Offering Circular dated 6 February 2019

IBERDROLA INTERNATIONAL B.V.

(incorporated with limited liability in the Netherlands and having its corporate domicile in Amsterdam)

€800,000,000 Undated Deeply Subordinated Reset Rate Guaranteed Securities unconditionally and irrevocably guaranteed on a subordinated basis by

IBERDROLA, S.A.

(incorporated with limited liability in the Kingdom of Spain)

Issue Price 100.00 per cent.

The €800,000,000 Undated Deeply Subordinated Reset Rate Guaranteed Securities (the "Securities") are issued by Iberdrola International B.V. (the "Issuer" or "Iberdrola International") and unconditionally and irrevocably guaranteed on a subordinated basis by Iberdrola, S.A. (the "Guarantee", and the "Guarantor" or "Iberdrola", respectively). The Securities will bear interest on their principal amount (i) from (and including) the Issue Date to (but excluding) the First Reset Date at a rate of 3.250 per cent. per annum; and (ii) from (and including) the First Reset Date (as defined in the section headed "Terms and Conditions of the Securities" (the "Conditions")), at, in respect of each Reset Period, the relevant 5 year Swap Rate plus: (A) in respect of the Reset Period commencing on the First Reset Date, 2.973 per cent. per annum; (B) in respect of the Reset Periods commencing on 12 February 2030 to (but excluding) 12 February 2045, 3.223 per cent. per annum; and (C) in respect of any other Reset Period, 3.973 per cent. per annum, all as determined by the Agent Bank. Interest will be payable annually in arrear on 12 February in each year (each an "Interest Payment Date"), commencing on 12 February 2020. If the Issuer does not elect to redeem the Securities in accordance with Condition 6(f) following the occurrence of a Change of Control Event (as defined in the Conditions), the then Prevailing Interest Rate (as defined in the Conditions), and each subsequent Prevailing Interest Rate otherwise determined in accordance with the Conditions, on the Securities shall be increased by 5 per cent. per annum with effect from (and including) the date on which the Change of Control Event occurred. See "Terms and Conditions of the Securities — Interest Payments — Step-up after Change of Control Event".

The Issuer may, at its sole discretion, elect to defer (in whole or in part) any payment of interest on the Securities, subject to limited exceptions, as more particularly described in "Terms and Conditions of the Securities — Optional Interest Deferral". Any amounts so deferred, together with further interest accrued thereon (at the Prevailing Interest Rate applicable from time to time), shall constitute Arrears of Interest (as defined in the Conditions). The Issuer may pay outstanding Arrears of Interest, in whole or in part, at any time in accordance with the Conditions. Notwithstanding the foregoing, the Issuer shall pay any outstanding Arrears of Interest in whole, but not in part, on the first occurring Mandatory Settlement Date following the Interest Payment Date on which any outstanding Arrears of Interest was first deferred, all as more particularly described in "Terms and Conditions of the Securities — Optional Interest Deferral — Mandatory Settlement of Arrears of Interest".

The Securities will be undated securities in respect of which there is no specific maturity date and shall be redeemable (at the option of the Issuer) in whole, but not in part, on any Reset Date, at their principal amount together with any accrued and unpaid interest up to (but excluding) the Redemption Date (as defined in the Conditions) and any outstanding Arrears of Interest. In addition, upon the occurrence of an Accounting Event, a Capital Event, a Change of Control Event, a Tax Event, a Withholding Tax Event or a Substantial Purchase Event (each such term as defined in the Conditions), the Securities will be redeemable (at the option of the Issuer) in whole, but not in part, at the prices set out, and as more particularly described, in "Terms and Conditions of the Securities — Redemption and Purchase".

The Securities will constitute direct, unsecured and subordinated obligations of the Issuer and will at all times rank *pari passu* and without any preference among themselves and with the (i) €1,000,000,000 Undated Deeply Subordinated Reset Rate Guaranteed Securities and (ii) €700,000,000 Undated Deeply Subordinated Reset Rate Guaranteed Securities, in each case, issued by Iberdrola International B.V. and unconditionally and irrevocably guaranteed on a subordinated basis by Iberdrola, S.A., all as more particularly described in "Terms and Conditions of the Securities — Status and Subordination of the Securities and Coupons". The payment obligations of the Guarantor under the Guarantee will constitute direct, unsecured and subordinated obligations of the Guarantor and will at all times rank *pari passu* and without any preference among themselves. In the event of the Guarantor being declared in insolvency under Spanish insolvency law, the rights and claims of Holders (as defined in the Conditions) against the Guarantor in respect of or arising under the Guarantee will rank, as against the other obligations of the Guarantor, in the manner more particularly described in "Terms and Conditions of the Securities – Guarantee, Status and Subordination of the Guarantee".

Payments in respect of the Securities will be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature of the Netherlands or the Kingdom of Spain, unless such withholding or deduction is required by law. In the event that any such withholding or deduction is made, additional amounts will be payable by the Issuer or, as the case may be, the Guarantor, subject to certain exceptions as are more fully described in "Terms and Conditions of the Securities — Taxation". See "Taxation".

Application has been made to admit the Securities to the official list of the Luxembourg Stock Exchange (the "Official List") and to trading on the Luxembourg Stock Exchange's Euro MTF Market (the "Euro MTF Market"). The Euro MTF Market is not a regulated market for the purposes of Directive 2014/65/EU (as amended, "MiFID II") of the European Parliament and of the Council on markets in financial instruments. References in this Offering Circular to the Securities being "listed" (and all related references) shall mean that the Securities have been admitted to the Official List and admitted to trading on the Euro MTF Market.

The Securities are in bearer form and in the denomination of €100,000 each. The Securities will initially be represented by a temporary global security (the "Temporary Global Security"), without interest coupons or talons, which will be deposited with a common depositary on behalf of Euroclear Bank SA/NV ("Euroclear") and Clearstream Banking, S.A. ("Clearstream, Luxembourg") on or about the Issue Date. Interests in the Temporary Global Security will be exchangeable for interests in a permanent global security (the "Permanent Global Security" and together with the Temporary Global Security, the "Global Securities") as set out in the Temporary Global Security. The Permanent Global Security will be exchangeable for definitive Securities (the "Definitive Securities") as set out in the Permanent Global Security. See "Summary of Provisions relating to the Securities while in Global Form".

The Securities are expected to be rated BBB- by Standard & Poor's Credit Market Services Europe Limited ("S&P"), Baa3 by Moody's Investors Service Limited ("Moody's") and BBB by Fitch Ratings Limited ("Fitch"). A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency. Each of S&P, Moody's and Fitch is established in the European Union and is registered under Regulation (EC) No 1060/2009 (the "CRA Regulation").

Prospective investors should have regard to the factors described under the section headed "Risk Factors" in this Offering Circular.

Global Coordinators and Structuring Agents to the Issuer and Guarantor

Crédit Agricole CIB **J.P. Morgan**

Joint Bookrunners

Banco Bilbao Vizcaya Argentaria, S.A.
Commerzbank
Credit Suisse
J.P. Morgan
Natixis

Barclays
Crédit Agricole CIB
ING
MUFG
Santander Corporate & Investment Banking

IMPORTANT INFORMATION

This Offering Circular constitutes a prospectus for the purposes of the Luxembourg Act dated July 10, 2005 on Prospectuses for securities (as amended). This document does not constitute a prospectus for the purposes of Article 3 of Directive 2003/71/EC, as amended or superseded. The Issuer and the Guarantor accept responsibility for the information contained in this Offering Circular. To the best of the knowledge 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 may only be used for the purposes for which it has been published.

This Offering Circular is to be read in conjunction with all the documents which are incorporated herein by reference (see "Documents Incorporated by Reference"). This Offering Circular shall be read and construed on the basis that such documents are incorporated and form part of this Offering Circular.

This Offering Circular does not constitute an offer to sell or the solicitation of an offer to buy any of the Securities in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. The offer or sale of Securities may be restricted by law in certain jurisdictions. None of the Issuer, the Guarantor or the Joint Bookrunners (as defined in "Subscription and Sale" below) represents that this Offering Circular may be lawfully distributed, or that the Securities 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 assume any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Issuer, the Guarantor or the Joint Bookrunners which is intended to permit a public offering of the Securities or distribution of this Offering Circular in any jurisdiction where action for that purpose is required. Accordingly, no Securities 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 Securities may come must inform themselves about, and observe, any such restrictions on the distribution of this Offering Circular and the offering and sale of Securities. In particular, there are restrictions on the distribution of this Offering Circular and the offer or sale of Securities in the United States, the United Kingdom, the European Economic Area, Italy, the Netherlands and the Kingdom of Spain, see "Subscription and Sale" below.

No person is or has been authorised to give any information or to make any representation not contained in or not consistent with this Offering Circular and any information or representation not so contained must not be relied upon as having been authorised by or on behalf of the Issuer, the Guarantor or the Joint Bookrunners.

Neither the delivery of this Offering Circular nor the offering, sale or delivery of any Securities shall, under any circumstances, create any implication that there has been no change in the affairs of the Issuer or the Guarantor since the date hereof or the date upon which this Offering Circular has been most recently amended or supplemented or that there has been no adverse change in the financial position of the Issuer or the Guarantor since the date hereof or the date upon which this Offering Circular has been most recently amended or supplemented or that the information contained in it or any other information supplied in connection with the Securities is correct as of any time subsequent to the date on which it is supplied or, if different, the date indicated in the document containing the same. The Joint Bookrunners expressly do not undertake to review the financial condition or affairs of the Issuer or the Guarantor during the life of the Securities or to advise any investor in the Securities of any information coming to their attention.

The Joint Bookrunners have not independently verified the information contained herein. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability (whether

fiduciary, in tort or otherwise) is accepted by the Joint Bookrunners as to the accuracy or completeness of the information contained or incorporated in this Offering Circular or any other information provided by the Issuer or the Guarantor in connection with the Securities. The Joint Bookrunners accept no liability in relation to the information contained or incorporated by reference in this Offering Circular or any other information provided by the Issuer or the Guarantor in connection with the Securities.

To the fullest extent permitted by law, none of the Joint Bookrunners accepts any responsibility for any act or omission of the Issuer or the Guarantor, or for the contents of this Offering Circular or for any other statements made or purported to be made by any Joint Bookrunner or on their behalf in connection with the Issuer, the Guarantor or the issue and offering of any Securities. Each of the Joint Bookrunners accordingly disclaims all and any liability whether arising in tort or contract or otherwise which it might otherwise have in respect of any act or omission of the Issuer or the Guarantor, or this Offering Circular or any such statement.

No person is or has been authorised by the Issuer or the Guarantor 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 any Securities and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer, the Guarantor or any Joint Bookrunner.

Neither this Offering Circular nor any other information supplied in connection with the Securities (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 or the Joint Bookrunners that any recipient of this Offering Circular or any other information supplied in connection with the Securities should purchase any Securities. Each investor contemplating purchasing any Securities 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 Securities constitutes an offer or invitation by or on behalf of the Issuer or the Guarantor or the Joint Bookrunners to any person to subscribe for or to purchase any Securities.

The Joint Bookrunners make no assurances as to (i) whether the Securities will meet investor criteria and expectations with regard to environmental impact and sustainability performance for any investors, (ii) whether the use of the net proceeds will be used for Eligible Green Projects or (iii) the characteristics of the Eligible Green Projects, including their environmental and sustainability criteria.

References in this section "Important Information" to a "Joint Bookrunner" shall include such entity in its capacity as a Joint Bookrunner or Global Coordinator and Structuring Agent to the Issuer and the Guarantor as well, as applicable.

The Securities have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the "Securities Act") and are subject to U.S. tax law requirements. Subject to certain exceptions, Securities may not be offered, sold or delivered within the United States or to U.S. persons.

Unless otherwise specified or the context requires, references to "dollars", "U.S. dollars" and "U.S.$" are to United States dollars and references to "euro" and "€" are to the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty establishing the European Community, as amended.

In connection with the issue of the Securities, Crédit Agricole Corporate and Investment Bank and J.P. Morgan Securities plc (together, the "Stabilising Managers") (or any person acting on behalf of the Stabilising Managers) may over-allot Securities or effect transactions with a view to supporting the market price of the Securities at a level higher than that which might otherwise prevail. However, stabilisation may not necessarily occur. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the Securities is made and, if begun, may cease at

any time, but it must end no later than the earlier of 30 days after the issue date of the Securities and 60 days after the date of the allotment of the Securities. Any stabilisation action or over-allotment must be conducted by the Stabilising Managers (or any person(s) acting on behalf of the Stabilising Managers) in accordance with all applicable laws and rules.

MIFID II product governance/Professional investors and ECPs only target market – Solely for the purposes of each manufacturer's product approval process, the target market assessment in respect of the Securities has led to the conclusion that: (i) the target market for the Securities is eligible counterparties and professional clients only, each as defined in MiFID II; and (ii) all channels for distribution of the Securities to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Securities (a "distributor") should take into consideration the manufacturers' target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Securities (by either adopting or refining the manufacturers' target market assessment) and determining appropriate distribution channels.

PRIIPs Regulation/Prohibition of sales to EEA retail investors – The Securities are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area ("EEA"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of MiFID II; or (ii) a customer within the meaning of Directive 2002/92/EC, as amended or superseded, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II. Consequently, no key information document required by Regulation (EU) No 1286/2014 (as amended, the "PRIIPs Regulation") for offering or selling the Securities or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Securities or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

Amounts payable under the Securities are calculated by reference to the 5 year Swap Rate which itself refers to ICESWAP2, which is provided by the ICE Benchmark Administration ("IBA") and the Euro Interbank Offered Rate ("EURIBOR"), which is provided by the European Money Markets Institute ("EMMI"). As at the date of this Offering Circular, the IBA does appear and the EMMI does not appear on the register of administrators and benchmarks established and maintained by the European Securities and Markets Authority pursuant to article 36 of the Benchmark Regulation (Regulation (EU) 2016/1011) (the "BMR"). As far as the Issuer is aware, the transitional provisions in Article 51 of the BMR apply, such that the EMMI is not currently required to obtain authorisation or registration (or, if located outside the European Union, recognition, endorsement or equivalence).

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Overview

This overview must be read as an introduction to this Offering Circular and any decision to invest in the Securities should be based on a consideration of this Offering Circular as a whole, including the documents incorporated by reference. Words and expressions defined in the Conditions shall have the same meanings in this section.

