty

The Company's management have prepared the financial statements occasionally using judgments and estimates to establish the amounts of certain assets, liabilities, income and expenses and commitments recorded therein. These estimates basically refer to:

- The useful life of intangible assets (Note 4.1),
- The impairment losses on certain assets (Note 4.2),
- Income from unbilled supplies (Note 4.7).

Although these judgements and estimates were made based on the basis of the best information available at December 31, 2013 on the events analysed, future events may arise

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(economic events, changes in regulations, etc.), that oblige to modify them (upwardly or downwardly) in future periods, which would be made prospectively, where applicable.

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## 2. BASIS OF PRESENTATION AND ACCOUNTING POLICIES (continued)

### 2.4 Comparison of information

Since this is the first year of incorporation of the Company (Note 1), the 2013 financial statements are the first financial statements to be prepared, and consequently, no comparative figures are included.

### 2.5 Information by business segments

As mentioned in Note 1 the Company only operates in the integrated water cycle and the Barcelona conurbation.

## 3. APPROPRIATION OF PROFIT

The proposed appropriation of the Company's 2013 net profit, in euros, is as follows:

	<b>2013</b>
Legal reserve	33,317
Voluntary reserves	299,850
<b>Net profit for the period</b>	<b>333,167</b>

## 4. RECOGNITION AND MEASUREMENT ACCOUNTING POLICIES

### 4.1 Intangible assets

Intangible assets are initially measured at either acquisition or production cost. Following initial measurement, they are stated at cost less accumulated amortisation and any impairment loss.

- Concessions: they are amortised on a straight-line basis over the term of the concession.
- Software: In this caption the Company recognises the costs incurred in the acquisition and development of computer programs. Expenses for software maintenance are recognised in the income statement in the year incurred. Software is amortised on a straight-line basis over a period of 5 years.
- Concession arrangements: Concession arrangements are classified as intangible assets when the consideration received by the concession company consists in the right to charge tariffs based on the utilisation rate of the public service. The consideration received by the concession company is recognised at the fair value of the acquired or built infrastructure.

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## 4. RECOGNITION AND MEASUREMENT ACCOUNTING POLICIES (continued)

### 4.1 Intangible assets (continued)

Depreciation criteria are as follows:

- The assets related to the water supply services are depreciated on a straight-line basis based on the technical life of the underlying items, in accordance with the tariff model described in Note 5.2:

	Years of useful lives
Buildings	20 to 50
Pipelines	20 to 34
Machinery	12
Other fixtures and furniture	10 to 20
Other items of property, plant and equipment	4 to 12

- The assets related to the rendering of wastewater treatment services are depreciated on a straight-line basis according to the concession term ending in 2047.

Expenses related to the preservation of the infrastructures will be recognised in the income statement when incurred. Works for improvement and capacity extension, as well as other actions on the infrastructures, are capitalised as an increase in the cost of intangible assets in accordance with the tariff model described in Note 5.2.

Direct staff salary costs and intangible asset design, installation and start-up costs are capitalised. These costs capitalised in 2013 are presented as 'Work performed by the entity and capitalised' in the accompanying income statement.

### 4.2 Impairment of intangible assets

At each year end date the Company reviews the carrying amounts of intangible assets with finite useful lives to assess whether there is any indication that the assets might have suffered an impairment loss. If any such indication exists, the recoverable amount of the assets is estimated in order to determine the impairment loss suffered. Where the asset analysed itself does not generate cash flows that are independent from other assets, the Company estimates the fair value of the cash-generating unit to which the asset belongs.

Intangible assets with indefinite useful lives not subject to systematic amortisation are tested for impairment at least annually, or where there is an indication that the asset might have suffered an impairment loss.

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#### **4. RECOGNITION AND MEASUREMENT ACCOUNTING POLICIES (continued)**

##### **4.2 Impairment of intangible assets (continued)**

The recoverable amount of an asset subject to impairment is the higher of fair value less costs to sell and value in use. In order to estimate value in use, the future cash flows of the asset analysed (or of the cash-generating unit to which it belongs, as appropriate) are discounted to their present value using a discount rate that reflects both the time value of money and the risk specific to the asset. Where the recoverable amount of an asset is considered to be less than its carrying amount, the difference is recognised with a charge to 'Impairment and gains or losses on disposals of non-current assets' in the income statement. Asset impairment losses recognised are reversed with a credit to this caption when the related recoverable amounts are considered to increase, thereby increasing the value of the asset up to the limit of the carrying amount that the asset would have had if no write-down had taken place, except for goodwill, the impairment losses on which are not reversible.

##### **4.3 Leases**

Operating leases: Operating leases are deemed to be those in which the risks and rewards associated with ownership of the asset are not transferred by the lessor. Operating lease costs are systematically recognised as an expense in the income statement.

##### **4.4 Financial instruments**

###### **4.4.1 Financial assets**

The Company's financial assets are classified into the following categories, where appropriate:

- Loans and receivables: financial assets arising from the sale of goods or the rendering of services in the ordinary course of the Company's 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.
- Available-for-sale financial assets: these are any assets that do not fall into the above category. These investments are carried at market value at year end in the statement of financial position. In the case of unlisted companies, market value is obtained through alternative methods such as comparison with similar transactions, or through the discount of the expected cash flows. Changes in market value are recognised with a charge or credit to 'Valuation Adjustments' in equity. On disposal of these investments, the cumulative reserves are recognised in full in the income statement.



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Financial assets are initially recognised at the fair value of the consideration paid plus directly attributable transaction costs.

Loans, receivables and available-for-sale financial assets are measured at amortised cost.

### **4. RECOGNITION AND MEASUREMENT ACCOUNTING POLICIES (continued)**

#### **4.4 Financial instruments (continued)**

##### **4.4.1. Financial assets (continued)**

Financial assets that are not recognised at fair value are tested for impairment at least at year end. Objective evidence of actual impairment exists when the recoverable amount of the financial asset is lower than the carrying amount. Impairment losses are recognised in the income statement, if any.

##### **4.4.2 Financial liabilities**

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

Trade and other payables are initially measured at the fair value of the consideration received, adjusted by directly attributable transaction costs. Following initial recognition, these liabilities are measured at amortised cost.

The Company derecognises a financial liability when the obligation under the liability is extinguished.

#### **4.5 Inventories**

Stocks are initially valued at the lower of the acquisition price or production cost. Trade discounts, rebates and other similar items, and interest included in the face value of related payables are included determining the costs of purchase.

Work in progress basically consists of work performed for third parties and is measured at acquisition cost, which includes the cost of materials, direct labour and production overheads.

The cost of inventories is assigned by using the weighted average cost formula.

The Company recognises any impairment losses as an expense in the income statement when the net realisable value of the inventories is lower than acquisition price (or production cost).

Net realisable value is the estimated selling price less the estimated costs of completion and costs to be incurred in marketing, selling and distribution.

**Notes to the financial statements for the period comprised between 1 august 2013 (start date) and 31 december 2013**

#### **4. RECOGNITION AND MEASUREMENT ACCOUNTING POLICIES (continued)**

##### **4.6 Income tax**

The income tax expense includes both the current tax arising from the application of the tax rate to the taxable profit for the year, after deducting the tax credits allowable for tax purposes, and the change in deferred tax assets and liabilities and in tax loss and tax credit carryforwards.

Deferred tax assets and liabilities 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 realised or the liability is settled.

Deferred tax liabilities are recognised for all temporary differences that will be taxable in the future, while deferred tax assets corresponding to temporary differences or tax credits are recognised only to the extent that it is considered probable that the Company will obtain sufficient taxable profits in the future against which the deferred tax asset can be utilised.

Deferred tax assets and liabilities arising from items directly charged or credited to equity accounts are also recognised with a charge or credit, respectively, in equity.

The deferred taxes and tax assets recognised are reassessed at each year end date in order to ascertain whether they still exist and the appropriate adjustments are made.

##### **4.7 Income and expenses**

The Company's main operating income in 2013 arises mainly from the sale of water, the rendering of treatment and sewerage services, and the billing of work performed for the account of others.

Income and expenses are recognised on an accrual basis, i.e. when the actual flow of the related goods and services occurs, regardless of when the resulting monetary or financial flow arises. Following the principles established in the EU-IFRS conceptual framework, the Company recognises income when it is earned together with all the necessary associated expenses. Sales of goods are recognised when the goods are delivered and the risks and rewards incidental to ownership have been substantially transferred.

Gains and losses arising from the sale or withdrawal of an asset are determined as the difference between the carrying amount of the asset and its selling price, which is recognised in the income statement.

**Notes to the financial statements for the period comprised between 1 august 2013 (start date) and 31 december 2013**

#### **4. RECOGNITION AND MEASUREMENT ACCOUNTING POLICIES (continued)**

##### **4.7. Income and expenses (continued)**

###### Construction contracts: Works in progress

Where the outcome of works in progress can be estimated reliably, income is recognised by reference to the stage of completion at the year end date, i.e. by the proportion that costs incurred for work performed to date bear to the estimated total costs until completion.

Where the outcome of works in progress cannot be estimated reliably, income is recognised to the extent of costs incurred that are reasonably expected to be recovered in the future. If it is probable that contract costs will exceed total contract income, the expected loss is recognised immediately.

###### Supplies not yet billed

The Company recognises as water sales supplies actually provided, including the amount of water supplied that at 31 December has not yet been billed. At December 31, 2013 supplies not yet billed amount to EUR 42,593,625 and are recognised in the caption 'Trade receivables for sales and services' in the accompanying statement of financial position.

##### **4.8 Provisions and contingencies**

The Company recognises a provision where it has an obligation or liability to a third party arising from past events, the settlement of which will give rise to an outflow of economic benefits whose amount and/or timing are not known with certainty but can be estimated with reasonable reliability.

Provisions are quantified on the basis of the best information available on the event and the consequences of the event and are reviewed and adjusted at the end of each year. Provisions are used to cater for the specific risks for which they were originally recognised, and are fully or partially reversed when such risks cease to exist or are reduced.

##### **4.9 Environmental assets**

Environmental assets are considered to be assets used on a lasting basis in the operations of the Company, whose main purpose is to minimise environmental impacts and to protect and enhance the environment, including the reduction or elimination of the pollution caused in the future by the Company's operations (Note 14).

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**4. RECOGNITION AND MEASUREMENT ACCOUNTING POLICIES  
(continued)**

**4.9. Environmental assets (continued)**

These assets, like all other intangible assets, are measured at acquisition or production cost revalued in accordance with the applicable legislation, including Royal Decree-Law 7/1996, of June 7.

These assets are depreciated based on the criteria mentioned in Note 4.1

**4.10 Grants, donations and legacies**

In the recognition of grants, donations and legacies received, the Company adopts the following criterion:

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

**4.11 Related-party transactions**

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

**4.12 Classification of current and non-current balances**

Balances are classified as non-current and current in the accompanying statement of financial position. Current balances include balances which the Company expects to sell, consume, pay or realise during its normal operating cycle; those which are expected to mature, be disposed of or realised within twelve months; those classified as held-for-trading, except for long-term derivatives, and cash and cash equivalents. All other assets are classified as non-current.

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**5. INTANGIBLE ASSETS**

**5.1 Changes in 2013**

Changes in intangible assets captions and in accumulated amortisation in 2013 have been as follows, in euros:

	<b>Balance at 1 August 2013 (start date) (Note 1.3)</b>	<b>Additions or allowances</b>	<b>Disposals</b>	<b>Transfers</b>	<b>Balance at 31 December 2013</b>
<b>Cost</b>					
Concessions	747,439	-	-	-	747,439
Software	48,618,265	920,268	-	501,650	50,040,183
Concession arrangements	1,082,797,390	12,174,755	(1,098,952)	(501,650)	1,093,371,543
Other intangible assets	58,399,516	689,903	-	-	59,089,419
<b>Total cost</b>	<b>1,190,562,610</b>	<b>13,784,926</b>	<b>(1,098,952)</b>	<b>-</b>	<b>1,203,248,584</b>
<b>Accumulated amortisation</b>					
Concessions	(445,533)	(4,386)	-	-	(449,919)
Software	(42,820,305)	(1,036,990)	-	-	(43,857,295)
Concession arrangements	(617,077,568)	(13,843,726)	857,102	-	(630,064,192)
Other intangible assets	(3,338,560)	(692,625)	-	-	(4,031,185)
<b>Total Accumulated amortisation</b>	<b>(663,681,966)</b>	<b>(15,577,727)</b>	<b>857,102</b>	<b>-</b>	<b>(678,402,591)</b>
<b>Net cost</b>					
Concessions	301,906	(4,386)	-	-	297,520
Software	5,797,960	(116,722)	-	501,650	6,182,888
Concession arrangements	465,719,822	(1,668,971)	(241,850)	(501,650)	463,307,351
Other intangible assets	55,060,956	(2,722)	-	-	55,058,234
<b>Total net cost</b>	<b>526,880,644</b>	<b>(1,792,801)</b>	<b>(241,850)</b>	<b>-</b>	<b>524,845,993</b>

The balances at 1 August included in the incorporation deed correspond to the description in Note 1.3.

The main additions in the period recognised under concession arrangements relate to the renovation and improvement of water pipes.

During 2013 the Company has not capitalised any financial expenses in the intangible assets caption.

At December 31, 2013 fully amortised intangible items amount to EUR 302,458,644.

The investments in intangible assets budgeted for the year 2014 amount to EUR 38.6 million.

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**5. INTANGIBLE ASSETS (continued)**

**5.2 Concession arrangement**

As detailed in Note 1, dated July 30, 2013, AMB and SGAB signed the Agreement for the regulations on the proceedings and legal and economic system for the incorporation of the new semi-public company, under the proceedings of Article 283.2.b) of the Regulations on works, activities and services of the local entities (ROAS), approved by Decree 179/1995 of June 13, the main agreements of which are set forth below:

**5.2.1 Payments and tariffs of the service**

The Agreement regulating the concession arrangement establishes that the Company is entitled to tariffs that are sufficient to self-finance itself and maintain its economic balance. This includes, among others, management expenses, finance costs, technical amortisation expenses and a corporate surplus that allows its partners to receive an adequate payment. Technical amortisation will be in accordance with the useful life of the assets.

AMB will set and approve the tariffs of the service in accordance with the principle of self-financing of the activity performed by the company and its economic balance. Tariffs will cover the expenses indicated in the paragraph above. In the event that AMB, exercising its administrative powers, approves tariffs that are below the indicated expenses, it will proceed to arbitrate the compensation mechanisms necessary to cover the portion not directly financed by income from tariffs, in accordance with Article 298.2 and 302.3 of ROAS. If compensation mechanisms affect the Catalan Water Agency (hereinafter ACA) its prior approval will be needed.

AMB will set the payments to be received for the water treatment and reuse service, taking into account Additional Provision Fourteenth of the Revised text of the Catalan Water Legislation, approved by Decree-Law 3/2003 of November 4.

**5.2.2 Annual charge**

Due to the water supply ownership, the Company will pay AMB an annual accrual charge of EUR 20,000,000, in 2014 and 2015, and EUR 20,000,000 as from 2016, updated according to the consumer price index for the last 12 months issued in Catalonia.

**5.2.3 Investments**

The Company, in accordance with the tariff approved by AMB, is required to make investments corresponding to:

- Works for the maintenance and preservation of the installations related to the Service, necessary for its effective operation and rendering.
- Works for the improvement and extension necessary for the good performance of the Service, approved by the Board of Directors, at the Management's proposal.

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## **5. INTANGIBLE ASSETS (continued)**

### **5.2. Concession arrangement (continued)**

#### 5.2.3. Investments (continued)

The rest of investments imposed by AMB as the owner of the service in accordance with Article 248 and subsequent articles of ROAS, including those that may derive from the replacement, improvement and new investment Plan for public sanitation services, must be accompanied by the corresponding supplementary financing.

#### 5.2.4 Term of the arrangement

The term of the indirect management assignment of the integrated water cycle Service to be carried out by the Company will end on June 2, 2047.

When the term of the assignment ends, AMB will determine whatever corresponds about the continuity of the supply management and the rendering of the service, taking into account the SGAB's licences.

In the event that the service management agreement is extinguished, the installations related to the low-level water supply will be returned to AMB. AMB will previously pay the unrecovered amount of the tariff to the Company, based on technical amortisation criteria according to the useful lives of the assets related to the Services initially contributed by SGAB or performed by the Company during the term of the Agreement.

This will apply without prejudice of the return in 2053 of the installations related to the high-level water supply to Generalitat de Catalunya, by virtue of the Revised text of the Catalan Water Legislation, approved by Decree-Law 3/2003 of November 4.

In the event of early extinguishment of the agreement for any reason other than the termination for non-compliance or redemption, and unless an express agreement to the contrary is reached, the contributions made by the Parties to the Company will be repaid to them, so that they recover their initial legal status. AMB will continue with the wastewater treatment activity and SGAB, through the Company, will continue with the indirect management of the low-level water supply, applying the tariff prevailing at the moment in which the early extinguishment of the agreement occurs, and will continue to manage its concession licences, in accordance with Article 35.2 of Decree-Law 3/2003, with the prior authorisation of ACA for the corresponding transfer, where appropriate.

As a result of the early extinguishment of the agreement, the parties will be compensated for the Company's non-amortised assets executed over the life of the Company according to their ownership interest and the service they manage.

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**6. LEASES**

**6.1 Company as lessor**

2. As a lessor, in 2013 the Company has entered into a lease agreement amounting to EUR 47,424 with another Agbar group company (Note 13.1).

3. At 2013 year end the Company's minimum lease payments from the lessee, in accordance with the current agreement in force, without considering the charge of common expenses, future increases in CPI, and agreed future rent updates, in euros, is as follows:

	<b>2013</b>
<b>Minimum payments under operating leases</b>	<b>Nominal value</b>
Within one year	113,818
Between one and five years	208,666
More than 5 years	-
<b>Total</b>	<b>322,484</b>

**6.2 Company as lessee**

At 2013 year end, the Company's most significant operating lease agreement relates to the lease on the space occupied in Torre Agbar and the several Regional Offices for an amount of EUR 1,221,176.

The Company's minimum lease payments to lessors, in accordance with the current agreements in force, without considering the charge of common expenses, future increases in CPI, and agreed future rent updates, in euros, is as follows:

	<b>2013</b>
<b>Minimum payments under operating leases</b>	<b>Nominal value</b>
Within one year	3,147,327
Between one and five years	11,208,441
More than 5 years	-
<b>Total</b>	<b>14,355,768</b>

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## 7. FINANCIAL ASSETS (NON-CURRENT AND CURRENT)

### 7.1 Non-current and current financial investments

Financial assets at December 31, 2013 are classified as follows, in euros

Categories	Equity instruments	Other financial assets	Total
<b>Non-current</b>			
Loans and receivables			
Deposits	-	14,925,345	14,925,345
Available-for-sale assets			
Investments in other companies	23,250	-	23,250
<b>Total non-current</b>	<b>23,250</b>	<b>14,925,345</b>	<b>14,948,595</b>
<b>Current</b>			
Loans and receivables			
Other financial investments	-	9,000,000	9,000,000
<b>Total current</b>	<b>-</b>	<b>9,000,000</b>	<b>9,000,000</b>

'Deposits' mainly includes the balance corresponding to 90% of non-current deposits in Institut Català del Sòl (Note 10), received by registered consumers and are recognised at nominal value.

The balance of the caption 'Other current financial investments' amounting to EUR 9,000,000 includes the bank deposit made by the Company, which matures in less than 12 months. Finance income from this deposit is recognised in the accompanying income statement and earns interest at an average market rate.

The amortised cost is a good measurement of the fair value of financial assets.

### 7.2 Nature and extent of risks arising from financial instruments

The Company's risk management policies are established by the Directors. Based on these policies, the Company's directors have established a series of procedures and controls to identify and manage the risks faced by the Company.

The main financial risks that have an impact on the Company are as follows:

#### Credit risk

Credit risk arises from the potential breach of a financial counterparty's obligations. In general, the Company's cash and cash equivalents are deposited in high credit rating financial entities and there is no significant concentration of credit risk with third parties.

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**Notes to the financial statements for the period comprised between 1 august 2013 (start date) and 31 december 2013**

**7. FINANCIAL ASSETS (NON-CURRENT AND CURRENT) (continued)**

**4. 7.2. Nature and extent of risks arising from financial instruments (continued)**

Liquidity risk

Liquidity risk arises from the possibility that the Company will not have sufficient funds or access to sufficient funds at an acceptable cost to meet its payment obligations at all times.

In order to ensure liquidity and be able to meet the payment obligations derived from its activity, the Company has cash and current financial investments as shown in the statement of financial position.

Interest rate risk

Interest rate risk relates to the effect on profit or loss of rises in interest rates which increase borrowing costs. The Company's finance debt is exposed to interest rate risk, which is linked to the average interest rate of 10-year treasury bonds, plus a risk premium calculated based on similar products offered by the financial market. The Company has arranged no financial hedging instruments.

The estimate of the sensitivity of financial profit to interest rate fluctuations in 10-year treasury bonds, with the net borrowings structure at each year end, in thousands of euros, is as follows:

	<b>Impact on the financial result</b>
Increase of +10 bp	171
Decrease of 10 bp	(171)

Exchange rate risk

The Company has no significant financial or trade transactions that may expose it to exchange rate risk.

**8. CASH AND CASH EQUIVALENTS**

At December 31, 2013 the breakdown of this caption is as follows, in euros:

	<b>2013</b>
Cash	9,967,558
<b>Cash and cash equivalents</b>	<b>9,967,558</b>

Current accounts earn market interest rates.

At December 31, 2013 these balances are unrestricted.

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Notes to the financial statements for the period comprised between 1 august 2013 (start date) and 31 december 2013

## 9. EQUITY

### 9.1 Subscribed capital

Share capital amounts to EUR 337,000,000 and is represented by 337,000 fully subscribed and paid up shares of EUR 1,000 par value each, divided into two types:

- Type A, comprising 50,550 shares (numbered 1 to 50,550).
- Type B, comprising 286,450 shares (numbered 50,551 to 337,000).  
Type A shares represent publicly-owned capital and are attributed to AMB. Type B shares represent privately-owned capital and are attributed to SGAB.

Each share gives its legitimate holder the status of shareholder and attributes them the rights acknowledged in the Law and By-laws. Each share entitles its holder to one vote.

Shares are indivisible. Co-ownership status and the establishment of actual rights on shares are set forth in articles 126 and subsequent articles of the Spanish Capital Companies Law.

### 9.2 Legal reserve

Under the Revised text of the Spanish Capital Companies Law, 10% of net profit for each year must be transferred to the legal reserve until the balance of this reserve reaches at least 20% of the share capital.

The legal reserve can be used to increase capital provided that the remaining reserve balance does not fall below 10% of the increased share capital amount. Otherwise, until the legal reserve exceeds 20% of share capital, it can only be used to offset losses, when other reserves are not available for this purpose.

## 10. FINANCIAL LIABILITIES (NON-CURRENT AND CURRENT)

Financial liabilities at 31 December 2013 are classified as follows:

	Non-current	Current	Total
Borrowings from group companies and associates (Note 13)	190,000,000	-	190,000,000
Other financial liabilities:			
Deposits	17,116,675	-	17,116,675
Bank borrowings	-	49,708	49,708
<b>Total financial liabilities</b>	<b>207,116,675</b>	<b>49,708</b>	<b>207,166,383</b>

**AIGÜES DE BARCELONA, EMPRESA METROPOLITANA DE GESTIÓ DEL CICLE INTEGRAL DE L'AIGUA, S.A.**

**Notes to the financial statements for the period comprised between 1 august 2013 (start date) and 31 december 2013**

**10. FINANCIAL LIABILITIES (NON-CURRENT AND CURRENT) (continued)**

The caption 'Borrowings from group companies and associates' corresponds to the purchase of 39.88% of the equity contributed by the partner Sociedad General de Aguas de Barcelona, S.A. related to the water supply service, as detailed in Note 1.

The principal of the borrowings has been formalised under a system of deferred payment, which will be made effective within ten years from the start of operations at the latest (August 1, 2013). As long as the price is not paid, the annual interest rate to be yearly reviewed will be calculated based on the average interest rate of 10-year treasury bonds, plus a risk premium calculated based on similar products offered by the financial market. Financial expenses accrued in 2013 amount to EUR 5,854,375 (Note 12.4 and 13.1). The amortised cost is a good measurement of the fair value of this borrowing.

The caption 'Other financial liabilities' at December 31, 2013 includes deposits received from consumers (Note 7.1).

**11. TAXES**

The breakdown of balances relating to tax assets and liabilities at 31 December 2013 is as follows, in euros:

	2013	
	Debtors	Creditors
Deferred taxes	11,440,085	7,601,134
Current taxes	1,404	1,447,131
Other balances with public administrations		
VAT	5,101,036	-
Personal income tax	-	902,086
Social security	-	870,506
Fees	-	8,527,295
Other	-	1,566,828
<b>Total</b>	<b>16,542,525</b>	<b>20,914,980</b>

**AIGÜES DE BARCELONA, EMPRESA METROPOLITANA DE GESTIÓ DEL CICLE INTEGRAL DE L'AIGUA, S.A.**

**Notes to the financial statements for the period comprised between 1 august 2013 (start date) and 31 december 2013**

**11. TAXES (continued)**

Under prevailing tax regulations, tax returns may not be considered final until they have either been inspected by tax authorities or until the four-year inspection period has expired. The Company is open to inspection for all taxes to which it is liable for the year 2013. The Company's directors and tax advisors consider that, in the event of a tax inspection, no significant tax contingencies would arise as a result of varying interpretations of the tax legislation applicable to the Company's transactions.

**11.1 Income tax**

Income tax expense is calculated from profit/loss, which does not necessarily match the tax result, which is understood as the taxable base.

The reconciliation between profit/loss before tax and the tax base, and the calculation of the income tax expense, is as follows, in euros:

	<b>2013</b>
Profit/loss for the period (before tax)	367,474
Permanent differences	2,407,399
Tax base	2,774,873
Temporary differences	7,612,681
<b>Tax result</b>	<b>10,387,554</b>

In 2013 positive permanent differences are mainly due to donations made to the Fundació Agbar and CETaqua, Centro Tecnológico del Agua for an amount of EUR 2,268,830.

In 2013 positive temporary differences mainly include provision charges for an amount of EUR 2,190,387, which are considered non-deductible for tax purposes. A positive adjustment amounting to EUR 722,201 is also included, corresponding to the amortisation for the period of assets subject to unrestricted amortisation for tax purposes regulated by Royal Decree 13/2010. An additional positive adjustment amounting to EUR 4,265,944 is also included, corresponding to 30% of the amortisation considered non-deductible for tax purposes in application of Law 16/2012.

The reconciliation between income tax expense and the result of multiplying the tax base by applicable tax rates in 2013 is as follows:

	<b>2013</b>
Tax base	2,774,873

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**Notes to the financial statements for the period comprised between 1 august 2013 (start  
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Payment at 30%	832,462
Tax credits	(798,155)
<b>Income tax expense</b>	<b>34,307</b>

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**AIGÜES DE BARCELONA, EMPRESA METROPOLITANA DE GESTIÓ DEL CICLE INTEGRAL DE L'AIGUA, S.A.**

**Notes to the financial statements for the period comprised between 1 august 2013 (start date) and 31 december 2013**

**11. TAXES (continued)**

**11.1 Income tax (continued)**

Income tax expense in 2013 is as follows, in euros:

	<b>2013</b>
Current income tax	2,318,111
Changes in deferred taxes	(2,283,804)
<b>Income tax expense</b>	<b>34,307</b>

Refundable income tax is calculated as follows, in euros

	<b>2013</b>
Current income tax	2,318,111
Withholdings	(1,048)
Payments on account	(869,932)
<b>Payable income tax</b>	<b>1,447,131</b>

**Deferred taxes and tax credits**

Due to the temporary differences between accounting and tax recognition criteria for certain income and expenses, as well as tax credits related to the income tax, at December 31, 2013 the following items have arisen, which have been recorded in the deferred tax assets and liabilities accounts of the financial statements, in euros:

	<b>Balance at 1 August 2013 (start date) (Note 1.3)</b>	<b>Changes</b>	<b>Balance at 31 December 2013</b>
<b>Deferred tax assets</b>			
Non-deductible amortisation Law 16/2012	1,706,074	1,279,784	2,985,858
Tax credits for deferred taxes	7,797,111	-	7,797,111
Provision for remuneration	-	66,282	66,282
Other provisions	-	590,834	590,834
	<b>9,503,185</b>	<b>1,936,900</b>	<b>11,440,085</b>
<b>Deferred tax liabilities</b>			
Unrestricted amortisation RDL - 2/85	125,249	(13,805)	111,444
Unrestricted amortisation Law -12/88	171,919	(14,185)	157,734
Amortisation DL - 3/93	1,693,235	(102,255)	1,590,980

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Unrestricted amortisation RDL - 13/2010	5,957,636	(216,660)	5,740,976
	<b>7,948,039</b>	<b>(346,905)</b>	<b>7,601,134</b>

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# AIGÜES DE BARCELONA, EMPRESA METROPOLITANA DE GESTIÓ DEL CICLE INTEGRAL DE L'AIGUA, S.A.

Notes to the financial statements for the period comprised between 1 august 2013 (start date) and 31 december 2013

## 11. TAXES (continued)

### 11.1 Income tax (continued)

The balance at August 1, 2013 corresponds to deferred tax assets and liabilities related to the equity contributed by SGAB (Note 1.3).

Regarding the contribution made by Sociedad General de Aguas de Barcelona, S.A., mentioned in Note 1, the Company has decided to adhere to the tax neutrality system contained in Chapter VIII of Title VII of Royal Decree Law 4/2004 of March 5, approving the Revised text of the income tax law, and in particular, to the legal and tax concept of 'special non-monetary contributions', contained in Article 94 of the said regulation, in compliance with Article 96.1.b) of the abovementioned legal text.

## 12. INCOME AND EXPENSES

### 12.1 Revenue

The distribution of revenue for the five-month period ended December 31, 2013 is as follows, in euros:

	<b>2013</b>
Sale of water	118,757,733
Income from work and supply connection rights	1,280,191
Sales of by-products and waste	51,355
Rendering of services	8,768,452
Work performed by the entity and capitalised	13,095,023
<b>Total</b>	<b>141,952,754</b>

The Company operates in the Spanish market.

### 12.2 Work performed by the entity and capitalised

The breakdown of this caption for the 5-month period ended December 31, 2013 is as follows, in euros:

	<b>2013</b>
Work performed for third parties	10,501,489
Consumption of goods	775,486
Employee benefits expense	923,389
Other	894,659

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**Notes to the financial statements for the period comprised between 1 august 2013 (start date) and 31 december 2013**

<b>Total</b>	<b>13,095,023</b>
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**12. INCOME AND EXPENSES (continued)**

**12.3 Employee benefits expense**

The breakdown of this caption for the 5-month period ended December 31, 2013 is as follows, in euros:

	<b>2013</b>
Wages and salaries	17,673,097
Indemnities	407,526
Social security costs:	
Social security paid by the company	4,560,015
Other social costs	611,538
<b>Total</b>	<b>23,252,176</b>

The caption 'Wages and salaries' includes expenses assumed by the Company for the pension plans promoted by SGAB, for an amount of EUR 1,181,328. The Company has acquired by subrogation AMB's and SGAB's rights and obligations regarding all the employees transferred from each of both companies. In relation to the pension commitments applicable to the employees transferred by SGAB, the latter has maintained its position as obligated entity in compliance with prevailing pension regulations.

The number of employees by category and gender at December 31, 2013 is as follows:

	<b>Men</b>	<b>Women</b>
Qualified personnel	98	49
Middle managers and supervisors	209	73
Skilled employees	269	94
Trainees and assistants	128	24
<b>Total</b>	<b>704</b>	<b>240</b>

The average headcount in 2013 is 948 employees.

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## 12. INCOME AND EXPENSES (continued)

### 12.4 Financial result

The breakdown of this caption by nature for the 5-month period ended December 31, 2013 is as follows, in euros:

	<b>2013</b>
Finance income from third parties	5,098
<b>Finance income</b>	<b>5,098</b>
Finance costs from group companies and associates (Note 13.1)	(5,854,375)
Finance costs from third parties	(59,428)
<b>Finance costs</b>	<b>(5,913,803)</b>
<b>Exchange differences</b>	<b>429</b>
<b>Total Financial result</b>	<b>(5,908,276)</b>

1.

The Company's finance income mainly relates to the return on the investments made with cash surpluses.

Finance costs mainly include interest on borrowings from SGAB (Note 13.1) for the purchase transaction described in Note 1.

### 12.5 Audit fees

The fees earned by the Company's audit firm for the audit of the financial statements for the period ended December 31, 2013 amounted to EUR 55,000. No additional services have been rendered to the Company in 2013 by companies related to the main auditor.

## 13. RELATED-PARTY TRANSACTIONS AND BALANCES

### 13.1 Related-party transactions

Transactions with related parties in 2013 were part of normal trading and took place under normal market conditions.

#### a) Balances and transactions with group companies and associates

Transactions with investees have been made under normal market conditions, taking into account the consideration that an unrelated party would be willing to pay for contracting the services mentioned. The price policy applied in the main related-party transactions is as follows:

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Notes to the financial statements for the period comprised between 1 august 2013 (start date) and 31 december 2013

## 13. RELATED-PARTY TRANSACTIONS AND BALANCES (continued)

### 13.1 Related party transactions (continued)

#### a) Balances and transactions with group companies and associates (continued)

##### Loans:

In view of the nature of these transactions, the most appropriate measurement method to support the agreed loan interest payments is the comparable uncontrolled price method. The general policy is to establish interest rates linked to a base rate, Euribor or treasury bonds, for the purpose of mitigating any impact arising from a fluctuation of the market rates.

##### Management and administration services rendered by other related entities.

The payment for these types of services is determined based on a defined model applying a percentage over revenue.

##### Leases:

The price of the leases is established based on the m<sup>2</sup> leased, using the comparable uncontrolled price method.

Related parties according to the nature of the relationship are as follows:

	<b>Nature of the relationship</b>
Aguas Andinas, S.A.	Group company
Aqua Development Network, S.A.	Group company
Aqualogy Aqua Ambiente Servicios Integrales, S.A.U.	Group company
Aquambiente Servicios para el Sector del Agua, S.A.U (formerly Aqualogy Medio Ambiente)	Group company
Synetic Tecnologias de la Información, S.A.U. (formerly Aqualogy Services Company)	Group company
Aqualogy Solutions, S.A.U.	Group company
Àrea Metropolitana de Barcelona	Direct parent
Clavegueram de Barcelona, S.A.	Associate
Cetaqua, Centro Tecnológico del Agua, Fundación Privada	Group company
Empresa Municipal Mixta d'Aigües de Tarragona, S.A.	Associate
Fundació Agbar, Centre d'Estudis i Investigació del Medi Ambient	Group company
Integrated Facility Management, S.A.U. (formerly Aqualogy Facility Management)	Group company
Labaqua, S.A.	Group company

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Logistium Servicios Logísticos, S.A.	Group company
Mina Pública d'Aigües de Terrassa, S.A.	Group company
Sociedad General de Aguas de Barcelona, S.A.	Direct parent
Sorea, Sociedad Regional de Abastecimiento de Aguas, S.A.U.	Group company

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**AIGÜES DE BARCELONA, EMPRESA METROPOLITANA DE GESTIÓ DEL CICLE INTEGRAL DE L'AIGUA, S.A.**

**Notes to the financial statements for the period comprised between 1 august 2013 (start date) and 31 december 2013**

**13. RELATED-PARTY TRANSACTIONS AND BALANCES (continued)**

**13.1 Related party transactions (continued)**

**a) Balances and transactions with group companies and associates (continued)**

The breakdown of the main transactions with an impact on the income statement, as well as related-party balances, is as follows, in euros:

<b>Euros 2013</b>	<b>Direct parents</b>	<b>Group companies</b>	<b>Associates</b>
Supplies	-	(2,541,242)	-
Leases	(1,221,176)	47,424	-
Services rendered	12,026,449	1,268,581	-
Services received	(6,423,289)	(19,323,137)	-
Interest paid	(5,854,375)	-	-
Trade receivables	12,307,084	495,771	142
Suppliers	(1,091,020)	(10,767,346)	(312)
Non-current borrowings	(190,000,000)	-	-

2.

**b) Balances and transactions with key members of the Company's Management**

In 2013 the Company has not entered into any transaction and has no balances or obligations at December 31, 2013 with key members of the Company's Management other than those included in Note 13.2.

**13.2 Remuneration of and obligations to Senior Executives and members of the Board of Directors**

**a) Remuneration of and obligations to Senior Executives**

When determining the concept of 'executive', the Company has included the members of the Management Committee, who are not part of the Board of Directors. In 2013 the remuneration earned by these executives amounted to EUR 389 thousand.

**b) Remuneration of and obligations to members of the Board of Directors**

In 2013 the members of the Company's Board of Directors earned no remuneration for performing their duties as members of the Board, or attendance fees and by-law stipulated emoluments.

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However, the remuneration earned by the Secretary of the Company's Board of Directors for rendering such service during 2013 amounted to EUR 7,500.

In 2013 the Company did not contribute any amount to pension plans and policies for the members of the Board of Directors.