Issuer:	Iberdrola International B.V.
Guarantor:	Iberdrola, S.A.
Description of Securities:	€800,000,000 Undated Deeply Subordinated Reset Rate Guaranteed Securities (the "Securities"), to be issued by the Issuer on 12 February 2019 (the "Issue Date").
Global Coordinators and Structuring Agents to the Issuer and the Guarantor:	Crédit Agricole Corporate and Investment Bank and J.P. Morgan Securities plc
Joint Bookrunners:	Banco Bilbao Vizcaya Argentaria, S.A., Banco Santander, S.A, Barclays Bank PLC, Commerzbank Aktiengesellschaft, Crédit Agricole Corporate and Investment Bank, Credit Suisse Securities (Europe) Limited, ING Bank N.V., J.P. Morgan Securities plc, MUFG Securities EMEA plc, and Natixis
Fiscal Agent:	The Bank of New York Mellon, London Branch
Issue Price:	100.00 per cent.
Maturity Date:	Undated
Interest:	The Securities will bear interest on their principal amount: (i) from (and including) the Issue Date to (but excluding) the First Reset Date at a rate of 3.250 per cent. per annum commencing on 12 February 2020; and (ii) from (and including) the First Reset Date, at, in respect of each Reset Period, the relevant 5 year Swap Rate plus: (A) in respect of the Reset Period commencing on the First Reset Date, 2.973 per cent. per annum; (B) in respect of the Reset Periods commencing on 12 February 2030 to (but excluding) 12 February 2045, 3.223 per cent. per annum; and (C) in respect of any other Reset Period, 3.973 per cent. per annum, all as determined by the Agent Bank, payable annually in arrear on each Interest Payment Date. All as more particularly described in Condition 4.

	If the Issuer does not elect to redeem the Securities in accordance with Condition 6(f) following the occurrence of a Change of Control Event, the then Prevailing Interest Rate, and each subsequent Prevailing Interest Rate otherwise determined in accordance with the Conditions, on the Securities shall be increased by 5 per cent. per annum with effect from (and including) the date on which the Change of Control Event occurred. See Condition 4.
Interest Payment Dates:	Interest payments in respect of the Securities will be payable annually in arrear on 12 February in each year, commencing on 12 February 2020.
Status of the Securities:	The Securities and the Coupons constitute direct, unsecured and subordinated obligations of the Issuer (senior only to Junior Obligations of the Issuer) and shall at all times rank *pari passu* and without any preference among themselves.
Subordination of the Securities:	In the event of an Issuer Winding-up, the rights and claims of the Holders against the Issuer in respect of or arising under the Securities and the Coupons will rank (i) junior to the claims of all holders of Senior Obligations of the Issuer, (ii) *pari passu* with the claims of holders of all Parity Obligations of the Issuer and (iii) senior to the claims of holders of all Junior Obligations of the Issuer. Subject to applicable law, no Holder may exercise or claim any right of set-off in respect of any amount owed to it by the Issuer arising under or in connection with the Securities or the Coupons and each Holder shall, by virtue of being the Holder, be deemed to have waived all such rights of set-off. Condition 2(b) is an irrevocable stipulation (*derdenbeding*) for the benefit of the creditors of Senior Obligations of the Issuer and each such creditor may rely on and enforce this Condition 2(b) under Section 6:253 of the Dutch Civil Code.
Guarantee and Status of Guarantee:	Payment of all sums expressed to be payable by the Issuer under the Securities and the Coupons will be unconditionally and irrevocably guaranteed by the Guarantor on a subordinated basis. The payment obligations of the Guarantor under the Guarantee constitute direct, unsecured and subordinated obligations of the Guarantor (senior only to Junior Obligations of the Guarantor) and will at all times rank *pari passu* and without preference among themselves.
Subordination of the Guarantee:	Subject to mandatory provisions of Spanish applicable law, in the event of the Guarantor being declared in insolvency (*concurso*) under Spanish insolvency law, the rights and claims of Holders against the Guarantor in

	respect of or arising under the Guarantee will rank (i) junior to the claims of the holders of all Senior Obligations of the Guarantor, (ii) *pari passu* with the claims of the holders of all Parity Obligations of the Guarantor and (iii) senior to the claims of the holders of all Junior Obligations of the Guarantor.
Optional Interest Deferral:	The Issuer may, at its sole discretion, elect to defer (in whole or in part) any payment of interest on the Securities, subject to limited exceptions, as more particularly described in "Terms and Conditions of the Securities – Optional Interest Deferral". Non-payment of interest so deferred shall not constitute a default by the Issuer or Guarantor under the Securities or the Guarantor or for any other purpose. Any amounts so deferred, together with further interest accrued thereon (at the Prevailing Interest Rate applicable from time to time), shall constitute Arrears of Interest.
Optional Settlement of Arrears of Interest:	Arrears of Interest may be satisfied at the option of the Issuer, in whole or in part, at any given time upon giving not more than 14 and no less than seven Business Days notice to the Holders, the Fiscal Agent and the Paying Agents prior to the relevant Optional Deferred Interest Settlement Date informing them of its election so to satisfy such Arrears of Interest (or part thereof) and specifying the relevant Optional Deferred Interest Settlement Date. See Condition 5(b).
Mandatory Settlement of Arrears of Interest:	The Issuer shall pay any outstanding Arrears of Interest in whole, but not in part, on the first occurring Mandatory Settlement Date following the Interest Payment Date on which any Deferred Interest Payment was first deferred. "Mandatory Settlement Date" means the earliest of: (i) as soon as reasonably practicable (but not later than the fifth business day) following the date on which a Compulsory Arrears of Interest Settlement Event occurs; (ii) on the next scheduled Interest Payment Date on which the Issuer does not elect to defer in whole the interest accrued in respect of the relevant Interest Period; (iii) the date on which the Securities are redeemed or repaid in accordance with Condition 6 or become due and payable in accordance with Condition 9; and (iv) the date on which the Securities are substituted or varied in accordance with Condition 12(c).

Subject to certain exceptions, as more particularly described in Condition 5 a "Compulsory Arrears of Interest Settlement Event" shall have occurred if:

(i) a Dividend Declaration is made in respect of any Junior Obligations or any Parity Obligations (other than in respect of any Dividend Declaration made exclusively in Ordinary Shares of the Guarantor); or

(ii) the Guarantor or any of its subsidiaries has repurchased, redeemed or otherwise acquired any Junior Obligations or any Parity Obligations,

all as more particularly described in Condition 5.

Optional Redemption: The Issuer may redeem the Securities in whole, but not in part, on any date during the period commencing on (and including) 12 November 2024 and ending on (and including) the First Reset Date and on any Interest Payment Date thereafter at their principal amount together with any accrued and unpaid interest up to (but excluding) the Redemption Date and any outstanding Arrears of Interest.

In addition, upon the occurrence of an Accounting Event, a Capital Event, a Tax Event, a Withholding Tax Event, a Change of Control Event or a Substantial Purchase Event, the Securities will be redeemable (at the option of the Issuer) in whole, but not in part, at the prices set out, and as more particularly described, in Condition 6.

Events of Default: There are no events of default in respect of the Securities. However, if an Issuer Winding-up occurs, or an order is made or an effective resolution passed for the winding-up, dissolution or liquidation of the Guarantor, then without notice from the Holder of any Security to the Fiscal Agent, each Security shall immediately become due and payable at its principal amount together with any accrued and unpaid interest and any outstanding Arrears of Interest.

In such case the Holder of a Security may, at its sole discretion, institute steps in order to obtain a judgment against the Issuer and/or the Guarantor for any amounts due in respect of the Securities, including but not limited to proving and/or claiming in an Issuer Winding-up or in the winding-up, dissolution, liquidation or insolvency proceeding of the Guarantor for such amount.

Change of Control: If a Change of Control Event has occurred and is continuing, the Issuer may elect to redeem the Securities in whole, but not in part, at any time, at the price set out, and as more particularly described in Condition 6.

	At or around the Issue Date, the Guarantor intends to undertake with and for the benefit of all holders of certain of its securities ("Qualifying Securities") that, for so long as any of the Securities is outstanding, following the occurrence of a Change of Control Event in respect of which it intends to deliver a notice exercising its right to redeem the Securities under Condition 6(f) it will do so only after making a tender offer, directly or indirectly, to all holders of Qualifying Securities to repurchase their respective Qualifying Securities at their respective aggregate nominal amounts together with any interest accrued until the day of completion of the repurchase.
Additional Amounts:	Payments in respect of the Securities and the Coupons by the Issuer or (as the case may be) the Guarantor under the Guarantee will be made without withholding or deduction for, or on account of, Taxes of the Netherlands or the Kingdom of Spain, unless such withholding or deduction is required by law. In the event that any such withholding or deduction is made, additional amounts will be payable by the Issuer or, as the case may be, the Guarantor, subject to certain exceptions as are more fully described in Condition 8(a).
Form:	The Securities will be in bearer form and will initially be represented by a Temporary Global Security, without interest coupons or talons, which will be deposited with a common depositary on behalf of Euroclear and Clearstream, Luxembourg on or about the Issue Date. Interests in the Temporary Global Security will be exchangeable for interests in a Permanent Global Security as set out in the Temporary Global Security. The Permanent Global Security will be exchangeable for Definitive Securities as set out in the Permanent Global Security. See "Summary of Provisions relating to the Securities while in Global Form".
Denominations:	The Securities will be issued in denominations of €100,000.
Substitution or Variation:	If at any time a Tax Event, a Withholding Tax Event, an Accounting Event or a Capital Event has occurred on or after the Issue Date, then the Issuer or the Guarantor may, subject to Condition 12(c) (without any requirement for the consent or approval of the Holders) and having given not less than 30 nor more than 60 days' notice to the Fiscal Agent in accordance with Condition 14, the Holders (which notice shall be irrevocable), at any time either (i) exchange the Securities for new securities of the Issuer, the Guarantor or any wholly-owned direct or indirect finance subsidiary of the Guarantor with a guarantee of

	the Guarantor or (ii) vary the terms of the Securities, so that after such substitution or variation the Securities remain or become, as the case may be, eligible for the same or (from the perspective of the Issuer or the Guarantor) more favourable tax, accounting or ratings treatment than the treatment to which they were entitled prior to the relevant event occurring.
Governing Law:	The Fiscal Agency Agreement, the Securities, the Coupons and the Guarantee and any non-contractual obligations arising out of or in connection with them are governed by and shall be construed in accordance with English law, other than the provisions of Condition 2(b) relating to the subordination of the Securities which are governed by and construed in accordance with the laws of the Netherlands, and the provisions of Condition 3(b) and Condition 3(c) and the corresponding provisions of the Guarantee which are governed by and construed in accordance with the laws of the Kingdom of Spain. See Condition 17.
Replacement Intention:	*The Guarantor intends (without thereby assuming any obligation) at any time that it or the Issuer will redeem or repurchase the Securities only to the extent that the equity credit of the Securities to be redeemed or repurchased does not exceed the aggregate equity credit received by the Guarantor or any Subsidiary of the Guarantor on or prior to the date of such redemption or repurchase from the sale or issuance by the Guarantor or such Subsidiary to third party purchasers (other than group entities of the Guarantor) of replacement capital securities which are assigned by S&P, at the time of sale or issuance, an "equity credit" (or such similar nomenclature used by S&P from time to time) that is equal to or greater than the "equity credit" assigned to the Securities to be redeemed or repurchased (taking into account any changes in hybrid capital methodology or another relevant methodology or the interpretation thereof since the issuance of the Securities), unless:* (i) *the rating assigned by S&P to the Guarantor is at least "BBB+" (or such similar nomenclature then used by S&P) and the Guarantor is of the view that such rating would not fall below this level as a result of such redemption or repurchase, or* (ii) *in the case of a repurchase, such repurchase is of less than (a) 10 per cent. of the aggregate principal amount of the Securities originally issued in any period of 12 consecutive months or (b) 25 per cent. of the aggregate principal amount of the Securities*

	originally issued in any period of 10 consecutive years, or (iii) *in the case of a repurchase, such repurchase relates to an aggregate principal amount of Securities which is less than or equal to the excess (if any) above the maximum aggregate principal amount of the Guarantor's hybrid capital to which S&P then assigns equity content under its prevailing methodologies, or* (iv) *the Securities are redeemed pursuant to a Tax Event, a Capital Event, an Accounting Event, a Change of Control Event, a Substantial Purchase Event or a Withholding Tax Event, or* (v) *if the Securities are not assigned an "equity credit" (or such similar nomenclature then used by S&P) at the time of such redemption or repurchase, or* (vi) *such redemption or repurchase occurs on or after the Reset Date falling on 12 February 2045.*
Rating:	The Securities are expected to be assigned on issue a rating of BBB- by S&P, a rating of Baa3 by Moody's and a rating of BBB by Fitch. A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency. Each of S&P, Moody's and Fitch is established in the European Union and is registered under the CRA Regulation.
Listing and Admission to Trading:	Application has been made for the Securities to be listed on the Official List of the Luxembourg Stock Exchange and traded on the Euro MTF Market.
Selling Restrictions:	The United States, the United Kingdom, the European Economic Area, Italy, the Netherlands and the Kingdom of Spain. See "Subscription and Sale". Category 2 selling restrictions will apply for the purposes of Regulation S under the Securities Act.
Use of Proceeds:	The net proceeds of the issue of the Securities are estimated at €795,880,000. The net proceeds of the issue of the Securities will be on-lent or deposited with another member of the Group (other than the Guarantor) and used to finance and/or refinance, in whole or in part, Eligible Green Projects.
Risk Factors:	Prospective investors should carefully consider the information set out in "Risk Factors" in conjunction with the other information contained or incorporated by reference in this Offering Circular.
ISIN:	XS1890845875.

Common Code:	189084587.
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FISN:	IBERDROLA INTER/EUR NT PERP SUB.
Issuer LEI:	549300ZMLFJKWC63XN87.

Documents Incorporated By Reference

The following documents are incorporated by reference in, and form part of, this Offering Circular:

(a) the independent auditor's report and audited annual financial statements of the Issuer for the financial year ended 31 December 2017;

(b) the independent auditor's report and audited annual financial statements of the Issuer for the financial year ended 31 December 2016;

(c) the English language translation of the independent auditor's report and the English language translation of the audited consolidated annual financial statements of the Guarantor for the year ended 31 December 2017;

(d) the English language translation of the independent auditor's report and the English language translation of the audited consolidated annual financial statements of the Guarantor for the year ended 31 December 2016;

(e) the English language translation of each of the independent auditors' limited review report and the unaudited condensed consolidated interim financial statements of the Guarantor for the six-month period ended 30 June 2018; and

(f) the English translation of the interim unaudited consolidated financial information of the Guarantor for the nine-month period ended 30 September 2018.

The information set out in the table below is contained in the documents incorporated by reference in paragraphs (a) to (f) above.

Information incorporated by reference	*Page number*
Iberdrola International B.V.	
Annual report for 2017 (including independent auditor's report)	
Independent auditor's report	34-40
Directors' report	3-8
Balance sheet	10
Profit and loss account	11
Accounting policies and explanatory notes	13-32
Annual report for 2016 (including independent auditor's report)	
Independent auditor's report	28-33
Directors' report	3-6
Balance sheet	8
Profit and loss account	9
Accounting policies and explanatory notes	11-25
Iberdrola, S.A.	
Annual report for 2017 (including audited consolidated annual financial statements)	
Audit report	Cover pages
Consolidated statements of financial position	5-6
Consolidated income statements	7

Consolidated statements of comprehensive income	8
Consolidated statements of changes in equity	9-10
Consolidated statement of cash flow	11
Appendix II — Industry regulation and functioning of the electricity and gas system	201-254
Annual report for 2016 (including audited consolidated annual financial statements)	
Audit report	Cover pages
Consolidated statements of financial position	5-6
Consolidated income statements	7
Consolidated statements of comprehensive income	8
Consolidated statements of changes in equity	9-10
Consolidated statements of cash flow	11
Interim report for first half of 2018	
Profit and loss	8-9
Balance sheet	6-7
Quarterly report for nine months ended 30 September 2018	
Profit and loss	57-58
Balance sheet	59

Any documents themselves incorporated by reference in the documents incorporated by reference into this Offering Circular shall not form part of this Offering Circular. Those parts of the documents incorporated by reference into this Offering Circular which are not specifically incorporated by reference into this Offering Circular are either not relevant for prospective investors in the Securities or the relevant information is included elsewhere in this Offering Circular.