**AIGÜES DE BARCELONA, EMPRESA METROPOLITANA DE GESTIÓ DEL CICLE INTEGRAL DE L'AIGUA, S.A.**

**Notes to the financial statements for the period comprised between 1 august 2013 (start date) and 31 december 2013**

**13. RELATED-PARTY TRANSACTIONS AND BALANCES (continued)**

**13.2 Remuneration of and obligations to Senior Executives and members of the Board of Directors (continued)**

**c) Disclosures under Article 229 of the revised text of the Spanish Capital Companies Law**

The following disclosures are made based on the available information furnished by the directors in relation to whether from August 1, 2013 (start date) to 31 December 2013 the Company's directors and related parties held ownership interests in or held positions or carried out duties at other companies engaging in activities that are identical, similar or complementary to the activities constituting the corporate purpose of Aigües de Barcelona, Empresa Metropolitana de Gestió del Cicle Integral de l'Aigua, S.A., or whether the directors performed this type of activities as independent professionals or as employees.

**a)** The following directors had no ownership interest, or held positions or carried out duties:

- Mr. Salvador Illa i Roca
- Mr. Jordi Prat i Soler
- Mr. Albert Vilalta i Cambra
- Mr. Carlos Tusquets Trias de Bes
- Mr. Josep Dolz Ripollés
- Mr. Esteban Arimany Lamoglia

**b)** The directors listed below had ownership interest and/or held positions or carried out duties, according to the following detail:

<b>Name or company name of the director</b>	<b>Company</b>	<b>Activity</b>	<b>% of ownership</b>	<b>Position or duties</b>
Mr. Ángel Simón Grimaldos	Suez Environnement S.A.S.	Water, waste treatment	-----	Deputy General Manager, responsible for the water activity in Europe (since 15 April 2013)
Mr. Ramon Folch Guillén	ERF-Estudi Ramon Folch & Associats	Energy and environmental consulting	10% direct ownership	Chairman

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**Notes to the financial statements for the period comprised between 1 august 2013 (start  
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firm

(61 shares)

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**AIGÜES DE BARCELONA, EMPRESA METROPOLITANA DE GESTIÓ DEL CICLE INTEGRAL DE L'AIGUA, S.A.**

**Notes to the financial statements for the period comprised between 1 august 2013 (start date) and 31 december 2013**

**13. RELATED-PARTY TRANSACTIONS AND BALANCES (continued)**

**13.2 Remuneration of and obligations to Senior Executives and members of the Board of Directors (continued)**

**c) Disclosures under Article 229 of the revised text of the Spanish Capital Companies Law (continued)**

**c) Mr. Ángel Simón Grimaldos** held the following positions or carried out the following duties at other companies of the Agbar Group, controlled by Suez Environnement Company through its subsidiary Suez Environnement España, S.L., which are engaged in an activity that is identical, similar or complementary to the activity of Aigües de Barcelona, Empresa Metropolitana de Gestió del Cicle Integral de l'Aigua, S.A.:

<b>Company</b>	<b>Activity</b>	<b>% of ownership</b>	<b>Position or duties</b>
Sociedad General de Aguas de Barcelona, S.A.	Holding/Integrated water cycle	-----	CEO
Hidralia, Gestión Integral de Aguas de Andalucía, S.A.	Integrated water cycle	-----	Director
Fundació Agbar, Centre d' Estudis i Investigació del Medi Ambient	Foundation	-----	Chairman of the Board of Trustees

**d) Mr. Arsenio Olmo Chaos** held the following positions or carried out the following duties at other companies of the Agbar Group, controlled by Suez Environnement Company through its subsidiary Suez Environnement España, S.L., which are engaged in an activity that is identical, similar or complementary to the activity of Aigües de Barcelona, Empresa Metropolitana de Gestió del Cicle Integral de l'Aigua, S.A.:

<b>Company</b>	<b>Activity</b>	<b>% of ownership</b>	<b>Position or duties</b>
Fundació Agbar, Centre d' Estudis i Investigació del Medi Ambient	Foundation	-----	Trustee

**AIGÜES DE BARCELONA, EMPRESA METROPOLITANA DE GESTIÓ DEL CICLE INTEGRAL DE L'AIGUA, S.A.**

**Notes to the financial statements for the period comprised between 1 august 2013 (start date) and 31 december 2013**

**13. RELATED-PARTY TRANSACTIONS AND BALANCES (continued)**

**13.2 Remuneration of and obligations to Senior Executives and members of the Board of Directors (continued)**

**c) Disclosures under Article 229 of the revised text of the Spanish Capital Companies Law (continued)**

**e) Sociedad General de Aguas de Barcelona, S.A.** had ownership interest and/or held positions or carried out duties at companies which are engaged in an activity that is identical, similar or complementary to the activity of Aigües de Barcelona, Empresa Metropolitana de Gestió del Cicle Integral de l'Aigua, S.A., according to the following detail:

<b>Company</b>	<b>Activity</b>	<b>% of ownership</b>	<b>Position or duties</b>
Clavegueram de Barcelona, S.A.	Sewerage service management in Barcelona	54% (direct)	Director (represented by Francesc Xavier Garcés Daniel)
Girona, S.A.	Water and Environment	31.42% (direct)	Director (represented by Albert Martínez Lacambra)
Sociedad Concesionaria de la zona regable del Canal de Navarra, S.A.	Construction and operation of general interest infrastructures in the irrigation area of the Navarra Canal	35% (direct)	-----
Mina Pública d'Aigües de Terrassa, S.A.	Integrated water cycle and works management	32.58% (direct)	Vice-president (represented by Marta Colet)
Companyia d'Aigües de Sabadell, S.A.	Integrated water cycle	77.34% (direct)	-----
Aigües del Segarra Garrigues, S.A.	Among others, operation and maintenance of supply networks	22% (direct)	Director (represented by Julio Francisco Ramón-Laca Menéndez de Luarda)
Districlima, S.A.	Heating and cooling distribution to be used in water heating	19.20% (direct)	-----
R+ I Alliance	Coordination and preparation of research studies in the Environment and integrated water cycle field, as well as the management and exploitation of intellectual and industrial property rights of the results	25% (direct)	-----

**AIGÜES DE BARCELONA, EMPRESA METROPOLITANA DE GESTIÓ DEL CICLE INTEGRAL DE L'AIGUA, S.A.**

**Notes to the financial statements for the period comprised between 1 august 2013 (start date) and 31 december 2013**

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obtained from such projects

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**13. RELATED-PARTY TRANSACTIONS AND BALANCES (continued)**

**13.2 Remuneration of and obligations to Senior Executives and members of the Board of Directors (continued)**

**c) Disclosures under Article 229 of the revised text of the Spanish Capital Companies Law (continued)**

Company	Activity	% of ownership	Position or duties
Sorea, Sociedad Regional de Abastecimiento de Aguas, S.A.U.	Integrated water cycle	100% (indirect, since 24/October/2013, fully owned by Aquadom. Concesiones Ibérica, S.L.U.) (direct, until 24/October/2013)	-----
Hidrogea, Gestión Integral de Aguas de Murcia, S.A.	Integrated water cycle	100% (indirect, since 24/October/2013) (99.9% owned by Aquadom. Concesiones Ibérica, S.L.U. and 0.01% owned by Interagua, Servicios Integrales del Agua, S.A.U.) 99.99% (direct, since 24/October/2013)	-----
Agbar, S.L.U.	Integrated water cycle	100% (indirect, since 24/October/2013, owned by Aquadom, Concesiones Ibérica, S.L.U.) (direct, until 24/October/2013)	-----
Hidraqua, Gestión Integral de Aguas de Levante, S.A.	Integrated water cycle	100% (indirect, since 24/October/2013, 99.99% owned by Aquadom. Concesiones Ibérica, S.L.U. and 0.01% owned by Interagua, Servicios Integrales	-----

**AIGÜES DE BARCELONA, EMPRESA METROPOLITANA DE GESTIÓ DEL CICLE INTEGRAL DE L'AIGUA, S.A.**

**Notes to the financial statements for the period comprised between 1 august 2013 (start date) and 31 december 2013**

	del Agua, S.A.U.) 99.99% (direct, until 24/October/2013)
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**13. RELATED-PARTY TRANSACTIONS AND BALANCES (continued)**

**13.2 Remuneration of and obligations to Senior Executives and members of the Board of Directors (continued)**

**c) Disclosures under Article 229 of the revised text of the Spanish Capital Companies Law (continued)**

Company	Activity	% of ownership	Position or duties
Aqualogy Aqua Ambiente Servicios Integrales, S.A.U.	Holding, services and works related to wastewater installations, hydraulic and system engineering and hydrology	100% (indirect, since 25/June/2013, controlled through Aqualogy Soluciones y Tecnologías del Agua, S.L.U.) 100% (direct until 25/June/2013)	-----
Aguas Argentinas, S.A.	Water and Environment	25% (direct)	-----
Aguas Provinciales de Santa Fe, S.A.	Water and Environment	10.89% (direct)	-----
Interagbar de México S.A. de C.V.	Integrated water cycle	99.99% (direct)	-----
Aguas de Cartagena, S.A. (Acuacar)	Integrated water management	45.91% (direct)	-----
Aqualogy Brasil Tecnologias e Serviços em Saneamento, Ltda.	Water and Environment	99.99% (indirect, since 19/November/2013, through Aqualogy Soluciones y Tecnologías del Agua, S.L.U.) 99.99% (direct, until 19/November/2013)	-----
Aqualogy Perú, S.A.	Integrated water cycle and Environment	99.99% (indirect, since 19/November/2013, through Aqualogy Soluciones y Tecnologías del Agua, S.L.U.) 99.99% (direct, until	-----



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date) and 31 december 2013**

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19/November/2013)

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**AIGÜES DE BARCELONA, EMPRESA METROPOLITANA DE GESTIÓ DEL CICLE INTEGRAL DE L'AIGUA, S.A.**

**Notes to the financial statements for the period comprised between 1 august 2013 (start date) and 31 december 2013**

**13. RELATED-PARTY TRANSACTIONS AND BALANCES (continued)**

**13.2 Remuneration of and obligations to Senior Executives and members of the Board of Directors (continued)**

**c) Disclosures under Article 229 of the revised text of the Spanish Capital Companies Law (continued)**

Company	Activity	% of ownership	Position or duties
Aqualogy su Kanalizasyon Yatirim ve Isletme Anonim Sirketi	Integrated water cycle	99.99% (indirect, since 19/November/2013 through Aqualogy Soluciones y Tecnologías del Agua, S.L.U.) 99.99% (direct, until 19/November/2013)	-----
Aquaoccidente, S.A. ESP	Integrated water cycle	25% (since 30/August/2013)	-----
Proveïment d'Aigua, S.A.	Integrated water cycle management in Girona counties	14.14% (indirect) (31.42% owned by Girona, S.A.)	-----
Aigües de Blanes, S.A.	Integrated water cycle	15.40% (indirect) (49% owned by Girona, S.A.)	-----
Aigües de Girona, Salt i Sarrià del Ter, S.A.	Integrated water cycle management	25.13% (indirect) (80% owned by Girona, S.A.)	-----
Aigües de Matadepera, S.L.	Lighting, water harnessing, treatment, piping, distribution and supply, sewage purification and sanitation in Matadepera and other villages	23.8% (indirect) (73.34% owned by Mina Pública d'Aigües de Terrassa, S.A.)	-----
Cassa Aigües i Depuració, S.L.U.	Integrated water cycle, renewable energies and works and infrastructures	77.34% (indirect) (fully owned by Companyia d' Aigües de Sabadell, S.A.)	-----
Aguas de Costa Antigua, S.L.	Integrated water cycle	48.91% (indirect) (63.25% owned by Cassa Aigües i Depuració, S.L.U.)	-----
Empresa Mixta de Aguas Antigua, S.L.	Integrated water cycle	23.9% (indirect) (49% owned by Aguas de Costa Antigua, S.L.)	-----

**AIGÜES DE BARCELONA, EMPRESA METROPOLITANA DE GESTIÓ DEL CICLE INTEGRAL DE L'AIGUA, S.A.**

**Notes to the financial statements for the period comprised between 1 august 2013 (start date) and 31 december 2013**

**13. RELATED-PARTY TRANSACTIONS AND BALANCES (continued)**

**13.2 Remuneration of and obligations to Senior Executives and members of the Board of Directors (continued)**

**c) Disclosures under Article 229 of the revised text of the Spanish Capital Companies Law (continued)**

Company	Activity	% of ownership	Position or duties
Erthec Hidráulica y Energías Renovables, S.L.	Engineering activities, energy and integrated water cycle	77.34% (indirect) (fully owned by Cassa Aigües i Depuració, S.L.U.)	-----
Canalizaciones y Excavaciones, S.L.	Works and installations for companies engaged in water, gas and power supply	77.34% (indirect) (fully owned by Cassa Aigües i Depuració, S.L.U.)	-----
Aigües del Penedés, S.L.U.	Integrated water cycle	77.34% (indirect) (fully owned by Companyia d'Aigües de Sabadell, S.A.)	-----
Tratwater	Engineering activities, installations and integrated water cycle	75.79% (indirect) (98% owned by Canalizaciones y Excavaciones, S.L.)	-----
Companyia d'Aigües de Palamós, S.A.	Integrated water cycle management	59.2% (indirect) (59.2% owned by Sorea, Sociedad Regional de Abastecimiento de Aguas, S.A.U.)	-----
Aigües d'Osona, S.A.	Preservation and maintenance of installations in Osona Sud area	24.5% (indirect) (24.5% owned by Sorea, Sociedad Regional de Abastecimiento de Aguas, S.A.U.)	-----
Empresa Municipal Mixta d'Aigües de Tarragona, S.A.	Integrated water cycle	49% (indirect) (49% owned by Sorea, Sociedad Regional de Abastecimiento de Aguas, S.A.U.)	-----
Aigües Sant Pere de Ribes, S.A.	Water service management in Sant Pere de Ribes	97.39% (indirect) (97.39% owned by Sorea, Sociedad Regional de Abastecimiento de Aguas, S.A.U.)	-----

**AIGÜES DE BARCELONA, EMPRESA METROPOLITANA DE GESTIÓ DEL CICLE INTEGRAL DE L'AIGUA, S.A.**

**Notes to the financial statements for the period comprised between 1 august 2013 (start date) and 31 december 2013**

**13. RELATED-PARTY TRANSACTIONS AND BALANCES (continued)**

**13.2 Remuneration of and obligations to Senior Executives and members of the Board of Directors (continued)**

**c) Disclosures under Article 229 of the revised text of the Spanish Capital Companies Law (continued)**

Company	Activity	% of ownership	Position or duties
Aigües del Segarra Garrigues, S.A.	Among other, operation and maintenance of supply networks	1% (indirect) (1% owned by Sorea, Sociedad Regional de Abastecimiento de Aguas. S.A.U.)	-----
Drenatges Urbans del Besòs, S.L.	Integrated water cycle management	50% (indirect) (50% owned by Sorea, Sociedad Regional de Abastecimiento de Aguas, S.A.U.)	-----
Aigües de l'Alt Empordà, S.A.	Integrated water cycle management services	48.6% (indirect) (until 23/December/2013) (48.6% owned by Sorea, Sociedad Regional de Abastecimiento de Aguas, S.A.U.)	-----
Anaigua, Companyia d'Aigües de l'Alt Penedès i l'Anoia, S.A. Unipersonal	Integrated water cycle management	100% (indirect) (fully owned by Sorea, Sociedad Regional de Abastecimiento de Aguas. S.A.U.)	-----
Empresa d'Aigües i Serveis de Cervera i la Segarra, Societat limitada	Drinking water service management in Cervera	49% (indirect) (49% owned by Sorea, Sociedad Regional de Abastecimiento de Aguas. S.A.U.)	-----
Secomsa Aigües, S.L.	Integrated water cycle management	49% (indirect) (49% owned by Sorea, Sociedad Regional de Abastecimiento de Aguas, S.A.U.)	-----
Construccions i Rebaixos, S.L. unipersonal	Maintenance works for the integrated water cycle	100% (indirect) (fully owned by Sorea, Sociedad Regional de Abastecimiento de Aguas. S.A.U.)	-----
Aigua de Rigat, S.A.	Integrated water cycle	68.46% (indirect) (68.46% owned by Sorea, Sociedad Regional de	-----

**AIGÜES DE BARCELONA, EMPRESA METROPOLITANA DE GESTIÓ DEL  
CICLE INTEGRAL DE L'AIGUA, S.A.**

**Notes to the financial statements for the period comprised between 1 august 2013 (start  
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Abastecimiento de  
Aguas, S.A.U.)

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**AIGÜES DE BARCELONA, EMPRESA METROPOLITANA DE GESTIÓ DEL CICLE INTEGRAL DE L'AIGUA, S.A.**

**Notes to the financial statements for the period comprised between 1 august 2013 (start date) and 31 december 2013**

**13. RELATED-PARTY TRANSACTIONS AND BALANCES (continued)**

**13.2 Remuneration of and obligations to Senior Executives and members of the Board of Directors (continued)**

**c) Disclosures under Article 229 of the revised text of the Spanish Capital Companies Law (continued)**

<b>Company</b>	<b>Activity</b>	<b>% of ownership</b>	<b>Position or duties</b>
Costa Brava Abastament Sorea AIE	Aqualia-Integrated water cycle management	50% (indirect) (50% owned by Sorea, Sociedad Regional de Abastecimiento de Aguas, S.A.U.)	-----
Abastament en Alta Costa Brava S.A.	EM Integrated water cycle management	25.99% (indirect) (52% owned by Costa Brava Abastament Aqualia-Sorea AIE)	-----
Aigües Colomenques, S.L.	Integrated water cycle	51% (indirect) (51% owned by Sorea, Sociedad Regional de Abastecimiento de Aguas, S.A.U.)	-----
Gestió Aigua Calella, S.L.	Integrated water cycle	49% (indirect) (49% owned by Sorea, Sociedad Regional de Abastecimiento de Aguas, S.A.U.)	-----
Hidrobal, Gestió de Balears, S.A.U.	Aguas de Integrated water cycle	100% (indirect) (since 1/November/2013) (controlled by Aquadom, Concesiones Ibérica, S.L.U.)	-----
Gestió Aigües Inca, S.L.	Integrated water cycle	100% (indirect) (since 17/July/2013 controlled by Hidrobal Gestió de Aguas de Balears, S.A.U.)	-----
Aguas Término de Calvià, S.A.	Underground management in Calvià water	80.07% (indirect) (80.7% owned by Hidrobal Gestió de Aguas de Balears, S.A.U.)	-----

**AIGÜES DE BARCELONA, EMPRESA METROPOLITANA DE GESTIÓ DEL CICLE INTEGRAL DE L'AIGUA, S.A.**

**Notes to the financial statements for the period comprised between 1 august 2013 (start date) and 31 december 2013**

**13. RELATED-PARTY TRANSACTIONS AND BALANCES (continued)**

**13.2 Remuneration of and obligations to Senior Executives and members of the Board of Directors (continued)**

**c) Disclosures under Article 229 of the revised text of the Spanish Capital Companies Law (continued)**

Company	Activity	% of ownership	Position or duties
Canaragua, S.A.	Integrated water cycle	100% (indirect) (99% owned by Aquadom, Concesiones Ibérica S.L.U. and 1% owned by Interagua, Servicios Integrales del Agua, S.A.U.)	-----
Canaragua Concesiones, S.A.U.	Integrated water cycle	100% (indirect) (fully owned by Canaragua, S.A.)	-----
Gabinete de Ingeniería Hidráulica, S.A.	Integrated water cycle management	20% (indirect) (until 29/November/2013) (20% owned by Canaragua, S.A.)	-----
Aguas del Telde, Gestión Integral del Servicio, S.A.	Integrated water cycle	50% (indirect) (50% owned by Canaragua Concesiones, S.A.U.)	-----
Aguas de Arona, S.A.	Hydroelectric installation activity	82.38% (indirect) (82.38% owned by Canaragua Concesiones, S.A.U.)	-----
Aguas de la Habana, S.A. Empresa Mixta	Integrated water cycle	45% (indirect) (45% owned by Canaragua, S.A.)	-----
Teidaigua, S.A.	Supply, sewerage, and wastewater treatment	49.69% (indirect) (49.69% owned by Canaragua Concesiones, S.A.U.)	-----
Pozos y Recursos del Teide, S.A.	Integrated water cycle management	99.9% (indirect) (99.9% owned by Canaragua Concesiones, S.A.U.)	-----
Aguas de Jumilla, S.A.	Integrated water cycle	49% (indirect) (49% owned by Hidrogea)	-----
Sermubeniél, S.A.	Integrated water cycle	49% (indirect) (49% owned by Hidrogea)	-----

**AIGÜES DE BARCELONA, EMPRESA METROPOLITANA DE GESTIÓ DEL  
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**AIGÜES DE BARCELONA, EMPRESA METROPOLITANA DE GESTIÓ DEL CICLE INTEGRAL DE L'AIGUA, S.A.**

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**13. RELATED-PARTY TRANSACTIONS AND BALANCES (continued)**

**13.2 Remuneration of and obligations to Senior Executives and members of the Board of Directors (continued)**

**c) Disclosures under Article 229 of the revised text of the Spanish Capital Companies Law (continued)**

<b>Company</b>	<b>Activity</b>	<b>% of ownership</b>	<b>Position or duties</b>
Empresa Municipal de Aguas de Saneamiento de Murcia, S.A.	Integrated water cycle	49% (indirect) (49% owned by Hidrogea)	-----
Aguas de Lorca, S.A.	Integrated water cycle	49% (indirect) (49% owned by Hidrogea)	-----
Aguas de Cieza, S.A.	Integrated water cycle	49% (indirect) (49% owned by Hidrogea)	-----
Aquanex, Servicio domiciliario del agua de Extremadura, S.A.	Integrated water cycle	55% (indirect) (55% owned by Aquadom. Concesiones Ibérica, S.L.U.)	-----
Aigües Municipals de Paterna, S.A.	Integrated water cycle management in Paterna and sewerage system management	49% (indirect) (49% owned by Hidraqua)	-----
Aguas Municipalizadas de Alicante Empresa Mixta (AMAEM)	Integrated water cycle	50% (indirect) (50% owned by Hidraqua)	-----
Aigües i Sanejament d'Elx, S.A.	Integrated water cycle	49% (indirect) (49% owned by Hidraqua)	-----
Empresa Mixta d'Aigües de l'Horta, S.A.	Integrated water cycle management in Horta de València county and execution of master plans and supervision and monitoring of discharges to sewerage	49% (indirect) (49% owned by Hidraqua)	-----
Aigües de Cullera, S.A.	Integrated water cycle management in Cullera and wastewater treatment, design and execution of master plans and mathematical models, as well as supervision and monitor of discharges to the sewage system.	47.62% (indirect) (47.62% owned by Hidraqua)	-----
Aguas del Arco Mediterráneo, S.A.	Integrated water cycle management in Torreveja	74% (indirect) (74% owned by Hidraqua)	-----

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**Notes to the financial statements for the period comprised between 1 august 2013 (start date) and 31 december 2013**

**13. RELATED-PARTY TRANSACTIONS AND BALANCES (continued)**

**13.2 Remuneration of and obligations to Senior Executives and members of the Board of Directors (continued)**

**c) Disclosures under Article 229 of the revised text of the Spanish Capital Companies Law (continued)**

Company	Activity	% of ownership	Position or duties
Empresa Mixta de Aguas Residuales de Alicante, S.A. (Emarasa)	Purification	50% (indirect) (50% owned by Hidralia)	-----
Hidralia, Gestión Integral de Aguas de Andalucía, S.A.	Integrated water cycle	45.13% (indirect) (45.13% owned by Sorea, Sociedad Regional de Abastecimiento de Aguas, S.A.U.)	-----
Aguas de Montilla, S.A.	Water and Environment	22.11% (indirect) (49% owned by Hidralia)	-----
Aguas Vega-Sierra Elvira, S.A.	Water and Environment	18% (indirect) (40% owned by Hidralia)	-----
Aguas y Saneamientos de Torremolinos, S.A.	Water and Environment	42.7% (indirect) (95% owned by Hidralia)	-----
Empresa Municipal de Abastecimiento y Saneamiento de Granada, S.A.	Integrated water cycle	22% (indirect) (48.99% owned by Hidralia)	-----
E.D.A.R. Cádiz-San Fernando Agrupación de Interés Económico	Management of the joint wastewater treatment plant of Cádiz and San Fernando	10% (indirect) (22% owned by Hidralia)	-----
Empresa Municipal de Aguas de Huelva, S.A.	Integrated water cycle	22.11% (indirect) (49% owned by Hidralia)	-----
Aguas de Benhavís, S.A.	Integrated water management in Benhavís	22% (indirect) (49% owned by Hidralia)	-----
Aquara, Gestión Cíelo Integral de Aguas de Aragón, S.A.U.	Integrated water cycle	100% (indirect) (controlled since 1/November/2013 by Aquadom, Concesiones Ibérica, S.L.U.)	-----
Aquarbe, S.A.U.	Integrated water cycle	100% (indirect) (controlled since 1/November/2013 by Aquadom, Concesiones Ibérica,	-----

**AIGÜES DE BARCELONA, EMPRESA METROPOLITANA DE GESTIÓ DEL  
CICLE INTEGRAL DE L'AIGUA, S.A.**

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S.L.U.)

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**AIGÜES DE BARCELONA, EMPRESA METROPOLITANA DE GESTIÓ DEL CICLE INTEGRAL DE L'AIGUA, S.A.**

**Notes to the financial statements for the period comprised between 1 august 2013 (start date) and 31 december 2013**

**13. RELATED-PARTY TRANSACTIONS AND BALANCES (continued)**

**13.2 Remuneration of and obligations to Senior Executives and members of the Board of Directors (continued)**

**c) Disclosures under Article 229 of the revised text of the Spanish Capital Companies Law (continued)**

<b>Company</b>	<b>Activity</b>	<b>% of ownership</b>	<b>Position or duties</b>
Aquona, Gestión de Aguas de Castilla, S.A.U	Integrated water cycle	100% (indirect) (controlled since 1/November/2013 by Aquadom, Concesiones Ibérica, S.L.U.)	-----
Viaqua, Gestión Integral de Aguas de Galicia, S.A.U.	Integrated water cycle	100% (indirect) (controlled since 1/November/2013 by Aquadom, Concesiones Ibérica, S.L.U.)	-----
Asturagua, Servicio Integral del Ciclo del Agua, S.A.U.	Integrated water cycle	100% (indirect) (controlled since 1/November/2013 by Aquadom, Concesiones Ibérica, S.L.U.)	-----
Sociedad Mixta de Aguas de León	Drinking water supply and service management	49% (indirect) (49% owned by Aquona)	-----
Aguas de Valladolid, S.A.	Supply, sewerage and wastewater treatment	100% (indirect) (99% owned by Aquona and 1% owned by Interagua, Servicios Integrales del Agua, S.A.U.)	-----
Aguas de Puertollano, S.L.	Integrated water cycle	49% (indirect) (49% owned by Aquona)	-----
Aguas de Avilés, S.L.	Integrated water cycle management in Avilés	74% (indirect) (74% owned by Asturagua)	-----
Águas de Albacete, S.A.	Supply, sewerage and wastewater treatment	74% (indirect) (74% owned by Aquona)	-----

**AIGÜES DE BARCELONA, EMPRESA METROPOLITANA DE GESTIÓ DEL CICLE INTEGRAL DE L'AIGUA, S.A.**

**Notes to the financial statements for the period comprised between 1 august 2013 (start date) and 31 december 2013**

**13. RELATED-PARTY TRANSACTIONS AND BALANCES (continued)**

**13.2 Remuneration of and obligations to Senior Executives and members of the Board of Directors (continued)**

**c) Disclosures under Article 229 of the revised text of the Spanish Capital Companies Law (continued)**

<b>Company</b>	<b>Activity</b>	<b>% of ownership</b>	<b>Position or duties</b>
Aquaourense Sociedade Provincial de Augas e Medio Ambiente, S.A.	Integrated water cycle	66% (indirect) (66% owned by Viaqua)	-----
Ambitalis, AIE	Technical and legal assistance in environmental issues	60% (indirect) (60% owned by Aqualogy Aqua Ambiente Servicios Integrales, S.A.U.)	-----
Labagua,S.A.	Water analysis and quality control, risk prevention and environmental consultancy	100% (indirect) (99% owned by Aqualogy Soluciones y Tecnologías del Agua, S.L.U. and 1% owned by Interagua, Servicios Integrales del Agua, S.A.U.)	-----
Aqualogy Medio Ambiente, S.A.U.	Wastewater treatment and reuse and performance of wastewater installation projects and works	100% (indirect) (fully owned by Aqualogy Soluciones y Tecnologías del Agua, S.L.U.)	-----
Aquagest Medio Ambiente-Rubatec-Amsa, AIE	Performance of studies, projects and hydraulic and electric infrastructure works	45% (indirect) (45% owned by Aqualogy Medio Ambiente, S.A.U.)	-----
Aquagest Medio Ambiente-Aqualia AIE	Wastewater treatment service management and maintenance of sanitation systems and performance of all kinds of related studies and works	62.5% (indirect) (62.5% owned by Aqualogy Medio Ambiente, S.A.U.)	-----
Simmar, Serveis Integrals del Maresme, S.L.	Water and Environment	36% (indirect) (45% owned by Aquagest Medio Ambiente-Rubatec-Amsa AIE)	-----
Empresa Mixta d'Aigües de la Costa Brava, S.A.	Wastewater treatment and reuse, maintenance of sanitation systems and performance of all kinds of related studies and works	41.24% (indirect) (66% owned by Aquagest Medio Ambiente-Aqualia, A.I.E.)	-----

**AIGÜES DE BARCELONA, EMPRESA METROPOLITANA DE GESTIÓ DEL CICLE INTEGRAL DE L'AIGUA, S.A.**

**Notes to the financial statements for the period comprised between 1 august 2013 (start date) and 31 december 2013**

**13. RELATED-PARTY TRANSACTIONS AND BALANCES (continued)**

**13.2 Remuneration of and obligations to Senior Executives and members of the Board of Directors (continued)**

**c) Disclosures under Article 229 of the revised text of the Spanish Capital Companies Law (continued)**

<b>Company</b>	<b>Activity</b>	<b>% of ownership</b>	<b>Position or duties</b>
Depuradores d'Osona, S.L.	Wastewater treatment	24.50% (indirect) (24.50% owned by Aqualogy Medio Ambiente, S.A.U.)	-----
Eco-Neteges Especiales, S.A.	Waste removal and cleaning of septic tanks and commercial/industrial installations	25.97% (indirect) (25.97% owned by Aqualogy Medio Ambiente, S.A.U.)	-----
Searsa-Cañellas, AIE	Project, execution, studies, maintenance, operation and promotion of all kinds of works and services related to supply, sanitation, treatment, hydraulic constructions and environment	50% (indirect) (50% owned by Aqualogy Medio Ambiente, S.A.U.)	-----
Aqua Development Network, S.A.	Rendering of human resources consulting services, innovation services	100% (indirect, since 19/November/2013) (99.99% owned by Aqualogy Soluciones y Tecnologías del Agua, S.L.U. and 0.01% owned by Interagua, Servicios Integrales del Agua, S.A.U.) 99.99% (direct, until 19/November/2013)	-----
Aqualogy Solutions, S.A.U.	Supply and maintenance of meters, maintenance services for internal water installations, outsourcing services for sales processes, set-up and operation of remote meter reading, marketing of technology implementation projects	100% (indirect) (fully owned by Aqualogy Soluciones y Tecnologías, S.L.U.)	-----

**AIGÜES DE BARCELONA, EMPRESA METROPOLITANA DE GESTIÓ DEL CICLE INTEGRAL DE L'AIGUA, S.A.**

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**13. RELATED-PARTY TRANSACTIONS AND BALANCES (continued)**

**13.2 Remuneration of and obligations to Senior Executives and members of the Board of Directors (continued)**

**c) Disclosures under Article 229 of the revised text of the Spanish Capital Companies Law (continued)**

<b>Company</b>	<b>Activity</b>	<b>% of ownership</b>	<b>Position or duties</b>
Seguragua, S.A.	Marketing of maintenance products for domestic installations	50% (indirect) (50% owned by Aqualogy Solutions, S.A.U.)	-----
Logistium, Servicios Logísticos, S.A.	Purchasing pool and material supply and logistics services, outsourcing of purchasing processes	100% (indirect) (99% owned by Aqualogy Services Company, S.A. 1% owned by Interagua, Servicios Integrales del Agua, S.A.U.)	-----
Centro Operativo Ciclo Comercial, S.A.U.	Sales processes management related to water supply and sanitation services	100% (indirect) (fully owned by Aqualogy Services Company, S.A.U.)	-----
Aqualogy Latam	Water and Environment	100% (indirect) (45% owned by Aqualogy Services Company, S.A.U.; 1% owned by Aqualogy Aguas de Levante, S.A.U.; 45% owned by Aqualogy Aqua Ambiente Servicios Integrales, S.A.U.; 1% owned by Interagua, Servicios Integrales del Agua, S.A.U.; and 8% owned by Aqua Development Network, S.A.)	-----
Compañía de Aguas de Ramos Arizpe, S.A. de C.V.	Integrated water cycle	21.6% (indirect) (48% owned by Aguas de Saltillo, S.A. de C.V.)	-----
Bristol Water, plc.	Water supply	30% (indirect) (fully owned by Bristol Water Core Holdings, Ltd.)	-----

**AIGÜES DE BARCELONA, EMPRESA METROPOLITANA DE GESTIÓ DEL CICLE INTEGRAL DE L'AIGUA, S.A.**

**Notes to the financial statements for the period comprised between 1 august 2013 (start date) and 31 december 2013**

**13. RELATED-PARTY TRANSACTIONS AND BALANCES (continued)**

**13.2 Remuneration of and obligations to Senior Executives and members of the Board of Directors (continued)**

**c) Disclosures under Article 229 of the revised text of the Spanish Capital Companies Law (continued)**

<b>Company</b>	<b>Activity</b>	<b>% of ownership</b>	<b>Position or duties</b>
Aqualogy Environnement Limited	Water services company and Ice Pigging developer	100%(indirect) (fully owned by Aqualogy Solutions and Technologies Uk, Ltd.)	-----
Empresa Depuradora de Aguas Servidas Mapocho-Trebal Limitada	Operation and maintenance of La Farfana Wastewater Treatment Plant	51% (indirect) (51% owned by Aqualogy Chile Limitada)	----
Aguas Andinas, S.A.	Integrated water cycle	28% (indirect) (50.10% owned by Inversiones Aguas Metropolitanas, S.A.)	-----
Aguas Manquehue, S.A.	Sanitary services, integrated water cycle	28% (indirect) (99% owned by Aguas Cordillera. S.A.)	-----
Aguas Cordillera, S.A.	Sanitary services, integrated water cycle	28% (indirect) (99% owned by Aguas Andinas, S.A.)	-----
Gestión y Servicios, S.A.	Material supply and rendering of services related to sanitary services	27% (indirect) (99% owned by Aguas Andinas, S.A.)	----
Eco-Riles, S.A.	Industrial waste management	28% (indirect) (99% owned by Aguas Andinas, S.A.)	----
Análisis Ambientales (ANAM), S. A.	Lab analysis	28% (indirect) (99% owned by Aguas Andinas, S.A.)	-----
Aguas de Saltillo, Empresa Mixta	Integrated water management	45% (indirect) (45% owned by Interagbar de Mexico, S.A. de C.V.)	-----
Empresa de Servicios Sanitarios de los Lagos, S.A.	Water and Environment	15% (indirect) (51% owned by Inversiones Iberaguas Limitada, S.A.)	----
Empresa Depuradora de Aguas Servidas	Operation and maintenance of La Farfana Wastewater Treatment Plant	50% (indirect) (50% owned by Aqualogy Chile Limitada)	----



**AIGÜES DE BARCELONA, EMPRESA METROPOLITANA DE GESTIÓ DEL CICLE INTEGRAL DE L'AIGUA, S.A.**

**Notes to the financial statements for the period comprised between 1 august 2013 (start date) and 31 december 2013**

**13. RELATED-PARTY TRANSACTIONS AND BALANCES (continued)**

**13.2 Remuneration of and obligations to Senior Executives and members of the Board of Directors (continued)**

**c) Disclosures under Article 229 of the revised text of the Spanish Capital Companies Law (continued)**

<b>Company</b>	<b>Activity</b>	<b>% of ownership</b>	<b>Position or duties</b>
Agbar Serco Technology Solutions Ltd.	Joint venture together with Serco, solution provider in the water market	50% (indirect) (50% owned by Aqualogy Environnement Ltd.)	-----
Aqualogy Solutions Chile Limitada	Rendering of consulting, accounting management services. Contracting with the Government and private companies	100% (indirect) (20% owned by Aqualogy Chile Limitada; and 80% owned by Aqualogy Services Company, S.A.U.)	-----
Asterión	Integrated water cycle	100% (indirect) (40% owned by Aqualogy Chile Limitada; 20% owned by Aqualogy Services Company, S.A.U.; and 40% owned by Aqualogy Solutions Chile Limitada)	-----
Canaragua Marroc SARL	Water and electrical energy	100% (indirect) (fully owned by Canaragua, S.A.)	-----
Marral Chemicals, Ltd.	Rendering of services adapted to water treatment	100% (indirect) (fully owned by Aqualogy Environnement Ltd.)	-----
Agualogy Chile Limitada	Execution and administration of investments in real estate and advisory services related to technology and know-how transfer, business administration...	100% (indirect) (99.99% owned by Agbar Latinoamérica and 0.01% owned by Aqualogy Soluciones y Tecnologías del Agua, S.L.U.)	-----
Aguas Industriales del Norte AINOR	Advisory services related to water supply and treatment management and projects	60% (indirect) (60% owned by Inversiones Aguas del Gran Santiago, Ltda.)	-----

**AIGÜES DE BARCELONA, EMPRESA METROPOLITANA DE GESTIÓ DEL CICLE INTEGRAL DE L'AIGUA, S.A.**

**Notes to the financial statements for the period comprised between 1 august 2013 (start date) and 31 december 2013**

**13. RELATED-PARTY TRANSACTIONS AND BALANCES (continued)**

**13.2 Remuneration of and obligations to Senior Executives and members of the Board of Directors (continued)**

**c) Disclosures under Article 229 of the revised text of the Spanish Capital Companies Law (continued)**

Company		Activity	% of ownership	Position or duties
Aqualogy S.A.	Medioambiente Chile,	Rendering of services related to sanitary and environmental services	99% (indirect) (98.9% owned by Aqualogy Chile Limitada; and 0.1% owned by Aqualogy Aqua Ambiente Servicios Integrales, S.A.U.)	-----
Aguas de Porta Preta, Ltd.		Integrated water cycle	37.89% (indirect) (49% owned by Cassa Aigües i Depuració, S.L.U.)	-----
SBD - Portugal Ltd.		Integrated water cycle	75.79% (indirect) (98% owned by Cassa Aigües i Depuració, S.L.U.)	-----
Águas de Porto Novo, S.A.		Integrated water cycle	30.31% (indirect) (80% owned by Aguas Ponta Preta Ltda.)	-----
Aguas e Energia de Boavista, S.A.		Integrated water cycle	31.24% (indirect) (40% owned by Cassa-Cabo Verde Holding Ltda.)	----

The Suez Environnement group company Suez Environnement, S.A.S., owner of 96.65% of Suez Environnement España, S.L, a director of Sociedad General de Aguas de Barcelona, S.A., owns shares representing 33.02% of the share capital of Aguas de Valencia, S.A.