Copies of documents incorporated by reference in this Offering Circular are available, free of charge, from the registered office of the Issuer, the registered office of the Guarantor, from the specified offices of the Paying Agents for the time being in London and Luxembourg and available for viewing on the website of the Luxembourg Stock Exchange (www.bourse.lu).

Risk Factors

Each of the Issuer and the Guarantor believes that the following factors may affect its ability to fulfil its obligations under the Securities. Most of these factors are contingencies which may or may not occur and neither the Issuer nor the Guarantor is in a position to express a view on the likelihood of any such contingency occurring.

In addition, factors which are material for the purpose of assessing the market risks associated with the Securities are also described below.

Each of the Issuer and the Guarantor believes that the factors described below represent the principal risks inherent in investing in the Securities, at the date of this Offering Circular, but the inability of the Issuer or the Guarantor to pay interest, principal or other amounts on or in connection with the Securities may occur for other reasons which may not be considered significant risks by the Issuer and the Guarantor based on information currently available to them or which they may not currently be able to anticipate. Prospective investors should also read the detailed information set out elsewhere in this Offering Circular (including any documents incorporated by reference herein) and reach their own views prior to making any investment decision.

Factors that may affect the Issuer's ability to fulfil its obligations under or in connection with the Securities

The Issuer has minimal share capital

The Issuer issues debt securities on behalf of Iberdrola and its subsidiaries taken together (the "Iberdrola Group" or the "Group"). Furthermore, the Issuer has been established with a minimal share capital. The Issuer's principal liabilities will comprise the Securities and other debt securities issued by it and its principal assets will comprise its rights (if any) under agreements under which the net proceeds from the issue of the Securities and other debt securities are on-lent or deposited with the Guarantor or other members of the Group. Accordingly, in order to meet its obligations under the Securities, the Issuer is dependent on the Guarantor (or other members of the Group) meeting its obligations under such agreements or deposits or the Issuer being able to enforce its rights against the Guarantor (or other member of the Group) under such agreements or deposits. The fact that the Issuer is wholly owned by the Guarantor may limit the ability of the Issuer to enforce these obligations.

Main risk factors associated with the activities of the Iberdrola Group

Credit risk

The Iberdrola Group is exposed to credit risk arising from its counterparties' (including but not limited to customers, suppliers, financial institutions and partners) default on their contractual obligations. Exposure may arise with regard to unsettled amounts and the cost of substituting products not supplied.

Credit risk is managed and limited in accordance with the type of transaction and the creditworthiness of the counterparty. A specific *Corporate Credit Risk Policy* is in place which establishes criteria for admission, approval systems, authorisation levels, scoring tools, exposure measurement methodologies, etc.

With regard to credit risk on trade receivables, the historical cost of defaults has remained moderate and stable at close to 1 per cent. of total turnover of this activity, despite the difficult economic environment in recent years. Regarding other exposure (counterparties in transactions with financial derivatives, placement of cash surpluses, transactions involving energy and guarantees received from third parties), no significant defaults or losses were incurred in 2017 or 2016.

The Group's networks businesses in Spain and the United Kingdom do not sell energy. Therefore, their credit risk is limited. In the case of the Group's networks businesses in Brazil and the United States, the activity of

supplying under a regulated tariff allows the recovery, in general terms, of unpaid invoices, due to the recognition in tariffs of most of the standard credit risks.

Financial risk

Interest rate risk

The Iberdrola Group is exposed to the risk of fluctuations in interest rates affecting cash flows and market value in respect of items in the balance sheet (including debt and derivatives). In order to adequately manage and limit this risk, the Iberdrola Group manages annually the proportion of fixed and variable debt and establishes the actions to be carried out throughout the year: new sources of financing (at a fixed, floating or indexed rate) and/or the use of interest rate derivatives.

Outstanding debt arranged at floating interest rates is broadly tied to EURIBOR, Libor-GBP and Libor-USD and the CDI (interbank certificate of deposit) in the case of the debt of the Group's Brazilian subsidiaries.

Additionally, as of 31 December 2017, the Group had closed derivatives to cover the interest rate risk of the future financing for a nominal amount of 3,620,000,000 euro, which should help to mitigate interest rate risk.

Taking into account the composition of the debt of the Group as at 31 December 2017 and the split between fixed and variable cost, and assuming it remains constant in the future, the impact on profit and loss of a potential increase of 25 basis points (0.25 per cent.) of the reference interest rates would be 33 million euro (i.e., a higher financial expense).

The Iberdrola Group's debt structure as of 31 December 2017, once the hedge provided by the derivatives traded has been taken into account, is included in Note 5 of the audited consolidated annual financial statements of the Guarantor for the year ended 31 December 2017. Further information about debt is included in Note 52 of the above referred document.

Foreign currency risk

As the Iberdrola Group's account currency is the euro, fluctuations in the value of the currencies in which borrowings are instrumented and transactions are carried out with respect to the euro (mainly pounds sterling, U.S. dollar and the Brazilian real), may have a material adverse effect on the finance costs, profit and equity of the Group.

The following items could be affected by foreign currency risk:

- Collections and payments for supplies, services or equipment acquisition in currencies other than the local or functional currency.

- Income and expenses of certain foreign subsidiaries indexed in currencies other than the local or functional currencies.

- Debt and financial expense denominated in currencies other than the local or functional currency.

- Profit or loss on consolidation of foreign subsidiaries.

- Consolidated carrying amount of net investments in foreign subsidiaries.

- Expense for taxes in Mexico as the functional currency (U.S. dollar) differs from the currency used for calculating corporate taxes (Mexican Peso).

The Iberdrola Group reduces these risks by:

- Ensuring that all its economic flows are carried out in the currency of each Group company, provided that this is possible, economically viable and efficient, and through the use of derivatives if it is not possible.

- As far as possible, hedging the risks of transfer of earnings scheduled for the current year, thereby limiting the ultimate impact on the Group's earnings.

- Mitigating the impact on the consolidated net asset value of a hypothetical depreciation of currencies due to the Group's investment in foreign subsidiaries by maintaining foreign currency debt, as well as through financial derivatives.

- As far as possible, to cover the expense of the exchange rate risk in Mexican corporate taxes, limiting the overall impact on the earnings of the Group's entities in Mexico and of the Group as a whole.

Taking into account the breakdown of the 2017 financial expense in terms of currencies (39 per cent. euro, 21 per cent. U.S. dollar, 10 per cent. pounds sterling, 30 per cent. Brazilian real), a 5 per cent. appreciation of the main currencies, and assuming the composition remains constant in the future, would have a negative impact on profit and loss of 43 million euro (through a higher consolidated financial expense in euro).

The sensitivity of the consolidated profit and equity of the Group to changes in the U.S. dollar/euro, pounds sterling/euro and Brazilian real/euro exchange rates, respectively, is described in Note 5 of the audited consolidated annual financial statements of the Guarantor for the year ended 31 December 2017. Detailed information about interest rates and currencies of the Group's debt can be found in Note 26 of the above referred document.

Liquidity risk

Exposure to adverse situations in the debt or capital markets or in relation to the Iberdrola Group's own economic or financial situation may hinder or prevent the Group from obtaining the financing required to properly carry on its business activities.

The Iberdrola Group's liquidity policy is aimed at ensuring that it can meet its payment obligations without having to obtain financing on unfavourable terms. For this purpose, various management measures are used such as the arrangement of committed credit facilities of sufficient amount, deadline and flexibility, diversification of the coverage of financing needs through access to different markets and geographical areas, and diversification of the maturities of the debt issued.

The balances for cash, liquid assets and available committed credit facilities are sufficient for meeting the Group's liquidity needs (not including Neoenergia, S.A. ("Neoenergia")) for more than 18 months, excluding any new financing facilities.

The figures relating to changes in the Group's debt are included in Notes 26 and 52 of the audited consolidated annual financial statements of the Guarantor for the year ended 31 December 2017.

Country risk

To some extent, and depending on their nature, all of the Iberdrola Group's international activities are exposed to the risks inherent to the countries in which they take place, such as:

- Imposition of monetary and other restrictions on the movement of capital.

- Changes in the trade environment and taxes and administrative policies.

- Changes in the market.

- Economic crises, political instability and social riots which affects operations.

- Nationalisation or expropriation of assets.

- Exchange rate fluctuations.

- The cancellation of operating licences.
- Anticipated termination of government contracts.
- Regulatory changes.

The results of operations of the Group's international subsidiaries, their market value and their contribution to the Group may be affected by such risks.

The main operations of the Iberdrola Group are concentrated in Spain, the United Kingdom, the United States, Brazil and Mexico, considered to be low to moderate-risk countries, the credit ratings of which are as follows as of 20 September 2018:

Country	**Moody's**	**S&P**	**Fitch**
Spain	Baa1	A-	A-
United Kingdom	Aa2	AA	AA
United States	Aaa	AA+	AAA
Brazil	Ba2	BB-	BB-
Mexico	A3	BBB+	BBB+

The presence in countries other than those mentioned above is not significant at a Group level from an economic point of view.

Activity risk

The activities of the various businesses developed by the Group are subject to a number of risks including market, credit, operational, business, regulatory and reputational risks arising from the uncertainty of the main variables that affect them.

In the following sections a review of risks related to the three global businesses of the Group are presented.

The operational data of installed capacity given in this section is as of 30 June 2018, unless otherwise stated.

Regulatory risk

Companies in the Iberdrola Group are subject to laws and regulations concerning prices and other aspects of their activities in each of the countries in which they operate. The introduction of new laws and regulations or amendments to the already existing laws and regulations, may have an adverse effect on the Group's operations, annual results and the economic value of its businesses.

The major regulatory measures that were approved or initiated in 2017, 2018 or 2019 are:

- Spain

  On 23 December 2017, Royal Decree-law 7/2016, Royal Decree 897/2017 and Order ETU/943/2017 which regulate the mechanism for financing the cost of a social tariff and other measures to protect vulnerable electricity consumers and other protective measures for home electricity consumers implemented by retail companies were passed.

  The Spanish Government approved a temporary suspension of the Tax on the Production and Sale of Energy ("TPSE") for the last quarter of 2018 and the first quarter of 2019 by means of Royal Decree

15/2018, of 5 October, of urgent amendments for the energy transition and the protection of customers ("Royal Decree-Law 15/2018").

In particular, Royal Decree-Law 15/2018 foresees that the TPSE taxable base for tax year 2018 will exclude the amount received for the sale of electricity during the last quarter of 2018. Additionally, the taxable base for tax year 2019 will exclude the amount received for the sale of electricity during the first quarter of 2019. This exclusion would also be applicable in the calculation of the instalments on account of the TPSE within 2018 and 2019.

Royal Decree-Law 15/2018 also approved specific measures to protect vulnerable consumers and implemented a natural gas social tariff for specific consumers.

Royal Decree 1400/2018, of 23 November, approved the Regulation on nuclear safety in nuclear power stations imposing specific obligations on the owners of nuclear stations to adapt their installations to it within a maximum period of three years.

On 11 January 2019, Royal Decree-Law 1/2019 on urgent measures to implement Directives EC/2009/72 and EC/2009/73 in respect of the faculties to be passed to the *Comisión Nacional de los Mercados y la Competencia* (CNMC) (as independent energy agency) from the Ministry on Ecological Transition was passed.

- United States

  Approval of rate cases by the regulator of the State of New York for Rochester Gas and Electric ("RG&E") and New York State Electric & Gas ("NYSEG"), valid from July 2016 for a period of three years, on terms satisfactory to the Group.

- Brazil

  Approvals by the Brazilian regulator *Agência Nacional de Energia Elétrica* ("ANEEL") of the terms of the new regulatory periods for Celpe Energetica de Pernambuco S.A.'s ("Celpe"), in April 2017, valid for a period of four years, and for Companhia de Eletricidade do Estado do Bahia ("Coelba") and Companhia Energética do Rio Grande do Norte ("Cosern"), in April 2018, valid for a period of five years, in both cases on terms satisfactory to the Group.

- Mexico

  Approval of the Energy Regulatory Commission's Agreement A/058/2017 which defines the methodology to determine the final tariff's calculations and adjustment, along with operations tariffs that will apply to the subsidiary production company "CFE Suministrador de Servicios Básicos" from 1 December 2017 to 31 December 2018.

- United Kingdom

  The British government has decided to set a maximum price for gas and electricity tariffs under the "standard variable tariff" model. On 6 September 2018 the regulator OFGEM announced its initial proposal, which is open to consultation. The cap will be in place in 2019. In any case, the setting of this maximum price is expected to negatively affect the retail business results of the Group in the United Kingdom.

Network business risk

The Group is present, through its network businesses, in Spain, in the United Kingdom, in the United States (through Avangrid Inc. ("Avangrid")) and in Brazil (through Neoenergia). The regulations in each country in which the Iberdrola Group's network businesses operate establish regularly revised frameworks, guaranteeing

that these businesses will receive reasonable and predictable returns. These frameworks include penalties and bonuses for efficiency, service quality and, eventually, for default management, which have a minor, immaterial impact overall. Significant amendments to these regulations could pose a risk to these businesses.

Generally, the profitability of the Iberdrola Group's network business is not exposed to demand risk, except for the Brazilian subsidiaries.

The Iberdrola Group's network business in Spain and in the United Kingdom are not exposed to any market risk associated with energy prices, since they do not sell energy to final customers.

The network business in Brazil and in some parts of the United States sell energy to regulated customers at a price determined by certain previously approved tariffs. Provided a prudent management policy is followed regarding procurement and in accordance with that established by the relevant regulator, the regulatory frameworks in both countries guarantee sums will be collected in subsequent tariff readjustment reviews for possible purchase price deviations from those previously recognised in the tariff.

Given the above, in the case of extraordinary events (for example, extreme drought in Brazil such as those that occurred in 2014 or catastrophic storms in the United States), occasional temporary gaps between payments and collections may arise with an impact on the cash flows of some of these businesses and eventually on profits recognised under International Financial Reporting Standards as adopted by the European Union ("IFRS-EU").

The following sets out the current regulatory environments for the Group's network businesses in Spain, the United Kingdom, the United States and Brazil:

- Network business in Spain

  The present regulatory model is based on Electric Industry Law 24/2013 of 26 December, establishing six-year regulatory periods and profitability for distribution activity calculated on ten-year government bonds plus 200 basis points. Profitability was set at 6.5 per cent. for the first regulatory period, finalising in December 2019. Fluctuation of the financial remuneration rate used between two consecutive years may not exceed 50 basis points in absolute value.

  Royal Decree 1048/2013 of 27 December establishing the methodology to calculate remuneration for electricity distribution activities defines a methodology based on standard unit costs of investment and operation. The remuneration of facilities will be calculated on the basis of the actual cost and the standard cost recognised for each investment, and therefore profitability will depend on the efficiency achieved on construction.

  On 27 July 2018 the Spanish regulator, the *Comisión Nacional de los Mercados y la Competencia* (CNMC) published a proposal of new methodology to calculate the remuneration of networks business, based on a weighted average cost of capital ("WACC") methodology, open to consultation, with a preliminary result for the network businesses of around 5.47 per cent.

- Network business in the United Kingdom

  The Group operates in the United Kingdom through its subsidiary Scottish Power, Ltd. and the following licensees:

  - SP Distribution PLC ("SPD")
  - SP Manweb PLC ("SPM")
  - SP Transmission PLC ("SPT")

The United Kingdom electricity transmission and distribution utility businesses remuneration framework applies a "price control" model, based on a recognised cost for capital (WACC), Asset Depreciation and Operating Costs plus a performance-based incentive, the benefits (or losses) of which, achieved through efficient management, are partially retained by the company during the established regulatory period.

The current regulatory model for SPD and SPM is based on the RIIO ED1 framework, which is valid until April 2023. Recognised real post-tax return on equity ("ROE") is 6 per cent.

The current regulatory framework for SPT is based on the RIIO T1 framework, which is valid until April 2021. Recognised real post-tax ROE is 7 per cent.

The regulator (OFGEM) also establishes incentives/penalties for safety, environmental impact, consumer satisfaction, social obligations, connections and quality, which may have an effect on the income statement.

- Network business in the United States

The Iberdrola Group operates in the United States through its listed subsidiary Avangrid, which has the following subsidiaries:

- NYSEG, New York, with a three-year rate tariff effective 30 April 2016 (base ROE 9 per cent. for distribution).

- RG&E, New York, with a three-year rate tariff effective 30 April 2016 (base ROE 9 per cent. for distribution).

- Central Maine Power (CMP), Maine, with an annual extendable distribution rate tariff effective 1 July 2014 (base ROE 9.45 per cent. for distribution) and transmission business (base ROE 10.57 per cent.).

- United Illuminating, Connecticut, with a three-year distribution rate tariff effective 1 January 2017 (base ROE 9.1 per cent.) and transmission business (base ROE 10.57 per cent.).

- It also has the following natural gas distribution companies: Maine Natural Gas Corporation, Connecticut Natural Gas, Southern Connecticut Gas and Berkshire Gas Company.

Companies carrying out regulated business in the United States are exposed to risks associated with the regulations of a number of federal regulatory bodies (FERC, CFTC, DEC) and state commissions, responsible for establishing the regulatory frameworks of the regulated companies (tariffs and other conditions).

The distributors' tariff plans have been designed to reduce the risk to which businesses are exposed through mechanisms such as deferral, reconciliation and provisions for costs. Regulated distributors pass the costs of gas and electricity to end customers, thereby mitigating any impacts of fluctuations in demand.

- Network business in Brazil

The Iberdrola Group conducts its business in Brazil through Neoenergia, which has the following subsidiaries:

- Elektro Redes, S.A. ("Elektro") (in the states of Sao Paolo and Mato Grosso do Sul), current rates until August 2019 and WACC of 8.09 per cent.

- Coelba, operating in the state of Bahía. Rates in force until April 2023 and WACC of 8.09 per cent.
- Celpe, operating in the state of Pernambuco. Rates in force until April 2021 and WACC of 8.09 per cent.
- Cosern, operating in the state of Rio Grande do Norte. Rates in force until April 2023 and WACC of 8.09 per cent.
- Several transmission assets with their own regulation.

The Brazilian regulatory framework is based on a system of price cap that is revised every four or five years, depending on each company's concession contract and is updated annually by the regulator. Coelba and Cosern have a five-year term and Celpe and Elektro have a four-year term.

Brazilian legislation applicable to regulated electricity distribution business establishes two types of costs:

(i) "Parcel A", which includes the costs of energy, transport and other obligations and regulatory charges, which can be recovered through tariffs ("pass through") as part of the conditions and limits imposed by ANEEL, except for other obligations and regulatory charges which can always be recovered through tariffs.

(ii) "Parcel B", which includes remuneration for investment and the costs of operation and maintenance, which generate either an incentive or a risk for the investor.

ANEEL also acknowledges other smaller incentives to minimise default and impairment of quality and customer dissatisfaction that can affect the income statement.

Pursuant to current legislation, electricity distribution companies:

- Transfer the cost of supplying electricity to the end customer through the regulated tariff, provided the energy contracted is between 100 per cent. and 105 per cent. of the demand required.
- Face risk of penalties imposed by the regulator ANEEL when the energy contracted is less than 100 per cent., where this is due to the exclusive responsibility of the distributor.
- Face price fluctuations when the energy contracted is above 105 per cent.

Significant amendments to the regulatory regimes set out above could pose a risk to the Group's network businesses in Spain, the United Kingdom, the United States and Brazil, which in turn may have an adverse effect on the Group's operations, annual results and the economic value of its businesses.

Renewables business

The Iberdrola Group is present, through its renewable energy businesses, in Spain, in the United Kingdom, in the United States (through Avangrid), in Mexico and Brazil (through Neoenergia).

The regulations of each country in which the Group operates establish regulatory frameworks aimed at promoting the development of renewable energies based on formulas which may include premiums, green certificates, tax or regulated tariff deductions, which allow investors to obtain sufficient and reasonable returns. Any change to the aforementioned regulation may represent a risk for said business.

In addition to the aforementioned regulatory risk, the Group's renewable energy businesses may be subject, to a greater or lesser extent, to resource risk and to market risk:

With regards to wind resource risk, the Group considers that it is mitigated through the high number of wind power farms available and their geographic diversification, and the trend to compensate periods with less wind energy with those with high wind energy in the medium term.

In terms of hydro resource risk, in Spain changes in output with respect to the average value can be up to -4,000 GWh in a dry year and +5,000 GWh in a wet year, and the variability would be around ± 190 million euro on the Group's gross operating profit. In the long term, it is assumed that years with low resource tend to compensate years of high resource. Hydro resource risk in the United Kingdom and Brazil is not material.

The positions exposed to market risk of the renewables businesses in Spain, United Kingdom, Brazil and Mexico are transferred to the Generation and Customers division in order to be managed and hedged in the most efficient manner possible, and included in the position of that business.

The following sets out details relating to the current electricity price regimes for the Group's renewable energy businesses in Spain, the United Kingdom, other European countries, the United States, Mexico and Brazil:

- Renewables business in Spain

  The Group currently has a renewable installed capacity in Spain of 15,820 MW: 5,752 MW of wind farms, 9,715 MW of large hydro, 303 MW of mini hydro and 50 MW of solar thermal. Production of large hydro facilities is exposed to market risk, while the remuneration of the rest of the portfolio is derived from the renewables regulation described below.

  Subsequent to the approval of the new regulatory framework (the Royal Decree-law 9/2013, of 12 July, Law 24/2013, of 26 December, the Royal Decree 413/2014, of 6 June, and the Ministerial Order IET/1045/2014, of 16 June and the Ministerial Order ETU/130/2017, of 17 February), all renewable energy generated since 2004 is remunerated at market price plus a premium per MW. This guarantees a reasonable regulated return based on a recognised standard investment.

  - The reasonable rate of return of the investments is defined on the basis of the average yield on ten-year government bonds plus 300 basis points (that is, 7.4 per cent. for the first six-year period ending on 31 December 2019).
  - The return is readjusted every three years within predetermined bands to cover any possible deviation in market price.
  - The facilities that began operating in 2003 or before have a null premium, and therefore are fully exposed to market risks, similar to large hydro plants.

  On 27 July 2018 the Spanish regulator (CNMC) published a proposal of new methodology to calculate the remuneration of renewables activity, based on a WACC methodology, open to consultation, with a preliminary result for those businesses of around 7.04 per cent.

- Renewables business in the United Kingdom

  The Group's current renewables installed capacity in the United Kingdom is 1,906 MW in onshore wind plants and 194 MW in offshore wind plants, operational under current "Renewables Obligation" legislation. This means than income is partially exposed to the risk of the market price of electricity in the United Kingdom, as it is derived from the sale of energy generated plus the sale of Renewable Obligation Certificates ("ROCs"). United Kingdom regulations impose a minimum quantity of ROCs/MWh sold which apply to sellers of electricity, established at 10 per cent. more than the system envisages producing, and determine the price at which the rest must buy, which in practice amounts to a floor price at the price of the ROCs.

For new renewable installations which have begun operation from 1 April 2017 (for onshore wind, from 12 May 2016) the Renewables Obligation does not apply and remuneration is set in the form of a "Contract for Difference" ("CfD") which eliminates market risk during the first 15 years of operation. Such is the case for the East Anglia offshore plant of 714 MW, currently under construction.

The fixed prices for these projects on a CfD scheme are established on a project-by-project basis through public tenders. The counterparty guaranteeing this price, "The Low Carbon Contracts Company", finances its potential payments by charging a fee to distributors depending on their market share, and therefore the credit risk with the counterparty is practically zero.

In addition, the Group has 566 MW of large hydro capacity in the United Kingdom.

- Renewables in other European countries

  The 350 MW Wikinger offshore wind-farm, located in Germany, achieved commercial operation recently. Pursuant to German regulations, the installation has a fixed price for the energy produced over the first 15 years of operation on a CfD contract, similar to the United Kingdom.

  In addition, the Group accounts for 605 MW of installed capacity in wind plants and 6 MW in photovoltaic facilities in other European countries. Regulations in these countries make a distinction between two energy sale schemes: sales at the tariff (Portugal, Greece, Cyprus and Hungary), or sales at market price (Romania).

  The Group has been awarded and is currently developing significant wind offshore projects which are expected to be operating commercially by 2022-2023 in the following countries:

  - Germany (Wiking Sud and Baltic Eagle, with a total capacity of 486 MW).
  - France (Saint Brieuc, with a total capacity of 496 MW, of which 70 per cent. belongs to the Group). The original feed-in tariff of this project is currently under review by the French government.

- Renewables business in the United States

  The Iberdrola Group conducts its renewables business in the United States through its listed company Avangrid, which has an installed capacity of 6,385 MW in onshore wind plants, 118 MW of large hydro and 128 MW of solar.

  Approximately 65 per cent. of the energy produced by Avangrid in 2017 was sold on fixed-price long-term contracts with third parties. Some 17 per cent. were hedged and the remaining 18 per cent. of the energy produced was sold to the market on short-term contracts.

  With electricity prices around 30 U.S.$ per MWh, a 5 per cent. change in prices could give rise to an impact of ±4 million euro on operating results.

  Avangrid has been selected to develop the Vineyard offshore wind farm, a 800 MW installation (50 per cent. belonging to Avangrid) located in Massachussets. It is expected to be operational in 2022.

- Renewables business in Mexico

  In Mexico, the business now has an installed capacity of 378 MW in operational onshore wind plants and 270 MW of solar. The business operates through two sale schemes: a) fixed-price sale to the *Comisión Federal de Electricidad* or the Federal Electricity Commision ("CFE") on a long-term contract basis and b) sale to third parties with a discount on the official price published by the CFE. A 221 MW onshore wind project is under construction.

- Renewables business in Brazil

In Brazil the business now has an installed capacity of 516 MW in onshore wind plants, and all the business operates on long-term contracts (PPAs) with a fixed price for the country's distributors. Excesses and shortages in the production contracted with the distributor are settled over periods of four years, and excesses must be offered and shortages purchased at market prices.

In Brazil the Group also has 2,235 MW of hydraulic generation, of which approximately 80 per cent. is sold to local electricity distributors through long-term PPA contracts. The rest of the production is sold to qualified customers with an expectation of between one and two years, according to Brazilian market prices.

Significant amendments to the electricity price regimes set out above could pose a risk to the Group's renewable energy businesses in Spain, the United Kingdom, other European countries, the United States, Mexico and Brazil, which in turn may have an adverse effect on the Group's operations, annual results and the economic value of its businesses.

Generation and Retail businesses

The Iberdrola Group is present, through its Generation and Retail businesses, in Spain, the United Kingdom, Mexico and Brazil (through Neoenergia). The main variables that affect the results of this division are the electricity price and the availability of installations. However, in many countries, electricity prices are strongly correlated with the price of the fuels used in their production. Therefore, risk studies are carried out on fuel price trends and CO_2 emission trends. These price risks are not only noticeable in the electricity generation and retail business, but also in the following activities, with a much lower weight in the business' total results:

- The gas retail business, in which a large portion of the Group's operating expenses relate to the purchase of gas for customer supplies. The Group is therefore exposed to the risk of variations in the price of gas.
- Unhedged energy transactions (discretionary trading).

To a large extent, the mutual closing out of positions by the generation business and retailing arm mitigates the market risk to which the Group is exposed. The remaining risk is mitigated by diversifying sale and purchase agreements, and specific clauses therein, as well as by arranging derivatives.

As mentioned before, the positions exposed to market risk of the renewables businesses in Spain, the United Kingdom, Brazil and Mexico are transferred to the Generation and Customers division in order to be managed and hedged in the most efficient manner possible, and included in the position of that business. The sensitivities presented take that into account.

- Generation and retail businesses in Spain

  The Group in Spain accounts for a total of 10,099 MW, of which 3,177 MW are nuclear, 5,695 MW are combined cycle capacity, 353 MW are cogeneration and 874 are coal capacity.

  Commodity price risk

  Given current market conditions, the production price of coal-fired power plants defines, to a large extent, the price of electricity in Spain, since coal is the marginal technology necessary to cover electricity demand. Consequently, the price of coal conditions the revenues of the other less expensive technologies which are used to cover demand. With coal prices around 90 U.S.$ per tonne, a 5 per cent. change in the prices could give rise to an impact of ±20 million euro on operating results.

  The price of CO2 emission allowances influences the cost of production in coal-fired power plants. With carbon prices around 20 euro/tonne, a 5 per cent. change in the prices could give rise to an impact of ±12 million euro on operating results.

The majority of gas supplied in Spain is indexed to the price of oil by means of complex formulas. Iberdrola has other types of contracts, mainly fixed-price supply contracts and contracts with prices not indexed to the market price of oil. These agreements are used for electricity generation, for the consumption of its final customers and for sale to other intermediaries. Due to the fact that the electricity generation margin is covered by the contracting formulas of the system operator, only residual risk remains in sales to final customers and third parties. The risk assumed is reduced and depends on the correlation between the price of oil and the European and international gas prices. In the event of a 5 per cent. fluctuation in the oil price, the risk would be ± 1 million euro.