**AIGÜES DE BARCELONA, EMPRESA METROPOLITANA DE GESTIÓ DEL CICLE INTEGRAL DE L'AIGUA, S.A.**

**Notes to the financial statements for the period comprised between 1 august 2013 (start date) and 31 december 2013**

**13. RELATED-PARTY TRANSACTIONS AND BALANCES (continued)**

**13.2 Remuneration of and obligations to Senior Executives and members of the Board of Directors (continued)**

**c) Disclosures under Article 229 of the revised text of the Spanish Capital Companies Law (continued)**

**f) Mr. Albert Martínez Lacambra, representative of the director Sociedad General de Aguas de Barcelona, S.A., had ownership interest and/or held positions or carried out duties at companies which are engaged in an activity that is identical, similar or complementary to the activity of Aigües de Barcelona, Empresa Metropolitana de Gestió del Cicle Integral de l'Aigua, S.A., according to the following detail:**

<b>Company</b>	<b>Activity</b>	<b>% of ownership</b>	<b>Position or duties</b>
Agbar, S.L.U.	Integrated water cycle	-----	Sole Director (since 24/May/2013)
Aigua de Rigat, S.A.	Integrated water cycle	-----	Director
Aigües del Segarra-Garrigues, S.A.	Irrigator community management	-----	Director
Aquagest Medio Ambiente-Aqualia, AIE	Wastewater treatment service management and maintenance of sanitation systems and performance of all kinds of related studies and works	-----	Chairman
Companyia d'Aigües de Palamós, S.A.	Integrated water cycle management	-----	Director
Empresa Mixta d'Aigües de la Costa Brava, S.A.	Wastewater treatment and reuse, maintenance of sanitation systems and performance of related projects and works	-----	Representative of Aqualogy Medio Ambiente, S.A.U., as a chairman
Empresa Municipal Mixta d'Aigües de Tarragona, S.A.	Integrated water cycle	-----	CEO
Girona, S.A.	Water and Environment	-----	Representative of Sociedad General de Aguas de Barcelona, S.A., Director
Secomsa Aigües, S.L.	Integrated water cycle management	-----	Second Vice-president (until 14/November/2013)
Companyia d'Aigües de Sabadell, S.A.	Integrated water cycle	-----	Second Vice-president (since 17/September/2013)
Sociedad Concesionaria de la Zona Regable del Canal de Navarra, S.A.	Construction and operation of general interest infrastructures in the	-----	Director (des del 24/July/2013)

**AIGÜES DE BARCELONA, EMPRESA METROPOLITANA DE GESTIÓ DEL CICLE INTEGRAL DE L'AIGUA, S.A.**

**Notes to the financial statements for the period comprised between 1 august 2013 (start date) and 31 december 2013**

irrigation area of the  
Navarra Canal

**13. RELATED-PARTY TRANSACTIONS AND BALANCES (continued)**

**13.2 Remuneration of and obligations to Senior Executives and members of the Board of Directors (continued)**

**c) Disclosures under Article 229 of the revised text of the Spanish Capital Companies Law (continued)**

Company	Activity	% of ownership	Position or duties
Agbar Chile, S.A.	Holding, rendering of services related to sanitary services	-----	Surrogate manager (des del 29/October/2013)
Fundació Agbar, Centre d' Estudis i Investigació del Medi Ambient	Foundations	-----	Trustee

**g) The Directors Mr. Carlos Tusquets Trias de Bes and Mr. Josep Dolz Ripollès** have performed, as independent professionals or as employees, an activity that is identical, similar or complementary to the activity of Aigües de Barcelona, Empresa Metropolitana de Gestió del Cicle Integral de l'Aigua, S.A., according to the following detail:

Director	Activity	Type of scheme based on the activity rendered	Company through which the activity is rendered	Positions or duties held in the indicated Company
Mr. Carlos Tusquets Trias de Bes	Asset Management	Employee	Tredcapital, S.V.	Chairman
Mr. Josep Dolz Ripollès	College professor, R&D. Performance of studies and reports as a member of UPC		Universitat Politècnica de Catalunya (UPC)	College professor

# AIGÜES DE BARCELONA, EMPRESA METROPOLITANA DE GESTIÓ DEL CICLE INTEGRAL DE L'AIGUA, S.A.

Notes to the financial statements for the period comprised between 1 august 2013 (start date) and 31 december 2013

## 14. INFORMATION ON THE ENVIRONMENT

At December 31, 2013, the Company has non-current assets the purpose of which was to help minimise the environmental impact and to protect and enhance the environment. The breakdown of these items and their carrying amount at 2013 year end is as follows, in euros:

	2013
Network improvement plan	19,752,809
Sludge treatment plant, St. Joan Despí water treatment plant	1,886,401
Other environmental assets	4,041,444
<b>Total</b>	<b>25,680,654</b>

Additionally, in 2013 the Company incurred expenses in connection with the protection and enhancement of the environment. The expenses relating to recurring maintenance activities totalled EUR 461,263.

The Company also made various contributions to foundations and research companies in relation to environmental issues, including most notably:

- Contributions to the Fundació Agbar amounting to EUR 1,586,656, in 2013. This Foundation earmarks a significant portion of its annual budget for environmental protection and enhancement projects.
- Contributions to CETaqua, Centro Tecnológico del Agua for an amount of EUR 682,174.

The Company has insurance policies and other security plans affording reasonable coverage of any possible contingency that might arise from its environmental activities.

## 15. SUBSEQUENT EVENTS

From December 31, 2013 to the date on which these financial statements were prepared, no additional significant events took place that required the extension or modification of their contents.

**AIGÜES DE BARCELONA, EMPRESA METROPOLITANA DE GESTIÓ DEL CICLE INTEGRAL DE L'AIGUA, S.A.**

**Notes to the financial statements for the period comprised between 1 august 2013 (start date) and 31 december 2013**

**16. PREPARATION OF THE FINANCIAL STATEMENTS**

The 2013 financial statements prepared by the Company's Board of Directors and will be submitted for approval by the shareholders at the Company's Annual General Meeting have been prepared under Spanish GAAP, and it is considered that they will be approved without any changes.

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Director

Albert Martínez Lacambra

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Chief Financial Officer

José Antonio Castillo Valero

April 4, 2014

# **AIGÜES DE BARCELONA, EMPRESA METROPOLITANA DE GESTIÓ DEL CICLE INTEGRAL DE L'AIGUA, S.A.**

## **DIRECTORS' REPORT FOR THE PERIOD COMPRISED BETWEEN 1 AUGUST 2013 (START DATE) AND 31 DECEMBER 2013 AND 2012**

### **1. Earnings analysis**

**Revenue** in 2013 corresponding to five months amounted to EUR 128,857,731, and the volume of water consumed reached 63.14 Hm<sup>3</sup>.

**Operating profit** amounted to EUR 6,275,750 and **Net profit** for the period amounted to EUR 333,167.

### **2. Analysis of business evolution**

The tariffs applied by the Company in 2013 correspond to the ones approved by the Presidency of Àrea Metropolitana de Barcelona, in the meeting held on November 12, 2012, and authorised by Catalonia Price Committee on 13 November 2012 (File A-82/12), and were effective as of 14 November 2012.

The volume of investments forecasted by the Company for 2014 amounts to EUR 38.6 million mainly for investments in water infrastructures in the Barcelona Metropolitan Area.

### **3. Research and Development**

Our principles demand of us that we carry out our business in a sustainable manner and in constant research of innovative solutions that are useful to society and oriented towards a present and future with greater quality life. For this reason, the Company has made contributions to the Fundació Agbar and CETaqua, Centro Tecnológico del Agua, which are the companies in charge of performing these activities, for an amount of EUR 1,586,656 and EUR 682,174, respectively. In 2013 research and development expenses amounted to EUR 1,195,899.

### **4. Treasury shares**

No transaction has been carried out with the Company's shares that resulted in the existence of treasury shares owned by the Company.

### **5. Financial instrument risk assessment**

Nothing to report other than the explanations included in Note 7.2 to the accompanying financial statements.

**Directors' Report for the period comprised between 1 August 2013 (start date) and  
31 December 2013**

**6. Subsequent events**

From December 31, 2013 to the date on which these financial statements were prepared, no additional significant events took place that required the extension or modification of their contents.

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Director

Albert Martínez Lacambra

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Chief Financial Officer

José Antonio Castillo Valero

April 4, 2014





**FINANCIAL STATEMENTS OF AIGÜES DE BARCELONA, EMPRESA  
METROPOLITANA DE GESTIÓ DEL CICLE INTEGRAL DE L’AIGUA, S.A.**

**WATER SUPPLY ACTIVITY OF “SOCIEDAD GENERAL DE AGUAS DE  
BARCELONA, S.A.”**

**SANITATION AND SEWAGE TREATMENT ACTIVITY OF “EMPRESA  
METROPOLITANA DE SANEJAMENT, S.A.”**

**(Jointly, AIGÜES DE BARCELONA)**

**COMBINED FINANCIAL STATEMENTS FOR THE YEAR 2013**

## AIGÜES DE BARCELONA

### COMBINED STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER AND 2012

(Thousands of Euros)

ASSETS	Notes	2013	2012
Non-current assets related to the activity	7	524,846	473,762
Non-current financial assets	9.1	14,949	14,004
Deferred tax assets	13.2	11,440	-
<b>Total non-current assets</b>		<b>551,235</b>	<b>487,766</b>
Inventories	10	847	1,522
Trade and other receivables:		80,306	88,644
Trade receivables for sales and services	9.1	71,474	78,800
Other receivables		8,831	9,844
Current tax assets		1	-
Resources applied/used SGAB - Working capital		6,527	-
Other current financial assets		9,023	38
Other current assets (accruals)		-	4
Cash and cash equivalents		9,975	976
<b>Total current assets</b>		<b>106,678</b>	<b>91,184</b>
<b>Total assets</b>		<b>657,913</b>	<b>578,950</b>
LIABILITES	Notes	2013	2012
Share capital		337,000	-
Comprehensive income for the year		11,042	14,783
Resources applied/used SGAB - Equity		-	215,658
<b>Total equity</b>	<b>11</b>	<b>348,042</b>	<b>230,441</b>
Non-current financial liabilities	12	190,000	-
Deferred tax liabilities	13.2	7,601	14,095
Other non-current liabilities	12	17,117	16,561
Resources applied/used SGAB - Debt	12	-	231,378
<b>Total non-current liabilities</b>		<b>214,718</b>	<b>262,034</b>
Current provisions		1,669	1,609
Current financial liabilities	12	50	30
Other current liabilities	12	93,434	84,836
<b>Total current liabilities</b>		<b>95,153</b>	<b>86,475</b>
<b>Total liabilities</b>		<b>657,913</b>	<b>578,950</b>

## AIGÜES DE BARCELONA

### COMBINED STATEMENT OF PROFIT OR LOSS AT 31 DECEMBER 2013 AND 2012

(Thousands of Euros)

	Notes	2013	2012
Income from Water		287,006	254,624
Purchase of Water		(78,739)	(48,825)
Energy Water		(9,206)	(9,198)
Staff costs Water		(28,484)	(28,020)
Charges		(10,377)	(9,020)
Other expenses from Water		(28,707)	(27,709)
<b>Profit from Water Activity</b>		<b>131,493</b>	<b>131,852</b>
Income from Sewage Treatment		33,228	25,366
Expenses from Sewage Treatment		(27,602)	(17,558)
<b>Margin on Sewage Treatment Activity</b>		<b>5,626</b>	<b>7,808</b>
Income from Other Activities		10,115	10,931
Expenses from Other Activities		(4,442)	(4,667)
<b>Margin on Other Activities</b>		<b>5,673</b>	<b>6,264</b>
<b>Income from Activities</b>	14.1	<b>330,349</b>	<b>290,921</b>
<b>Direct costs from Activities</b>		<b>(187,557)</b>	<b>(144,997)</b>
Indirect costs from Activities		(12,677)	(10,140)
<b>Profit from Activities</b>		<b>130,115</b>	<b>135,784</b>
Ancillary income / Other income		11,372	9,541
Technical and Administrative Personnel Costs		(18,270)	(25,473)
Other general operating expenses		(33,219)	(30,429)
Fee		(4,467)	-
IT costs		(14,825)	(13,988)
Distribution of Structure Costs		(1,319)	(2,459)
Total Structure Costs		(72,100)	(72,349)
<b>EBITDA</b>		<b>69,387</b>	<b>72,976</b>
Amortisation Water	7	(35,662)	(33,911)
Amortisation Sewage Treatment	7	(631)	(15)
Provisions		(3,121)	(1,479)
<b>EBIT</b>		<b>29,973</b>	<b>37,571</b>
Financial result	14.2	(13,673)	(15,822)
<b>Operating Margin</b>		<b>16,300</b>	<b>21,749</b>
Non-recurring profit/(loss)		(843)	(1,269)
<b>EBT</b>		<b>15,457</b>	<b>20,480</b>
Income Tax	13.1	(4,415)	(5,697)
<b>Net Profit</b>		<b>11,042</b>	<b>14,783</b>

**AIGÜES DE BARCELONA**

**COMBINED STATEMENT OF OTHER COMPREHENSIVE INCOME AT 31  
DECEMBER 2013 AND 2012**

(Thousands of Euros)

	2013	2012
Profit for the year	11,042	14,783
Other comprehensive income	-	-
Net other comprehensive income to be reclassified to profit or loss in subsequent periods	-	-
Net other comprehensive income not to be reclassified to profit or loss in subsequent periods	-	-
Other comprehensive income for the year, net of tax	-	-
<b>Total comprehensive income for the year, net of tax</b>	<b>11,042</b>	<b>14,783</b>

**COMBINED STATEMENT OF CHANGES IN EQUITY AT 31 DECEMBER 2013  
AND 2012**

(Thousands of Euros)

	Share Capital	Resources applied/used SGAB	Net profit	Total
<b>Balance at 1 January 2012</b>	-	209,140	14,733	223,873
Net change in Resources applied/used SGAB	-	6,518	(14,733)	(8,215)
Comprehensive income for the year	-	-	14,783	14,783
<b>Balance at 31 December 2012</b>	-	<b>215,658</b>	<b>14,783</b>	<b>230,441</b>
<b>Balance at 1 January 2013</b>	-	<b>215,658</b>	<b>14,783</b>	<b>230,441</b>
Net change in Resources applied/used SGAB	286,450	(215,658)	(14,783)	56,009
Non-monetary contribution EMSSA Concession	50,550	-	-	50,550
Comprehensive income for the year	-	-	11,042	11,042
<b>Balance at 31 December 2013</b>	<b>337,000</b>	-	<b>11,042</b>	<b>348,042</b>

## AIGÜES DE BARCELONA

### COMBINED STATEMENT OF CASH FLOW AT 31 DECEMBER 2013 AND 2012

(Thousands of Euros)

	Notes	2013	2012
<b>Cash flows from operating activities</b>		<b>47,915</b>	<b>42,614</b>
<b>Profit for the year before tax</b>		<b>15,457</b>	<b>20,480</b>
<b>Adjustments to profit</b>		<b>53,891</b>	<b>52,444</b>
Depreciation and amortisation of assets related to the activity	7	36,293	33,926
Losses from disposals of fixed assets	7	804	1,217
Changes in provisions		3,121	1,479
Financial result	14.2	13,673	15,822
<b>Changes in working capital</b>		<b>13,142</b>	<b>(19,219)</b>
Inventories		675	(20)
Trade and other receivables		8,338	13,375
Other current assets		19	38
Other current liabilities		4,110	(33,612)
<b>Other cash flows from operating activities</b>		<b>(34,575)</b>	<b>(11,091)</b>
Net cost of debt service for resources applied / used SGAB		(13,673)	(15,822)
Income tax payables		(870)	-
Income tax applied / used SGAB	13.1	(20,032)	4,731
<b>Cash flows from investing activities</b>		<b>(47,020)</b>	<b>(40,991)</b>
<b>Payments on investments</b>		<b>(47,576)</b>	<b>(41,505)</b>
Non-current assets related to the activity	7	(37,631)	(41,038)
Non-current financial assets		(945)	(467)
Other financial assets		(9,000)	-
<b>Proceeds from investments</b>		<b>556</b>	<b>514</b>
Other financial liabilities		556	514
<b>Cash flows from financing activities</b>		<b>8,104</b>	<b>(698)</b>
<b>Proceeds from and payments of financial liabilities</b>		<b>(47,905)</b>	<b>7,517</b>
Net change in Resources applied/used SGAB - Debt		(47,905)	7,517
<b>Proceeds from and payments on equity instruments</b>		<b>56,009</b>	<b>(8,215)</b>
Net change in Resources applied/used SGAB - Equity		56,009	(8,215)
<b>Net increase / (decrease) in cash and cash equivalents</b>		<b>8,999</b>	<b>925</b>
Cash and cash equivalents at 1 January		976	51
Cash and cash equivalents at 31 December		9,975	976

**NOTES TO THE COMBINED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013**

**1. Nature of the combined financial statements**

Aigües de Barcelona, Empresa Metropolitana de Gestió del Cicle Integral de l'Aigua, S.A. (hereinafter the Company) was incorporated on 30 July 2013 as a result of an agreement signed between Àrea Metropolitana de Barcelona (hereinafter AMB) and Sociedad General de Aguas de Barcelona, S.A. (hereinafter SGAB), on the regulation of the proceedings and legal and economic system for the incorporation of the new semi-public company, and based on which AMB transferred the right to use the necessary infrastructures and installations related to the rendering of the sewage treatment, managed until then by the company Empresa Metropolitana de Sanejament, S.A., and SGAB transferred the instalment and the right of usufruct on the licenses and installations associated to the water supply service, depending on the case, in the Barcelona conurbation.

On 30 July 2013, AMB and SGAB signed the agreement mentioned in the paragraph above on the regulation of the proceedings and legal and economic system for the incorporation of the new semi-public company, under the proceedings of Article 283.2b) of the Regulations on works, activities and services of local entities (ROAS) approved by Decree 179/1995 of June 13.

Aigües de Barcelona, Empresa Metropolitana de Gestió del Cicle Integral de l'Aigua, S.A. has been incorporated with a share capital of EUR 337,000,000, fully subscribed and paid up according to the following detail:

- AMB has contributed the amount of EUR 50,550,000 for the subscription and payment of shares representing 15% of the Company's share capital, through the transfer, until 2 June 2047, of the right to use the necessary infrastructures and installations related to the rendering of the sewage treatment services.
- SGAB has contributed the amount of EUR 286,450,000 for the subscription and payment of shares representing 85% of the new company's share capital, through two different legal transactions:
  - The non-monetary contribution of an undivided instalment representative of 60.12% of fully controlled equity and the right of usufruct on the licences and installations owned by SGAB associated to the water supply service, depending on the case.
  - The sale or usufruct, where appropriate, in favour of the Company of the remaining instalment of 39.88% of the equity related to the service. This transaction has materialised by means of a public deed dated 30 July 2013 submitted before the Notary Maria Isabel Gabarró Miquel, under number 1997 of her protocol, and within the framework and monitoring of applicable prevailing tax regulations. The purchase price has been set at EUR 190,000,000. A deferred payment system has been

## **AIGÜES DE BARCELONA**

established for the principal, which will be made effective, within ten years from the start of operations, at the latest.

## **1. Nature of the combined financial statements (continued)**

Therefore, in order to present the financial information for the year 2013 related to the integrated water cycle activity in the Barcelona conurbation, the combined financial statements have been prepared through the aggregation of the following activity segments of the companies involved in the incorporation of Aigües de Barcelona, Empresa Metropolitana de Gestió del Cicle Integral de l'Aigua, S.A. on 30 July 2013 (hereinafter, Aigües de Barcelona, or the Entity), as well as the financial statements of the said company for the 5-month period of activity in the year 2013, obtained as indicated below:

- Financial statements of Aigües de Barcelona, Empresa Metropolitana de Gestió del Cicle Integral de l'Aigua, S.A. for the 5-month period ended 31 December 2013.
- Water supply activity of the company “Sociedad General de Aguas de Barcelona, S.A.” (AB Division) for the year 2013, obtained as a segregation of the assets and results related to this operating division, for the 7-month period ended 31 July 2013.
- Management of installations related to the sanitation and sewage treatment activity of the company Empresa Metropolitana de Sanejament, S.A. (EMSSA Concession) for the year 2012, corresponding to the net current assets and results related to this activity, for the 7-month period ended 31 July 2013.

The combined financial statements comprise the combined statement of financial position, the combined statement of profit or loss, the combined statement of other comprehensive income, the combined statement of changes in equity and combined statement of cash flows corresponding to the integrated water cycle activity, which consists of water supply and sewage treatment and reuse in the Barcelona conurbation.

The combined financial statements have been prepared solely to provide financial combined information in accordance with certain basis of preparation, assumptions and accounting policies, described in Notes 4, 5 and 6, respectively, in relation to the obtaining of new financing sources of Aigües de Barcelona, Empresa Metropolitana de Gestió del Cicle Integral de l'Aigua, S.A.

The preparation of the combined financial statements for the year ended 31 December 2013 has been prepared by management of Aigües de Barcelona, Empresa Metropolitana de Gestió del Cicle Integral de l'Aigua, S.A. dated April 4, 2014.

## **2. Mercantile information on the companies involved**

Aigües de Barcelona, Empresa Metropolitana de Gestió del Cicle Integral de l'Aigua, S.A. is domiciled in Barcelona at Calle General Batet 1-7. The company belongs to the Agbar Group,



## **AIGÜES DE BARCELONA**

### **Notes to the Combined Financial Statements (continued) for the year ended 31 December 2013**

of which Sociedad General de Aguas de Barcelona, S.A., is the parent, which is in turn controlled by the Suez Environnement Group through its Spanish subsidiary Suez Environnement España, S.L., domiciled in Barcelona, at Avenida Diagonal, 211.

**2. Mercantile information on the companies involved (continued)**

Sociedad General de Aguas de Barcelona, S.A. is domiciled in Barcelona, at Avenida Diagonal, 211 (Torre Agbar). It was incorporated on 20 January 1882, in Paris, and adapted its bylaws by means of a public deed authorised by the Barcelona Notary Raúl Vall Vilardell on 5 June 1991, recorded under number 2,136 of his protocol and registered at the Mercantile Registry of Barcelona in Volume 8,880, Sheet no. 62, page B-16,487, entry no. 1,032. The Company belongs to the Suez Environnement España Group, the parent company of which is Suez Environnement España, S.L., domiciled in Barcelona, at Avenida Diagonal, 211, which is the company that prepares consolidated financial statements. The 2012 consolidated financial statements of Suez Environnement España, S.L. were approved by the partners in the general meeting held on 6 June 2013 and duly filed with Barcelona Mercantile Registry. The Suez Environnement Group holds control over SGAB through its 75.74% ownership interest in HISUSA, Holding de Infraestructuras y Servicios Urbanos, S.A., which is the majority shareholder of the Company with a 99.49% ownership interest.

Empresa Metropolitana de Sanejament, S.A. is public limited company incorporated on 13 September 1985 by means of a public deed authorised by the Notary Alfonso Arroyo Alonso, registered at the Mercantile Registry of Barcelona, Volume 5,486, Sheet no. 166, page 62,292, Book 4,788. It is domiciled in Barcelona at calle Madrazo 50-42.

**3. Entity activity**

The combined financial information herein provided relates to the integrated water cycle services management activity, and specifically, the execution of hydraulic works, and operation, maintenance and management of the following services:

- a) Low-level water supply.
- b) High-level water sanitation and urban sewage treatment, as well as its regeneration for other uses.
- c) Regenerated water supply.
- d) Coordination and integrated management of rainwater and sewage disposal and of sewage networks, as well as technical assistance in intervention duties in sewage discharge into sanitation systems.

- e) Any other activity aimed at meeting low-level water supply, sanitation and treatment needs, and specifically, any other activity related to the control, inhibition and quality of purified water and sewage, through lab analysis techniques.
  
- f) The performance of studies and projects and execution of hydraulic infrastructure works and any other works related to the low-level water supply, sanitation and treatment.

#### **4. Basis of preparation and accounting policies**

##### **4.1 Basis of preparation**

The combined financial statements have been prepared in accordance with International Financial Reporting Standards (EU-IFRS) as adopted by the European Union, except for the following premises, which differ from the abovementioned standards and are described below:

##### Consolidation principles

IAS 27 does not consider the combination of financial statements (“horizontal integration”); instead, it requires the consolidation of groups (“vertical integration”) based on the parent company–subsidiary relationship. As mentioned, the purpose of these combined financial statements is to jointly present the financial situation and equity at December 31, 2013 and the results of operation and cash flow of the activity segments of AB Division and EMSSA Concession for the 7-month period ended on 31 July 2013 and Aigües de Barcelona, Empresa Metropolitana de Gestió del Cicle Integral de l’Aigua, S.A., for the 5 month-period ended 31 December 2013, that is, to provide relevant information on the net assets, capacity to generate liquidity, and solvency of the Entity.

Regarding 2012, the financial situation, results, statement of other comprehensive income, statement of changes in equity and cash flow statement of the activity segments of AB Division and EMSSA Concession are jointly presented, that is, relevant information on the net assets, capacity to generate liquidity, and solvency of the Entity is provided for the year ended 31 December 2012.

##### Information to be included in the statement of financial position

IAS 1 establishes that the statement of financial position will include items that present separately the amounts of property, plant and equipment and intangible assets. For the purposes of these combined financial statements, it has been considered appropriate to group such items under a single line called ‘Non-current assets related to the activity’.

##### Breakdown of the statement of profit or loss

The accompanying statement of profit or loss has been broken down according to the ‘function of expenses’ method. For the purposes of the preparation of these combined financial statements, it was not considered relevant to include additional information on the nature of such expenses.

Except for the premises above, the accounting principles and criteria applied to measure and present the assets and liabilities and income and expenses of the Entity are the same as those established by IFRS. However, due to such exceptions, the combined financial statements are

## **AIGÜES DE BARCELONA**

### **Notes to the Combined Financial Statements (continued) for the year ended 31 December 2013**

not presented in conformity with IFRS, but with the specific accounting basis described in this Note and Notes 5 and 6 further below.

Notes to the Combined Financial Statements (continued) for the year ended 31 December 2013

4. Basis of preparation and accounting policies (continued)

4.2 Changes in accounting policies

b) **Mandatory standards and interpretations approved by the European Union**

The accounting policies used to prepare the combined financial statements for the year ended 31 December 2013 are the same as those used to prepare the combined financial statements for the prior year, except for the adoption of the following amendments on 1 January 2013:

- IAS 19 revised “Employee Benefits”: Effective for annual periods beginning on or after 1 January 2013.
- IFRS 13 “Fair Value Measurement”: Effective for annual periods beginning on or after 1 January 2013.
- Amendment to IAS 1 ‘Presentation of items of Other Comprehensive Income’: Effective for annual periods beginning on or after 1 July 2012.
- Amendment to IFRS 7 “Disclosures – Offsetting financial assets and financial liabilities”: Effective for annual periods beginning on or after 1 January 2013.
- Amendment to IAS 12 “Deferred tax: Recovery of underlying assets”: Effective for annual periods beginning on or after 1 January 2013.
- IFRIC 20 “Stripping costs in the production phase of a surface mine”: Effective for annual periods beginning on or after 1 January 2013.
- Improvements in IFRS period 2009-2011: Effective for annual periods beginning on or after 1 January 2013.

The adoption of these standards, amendments and interpretations has had no impact on the disclosures included in these combined financial statements, the financial position or the results of the Entity.

Changes adopted in 2012

In 2012, the Entity adopted the following new accounting standards that had no significant impact on the reported figures or the presentation and disclosure of the combined financial statements:

Amendments to IFRS 7 ‘Disclosures – Transfer of financial assets’.

c) **Standards and interpretations issued by the IASB and approved by the European Union, but not yet mandatory**

At the date of approval of these combined financial statements, the following standards, amendments and interpretations had been issued by the IASB, were not yet mandatory and had been approved by the European Union:

**4. Basis of preparation and accounting policies (continued)**

**4.2 Changes in accounting policies (continued)**

- IFRS 10, ‘Consolidated Financial Statements’: Effective for annual periods beginning on or after January 1, 2014.
- IFRS 11, ‘Joint Arrangements’: Effective for annual periods beginning on or after January 1, 2014, and effective retrospectively for joint arrangements in force at the date of first-time application.
- IFRS 12, ‘Disclosures of Interests in Other Entities’: Effective for annual periods beginning on or after January 1, 2014.
- IAS 28 revised, ‘Investments in Associates and Joint Ventures’: Effective for annual periods beginning on or after January 1, 2014.
- Amendment to IAS 32 ‘Offsetting financial assets and financial liabilities’. Effective for annual periods beginning on or after January 1, 2014.
- Amendment to IFRS 10, IFRS 11 and IFRS 12 “Transition guidance”: Effective for annual periods beginning on or after January 1, 2014.
- Improvements to IFRS period 2010-2012.
- Improvements to IFRS period 2011-2013.

Additionally, the following standards and amendments had been issued by the IASB, but were not yet mandatory and had not been approved by the European Union:

- IFRS 9, ‘Financial instruments’: Effective for annual periods beginning on or after January 1, 2015.
- Amendment to IFRS 9 and IFRS 7 ‘Mandatory Effective Date and Transition Disclosures’. Effective for annual periods beginning on or after January 1, 2015.
- Amendment to IFRS 10, IFRS 12, and IAS 27, ‘Investment entities’: Effective for annual periods beginning on or after January 1, 2014.
- Amendment to IAS 36 “Recoverable Amount Disclosures for Non-financial Assets”: Effective for annual periods beginning on or after January 1, 2014.
- Amendment to IAS 39 “Novation of Derivatives and Continuation of Hedge Accounting”: Effective for annual periods beginning on or after January 1, 2014.
- IFRIC 21 “Levies”: Effective for annual periods beginning on or after January 1, 2014.

The Entity has not adopted any standard, interpretation or modification in advance, issued but not yet in force. The impacts derived from their adoption are currently being analysed.

**4. Basis of preparation and accounting policies (continued)**

**4.3 Critical issues concerning the assessment of uncertainty**

The Entity's management has prepared the financial statements occasionally using judgments and estimates to establish the amounts of certain assets, liabilities, income and expenses and commitments recorded therein. These estimates basically refer to:

- The useful life of non-current assets related to the activity (Note 6.1),
- Impairment losses on certain assets (Note 6.2),
- Income from unbilled supplies (Note 6.6).

Although these judgements and estimates were made based on the basis of the best information available at 31 December 2013 on the events analysed, future events may arise (economic events, changes in regulations, etc.), that oblige to modify them (upwardly or downwardly) in future periods, which would be made prospectively, where applicable.

**5. Assumptions considered**

The assumptions used in the preparation of these combined financial statements have been as follows:

- a) In 2013, since the 7-month period ended 31 July 2013 of the AB Division is being aggregated, at 31 December 2013 there are balances related to current assets and liabilities for the said period of activity that are pending settlement. As a result, a caption called 'Resources applied/used SGAB – Working capital' has been included in the current assets side of the combined statement of financial position to show such effect.
- b) In 2012 the net financial debt attributed by the segregation of SGAB from the activity segment "AB Division" is assumed to correspond to 'Cash and cash equivalents' plus 50% of its "Total net assets", which have been considered as the sum of 'Non-current assets', 'Inventories', 'Trade and other receivables' and 'Other current assets (accruals)' less 'Deferred tax liabilities', 'Other Non-current liabilities' and 'Current liabilities'. The percentage mentioned above has been obtained from the financial statements of Aigües de Barcelona, Empresa Metropolitana de Gestió del Cicle Integral de l'Aigua, S.A. at 31 December 2013, estimating that this is the measure that best reflects the financial reality of the Entity. Such calculation of the financial debt has been included in the statement of financial position under 'Resources applied/used SGAB – Debt'.
- c) In 2012 the component of Equity called 'Resources applied/used SGAB – Equity' has been determined as "Total net assets" less 'Resources applied/used SGAB – Debt' (both calculated as mentioned in point a) above), less 'Comprehensive income for the year' plus 'Other current financial assets' and plus 'Cash and cash equivalents'.



**5. Assumptions considered (continued)**

- d) Regarding the debt mentioned in point b) above, the related financial cost has been determined as the annual average of 10-year treasury bonds (reference rate in the agreement signed between AMB and SGAB in 2013), plus a spread of 120 basis points. From such calculation, an interest rate of 5.77% and 7.07% has been applied for the 7-month period ended 31 July 2013, and on the year 2012, respectively, on 50% of previous year's "Total net assets".
- e) Current income tax is included under 'Resources applied/used SGAB – Debt'.
- f) In 2013 the Entity has signed its most significant operating lease agreement, which corresponds to the space occupied in Torre Agbar. For the purposes of the information on the minimum lease payments under the operating lease, the amount payable has been indicated as signed in such agreement.
- g) Except for financial liabilities (Note b)) and financial cost (Note d)) the related-party transactions and balances detailed in Note 15 for the years 2012 and for the 7-month period ended 31 July 2013 have been calculated according to the proportion of these transactions and balances over the corresponding total transactions and balances obtained from the financial statements of Aigües de Barcelona, Empresa Metropolitana de Gestió del Cicle Integral de l'Aigua, S.A. for the 5-month period ended 31 December 2013.
- h) The remuneration of and obligations to Senior Manager have been determined proportionally from the information for the 5-month period referred to in the statutory accounts of Aigües de Barcelona, Empresa Metropolitana de Gestió del Cicle Integral de l'Aigua, S.A. at December 31, 2013.

**6. Accounting policies**

The main accounting policies used by the Entity in the preparation of the combined financial statements are as follows:

**6.1. Non-current assets related to the activity**

These assets are initially measured at either acquisition or production cost. Following initial measurement, they are stated at cost less accumulated amortisation and any impairment loss.

▪ Concessions:

They are amortised on a straight-line basis over the term of the concession.

**6. Accounting policies (continued)****6.1 Non current assets related to the activity (continued)**▪ Software:

In this caption the Entity recognises the costs incurred in the acquisition and development of computer programs. Expenses for software maintenance are recognised in the statement of profit or loss in the year incurred. Software is amortised on a straight-line basis over a period of 5 years.

▪ Concession arrangements: :

The assets related to the water supply services are depreciated on a straight-line basis based on the technical life of the underlying items, in accordance with the tariff model described in Note 7:

	<b>Years of useful lives</b>
Buildings	20 to 50
Pipelines	20 to 34
Machinery	12
Other fixtures and furniture	10 to 20
Other items of property, plant and equipment	4 to 12

The assets related to the rendering of sewage treatment services are depreciated on a straight-line basis according to the concession term ending in 2047.

Expenses related to the preservation of the infrastructures will be recognised in the statement of profit or loss when incurred. Works for improvement and capacity extension, as well as other actions on the infrastructures, are capitalised as an increase in the cost of assets in accordance with the tariff model described in Note 7.

Direct staff salary costs and asset design, installation and start-up costs are capitalised.

**6.2. Impairment of Non-current assets related to the activity**

At each year end date the Entity reviews the carrying amounts of related assets with finite useful lives to assess whether there is any indication that the assets might have suffered an impairment loss. If any such indication exists, the recoverable amount of the assets is estimated in order to determine the impairment loss suffered. Where the asset analysed itself does not generate cash flows that are independent from other assets, the Entity estimates the fair value of the cash-generating unit to which the asset belongs.

Assets with indefinite useful lives not subject to systematic depreciation/amortisation are tested for impairment at least annually, or where there is an indication that the asset might have suffered an impairment loss.

**6. Accounting policies (continued)**

**6.2 Impairment of Non-current assets related to the activity (continued)**

The recoverable amount of an asset subject to impairment is the higher of fair value less costs to sell and value in use. In order to estimate value in use, the future cash flows of the asset analysed (or of the cash-generating unit to which it belongs, as appropriate) are discounted to their present value using a discount rate that reflects both the time value of money and the risk specific to the asset. Where the recoverable amount of an asset is considered to be less than its carrying amount, the difference is recognised with a charge to the caption in the statement of profit or loss. Asset impairment losses recognised are reversed with a credit to this caption when the related recoverable amounts are considered to increase, thereby increasing the value of the asset up to the limit of the carrying amount that the asset would have had if no write-down had taken place.