Demand risk

Given current market conditions, where price is primarily determined by the generation cost of coal-fired plants (which make up around 15 per cent. of the generation mix), it is not considered that demand fluctuations will impact on the marginal technology in the market. The impact on the market price of a 1 per cent. change in demand is therefore limited, amounting to approximately 0.25 euro per MWh.

A moderate drop in demand in Spain does not affect the scheduled output of the Group's nuclear, hydroelectric and wind power plants, since there is a mandatory electricity market in Spain guaranteeing the efficient dispatch of output from all technologies.

Nevertheless, there could be an impact if a decrease in electricity demand entails an equivalent reduction in the Group's retail sales, and consequently a decrease in the profitability margin. This is mitigated to some extent by increasing sales of the Group's own energy on the wholesale market. Taking both effects into account, it is estimated that a 1 per cent. fluctuation in demand would have an impact of ± 8.5 million euro overall.

Risks in connection with nuclear power plants

The Group's nuclear power plants in Spain (3,177 MW) are also exposed to risks relating to their operations and risks arising from the storage and handling of radioactive materials.

Constitutional Spanish law caps the liability of nuclear power plant operators in the event of a nuclear accident at 700 million euro. This liability for a nuclear accident must be compulsorily insured by the operator of Spanish nuclear power plants. The Iberdrola Group meets this obligation by taking out Nuclear Civil Liability insurance policies for each plant. However, Law 12/2011, of 27 May, concerning civil liability for nuclear damage or damage caused by radioactive materials, will increase the operator's liability ceiling and the consequent mandatory insurance ceiling to 1,200 million euro for nuclear power plants. The law will enter into force when all signatories of the Paris and Brussels Agreements ratify the 2004 Amendment Protocols, as established in these agreements.

Accordingly, the indirect economic risk to which the aforementioned power plants are exposed as a result of a possible serious incident in Spain or in other country could affect the periodic renewals of their compulsory operating licences and the increase in their safety investments.

- Generation and retail business in the United Kingdom

The Group accounts for 2,000 MW of combined cycle capacity in the United Kingdom.

Commodity price risk

In a market like the United Kingdom that is geared towards thermal power generation, the clean spark spread has become the appropriate index to follow the uncertainty of the margins of gas-fired power plants. Despite the fact that commodities (coal, CO_2 and electricity) are listed separately, the uncertainty of the unit margin is studied since it has been detected that it is a better indicator of the uncertainty of

the results. With clean spark spread levels around 4 GBP/MWh, a 5 per cent. change in the spreads could give rise to an impact of ± 7 million euro on operating results.

The Group no longer has fixed-price long-term gas contracts in the United Kingdom.

Demand risk

Electricity consumption demand is usually one of the most significant risk factors for any company. However, the Group currently purchases from third parties a significant portion of the energy it sells (12 TWh in 2017, of a total amount of electricity sold of approximately 22 TWh/year), since it is more profitable to do so under current market conditions than the Group producing it and using its own thermal power plants. From a business perspective, fluctuations in electricity demand mean that additional amounts of electricity need to be purchased or that these acquisitions need to be reduced. In any case, the profit or loss the Group obtains from this intermediation is low and much lower than that obtained from its own output. Thus, demand fluctuations have a small impact on profit or loss of ±10 million euro for every 1 per cent. fluctuation in customer demand.

- Generation and retail business in Mexico

  The Group accounts for 5,568 MW of combined cycle capacity and 346 MW of cogeneration in Mexico. In addition, 3,434 MW of combined cycle capacity are under construction.

  Commodity price risk

  Electricity generation at Iberdrola Generación Mexico is gas-intensive. Gas prices therefore are an essential component of this risk.

  Approximately 82 per cent. of the electricity generated in Mexico in 2017 was sold through long-term sales agreements to the CFE (*Comisión Federal de Electricidad* or the Federal Electricity Commission) and, to a lesser extent, other major industrial customers, whereby the risk associated with the price of gas for generating this electricity is passed on.

  The remaining energy is sold to customers at a price linked to the official tariffs published by the CFE.

  Demand risk

  The structure of the agreements the Group has entered into in Mexico isolates the business results from electricity demand fluctuations. Revenues come mainly from plant availability and only the sales indexed at the official Mexican tariff are subject, to a certain extent, to fluctuation in demand. Nonetheless, most of the plants have committed sales exceeding their production capacity and therefore a shift in demand would not have an impact on their operations or results as the electricity generated would be sold to another customer. Changes in electricity demand in Mexico therefore have no effect on results.

- *Generation and retail business in Brazil*

  The Group had 533 MW of combined cycle capacity in Brazil, of which almost 100 per cent. was sold under long-term PPA contracts with local electricity distributors. The rest of the production is sold to qualified customers with an expectation of between one and two years, according to Brazilian market prices. With market prices in the area of 220 R$/MWh, a price fluctuation of 5 per cent. would affect the results by some 4 million euro.

- *Gas supply operations*

The Group maintains an adequate balance in the global mix, both in terms of the number of supplier countries and the type of supply (gas via pipelines or LNG), which is demonstrated in that it has five suppliers from different areas (Norway, Nigeria, United States and Libya, among others).

In the Spanish case, gas supply is guaranteed through long-term agreements. 23 per cent. of this mix of agreements is at a fixed price and the remainder is linked to the prices of various fuels on international markets.

Gas supply in Mexico is secured through long-term agreements with Petróleos Mexicanos S.A. de C.V. (Pemex) and CFE at a price linked to international natural gas prices in the United States or contracting in the United States and, therefore, at a price that depends on the same gas prices in that country.

- *Discretionary trading*

  Discretionary trading of electricity, gas, emissions allowances and other fuels and associated products performed by some of the Group's businesses is residual and the overall risk thereof is mitigated using individual stop-loss limits, whose total aggregate can never exceed 2 per cent. of the Group's consolidated net profit for the period, pursuant to the market risk policy approved by Iberdrola's Board of Directors.

  The Group has reduced discretionary trading in recent years in line with the widespread move away from market speculation. At the end of December 2017, the notional value of derivatives used in speculative trading (calculated in accordance with the criteria set forth in Regulation (EU) No 648/2012 on OTC derivatives, central counterparties and trade repositories ("EMIR")) was below 83 million euro compared to 91 million euro at 31 December 2016. In any case, these values are much lower than 3,000 million euro and 1,000 million euro threshold that is set for non-financial companies in Article 11 of Commission Delegated Regulation (EU) No 149/2013 supplementing EMIR.

Operational risks

Throughout all of the Iberdrola Group's activities, direct or indirect losses may arise as a result of inadequate internal procedures, technical failures, human error or external events.

Specifically, the Group is also exposed to the following operational risks:

- Risk of malfunctions, explosions, fire, toxic spillages or polluted emissions in gas and electricity distribution networks and generating plants.
- Risks concerning extreme meteorological conditions and other instances of force majeure.
- Risk of sabotage and/or terrorism.

Any of these risks could cause damage or destruction to the Iberdrola Group's facilities, as well as injuries to third parties or damage to the environment, along with the ensuing lawsuits, especially in the event of power outages caused by accidents at its distribution networks and possible penalties imposed by the authorities.

Although many of these risks are unpredictable, the Iberdrola Group mitigates them by carrying out the necessary investments, implementing operation and maintenance procedures and programmes (supported by quality control systems), planning appropriate employee training, and taking out the required insurance covering both material damages and civil liability.

In relation to the insurance cover, the Iberdrola Group has international insurance programmes to cover equity (insurance for material damages, machinery breakdowns, loss of profits, damages from natural disasters and risks arising from construction work) and third-party liabilities (general civil liability, liability for environmental risks, professional civil liability, cybersecurity, etc.). However, this insurance does not completely eliminate

operational risk, since it is not always possible, or it is not in the Iberdrola Group's interest to pass such risk on to insurance companies. In addition, the insurance coverage is always subject to certain limitations.

The risks posed by the unpredicted unavailability of nuclear power plants in Spain, and the combined cycle power plants in Mexico, are managed through loss of profits insurance contracts.

Environmental and climate change risks

Iberdrola accepts that the environment places constraints on all human activities and is a factor of companies' competitiveness, and Iberdrola is committed to promoting innovation in this field as well as eco-efficiency, to gradually reduce the environmental impact of its activities, facilities, products and services, and strives to ensure that its activities' development is congruent with future generations' legitimate right to an appropriate environment.

The Group undertakes and promotes this commitment through its policies. Iberdrola currently has three specific policies in order to manage environmental issues: *Environmental Policy*, *Anti-climate Change Policy* and *Biodiversity Policy* (available at www.iberdrola.com), which set forth the principles through which the Company will continue to improve its environmental management.

Climate change may translate into the following risks in the medium term:

- More extreme climate situations that impact the generation and distribution assets, such as greater operation and maintenance costs, and insurance premiums.
- Fluctuations in wind and hydraulic resources.
- Fluctuation in the gas and electricity demand levels (due to the effects of temperatures).
- Decrease of the profits forecasted for existing thermal plants (due to regulatory restrictions, CO2 prices, operational events etc.).
- Impact on the wholesale electricity market due to massive development of renewables.
- Legislative and regulatory changes.

Any material failure to manage environmental risks or climate risk could have an adverse effect on the Group's operations, annual results and the economic value of its businesses.

Operational risk of operations in markets

Market trading conducted by the Group's various energy trading desks and treasury dealers is also exposed to operational risk, due to possible inappropriate processes, technological failures, human error, fraud or any other external or internal event.

This risk is mitigated by following the operational risk policy when trading on the market based on a robust risk control culture, a proper segregation of duties, the publication of clear processes and policies and secure and flexible information systems. This policy sets specific thresholds and guidelines applicable to all trades performed in accordance with the principle of proportionality.

Risks in connection with cybersecurity

The Iberdrola Group may be affected by threats and vulnerabilities in connection with information, control systems or information and communications systems used by the Group, or by any consequences of unauthorised access to or the use, disclosure, degradation, interruption, modification or destruction of information or information systems, including the consequences of acts of terrorism.

These risks are managed in accordance with the basic principles of the cybersecurity policy, which takes the necessary measures to guarantee secure usage of information and communications systems and other cyber-assets, bolstering detection, prevention, defence and response capacities to counter cyberattacks.

In order to further mitigate the cybersecurity risks, the Group currently has specific insurance protection against cyber risks under the terms allowed by the market, which will be regularly reviewed in view of the rapid evolution and extensive variety of cyber risks.

Legal risks

The Iberdrola Group companies are party to certain in-court and out-of-court disputes within the ordinary course of their activities, the final result of which, in general, is uncertain. An adverse result, an out-of-court resolution thereof or other proceedings in the future could have a material adverse effect on the Iberdrola Group's business, financial situation, operating results and cash flows. However, the Group's legal advisers have advised that the outcome of the aforementioned disputes will not have a significant effect on the Group's results of operations or financial position.

Iberdrola's business in the United Kingdom may be affected by the United Kingdom's anticipated exit from the European Union

On 23 June 2016, the United Kingdom voted in a national referendum to withdraw from the European Union (referred to as "Brexit") and on 29 March 2017, the United Kingdom formally served notice to the European Council of its desire to withdraw. This process is unprecedented in European Union history and one that could involve years of negotiation to agree a withdrawal agreement in accordance with Article 50 of the Treaty on European Union. As of today, negotiations are taking place, under strong political debate, in order to reach an agreement before the entry into force of the withdrawal (29 March 2019).

The effects of Brexit will depend on any agreements the United Kingdom makes to retain access to European Union markets, either during a transitional period or more permanently. While the long-term effects of Brexit are difficult to predict, immediately following the referendum, the United Kingdom and global stock and foreign exchange markets had a period of significant volatility, including a steep devaluation of the pound sterling. Brexit may continue to adversely affect volatility in the value of the pound sterling or the euro.

90 per cent. of total EBITDA generated by the Group in the United Kingdom in 2017 was accounted for by the regulated (Transmission and Distribution) and renewables businesses. Both of them have stable predictable regulation. In general terms, long-term British regulatory frameworks are defined in real terms and therefore possible inflationary pressures in the future would not affect expected returns.

The Group therefore believes that, since most of its businesses in the United Kingdom are regulated and since the supply of electricity constitute an essential service, the results in pounds sterling from Iberdrola's main business in the United Kingdom should not be significantly impacted. Nevertheless, the conversion from pounds sterling into euro could be impacted by possible exchange rate variations.

Risks related to the structure of the Securities

The Issuer's obligations under the Securities and the Coupons are subordinated

The Issuer's obligations under the Securities will be unsecured and subordinated obligations of the Issuer and will rank junior to the claims of unsubordinated and other subordinated creditors of the Issuer, except for subordinated creditors whose claims are expressed to rank *pari passu* with, or junior to, the Securities. See Condition 2. By virtue of such subordination, payments to a Holder of Securities will, in the event of an Issuer Winding-up (as described in the Conditions), only be made after, and any set-off by a Holder of Securities shall be excluded until, all obligations of the Issuer resulting from higher ranking claims have been satisfied. A Holder of Securities may therefore recover less than the holders of unsubordinated or other subordinated liabilities of

the Issuer. Subject to applicable law, no Holder may exercise or claim any right of set-off in respect of any amount owed to it by the Issuer arising under or in connection with the Securities and each Holder shall, by virtue of being the Holder of any Security, be deemed to have waived all such rights of set-off. Although subordinated debt securities may pay a higher rate of interest than comparable debt securities which are not subordinated, there is a real risk that an investor in subordinated securities such as the Securities will lose all or some of his investment should the Issuer become insolvent.

The Guarantee is a subordinated obligation

The Guarantor's obligations under the Guarantee will be unsecured and subordinated obligations of the Guarantor. In the event of the Guarantor being declared in insolvency ("*concurso*") under Spanish Insolvency Law (as defined below), the Guarantor's obligations under the Guarantee will be subordinated in right of payment to the prior payment in full of all other liabilities of the Guarantor, except for obligations which rank equally with or junior to the Guarantee. See Condition 3.

Holders of the Securities are advised that unsubordinated liabilities of the Guarantor may also arise out of events that are not reflected on the balance sheet of the Guarantor including, without limitation, the issuance of guarantees on an unsubordinated basis. Claims made under such guarantees will become generally unsubordinated liabilities of the Guarantor that in the insolvency of the Guarantor will need to be paid in full before the obligations under the Guarantee may be satisfied.

There are no events of default or cross default under the Securities

The Conditions do not provide for events of default or cross default allowing acceleration of the Securities if certain events occur. Accordingly, if the Issuer or the Guarantor fails to meet any obligations under the Securities or the Guarantee, as the case may be, including the payment of any interest, investors will not have the right to require the early redemption of principal. Upon a payment default, the sole remedy available to the Holders for recovery of amounts owing in respect of any payment of principal or interest on the Securities will be the institution of proceedings to enforce such payment. Notwithstanding the foregoing, in no event shall the Issuer or the Guarantor, by virtue of the institution of any such proceedings, be obliged to pay any sum or sums sooner than the same would otherwise have been payable by it.

The Securities are undated securities

The Securities are undated securities, with no specified maturity date. The Issuer is under no obligation to redeem or repurchase the Securities at any time and the Holders have no right to require redemption of the Securities. Therefore, prospective investors should be aware that they may be required to bear the financial risks of an investment in the Securities for an indefinite period of time and may not recover their investment in the foreseeable future.