**6.3. Leases**

Operating leases: Operating leases are deemed to be those in which the risks and rewards associated with ownership of the asset are not transferred by the lessor. Operating lease costs are systematically recognised as an expense in the statement of profit or loss.

**6.4. Financial instruments**

6.4.1. Financial assets

The Entity's financial assets are classified into this category:

Loans and receivables: financial assets arising from the sale of goods or the rendering of services in the ordinary course of the Entity's activity, 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.

Financial assets in the category above are initially recognised at fair value plus directly attributable transaction costs. After initial measurement, loans and receivables are measured at amortised cost less impairment.

Financial assets are tested for impairment at least at year end. Objective evidence of actual impairment exists when the recoverable amount of the financial asset is lower than the carrying amount. Impairment losses are recognised in the statement of profit or loss, if any.

6.4.2. Financial liabilities

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

**6. Accounting policies (continued)**

**6.4 Financial instruments (continued)**

**6.4.2 Financial liabilities (continued)**

Trade and other payables are initially measured at the fair value of the consideration received, adjusted by directly attributable transaction costs. Following initial recognition, these liabilities are measured at amortised cost.

The Entity derecognises a financial liability when the obligation under the liability is extinguished.

**6.5. Inventories**

Stocks are initially valued at the lower of the acquisition price or production cost. Trade discounts, rebates and other similar items, and interest included in the face value of related payables are included determining the costs of purchase.

Work in progress basically consists of work performed for third parties and is measured at production cost, which includes the cost of materials, direct labour and production overheads.

The cost of inventories is assigned by using the weighted average cost formula.

The Entity recognises any impairment losses as an expense in the statement of profit or loss when the net realisable value of the inventories is lower than acquisition price (or production cost).

Net realisable value is the estimated selling price less the estimated costs of completion and costs to be incurred in marketing, selling and distribution.

**6.6. Income Tax**

The income tax expense includes both the current tax arising from the application of the tax rate to the taxable profit for the year, after deducting the tax credits allowable for tax purposes, and the change in deferred tax assets and liabilities and in tax loss and tax credit carryforwards.

Deferred tax assets and liabilities 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 realised or the liability is settled.

**6. Accounting policies (continued)**

**6.6 Income tax (continued)**

Deferred tax liabilities are recognised for all temporary differences that will be taxable in the future, while deferred tax assets corresponding to temporary differences or tax credits are recognised only to the extent that it is considered probable that the Entity will obtain sufficient taxable profits in the future against which the deferred tax asset can be utilised.

Deferred tax assets and liabilities arising from items directly charged or credited to equity accounts are also recognised with a charge or credit, respectively, in equity.

The deferred taxes and tax assets recognised are reassessed at each year end date in order to ascertain whether they still exist and the appropriate adjustments are made.

**6.7. Income and expenses**

Income and expenses are recognised on an accrual basis, i.e. when the actual flow of the related goods and services occurs, regardless of when the resulting monetary or financial flow arises. Such income is measured at the fair value of the consideration received, after deducting discounts and taxes.

Where the outcome of the transaction can be reliably estimated, income from the rendering of services is recognised by reference to the stage of completion at the date of the combined statement of financial position.

Supplies not yet billed

The Entity recognises as water sales supplies actually provided, including the amount of water supplied that at 31 December has not yet been billed.

**6.8. Provisions and contingencies**

The Entity recognises a provision where it has an obligation or liability to a third party arising from past events, the settlement of which will give rise to an outflow of economic benefits whose amount and/or timing are not known with certainty but can be estimated with reasonable reliability.

Provisions are quantified on the basis of the best information available on the event and the consequences of the event and are reviewed and adjusted at the end of each year. Provisions are used to cater for the specific risks for which they were originally recognised, and are fully or partially reversed when such risks cease to exist or are reduced.

**6. Accounting policies (continued)****6.9. Related-party transactions**

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

**6.10. Classification of current and non-current balances**

Balances are classified as non-current and current in the accompanying statement of financial position. Current balances include balances which the Entity expects to sell, consume, pay or realise during its normal operating cycle; those which are expected to mature, be disposed of or realised within twelve months; those classified as held-for-trading, except for long-term derivatives, and cash and cash equivalents. All other assets are classified as non-current.

**6.11. Capital risk management**

The Entity manages its capital to ensure its ability to continue as a going concern. Management is committed to maintaining gearing levels that are consistent with its growth, solvency and profitability objectives.

Data relating to the gearing ratio at 2013 year end are as follows, in thousands of euros:

	<b>2013</b>
Current and non-current financial liabilities	190,050
Current financial assets	(9,023)
Cash and cash equivalents	(9,975)
<b>Net financial debt</b>	<b>171,052</b>
<b>Total equity</b>	<b>348,042</b>
<b>Closing balance</b>	<b>49.15%</b>

For the year 2012 as mentioned in Notes 5.b) and 5.c), the items 'Resources applied/used SGAB – Debt' and 'Resources applied/used SGAB – Equity', respectively, are determined based on total net assets; thus, the Entity's Management considers appropriate not to provide quantitative information on the capital risk management, according to the reasons set forth above.

## Notes to the Combined Financial Statements (continued) for the year ended 31 December 2013

## 7. Non-current assets related to the activity

## Changes in 2013

Changes in the non-current assets related to the activity and in the accumulated amortisation in 2013 are as follows, in thousands of euros:

	1 January 2013	Additions or allowances	Disposals	31 December 2013
<b>Cost</b>				
Concessions	748	-	-	748
Transfer rights	60	-	-	60
Software	48,202	1,838	-	50,040
Concession arrangements	-	50,550	-	50,550
Other intangible assets	7,766	714	-	8,480
Land	6,277	-	-	6,277
Buildings	119,988	2,690	(139)	122,539
Plant and other PP&E items	925,125	29,932	(2,966)	952,091
Property, plant and equipment under construction	10,046	2,457	-	12,503
<b>Total cost</b>	<b>1,118,212</b>	<b>88,181</b>	<b>(3,105)</b>	<b>1,203,288</b>
<b>Accumulated amortisation</b>				
Concessions	(440)	(11)	-	(451)
Transfer rights	(60)	-	-	(60)
Software	(41,374)	(2,484)	-	(43,858)
Concession arrangements	-	(623)	-	(623)
Other intangible assets	(3,193)	(156)	-	(3,349)
Buildings	(56,314)	(3,155)	71	(59,398)
Plant and other PP&E items	(543,069)	(29,864)	2,230	(570,703)
<b>Total accumulated amortisation</b>	<b>(644,450)</b>	<b>(36,293)</b>	<b>2,301</b>	<b>(678,442)</b>
<b>Net cost</b>				
Concessions	308	(11)	-	297
Transfer rights	-	-	-	-
Software	6,828	(646)	-	6,182
Concession arrangements	-	49,927	-	49,927
Other intangible assets	4,573	558	-	5,131
Land	6,277	-	-	6,277
Buildings	63,674	(465)	(68)	63,141
Plant and other PP&E items	382,056	68	(736)	381,388
Property, plant and equipment under construction	10,046	2,457	-	12,503
<b>Total net cost</b>	<b>473,762</b>	<b>51,888</b>	<b>(804)</b>	<b>524,846</b>



**AIGÜES DE BARCELONA**

**Notes to the Combined Financial Statements (continued) for the year ended 31  
December 2013**

**7. Non-current assets related to the activity (continued)**

During 2013 the most significant additions relate to the non-monetary contribution made by EMSSA and explained in Note 1. Additions mainly due to the renovation and extension of the distribution and transportation networks and installations have also been recognised, the amount of which is included under ‘Plant and other PP&E items’.

In 2013 the Entity has not capitalised any financial costs in this caption.

Losses related to disposals for the period amounts to EUR 804 thousand and have been recorded in the “Non-recurring profit/(loss)” caption on the statement of comprehensive income.

Fully amortised assets at 31 December 2013 amount to EUR 302,459 thousand and mainly correspond to Property, plant and equipment.

The Entity arranges insurance policies to recover the carrying amount of assets.

The investment commitment for investments in assets at December 31, 2013 amounts to EUR 40 million.

Concession arrangements

As detailed in Note 1, dated 30 July 2013, AMB and SGAB signed the Agreement for the regulations on the proceedings and legal and economic system for the incorporation of the new semi-public company, under the proceedings of Article 283.2.b) of the Regulations on works, activities and services of the local entities (ROAS), approved by Decree 179/1995 of June 13, the main agreements of which are set forth below:

Payments and tariffs of the service

The Agreement regulating the concession arrangement establishes that the Company is entitled to tariffs that are sufficient to self-finance itself and maintain its economic balance. This includes, among others, management expenses, finance costs, technical amortisation expenses and a corporate surplus that allows its partners to receive an adequate payment. Technical amortisation will be in accordance with the useful life of the assets.

AMB will set and approve the tariffs of the service in accordance with the principle of self-financing of the activity performed by the Company and its economic balance. Tariffs will cover the expenses indicated in the paragraph above. In the event that AMB, exercising its administrative powers, approves tariffs that are below the indicated expenses, it will proceed to arbitrate the compensation mechanisms necessary to cover the portion not directly financed by income from tariffs, in accordance with Article 298.2 and 302.3 of ROAS. If compensation

## **AIGÜES DE BARCELONA**

### **Notes to the Combined Financial Statements (continued) for the year ended 31 December 2013**

mechanisms affect the Catalan Water Agency (hereinafter ACA) its prior approval will be needed.

**7. Non-current assets related to the activity (continued)**

Payments and tariffs of the service (continued)

AMB will set the payments to be received for the sewage treatment and reuse service, taking into account Additional Provision Fourteenth of the Revised Text of the Catalan Water Legislation, approved by Decree-Law 3/2003 of November 4.

Annual charge

Due to the water supply ownership, the Company will pay AMB an annual accrual charge of EUR 20,000,000, in 2014 and 2015, and EUR 20,000,000 as from 2016, updated according to the consumer price index for the last 12 months issued in Catalonia.

Investments

The Company, in accordance with the tariff approved by AMB, is required to make investments corresponding to:

- Works for the maintenance and preservation of the installations related to the Service, necessary for its effective operation and rendering.
- Works for the improvement and extension necessary for the good performance of the Service, approved by the Board of Directors, at the Management's proposal.

The rest of investments imposed by AMB as the owner of the service in accordance with Article 248 and subsequent articles of ROAS, including those that may derive from the replacement, improvement and new investment Plan for public sanitation services, must be accompanied by the corresponding supplementary financing.

Term of the arrangement

The term of the indirect management assignment of the integrated water cycle service to be carried out by the Company will end on 2 June 2047.

When the term of the assignment ends, AMB will determine whatever corresponds about the continuity of the supply management and the rendering of the service, taking into account the SGAB's licences.

**7. Non-current assets related to the activity (continued)**

Term of the arrangement (continued)

In the event that the service management agreement is extinguished, the installations related to the downstream water supply will be returned to AMB. AMB will previously pay the unrecovered amount of the tariff to the Company, based on technical amortisation criteria according to the useful lives of the assets related to the Services initially contributed by SGAB or performed by the Company during the term of the Agreement.

This will apply without prejudice of the return in 2053 of the installations related to the upstream water supply to Generalitat de Catalunya, by virtue of the Revised text of the Catalan Water Legislation, approved by Decree-Law 3/2003 of November 4.

In the event of early extinguishment of the agreement for any reason other than the termination for non-compliance or redemption, and unless an express agreement to the contrary is reached, the contributions made by the Parties to the Company will be repaid to them, so that they recover their initial legal status. AMB will continue with the sewage treatment activity and SGAB, through the Company, will continue with the indirect management of the downstream water supply, applying the tariff prevailing at the moment in which the early extinguishment of the agreement occurs, and will continue to manage its concession licences, in accordance with Article 35.2 of Decree-Law 3/2003, with the prior authorisation of ACA for the corresponding transfer, where appropriate.

As a result of the early extinguishment of the agreement, the parties will be compensated for the Company's non-amortised assets executed over the life of the Company according to their ownership interest and the service they manage.

## Notes to the Combined Financial Statements (continued) for the year ended 31 December 2013

## 7. Non-current assets related to the activity (continued)

## Changes in 2012

Changes in the non-current assets related to the activity and in the accumulated amortisation in 2012 are as follows, in thousands of euros:

	1 January 2012	Additions or allowances	Disposals	31 December 2012
<b>Cost</b>				
Concessions	748	-	-	748
Transfer rights	60	-	-	60
Software	47,825	3,959	(3,582)	48,202
Other intangible assets	7,746	20	-	7,766
Land	6,288	(11)	-	6,277
Buildings	114,173	5,927	(112)	119,988
Plant and other PP&E items	895,595	40,373	(10,843)	925,125
Property, plant and equipment under construction	19,276	(9,230)	-	10,046
<b>Total cost</b>	<b>1,091,711</b>	<b>41,038</b>	<b>(14,537)</b>	<b>1,118,212</b>
<b>Accumulated amortisation</b>				
Concessions	(429)	(11)	-	(440)
Transfer rights	(60)	-	-	(60)
Software	(42,854)	(2,102)	3,582	(41,374)
Other intangible assets	(3,045)	(148)	-	(3,193)
Buildings	(53,401)	(3,001)	88	(56,314)
Plant and other PP&E items	(524,055)	(28,664)	9,650	(543,069)
<b>Total accumulated amortisation</b>	<b>(623,844)</b>	<b>(33,926)</b>	<b>13,320</b>	<b>(644,450)</b>
<b>Net cost</b>				
Concessions	319	(11)	-	308
Transfer rights	-	-	-	-
Software	4,971	1,857	-	6,828
Other intangible assets	4,701	(128)	-	4,573
Land	6,288	(11)	-	6,277
Buildings	60,772	2,926	(24)	63,674
Plant and other PP&E items	371,540	11,709	(1,193)	382,056
Property, plant and equipment under construction	19,276	(9,230)	-	10,046
<b>Total net cost</b>	<b>467,867</b>	<b>7,112</b>	<b>(1,217)</b>	<b>473,762</b>

**Notes to the Combined Financial Statements (continued) for the year ended 31 December 2013**

At 31 December 2012 the most significant additions relate to the renovation and extension of the distribution and transportation networks and installations, the amount of which is included under ‘Plant and other PP&E items’.

**7. Non-current assets related to the activity (continued)**

In 2012 the Company has reviewed the software inventory, resulting in the recognition of certain disposals of software due to obsolescence.

Losses related to disposals for the period amounted to EUR 1,217 thousand and were recorded in the “Non-recurring profit/(loss)” caption on the statement of comprehensive income.

In 2012 the Company has not capitalised any financial costs in this caption.

Fully amortised assets at 31 December 2012 amount to EUR 292,795 thousand and mainly corresponded to Property, plant and equipment.

The Entity arranges insurance policies to recover the carrying amount of assets.

The investments commitment in assets for 2013 amounts to EUR 40 million.

**8. Leases**

**The Entity as lessee**

At 2013 and 2012 year end, the Entity’s most significant operating lease agreement relates to the lease on the space occupied in Torre Agbar and the several Regional Offices for an amount of EUR 2,836 thousands and EUR 2,769 thousands, respectively. The expenses are recorded in the “Other general operating expenses” caption of the combined statement of profit or loss.

At 2013 and 2012 year end, the Entity has lease expenses that result in the following minimum lease payments, without considering the charge of common expenses, future increases in CPI, and agreed future rent updates, in thousands of euros:

<b>Minimum payments under operating leases</b>	<b>2013</b>	<b>2012</b>
	<b>Nominal value</b>	<b>Nominal value</b>
Within one year	3,147	3,147
Between one and five years	11,208	11,208

## AIGÜES DE BARCELONA

### Notes to the Combined Financial Statements (continued) for the year ended 31 December 2013

More than 5 years	-	-
<b>Total</b>	<b>14,355</b>	<b>14,355</b>



**9. Financial assets (Non-current / current)**

**9.1 Financial investments**

Non-current financial investments mainly relate to 90% of non-current deposits in Institut Català del Sòl (Note 12), received from registered consumers and recognised at nominal value, since the effect of recognising them at present value would not generate any significant impact.

The caption ‘Trade and other receivables’ mainly relates to receivable amounts for works performed and services rendered, as well as to forecasted income not yet billed for such services rendered.

**9.2 Nature and extent of risks arising from financial instruments**

The Entity’s risk management policies are established by SGAB Management. Based on these policies, the Company’s directors have established a series of procedures and controls to identify and manage the risks faced by the Entity.

The main financial risks that have an impact on the Entity are as follows:

Credit risk

Credit risk arises from the potential breach of a financial counterparty’s obligations. To all intents and purposes, the Entity’s cash and cash equivalents are deposited in high credit rating financial entities and there is no significant concentration of credit risk with third parties.

Liquidity risk

Liquidity risk arises from the possibility that the Entity will not have sufficient funds or access to sufficient funds at an acceptable cost to meet its payment obligations at all times.

In order to ensure liquidity and be able to meet the payment obligations derived from its activity, the Entity has cash and financial investments classified in current assets as shown in the combined statement of financial position.

Interest rate risk

Interest rate risk relates to the effect on profit or loss of rises in interest rates which increase borrowing costs. The Entity’s finance debt is exposed to interest rate risk, which is linked to the average interest rate of 10-year treasury bonds, plus a risk premium calculated based on similar products offered by the financial market. The Entity has arranged no financial hedging instruments.

## Notes to the Combined Financial Statements (continued) for the year ended 31 December 2013

## 9. Financial assets (Non-current / current) (continued)

## 9.2 Nature and extent of risks arising from financial instruments (continued)

Interest rate risk (continued)

The estimate of the sensitivity of financial profit to interest rate fluctuations in 10-year treasury bonds, with the net borrowings structure at each year end, in thousands of euros, is as follows:

	Impact on the financial result
Increase of +10 bp	171
Decrease of -10 bp	(171)

## 10. Inventories

At 31 December 2013 and 2012 there are no firm commitments to purchase goods.

The Entity arranges insurance policies to recover the carrying amount of inventories.

The movements in impairment losses are as follows, in thousands of euros:

	2013	2012
Balance at 1 January	(621)	(621)
Impairment losses	-	-
<b>Balance at 31 December</b>	<b>(621)</b>	<b>(621)</b>

## 11. Equity

In 2013 “Share capital” amounts to EUR 337,000,000 and is represented by 337,000 fully subscribed and paid up shares of EUR 1,000 par value each, divided into two types:

- Type A, comprising 50,550 shares (numbered 1 to 50,550).

- Type B, comprising 286,450 shares (numbered 50,551 to 337,000).

Type A shares represent publicly-owned capital and are attributed to AMB. Type B shares represent privately-owned capital and are attributed to SGAB.

Each share gives its legitimate holder the status of shareholder and attributes them the rights acknowledged in the Law and By-laws. Each share entitles its holder to one vote.

## Notes to the Combined Financial Statements (continued) for the year ended 31 December 2013

**11. Equity (continued)**

Shares are indivisible. Co-ownership status and the establishment of actual rights on shares are set forth in articles 126 and subsequent articles of the Spanish Capital Companies Law.