The Issuer may redeem the Securities under certain circumstances

Holders should be aware that the Securities may be redeemed at the option of the Issuer in whole, but not in part, at their principal amount (plus any accrued and outstanding interest and any outstanding Arrears of Interest) on any date during the period commencing on (and including) 12 November 2024 and ending on (and including) the First Reset Date (as defined in the "Conditions") and on any Interest Payment Date (as defined in the "Conditions") thereafter.

The redemption at the option of the Issuer may affect the market value of the Securities. During any period when the Issuer may elect to redeem or is perceived to be able to redeem the Securities, the market value of the Securities generally will not rise substantially above the price at which they can be redeemed.

The Issuer may be expected to redeem the Securities when its cost of borrowing is lower than the interest rate on the Securities. At those times, an investor generally would not be able to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Securities being redeemed and may only be able

to do so at a significantly lower rate. Potential investors should consider reinvestment risk in light of other investments available at that time.

The Securities are also subject to redemption in whole, but not in part, at the Issuer's option upon the occurrence of an Accounting Event, a Capital Event, a Change of Control Event, a Tax Event, a Withholding Tax Event or a Substantial Purchase Event (each as defined in Condition 18 of the "Conditions"). The relevant redemption amount may be less than the then current market value of the Securities.

The Issuer might not be able to redeem the Securities after a Change of Control Event

At or around the Issue Date, the Guarantor intends to undertake to holders of certain of its securities ("Qualifying Securities") that following the occurrence of a Change of Control Event in respect of which the Issuer intends to deliver a notice exercising its right to redeem the Securities under Condition 6(f), it will do so only after making a tender offer, directly or indirectly, to all holders of Qualifying Securities to repurchase the Qualifying Securities at their respective aggregate nominal amounts together with any interest accrued until the day of completion of the repurchase. As a consequence, Holders should be aware that there may not be sufficient funds to redeem the Securities after the repurchase of Qualifying Securities.

Change of Tax law

On 18 September 2018, the Dutch government released its 2019 Budget, which includes, among others, a legislative proposal for the introduction of a "Source Tax" on dividends from 1 January 2020. According to the explanatory memorandum, it is envisaged that from 1 January 2021 this withholding tax will also apply to interest payments. This interest withholding tax is envisaged to apply to interest payments made by a Dutch entity, directly or indirectly, to a group entity in a low tax or non-cooperative jurisdiction. As the new withholding tax should only apply to intra-group payments, it is unlikely that withholding tax will be applicable to payments under the Securities. Although unlikely, it cannot be ruled out that it will have a wider application and, as such, it could potentially be applicable to payments under the Securities.

As already announced in the coalition agreement (*Regeerakkord*) dated 10 October 2017, and confirmed in the 2019 Budget, it is the intention that a "thin capitalisation rule" will be introduced as of 2020 that would limit the deduction of interest on debt exceeding 92% of the commercial balance sheet total. In the 2019 Budget it is stated that this thin capitalisation rule is intended to apply solely to banks and insurers. Although unlikely, it cannot be ruled out that this thin capitalisation rule may have a generic application and consequently may also apply to other taxpayers, including the Issuer.

Likewise, the Spanish Government has recently released the draft National Budget for 2019 and other bills which include certain tax measures which might, if the draft text is approved with its current wording, increase the taxes payable in Spain by the Guarantor, other companies of the Group or certain investors.

If the policy intentions described above are implemented in such a way as to give rise to a Tax Event or a Withholding Tax Event (in each case as defined in Condition 18 (Definitions)), the Issuer may redeem the Securities pursuant to its option under Condition 6(c) (Redemption for Taxation Reasons).

The Issuer may redeem the Securities after a Tax Event relating to an intra-group loan

The net proceeds of the issue of the Securities will be on-lent by the Issuer to Iberdrola Financiación, S.A.U. ("Iberdrola Financiación") pursuant to a Subordinated Loan (as defined in the Conditions). The Issuer may redeem the Securities in certain circumstances, including if, as a result of a Tax Law Change (as defined in the Conditions), in respect of (i) the Issuer's obligation to make any payment under the Securities (including any Interest Payment) on the next following Interest Payment Date; or (ii) the obligation of Iberdrola Financiación to make any payment in favour of the Issuer under the Subordinated Loan on the next following due date for such payment, the Issuer or Iberdrola Financiación (as the case may be) would no longer be entitled to claim a

deduction in respect of computing its tax liabilities in the Netherlands or in Spain (as the case may be), or such entitlement is materially reduced.

The direct connection between a Tax Event and the Subordinated Loan may limit the Issuer's ability to prevent the occurrence of a Tax Event, and may increase the possibility of the Issuer exercising its option to redeem the Securities upon the occurrence thereof.

The current IFRS-EU accounting classification of financial instruments such as the Securities as equity instruments may change, which may result in the occurrence of an Accounting Event

In June 2018, the IASB (International Accounting Standards Board) published the discussion paper DP/2018/1 on "Financial Instruments with Characteristics of Equity" (the "DP/2018/1 Paper"). If the proposals set out in the DP/2018/1 Paper are implemented in their current form, the current IFRS-EU accounting classification of financial instruments such as the Securities as equity instruments may change and this may result in the occurrence of an Accounting Event. In such an event, the Issuer may have the option to redeem, in whole but not in part, the Securities pursuant to Condition 6(d). The implementation of any of the proposals set out in the DP/2018/1 Paper or any other similar such proposals that may be made in the future, including the extent and timing of any such implementation, if at all, is uncertain. Accordingly, no assurance can be given as to the future classification of the Securities from an accounting perspective or whether any such change may result in the occurrence of an Accounting Event, thereby providing the Issuer with the option to redeem the Securities pursuant to the Conditions.

The Issuer has the right to defer interest payments on the Securities

The Issuer may, at its discretion, elect to defer (in whole or in part) any payment of interest on the Securities. Any such deferral of interest payment shall not constitute a default for any purpose. See Condition 5 of the "Conditions". Any interest in respect of the Securities the payment of which is deferred will, so long as the same remains outstanding, constitute Arrears of Interest (as defined in the Conditions). Arrears of Interest will be payable as outlined in Conditions 5(b) and 5(c).

While the deferral of payment of interest continues, the Issuer is not prohibited from making payments on any instrument ranking senior to the Securities, as well as in other circumstances outlined in Condition 5(c), and in such event, the Holders are not entitled to claim immediate payment of interest so deferred.

As a result of the interest deferral provision of the Securities, the market price of the Securities may be more volatile than the market prices of other debt securities on which original issue discount or interest payments are not subject to such deferrals and may be more sensitive generally to adverse changes in the Issuer's and/or the Guarantor's financial condition. Investors should be aware that any deferral of interest payments or any perceived increase in the likelihood thereof may have an adverse effect on the market price of the Securities.

Substitution or variation of the Securities

There is a risk that, after the issue of the Securities, a Tax Event, a Withholding Tax Event, an Accounting Event or a Capital Event may occur which would entitle the Issuer and/or the Guarantor, without any requirement for the consent or approval of the Holders, to substitute or vary the Securities (including the substitution of the Securities for securities issued by a wholly-owned finance subsidiary of the Guarantor resident in a tax jurisdiction other than the Netherlands or Spain), subject to certain conditions intended to protect the interests of the Holders, so that after such substitution or variation the Securities remain or become, as the case may be, eligible for the same or (from the perspective of the Issuer or the Guarantor) more favourable tax, accounting or ratings treatment than the treatment to which they were entitled prior to the relevant event occurring. While such substitution or variation of the Securities is subject to certain conditions intended to protect the interests of the Holders (as a class) there can be no assurance that such substitution or variation will not have an adverse impact on the price of, and/or the market for, the Securities or the circumstances of individual Holders.

Further, prior to the making of any such substitution or variation, the Issuer, the Guarantor and the Fiscal Agent shall not be obliged to have regard to the tax position of individual Holders or to the tax consequences of any such substitution or variation for individual Holders. No Holder shall be entitled to claim, whether from the Fiscal Agent, the Issuer, the Guarantor, or any other person, any indemnification or payment in respect of any tax consequence of any such substitution or variation upon individual Holders. Any such substitution or variation may have an adverse impact on the price of, and/or the market for, the Securities.

No limitation on issuing senior or pari passu securities or other liabilities

There is no restriction on the amount of securities or other liabilities which the Issuer or the Guarantor may issue, incur or guarantee and which rank senior to, or *pari passu* with, the Securities or the Guarantee (as the case may be). The issue of any such securities, the granting of any such guarantees or the incurrence of any such other liabilities may reduce the amount (if any) recoverable by Holders on the insolvency, winding-up, liquidation or dissolution of the Issuer or the Guarantor (as the case may be) and/or may increase the likelihood of a deferral of Interest Payments under the Securities.

If the Issuer's and/or the Guarantor's financial condition were to deteriorate, the Holders could suffer direct and materially adverse consequences, including loss of interest and, if the Issuer and/or the Guarantor were liquidated (whether voluntarily or not), the Holders could suffer loss of their entire investment.

Fixed rate securities have a market risk

A holder of a security with a fixed interest rate is exposed to the risk that the price of such security falls as a result of changes in the current interest rate on the capital market (the "Market Interest Rate"). While the nominal interest rate of a security with a fixed interest rate is fixed during the life of such security or during a certain period of time, the Market Interest Rate typically changes on a daily basis. A change of the Market Interest Rate causes the price of such security to change. If the Market Interest Rate increases, the price of such security typically falls. If the Market Interest Rate falls, the price of a security with a fixed interest rate typically increases. Investors should be aware that movements of the Market Interest Rate can adversely affect the price of the Securities and can lead to losses for the Holders if they sell the Securities.

Interest rate reset may result in a decline of yield

A Holder with a fixed interest rate that will be reset during the term of the Securities (as will be the case for the Securities on each Reset Date if not previously redeemed) is exposed to the risk of fluctuating interest rate levels and uncertain interest income. Fluctuating interest rate levels make it impossible to determine the yield of such securities in advance.

Any decline in the credit ratings of the Issuer and/or the Guarantor may affect the market value of the Securities

The Securities have been assigned a rating by S&P, Moody's and Fitch. The rating granted by each of S&P, Moody's and Fitch or any other rating assigned to the Securities may not reflect the potential impact of all risks related to structure, market and other factors that may affect the value of the Securities. 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. A credit rating is not a statement as to the likelihood of deferral of interest on the Securities. Holders have a greater risk of deferral of interest payments than persons holding other securities with similar credit ratings but no, or more limited, interest deferral provisions.

In addition, each of S&P, Moody's and Fitch, or any other rating agency may change its methodologies for rating securities with features similar to the Securities in the future. This may include the relationship between ratings assigned to an issuer's senior securities and ratings assigned to securities with features similar to the Securities sometimes called "notching". If the rating agencies were to change their practices for rating such securities in the future and the ratings of the Securities were to be subsequently lowered, this may have a negative impact on the trading price of the Securities.

Changes in rating methodologies may lead to the early redemption of the Securities

S&P, Moody's and Fitch (in each case as defined in the Conditions) may change their rating methodology or may apply a different set of criteria after the Issue Date (due to changes in the rating previously assigned to the Issuer and/or the Guarantor or to any other reasons), and as a result the Securities may no longer be eligible for the same or a higher amount of "equity credit" attributable to the Securities at the date of their issue, in which case the Issuer may redeem all of the Securities (but not some only), as provided in Condition 6(e).

EU Insolvency

From 26 June 2017, the new Regulation 2015/848, of the European Parliament and of the Council, of 20 May 2015, on insolvency proceedings (recast) ("Regulation 2015/848") is applicable to all the EU countries except for Denmark. This means that this new regulation shall be applicable to all those insolvency proceedings that are initiated in a EU country (except for Denmark), when the centre of main interest ("COMI") of the debtor is located in such countries.

Aside from new information duties between the countries (e.g. such countries must create an insolvency registry), the most relevant aspects of this regulation are as follows:

(a) the type of proceedings to which this regulation applies (foreseen under Annex A of Regulation 2015/848) has increased, and pre-insolvency proceedings are now included. With regards to Spain, Regulation 2015/848 includes homologation proceedings, extrajudicial payment proceedings, or anticipated arrangement proposals and with regards to the Netherlands includes the suspension of payments and bankruptcy;

(b) the determination on the judicial competence to declare the principal insolvency proceeding is explained in more detail. In this sense, the definition of COMI is now foreseen under Article 3, which sets forth that the centre of main interests shall be the place where the debtor conducts the administration of its interests on a regular basis and which is ascertainable by third parties. In the case of a company or legal person, the place of the registered office shall be presumed to be the centre of its main interests in the absence of proof to the contrary. That presumption shall only apply if the registered office has not been moved to another Member State within the three-month period prior to the request for the opening of insolvency proceedings; and

(c) a new chapter on the insolvency of companies that belong to the same group has been included. Regulation 2015/848 pretends to ensure more cooperation and coordination between the insolvency receivers, courts, etc, in charge of each proceeding, and has even included a new proceeding called "group coordination proceeding", which is voluntary and enables the insolvency proceedings of group companies to be processed jointly.

If the centre of main interests of a company is in one Member State (other than Denmark) under Article 3(2) of the EU Insolvency Regulation, the courts of another Member State (other than Denmark) have jurisdiction to open insolvency proceedings against that company only if such company has an "establishment" in the territory of such other Member State. An "establishment" is defined as any place of operations where a debtor carries out or has carried out in the three-month period prior to the request to open main insolvency proceedings a non-transitory economic activity with human means and assets. The effects of those insolvency proceedings opened in that other Member State are restricted to the assets of the company situated in such other Member State.

Where main proceedings have been opened in the Member State in which the company has its centre of main interests, any proceedings opened subsequently in another Member State in which the company has an establishment shall be secondary proceedings. Where main proceedings in the Member State in which the company has its centre of main interests have not yet been opened, territorial insolvency proceedings can be opened in another Member State where the company has an establishment only where either: (a) insolvency

proceedings cannot be opened in the Member State in which the company's centre of main interests is situated under that Member State's law; or (b) the opening of territorial insolvency proceedings is requested by:

(i) a creditor whose claim arises from or is in connection with the operation of an establishment situated within the territory of the Member State where the opening of territorial proceedings is requested; or

(ii) a public authority which, under the law of the Member State within the territory of which the establishment is situated, has the right to request the opening of insolvency proceedings.

Any judgment opening insolvency proceedings handed down by a court of a Member State which has jurisdiction pursuant to Article 3 shall be recognised in all other Member States from the moment that it becomes effective in the Member State of the opening of proceedings. This shall also apply where, on account of a debtor's capacity, insolvency proceedings cannot be brought against that debtor in other Member States.