In 2012 as mentioned in Note 5, the component of Equity called ‘Resources applied/used SGAB – Equity’ has been determined as “Total net assets” less ‘Resources applied/used SGAB – Debt’ (both calculated as mentioned in point a) above), less ‘Comprehensive income for the year’ plus ‘Other current financial assets’ and plus ‘Cash and cash equivalents’.

**12. Financial liabilities (Non-current and current)**

Financial liabilities at 31 December 2013 and 2012 are classified as follows, in thousands of euros:

	Non-current	Current	Total
<b>2013</b>			
Financial liabilities (Note 15)	190,000	50	190,050
Other liabilities			
Deposits	17,117	-	17,117
Trade and other payables	-	93,434	93,434
<b>Total</b>	<b>207,117</b>	<b>93,484</b>	<b>300,601</b>
<b>2012</b>			
Resources applied/used SGAB – Debt (Note 15)	231,378	30	231,408
Other liabilities			
Deposits	16,561	-	16,561
Trade and other payables	-	84,836	84,836
<b>Total</b>	<b>247,939</b>	<b>84,866</b>	<b>332,805</b>

In 2013 the caption ‘Financial liabilities’ corresponds to the purchase of 39.88% of the Equity contributed by the partner Sociedad General de Aguas de Barcelona, S.A. related to the water supply service, as detailed in Note 1.

The principal of the borrowings has been formalised under a system of deferred payment, which will be made effective within ten years from the start of operations at the latest (1 August 2013). As long as the price is not paid, the annual interest rate to be yearly reviewed will be calculated based on the average interest rate of 10-year treasury bonds, plus a risk

**Notes to the Combined Financial Statements (continued) for the year ended 31 December 2013**

premium calculated based on similar products offered by the financial market. Financial expenses accrued in 2013 amount to EUR 5,854,375, for the 5 months of period. The Entity estimates that the amortised cost is a good measurement of the fair value of its debt with SGAB at 31 December 2013.

**12. Financial liabilities (Non-current and current) (continued)**

As indicated in Note 5, in 2012 the net financial debt attributed by the segregation of SGAB from the activity segment “AB Division” is assumed to correspond to ‘Cash and cash equivalents’ plus 50% of its “Total net assets”, which have been considered as the sum of ‘Non-current assets’, ‘Inventories’, ‘Trade and other receivables’ and ‘Other current assets (accruals)’ less ‘Deferred tax liabilities’, ‘Other Non-current liabilities’ and ‘Current liabilities’. The percentage mentioned above has been obtained from the financial statements of Aigües de Barcelona, Empresa Metropolitana de Gestió del Cicle Integral de l’Aigua, S.A. at 31 December 2013, estimating that this is the measure that best reflects the financial reality of the Entity. Such calculation of the financial debt has been included in the statement of financial position under ‘Resources applied/used SGAB – Debt.

The caption ‘Other liabilities’ at 31 December 2013 and 2012 mainly includes deposits received from consumers (Note 9), the maturity of which is determined by the customers’ unregistration from the water supply service.

**13. Taxes**

**13.1. Income tax**

Income tax expense is calculated from profit/loss, which does not necessarily match the tax result, which is understood as the taxable base.

The reconciliation between profit/loss before tax and the tax base, and the calculation of the income tax expense, is as follows, in thousands of euros:

	<b>2013</b>	<b>2012</b>
Profit/loss for the period (before tax)	15,457	20,480
Permanent differences	8,271	9,421
Tax base	23,728	29,901
Temporary differences	28,104	(34,760)
<b>Tax result</b>	<b>51,832</b>	<b>(4,859)</b>

## **AIGÜES DE BARCELONA**

### **Notes to the Combined Financial Statements (continued) for the year ended 31 December 2013**

In 2013 and 2012 permanent differences are mainly due to donations made to the foundations Agbar and Cetaqua for an amount of EUR 8,271 thousand (2012: EUR 9,328 thousand).

In 2013 and 2012 temporary differences are due to the items detailed in Note 13.2.

## Notes to the Combined Financial Statements (continued) for the year ended 31 December 2013

## 13. Taxes (continued)

## 13.1. Income Tax (continued)

The calculation of the current income tax applied/used by SGAB in 2013 and 2012 has been as follows, in thousands of euros:

	2013	2012
Tax base	23,728	29,901
Tax liability at 30%	7,118	8,970
Deductions	(2,785)	(3,265)
Other adjustments	82	(8)
<b>Income tax expense / (income)</b>	<b>4,415</b>	<b>5,697</b>

The breakdown of accrued and recorded tax credits is as follows, in thousands of euros:

	2013	2012
Current tax	15,550	(1,458)
Contributions of deferred tax assets (Note 13.2)	9,503	-
Deductions	(2,785)	(3,265)
Other adjustments	82	(8)
<b>Current tax applied/used by SGAB</b>	<b>22,350</b>	<b>(4,731)</b>

Income tax liability at 31 December 2013<sup>4</sup> amounts to EUR 1,448 thousand, which is recorded under “Other current liabilities” caption of the combined statement of financial position.

## Notes to the Combined Financial Statements (continued) for the year ended 31 December 2013

## 13. Taxes (continued)

## 13.2. Deferred taxes

Due to the temporary differences between accounting and tax recognition criteria for certain income and expenses related to the income tax applied/used by SGAB, at 31 December 2013 and 2012, the following items have arisen, which have been recorded in the deferred tax assets and liabilities accounts of the combined financial statements, in thousands of euros:

2013	Balance at 1 January	Contribution (Note 1)	Changes in the statement of profit or loss	Balance at 31 December
<b>Deferred tax assets:</b>				
Non-deductible amortisation Law 16/2012	-	1,706	1,280	2,986
Credit rights for deferred taxes	-	7,797	-	7,797
Provision for remuneration to management	-	-	66	66
Other provisions	-	-	591	591
<b>Total Deferred tax assets</b>	<b>-</b>	<b>9,503</b>	<b>1,937</b>	<b>11,440</b>
<b>Deferred tax liabilities:</b>				
Amortisation RDL 2/85 and Law 12/88	547	-	(278)	269
Amortisation RDL 3/93	2,811	-	(1,220)	1,591
Unrestricted amortisation RDL 13/2010	10,737	-	(4,996)	5,741
<b>Total Deferred tax liabilities</b>	<b>14,095</b>	<b>-</b>	<b>(6,494)</b>	<b>7,601</b>

2012	Balance at 1 January	Changes in the statement of profit or loss	Balance at 31 December
<b>Deferred tax liabilities:</b>			
Amortisation RDL 2/85 and Law 12/88	616	(69)	547
Amortisation RDL 3/93	3,051	(240)	2,811
Unrestricted amortisation RDL 13/2010	-	10,737	10,737
<b>Total Deferred tax liabilities</b>	<b>3,667</b>	<b>10,428</b>	<b>14,095</b>

## 13.3. Years open to inspection

Under prevailing tax regulations, tax returns may not be considered final until they have either been inspected by tax authorities or until the four-year inspection period has expired. Entity's management considers that in the event of a tax inspection for the years open to inspection no

**AIGÜES DE BARCELONA**

**Notes to the Combined Financial Statements (continued) for the year ended 31 December 2013**

contingencies would arise that would have a significant effect on the combined financial statements taken as a whole.



## Notes to the Combined Financial Statements (continued) for the year ended 31 December 2013

**14. Income and expenses****14.1. Operating income**

The distribution of operating income for the year ended 31 December 2013 and 2012 is as follows, in thousands of euros:

	<b>2013</b>	<b>2012</b>
Income from water	287,006	254,624
Income from sewage treatment	33,228	25,366
Income from other activities	10,115	10,931
<b>Total</b>	<b>330,349</b>	<b>290,921</b>

All transactions have been carried out in the Spanish market.

**14.2. Financial result**

The breakdown of this caption by nature for the year ended 31 December 2013 and 2012 is as follows, in thousands of euros:

	<b>2013</b>	<b>2012</b>
Finance costs (Note 15)	(13,673)	(15,822)
<b>Total financial result</b>	<b>(13,673)</b>	<b>(15,822)</b>

Finance costs recognised in the combined statement of profit or loss have been determined based on the assumption included in Note 5 for the 7-month period ended 31 July 2013 corresponding to AB Division and the amount recognised in the financial statements of Aigües de Barcelona, Empresa Metropolitana de Gestió del Cicle Integral de l'Aigua, S.A. for the 5-month period ended 31 December 2013 (Note 12).

**15. Related parties****15.1 Related-party transactions and balances**

Transactions with related parties in 2013 and 2012 were part of normal trading and took place under normal market conditions.

**15. Related parties (continued)****15.1 Related-party transactions and balances (continued)****a) Balances and transactions with related entities**

Transactions with related entities (Agbar Group) have been made under normal market conditions, taking into account the consideration that an unrelated party would be willing to pay for contracting the services mentioned. The price policy applied in the main related-party transactions is as follows:

Loans:

In view of the nature of these transactions, the most appropriate measurement method to support the agreed loan interest payments is the comparable uncontrolled price method. The general policy is to establish interest rates linked to a base rate, Euribor or treasury bonds, for the purpose of mitigating any impact arising from a fluctuation of the market rates.

Management and administration services rendered by other related entities:

The payment for these types of services is determined based on a defined model applying a percentage over revenue.

Leases:

The price of the leases is established based on the m2 leased, using the comparable uncontrolled price method.

Related parties according to the nature of the relationship are as follows:

	<b>Nature of the relationship</b>
Aqua Development Network, S.A.	Agbar group company
Aqualogy Aqua Ambiente Servicios Integrales, S.A.U.	Agbar group company
Aqualogy Medio Ambiente, S.A.U.	Agbar group company
Aqualogy Services Company, S.A.U.	Agbar group company
Aqualogy Solutions, S.A.U.	Agbar group company
Cetaqua, Centro Tecnológico del Agua, Fundación Privada	Agbar group company
Fundació Agbar, Centre d'Estudis i Investigació del Medi Ambient	Agbar group company
Integrated Facility Management, S.A.U.	Agbar group company
Labaqua, S.A.	Agbar group company
Logistium Servicios Logísticos, S.A.	Agbar group company
Sociedad General de Aguas de Barcelona, S.A.	Contributor

## **AIGÜES DE BARCELONA**

### **Notes to the Combined Financial Statements (continued) for the year ended 31 December 2013**

Àrea Metropolitana de Barcelona

Sorea, Sociedad Regional de Abastecimiento de Aguas, S.A.U.

Contributor

Agbar group company

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## Notes to the Combined Financial Statements (continued) for the year ended 31 December 2013

**15. Related parties (continued)****15.1 Related-party transactions and balances (continued)**

The breakdown of the main transactions with an impact on the statement of profit or loss, as well as the balances with related entities, is as follows, in thousands of euros:

<b>2013</b>	<b>Contributors</b>	<b>Agbar group companies</b>
Supplies	-	(6,181)
Leases	(2,970)	47
Services rendered	32,738	3,453
Services received	(15,624)	(47,001)
Financial cost	(13,673)	-
Trade receivables	17,184	496
Financial liabilities	(190,000)	-
Suppliers	(1,324)	(13,064)

<b>2012</b>	<b>Contributors</b>	<b>Agbar group companies</b>
Supplies	-	(4,165)
Leases	(2,001)	-
Services rendered	23,844	2,515
Services received	(10,527)	(31,668)
Financial cost	(15,822)	-
Trade receivables	17,296	697
Financial liabilities	(231,378)	-
Suppliers	(1,443)	(14,244)

Additionally, see the contributions to foundations related to SGAB, indicated in Note 13.1.

**15.2. Remuneration of and obligations to Senior Executives**

The remuneration earned by the senior executives of Aigües de Barcelona, Empresa Metropolitana de Gestió del Cicle Integral de l'Aigua, S.A. in 2013 and 2012 has amounted to EUR 908 and 885 thousand, respectively. For years 2013 and 2012 EMSSA had no key senior executives.

For the purposes of the information related to this note, it has been determined to include the members of the Management Committee in 2013, who are not part of Board of Directors, from financial statements for the 5-months period ended 31 December 2013 of the Aigües de

## **AIGÜES DE BARCELONA**

### **Notes to the Combined Financial Statements (continued) for the year ended 31 December 2013**

Barcelona, Empresa Metropolitana de Gestió del Cicle Integral de l'Aigua, S.A., for the 7-months period ended 31 July 2013 of "AB Division" (and for 2012 "AB Division").

**16. Subsequent events**

From December 31, 2013 to the date on which these combined financial statements were prepared, no additional significant events took place that required the extension or modification of their content.

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Director

Albert Martínez Lacambra

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Chief Financial Officer

José Antonio Castillo Valero

**ISSUER'S OPENING BALANCE SHEET 17 JUNE 2014 (SETTING-UP)**

<b>Balance Sheet Data</b>		<b>Balance Sheet Data</b>	
<b>(Thousands of Euros)</b>	<b>17 Jun 2014</b>		<b>17 Jun 2014</b>
Assets related to the activity		- <b>TOTAL EQUITY *</b>	<b>60</b>
Non-current financial assets		- Loans	-
Deferred taxes		- Deferred taxes	-
		- Other long-term liabilities	-
<b>NON-CURRENT ASSETS</b>		- <b>LONG-TERM LIABILITIES</b>	-
Stocks		- Short term provisions	-
Debtors		- Current financial liabilities	-
Other current assets		- Other current liabilities	-
Cash and equivalents	60		
<b>CURRENT ASSETS</b>	<b>60</b>	<b>SHORT-TERM LIABILITIES</b>	-
<b>TOTAL ASSETS</b>	<b>60</b>	<b>TOTAL LIABILITIES</b>	<b>60</b>

\* 100% Share Capital from Aigües de Barcelona, Empresa Metropolitana de Gestió del Cicle Integral de l'Aigua, S.A.

## EXHIBIT 1

### **Anexo al Reglamento General de las actuaciones y los procedimientos de gestión e inspección tributaria y de desarrollo de las normas comunes de los procedimientos de aplicación de los tributos, aprobado por Real Decreto 1065/2007**

#### **Modelo de declaración a que se refieren los apartados 3, 4 y 5 del artículo 44 del Reglamento General de las actuaciones y los procedimientos de gestión e inspección tributaria y de desarrollo de las normas comunes de los procedimientos de aplicación de los tributos**

Annex to Royal Decree 1065/2007, of 27 July, approving the General Regulations of the tax inspection and management procedures and developing the common rules of the procedures to apply taxes

Declaration form referred to in paragraphs 3, 4 and 5 of Article 44 of the General Regulations of the tax inspection and management procedures and developing the common rules of the procedures to apply taxes

**Don (nombre), con número de identificación fiscal (...) <sup>(1)</sup>, en nombre y representación de (entidad declarante), con número de identificación fiscal (...) <sup>(1)</sup> y domicilio en (...) en calidad de (marcar la letra que proceda):**

Mr. (name), with tax identification number (...) <sup>(1)</sup>, in the name and on behalf of (entity), with tax identification number (...) <sup>(1)</sup> and address in (...) as (function - mark as applicable):

- (a) Entidad Gestora del Mercado de Deuda Pública en Anotaciones.**  
(a) Management Entity of the Public Debt Market in book entry form.
- (b) Entidad que gestiona el sistema de compensación y liquidación de valores con sede en el extranjero.**  
(b) Entity that manages the clearing and settlement system of securities resident in a foreign country.
- (c) Otras entidades que mantienen valores por cuenta de terceros en entidades de compensación y liquidación de valores domiciliadas en territorio español.**  
(c) Other entities that hold securities on behalf of third parties within clearing and settlement systems domiciled in the Spanish territory.
- (d) Agente de pagos designado por el emisor.**  
(d) Issue and Paying Agent appointed by the issuer.

**Formula la siguiente declaración, de acuerdo con lo que consta en sus propios registros:**

Makes the following statement, according to its own records:

- 1. En relación con los apartados 3 y 4 del artículo 44:**
  - 1. In relation to paragraphs 3 and 4 of Article 44:
    - 1.1 Identificación de los valores.....**  
1.1 Identification of the securities.....
    - 1.2 Fecha de pago de los rendimientos (o de reembolso si son valores emitidos al descuento o segregados)**



- 1.2 Income payment date (or refund if the securities are issued at discount or are segregated)
- 1.3 Importe total de los rendimientos (o importe total a reembolsar, en todo caso, si son valores emitidos al descuento o segregados).....**
- 1.3 Total amount of income (or total amount to be refunded, in any case, if the securities are issued at discount or are segregated)
- 1.4 Importe de los rendimientos correspondiente a contribuyentes del Impuesto sobre la Renta de las Personas Físicas, excepto cupones segregados y principales segregados en cuyo reembolso intervenga una Entidad Gestora.....**
- 1.4 Amount of income corresponding to Personal Income Tax taxpayers, except segregated coupons and segregated principals for which reimbursement an intermediary entity is involved.....
- 1.5 Importe de los rendimientos que conforme al apartado 2 del artículo 44 debe abonarse por su importe íntegro (o importe total a reembolsar si son valores emitidos al descuento o segregados).**
- 1.5 Amount of income which according to paragraph 2 of Article 44 must be paid gross (or total amount to be refunded if the securities are issued at discount or are segregated).
- 2. En relación con el apartado 5 del artículo 44.**
- 2. In relation to paragraph 5 of Article 44.
- 2.1 Identificación de los valores.....**
- 2.1 Identification of the securities.....
- 2.2 Fecha de pago de los rendimientos (o de reembolso si son valores emitidos al descuento o segregados) .....**
- 2.2 Income payment date (or refund if the securities are issued at discount or are segregated) .....
- 2.3 Importe total de los rendimientos (o importe total a reembolsar si son valores emitidos al descuento o segregados).....**
- 2.3 Total amount of income (or total amount to be refunded if the securities are issued at discount or are segregated)
- 2.4 Importe correspondiente a la entidad que gestiona el sistema de compensación y liquidación de valores con sede en el extranjero A.**
- 2.4 Amount corresponding to the entity that manages the clearing and settlement system of securities resident in a foreign country A.
- 2.5 Importe correspondiente a la entidad que gestiona el sistema de compensación y liquidación de valores con sede en el extranjero B.**
- 2.5 Amount corresponding to the entity that manages the clearing and settlement system of securities resident in a foreign country B.

**2.6 Importe correspondiente a la entidad que gestiona el sistema de compensación y liquidación de valores con sede en el extranjero C.**

2.6 Amount corresponding to the entity that manages the clearing and settlement system of securities resident in a foreign country C.

**Lo que declaro en.....a .... de.....de ....**

I declare the above in..... on the.... of..... of....

**(1) En caso de personas, físicas o jurídicas, no residentes sin establecimiento permanente se hará constar el número o código de identificación que corresponda de conformidad con su país de residencia**

(1) In case of non-residents (individuals or corporations) without permanent establishment in Spain it shall be included the number or identification code which corresponds according to their country of residence.

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