Recognition of a main proceedings shall not preclude the opening of a secondary proceeding. The insolvency receiver appointed by a court in a Member State that has jurisdiction to open main proceedings (because the company's centre of main interests is there) may exercise the powers conferred on it by the law of that Member State in another Member State (such as to remove assets of the company from that other Member State), subject to certain limitations, so long as no insolvency proceedings have been opened in that other Member State or any preservation measure taken to the contrary further to a request to open insolvency proceedings in that other Member State where the company has assets.

Risks arising in connection with the Dutch Insolvency Law

Where a company (incorporated in the Netherlands or elsewhere) has its "centre of main interest" or an "establishment" in the Netherlands, it may be subjected to insolvency proceedings in this jurisdiction. This is particularly relevant for the Issuer, which has its corporate seat (*statutaire zetel*) in Amsterdam, the Netherlands, and is therefore presumed (subject to proof to the contrary) to have its "centre of main interests" in the Netherlands.

There are two primary insolvency regimes under Dutch law. The first, suspension of payments (*surseance van betaling*), is intended to facilitate the reorganisation of a debtor's indebtedness and enable the debtor to continue as a going concern. The second, bankruptcy (*faillissement*), is primarily designed to liquidate and distribute the proceeds of the assets of a debtor to its creditors. Both insolvency regimes are set forth in the Dutch Bankruptcy Act. The consequences of both proceedings are roughly equal from the perspective of a creditor, with creditors being treated on a *pari passu* basis subject to exceptions. A general description of the principles of both insolvency regimes is set forth below.

Under Dutch law secured creditors (and in case of suspension of payment also preferential creditors (including tax and social security authorities)) may enforce their rights against assets of the company to satisfy their claims as if there were no insolvency proceedings. A recovery under Dutch law could, therefore, involve a sale of assets that does not reflect the going concern value of the debtor. Consequently, a creditor's potential recovery could be reduced in Dutch insolvency proceedings.

Any pending executions of judgments against the debtor will be suspended by operation of law when suspension of payments is granted and terminate by operation of law when bankruptcy is declared. In addition, any attachment by a creditor on the debtor's assets will cease to have effect upon the suspension of payments having become definitive, a composition having been ratified by the court or the declaration of bankruptcy (as the case may be) subject to the ability of the court to set an earlier date for such termination.

In a suspension of payments or a bankruptcy, a composition (*akkoord*) may be offered to creditors. A composition will be binding on all unsecured and non-preferential creditors if it is (i) approved by a simple majority of the creditors being present or represented at the creditors' meeting, representing at least 50 per cent.

of the amount of the claims that are admitted for voting purposes, and (ii) subsequently ratified (*gehomologeerd*) by the competent Dutch court. Consequently, Dutch insolvency laws could preclude or inhibit the ability of the holders of the Securities to effect a restructuring and could reduce the recovery of a holder of Securities.

Claims against a company subject to Dutch insolvency proceedings will have to be verified in the insolvency proceedings in order to be entitled to vote and, in a bankruptcy liquidation, to be entitled to distributions. "Verification" under Dutch law means, in the case of suspension of payments, that the treatment of a disputed claim for voting purposes is determined and, in the case of a bankruptcy, that the value of the claim is determined and whether and to what extent it will be admitted in the insolvency proceedings. The valuation of claims that would not otherwise have been payable at the time of the proceedings may be based on a net present value analysis. Unless secured by a pledge or a mortgage, interest accruing after the date on which insolvency proceedings are opened cannot be verified. Where interest accrues after the date of opening of the proceedings, it can be admitted *pro memoria*.

The existence, value and ranking of any claims submitted by the holders of the Securities may be challenged in the Dutch insolvency proceedings. Generally, in a creditors' meeting (*verificatievergadering*), the receiver in bankruptcy, the administrator in suspension of payments proceedings, the insolvent debtor and all verified creditors may dispute the verification of claims of other creditors. Creditors whose claims or value thereof are disputed in the creditors' meeting may be referred to separate court proceedings (*renvooiprocedure*) in bankruptcy, while in suspension of payments the court will decide how a disputed claim will be treated for voting purposes. These situations could cause holders of Securities to recover less than the principal amount of their Securities. *Renvooi* procedures could also cause payments to the holders of Securities to be delayed compared to holders of undisputed claims.

The Dutch Bankruptcy Act does not in itself recognise the concept of classes of creditors. Remaining amounts, if any, after satisfaction of the secured and the preferential creditors are distributed among the unsecured non-preferential creditors, who will be satisfied on a *pro rata* basis. Contractual subordination may to a certain extent be given effect in Dutch insolvency proceedings, with the actual effect largely depending on the way such subordination is construed.

Secured creditors may enforce their rights against assets of the debtor to satisfy their claims under a Dutch bankruptcy as if there is no bankruptcy. As in moratorium of payments proceedings, the court may order a "cooling down period" for a maximum of four months during which enforcement actions by secured creditors are barred unless such creditors have obtained leave for enforcement from the supervisory judge. Further, a receiver in bankruptcy can force a secured creditor to enforce its security interest within a reasonable period of time, failing which the receiver will be entitled to sell the secured assets, if any, and the secured creditor will have to share in the bankruptcy costs. Excess proceeds of enforcement must be returned to the bankrupt estate; they may not be set-off against an unsecured claim of the secured creditor in the bankruptcy. Such setoff is allowed prior to the bankruptcy, although a set-off prior to bankruptcy may be subject to clawback in the case of fraudulent conveyance or bad faith in obtaining the claim used for set-off.

Under Dutch law, a legal act performed by a debtor (including, without limitation, an agreement pursuant to which it guarantees the performance of the obligations of a third party or agrees to provide or provides security for any of its or a third party's obligations, enters into additional agreements benefiting from existing security and any other legal act having a similar effect) can be challenged in an insolvency proceeding or otherwise and may be nullified by any of the debtor's creditors or its receiver in bankruptcy, if (a) it performed such act without an obligation to do so (*onverplicht*), (b) the creditor concerned or, in the case of its bankruptcy, any creditor was prejudiced as a consequence of the act, and (c) at the time the act was performed both it and (unless the act was for no consideration (*om niet*)) the party with or towards which it acted, knew or should have known that one or more of the debtor's creditors (existing or future) would be prejudiced. In addition, in the case of a person's bankruptcy, the receiver in bankruptcy may nullify its performance of any due and payable obligation

(including (without limitation) an obligation under a guarantee or to provide security for any of its or a third party's obligations) if (i) the recipient of the payment or performance knew, at the time of the payment or performance, that a request for bankruptcy had been filed, or (ii) the performance of the obligation was the result of a consultation between the debtor and the payee with a view to give preference to the latter over the debtor's other creditors.

Risks arising in connection with the Spanish Insolvency Law

Subordination of the claims of the Holders under the Guarantee as a result of a contractual subordination

The Law 22/2003 of 9 July, on Insolvency, as amended (the "Spanish Insolvency Law") regulates court insolvency proceedings, as opposed to out-of-court liquidation, which is only available when the debtor has sufficient assets to meet its liabilities.

The insolvency proceedings, which are called "*concurso de acreedores*" are applicable to all persons or entities. These proceedings may lead either to the restructuring of the business or to the liquidation of the assets of the debtor.

A debtor (and in the case of a company, its directors) is required to apply for insolvency proceedings when it is not able to meet its current obligations within the term of two months as from the moment that it knows that it is insolvent or as from the moment it should have known it is insolvent. The debtor is also entitled to apply for such insolvency proceedings when it expects that it will shortly be unable to do so. Insolvency proceedings are available as a type of legal protection that the debtor may request in order to avoid the attachment of its assets by its creditors.

Creditors will not be able to accelerate the maturity of their credits based only in the declaration of the insolvency (*declaración de concurso*) of the debtor. Any provision to the contrary will be null and void.

The insolvency order contains an express request for the creditors to declare debts owed to them, within a one-month period as from the day after the publication of the insolvency proceeding in the Spanish Official Gazzette (*Boletín Oficial del Estado*), providing documentation to justify such credits. Based on the documentation provided by the creditors and that is held by the debtor, insolvency administration (*administrador concursal*) draw up an inventory and a list of acknowledged creditors and classify them according to the categories established under law: (i) debts against the insolvency estate (*créditos contra la masa*), (ii) debts benefiting from special privileges, (iii) debts benefiting from general privileges, (iv) ordinary debts and (v) subordinated debts:

- Debts against the insolvency estate are not considered part of the debtor's general debt and are payable when due according to their own terms (and, therefore, are paid before other debts under insolvency proceedings). Debt against the insolvency estate includes, among others, (i) certain amounts of the employee payroll, (ii) costs and expenses of the insolvency proceedings, (iii) certain amounts arising from services provided by the insolvent debtor under reciprocal contracts and outstanding obligations that remain in force after insolvency proceedings are declared and deriving from obligations to return and indemnify in cases of voluntary termination or breach by the insolvent debtor, (iv) those that derive from the exercise of a clawback action within the insolvency proceedings of acts performed by the insolvent debtor and correspond to a refund of consideration received by it (except in cases of bad faith), (v) certain amounts arising from obligations created by law or from the non-contractual liability of the insolvent debtor after the declaration of insolvency and until its conclusion, (vi) 50 per cent. of the funds lent under a refinancing arrangement entered into in compliance with the requirements set forth in Article 71 bis or Additional Provision 4 of the Spanish Insolvency Law and (vii) certain debts incurred by the debtor following the declaration of insolvency.

- Debts benefiting from special privileges, representing attachments on certain assets (basically *in rem* security), up to the value, calculated in accordance with the law, of the security guaranteeing them. These privileges may entail separate proceedings, though subject to certain restrictions derived from a waiting period that may last up to one year. However, within such waiting period or while any enforcement proceedings remain suspended under the Spanish Insolvency Law, the insolvency administrators shall have the option to pay the relevant claims against the insolvency estate under specific payment rules. Privileged creditors are not bound by a creditors arrangement, except if they give their express support by voting in favour of the arrangement or, even if they dissent or abstain from voting, if the applicable majority (which depends on the content of the arrangement) of the relevant class of the privileged creditors vote in favour of the arrangement. In the event of liquidation, they shall be the first to collect payment against the attached assets.

- Debts benefiting from general privileges, including among others certain labour debts and certain debts with public administrations. Other debts with public administrations corresponding to tax debts and social security obligations are recognised as privileged for half their amount, and debts held by the creditor applying for the corresponding insolvency proceedings, other than subordinated debts, to the extent such application has been approved, up to a 50 per cent. of the amount of such debt. Funds under a refinancing arrangement entered into in compliance with the requirements set forth in Article 71.6 of Spanish Insolvency Law in the amount not admitted as a debt against the insolvency estate will also be credits with general privileges. The holders of general privileges are not to be affected by the restructuring except if they do give their express support by voting in favour of the arrangement or, even if they dissent or abstain from voting, if the applicable majority (which depends on the content of the arrangement) of the relevant class of the privileged creditors vote in favour of the arrangement. In the event of liquidation, they are the first to collect payment, in the order established under law.

- Ordinary debts (non-subordinated and non-privileged creditors). They will be paid on a pro-rata basis.

- Subordinated debts (thus classified by virtue of law). Subordinated debts include, among others, those credits held by parties in special relationships with the debtor: in the case of an individual, his/her relatives; in the case of a legal entity, the directors, the liquidators, the proxies with general powers and any shareholders holding, directly or indirectly, more than 5 per cent. (for companies which have issued securities listed on an official secondary market) or 10 per cent. (for companies which have not issued securities listed on an official secondary market) of the share capital and companies pertaining to the same group as the debtor and their common shareholders, provided that such shareholders meet the minimum shareholding requirements set forth before. Likewise, credits which have been contractually subordinated (as the Securities or the Guarantee) are classified as subordinated credits.

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 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).

Creditors holding security *in rem*, that had been traditionally allowed to enforce their debts against the secured asset notwithstanding the initiation of insolvency proceedings, are also generally subject to certain restrictions in order to initiate separate enforcement proceedings (or to continue with such proceedings, if they were being carried out), and if the secured asset is deemed to be necessary for the debtor's activities, enforcement cannot be carried out outside the insolvency proceedings. In summary, enforcement by the creditor is subject to a delay of a maximum of one year if such asset is deemed to be necessary for the debtors activities in which case enforcement cannot be carried out outside the insolvency proceedings.

There are no prior transactions that automatically become void as a result of initiation of the insolvency proceedings. The insolvency administration may only challenge those transactions that could be deemed as having "damaged" the debtor's interests, provided that they have taken place within two years prior to the declaration of insolvency (transactions taking place earlier than two years before insolvency has been declared are subject to the general regime of rescission in accordance with Article 71.6 of the Spanish Insolvency Law). Those transactions that are executed in the ordinary course of business, according to the business of the debtor, are not subject to challenge.

"Damage" does not refer to the intention of the parties, but to the consequences of the transaction on the debtor's interests. In any case, the law refers to transactions that are somehow exceptional: damage exists (as a non-rebuttable presumption) in the case of donations and early payment of unsecured obligations maturing after the insolvency declaration and damage is deemed to exist (as a rebuttable presumption) in the case of transactions entered into with special related persons and the creation of rights *in rem* in order to secure existing obligations or those incurred to replace existing obligations and the cancellation of obligations secured by an *in rem* security interest falling due after the declaration of Insolvency; in the remaining cases, damage would have to be justified.

The agreements in relation to the Securities could be challenged only if those transactions were deemed to have cause damage, as explained above.

Holders should be aware (i) of the effects of a declaration of insolvency of the Guarantor set out above, (ii) that their claims against the Guarantor would therefore be subordinated and (iii) subordinated creditors may not vote on an arrangement and have very limited chances of collection, according to the ranking established by law.

Risks related to the Securities generally

Set out below is a brief description of certain risks relating to the Securities generally:

The Securities may not be a suitable investment for all investors

The Securities are complex financial instruments. Each potential investor in the Securities must determine the suitability of that investment in light of such investor's own circumstances and its own objectives and experience and any other factors which may be relevant to it in connection with such investment, either alone or with the help of a financial advisor. In particular, each potential investor should:

(i) be experienced with respect to transactions on capital markets and notes and understand the risks of transactions involving the Securities;

(ii) reach an investment decision only after careful consideration of the information set forth in this Offering Circular and general information relating to the Securities;

(iii) have sufficient knowledge and experience to make a meaningful evaluation of the Securities, the merits and risks of investing in the Securities and the information contained or incorporated by reference in this Offering Circular;

(iv) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Securities and the impact such investment will have on its overall investment portfolio;

(v) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Securities;

(vi) understand thoroughly the terms of the Securities;

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

(viii) make their own assessment of the legal, tax, accounting and regulatory aspects of purchasing the Securities; and

(ix) consult its legal advisers on legal, tax and related aspects of investment in the Securities.

Some potential investors are subject to restricting investment regulations. These potential investors should consult their legal counsel in order to determine whether investment in the Securities is authorised by law, whether such investment is compatible with their other borrowings or whether the Securities can be used as collateral for any such borrowings and whether other selling restrictions are applicable to them.

Securities issued as "Green Bonds" may not be a suitable investment for all investors seeking exposure to green assets

In connection with the issue of the Securities, a sustainability consulting firm will be requested to issue a second-party opinion confirming that the Eligible Green Projects (as defined under "*Use of Proceeds*" below) have been defined in accordance with the broad categorisation of eligibility for green projects set out by the International Capital Market Association (ICMA) Green Bond Principles (GBP) and/or a second-party opinion regarding the suitability of the Securities as an investment in connection with certain environmental and sustainability projects (such second-party opinion, a "Second-party Opinion"). A Second-party Opinion may not reflect the potential impact of all risks related to the structure, market, additional risk factors discussed above and other factors that may affect the value of the Securities or the projects financed or refinanced toward an amount corresponding to the net proceeds of the issue of the Securities. A Second-party Opinion would not constitute a recommendation to buy, sell or hold securities and would only be current as of the date it is released. In addition, although the Guarantor may agree at the time of issue of the Securities to certain reporting and use of proceeds (including in the case of certain divestments described under "*Use of Proceeds*") it would not be an event of default under the Securities if the Guarantor were to fail to comply with such obligations. A withdrawal of the Second-party Opinion may affect the value of the Securities and/or may have consequences for certain investors with portfolio mandates to invest in green assets. "Green Bonds" such as the Securities may not be a suitable investment for all investors seeking exposure to green assets.

Majority decisions bind all Holders

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

Change of law

The Conditions of the Securities are based on laws 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 relevant law or administrative practice after the date of this Offering Circular.

There is no active trading market for the Securities

The Securities are new securities which may not be widely distributed and for which there is currently no active trading market. If the Securities are traded after their initial issuance, they may trade at a discount to their initial offering price, depending upon prevailing interest rates, the market for similar securities, general economic conditions and the financial condition of the Issuer and the Guarantor. Although application has been made to admit the Securities to the official list of the Luxembourg Stock Exchange and to trading on the Luxembourg Stock Exchange's Euro MTF Market, there is no assurance that such application will be accepted or that an active trading market will develop. Accordingly, there is no assurance as to the development or liquidity of any trading market for the Securities.

The development or continued liquidity of any secondary market for the Securities will be affected by a number of factors such as general economic conditions, the financial condition, the creditworthiness of the Issuer and/or the Group, and the value of any applicable reference rate, as well as other factors such as the complexity and volatility of the reference rate, the method of calculating the return to be paid in respect of such Securities, the outstanding amount of the Securities, any redemption features of the Securities, the performance of other instruments linked to the reference rates and the level, direction and volatility of interest rates generally. Such factors also will affect the market value of the Securities. In addition, certain Securities may be designed for specific investment objectives or strategies and therefore may have a more limited secondary market and experience more price volatility than conventional debt securities.

Investors may not be able to sell Securities readily or at prices that will enable investors to realise their anticipated yield. No investor should purchase Securities unless the investor understands and is able to bear the risk that certain Securities will not be readily sellable, that the value of Securities will fluctuate over time and that such fluctuations will be significant.

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

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

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

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

Exchange rate risks and exchange controls

The Issuer will pay principal and interest on the Securities, and the Guarantor will make any payments under the Guarantee, 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 the euro or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to euros would decrease (a) the Investor's Currency-equivalent yield on the Securities, (b) the Investor's Currency equivalent value of the principal payable on the Securities and (c) the Investor's Currency equivalent market value of the Securities.

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.

Legal investment considerations may restrict certain investments

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

Regulation and reform of benchmarks

Reference rates and indices such as the ICE Swap Rate or the Euro Interbank Offered Rate (EURIBOR) and other interest rate or other types of rates and indices which are deemed to be "benchmarks" (each a "Benchmark" and together, the "Benchmarks"), to which the interest on securities may be linked, have become the subject of regulatory scrutiny and recent national and international regulatory guidance and proposals for reform. This has resulted in regulatory reform and changes to existing Benchmarks, with further change anticipated. Such reform of Benchmarks includes the BMR.

The BMR was published in the Official Journal of the EU on 29 June 2016 and has applied from 1 January 2018. The BMR applies to the provision of benchmarks, the contribution of input data to a benchmark and the use of a benchmark within the EU. It, among other things, (i) requires benchmark administrators to be authorised or registered (or, if non-EU based, to be subject to an equivalent regime or otherwise recognised or endorsed) and (ii) prevents certain uses by EU supervised entities of benchmarks of administrators that are not authorised or registered (or, if non-EU based, not deemed equivalent or recognised or endorsed).

The BMR could have a material impact on any securities referencing a benchmark, in particular, if the methodology or other terms of the relevant benchmark are changed in order to comply with the requirements of the BMR. Such changes could, among other things, have the effect of reducing, increasing or otherwise affecting the volatility of the published rate or level of the relevant benchmark.

The potential elimination of any Benchmark, or changes in the manner of administration of any Benchmark, as a result of the BMR or otherwise, could require an adjustment to the Conditions or result in other consequences. These reforms and changes may cause a Benchmark to perform differently than it has done in the past or be discontinued. Any change in the performance of a Benchmark or its discontinuation could have a material adverse effect on the value of, and return on, the Securities.

In particular, prospective investors should be aware that the Securities contain the fallback provisions described under the definition "5 year Swap Rate" in Condition 4(c). The operation of such provisions, being dependent in part upon the provision by the Reset Reference Banks of offered quotations, is subject to market circumstances and the availability of information on reference rates at the relevant time. If 5 year Swap Rate Quotations are not available, the 5 year Swap Rate may revert to the last available 5 year mid-swap rate for euro swap transactions and, if ICESWAP2, EURIBOR or any other relevant benchmarks are discontinued, the same 5 year Swap Rate may continue to apply for each successive Interest Period until the redemption of the Securities. In addition, the Conditions provide that an independent financial adviser (the "IFA") appointed by the Issuer in its sole discretion may vary the Conditions as required to ensure the proper operation of an alternative rate should EURIBOR be unavailable, without any requirement for consent or approval of the Holders. If an alternative rate is determined by the IFA, the Conditions also provide that an Adjustment Spread (as defined in the Conditions) may be determined by the IFA and applied to such alternative rate. The aim of

the Adjustment Spread is to reduce or eliminate, to the extent reasonably practicable, any economic prejudice or benefit (as the case may be) to Holders as a result of the implementation of the alternative rate. However, it may not be possible to determine or apply an Adjustment Spread and even if an Adjustment Spread is applied, such Adjustment Spread may not be effective to reduce or eliminate economic prejudice to the Holders. Any of the foregoing could have an adverse effect on the value or liquidity of, and return on, the Securities.

Terms and Conditions of the Securities

The following are the terms and conditions substantially in the form in which they will be endorsed on the Securities. Sentences in italics shall not form part of these terms and conditions.

The issue of the Securities was authorised by a resolution of the Board of Directors of Iberdrola International B.V. (the "Issuer") passed on 26 September 2018 and the guarantee of the Securities was authorised by a resolution of the Executive Committee of the Board of Directors of the Guarantor dated 27 September 2018 following the delegation of powers approved by resolutions dated 31 March 2017 of (i) the General Shareholders' Meeting of the Guarantor under item 17 of the agenda and (ii) the Board of Directors of the Guarantor. A fiscal agency agreement dated 12 February 2019 (the "Fiscal Agency Agreement") has been entered into in relation to the Securities between the Issuer, the Guarantor, The Bank of New York Mellon, London Branch as fiscal agent and agent bank and the paying agents named in it. The fiscal agent, the agent bank and the paying agents for the time being are referred to below respectively as the "Fiscal Agent", the "Agent Bank" and the "Paying Agents" (which expression shall include the Fiscal Agent). The Fiscal Agency Agreement includes the form of the Securities and the coupons relating to them (the "Coupons", which expression includes, where the context so permits, talons for further coupons (the "Talons")). Copies of the Fiscal Agency Agreement are available for inspection during normal business hours at the specified offices of the Paying Agents. The Holders of the Securities and the Holders of the Coupons (each as defined in Condition 1(b) below) (whether or not attached to the relevant Securities) are deemed to have notice of all the provisions of the Fiscal Agency Agreement applicable to them.

1 Form, Denomination and Title

(a) **Form and denomination**: The Securities are serially numbered and in bearer form in the denomination of €100,000, each with Coupons attached on issue.

(b) **Title**: Title to the Securities and Coupons passes by delivery. The holder of any Security or Coupon (a "Holder") 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 it is overdue and regardless of any notice of ownership, trust or any interest in it, any writing on it, or its theft or loss) and no person will be liable for so treating the Holder.

2 Status and Subordination of the Securities and Coupons

(a) **Status of the Securities and Coupons**: The Securities and the Coupons constitute direct, unsecured and subordinated obligations of the Issuer (senior only to Junior Obligations of the Issuer) and shall at all times rank pari passu and without any preference among themselves.

(b) **Subordination of the Securities**: In the event of an Issuer Winding-up, the rights and claims of the Holders against the Issuer in respect of or arising under the Securities and the Coupons will rank (i) junior to the claims of all holders of Senior Obligations of the Issuer, (ii) *pari passu* with the claims of holders of all Parity Obligations of the Issuer and (iii) senior to the claims of holders of all Junior Obligations of the Issuer.

Subject to applicable law, no Holder may exercise or claim any right of set-off in respect of any amount owed to it by the Issuer arising under or in connection with the Securities or the Coupons and each Holder shall, by virtue of being the Holder, be deemed to have waived all such rights of set-off. This Condition 2(b) is an irrevocable stipulation (*derdenbeding*) for the benefit of the creditors of Senior Obligations of the Issuer and each such creditor may rely on and enforce this Condition 2(b) under Section 6:253 of the Dutch Civil Code.

3 Guarantee, Status and Subordination of the Guarantee

(a) **Guarantee**: The Guarantor has unconditionally and irrevocably guaranteed the due payment of all sums expressed to be payable by the Issuer under the Securities and the Coupons on a subordinated basis. Its obligations in that respect (the "Guarantee") are set out in the deed of guarantee dated on the Issue Date and made by the Guarantor for the benefit of the Holders.

(b) **Status of the Guarantee**: The payment obligations of the Guarantor under the Guarantee constitute direct, unsecured and subordinated obligations of the Guarantor (senior only to Junior Obligations of the Guarantor) and shall at all times rank *pari passu* and without any preference among themselves.

(c) **Subordination of the Guarantee**: Subject to mandatory provisions of Spanish applicable law, in the event of the Guarantor being declared in insolvency (*concurso*) under Spanish insolvency law, the rights and claims of Holders against the Guarantor in respect of or arising under the Guarantee will rank (i) junior to the claims of the holders of all Senior Obligations of the Guarantor, (ii) *pari passu* with the claims of the holders of all Parity Obligations of the Guarantor and (iii) senior to the claims of the holders of all Junior Obligations of the Guarantor.

4 Interest Payments

(a) **General**

The Securities bear interest at the Prevailing Interest Rate from (and including) 12 February 2019 (the "**Issue Date**") in accordance with the provisions of this Condition 4.

Subject to Condition 5, interest shall be payable on the Securities with respect to any Interest Period annually in arrear on each Interest Payment Date in each case as provided in this Condition 4.

(b) **Interest Accrual**

The Securities will cease to bear interest from (and including) the date of redemption thereof pursuant to Condition 6 or the date of any Substitution thereof pursuant to Condition 12(c) unless, upon due presentation, payment of all amounts due in respect of the Securities is not made, in which event interest shall continue to accrue in respect of unpaid amounts on the Securities, both before and after judgment, and shall be payable, as provided in these Conditions up to (but excluding) the Relevant Date.

Interest in respect of any Security shall be calculated per €100,000 in principal amount thereof (the "Calculation Amount"). The interest payable on each Security on any Interest Payment Date shall be calculated by multiplying the Prevailing Interest Rate for the Interest Period ending immediately prior to such Interest Payment Date by the Calculation Amount and rounding the resulting figure to the nearest cent (half a cent being rounded upwards). Interest in respect of any Security for any Interest Period and where it is necessary to compute an amount of interest in respect of any Security for a period which is less than a complete year, shall be calculated on the basis of the actual number of days in the relevant period from (and including) the first day of such period to (but excluding) the last day of such period divided by the actual number of days in the period from (and including) the most recent Interest Payment Date (or, if none, the Issue Date) to (but excluding) the next succeeding Interest Payment Date.

(c) **Prevailing Interest Rate**

Unless previously redeemed or repurchased and cancelled in accordance with these Conditions and subject to the further provisions of this Condition 4, the Securities will bear interest on their principal amount as follows:

(i) from (and including) the Issue Date to (but excluding) the First Reset Date, at the rate of 3.250 per cent. per annum, payable annually in arrear on each Interest Payment Date, commencing on 12 February 2020; and

(ii) from (and including) the First Reset Date, at, in respect of each Reset Period, the relevant 5 year Swap Rate plus:

(A) in respect of the Reset Period commencing on the First Reset Date, 2.973 per cent. per annum;

(B) in respect of the Reset Periods commencing on 12 February 2030 to (but excluding) 12 February 2045, 3.223 per cent. per annum; and

(C) in respect of any other Reset Period, 3.973 per cent. per annum,

all as determined by the Agent Bank (each a "Subsequent Fixed Interest Rate"), payable annually in arrear on 12 February on each Interest Payment Date, subject to Condition 5,

and where:

"**5 year Swap Rate**" means, in respect of any Reset Period, the mid-swap rate as displayed on Reuters screen "ICESWAP2" or, if such rate is not displayed on such screen as at the relevant time, the mid-swap rate as displayed on a successor page (in each case, the "Reset Screen Page") as at 11:00 a.m. (Central European time) on the relevant Reset Interest Determination Date.

In the event that the relevant 5 year Swap Rate does not appear on the Reset Screen Page on the relevant Reset Interest Determination Date, the 5 year Swap Rate will be the Reset Reference Bank Rate on such Reset Interest Determination Date. "Reset Reference Bank Rate" means the percentage rate determined by the Agent Bank on the basis of the 5 year Swap Rate Quotations provided by five leading swap dealers in the interbank market selected by the Issuer (the "Reset Reference Banks") to the Agent Bank at approximately 11:00 a.m. (Central European time) on the relevant Reset Interest Determination Date. If (a) at least three quotations are provided, the 5 year Swap Rate will be determined by the Agent Bank on the basis of the arithmetic mean (or, if only three quotations are provided, the median) of the quotations provided, eliminating the highest quotation (or, in the event of equality one of the highest) and the lowest quotation (or, in the event of equality, one of the lowest); (b) if only two quotations are provided, the Reset Reference Bank Rate will be the arithmetic mean of the quotations provided; (c) if only one quotation is provided, the Reset Reference Bank Rate will be the quotation provided; and (d) if no quotations are provided, and if the IFA (as defined below) is unable to determine an appropriate alternative rate, the Reset Reference Bank Rate for the relevant period will be equal to the last available 5 year mid-swap rate for euro swap transactions, expressed as an annual rate, on the Reset Screen Page.

The "**5 year Swap Rate Quotations**" means, in relation to any Reset Period, the arithmetic mean of the bid and offered rates for the annual fixed leg (calculated on a 30/360 Day Count basis) of a fixed-for-floating euro interest rate swap which (i) has a term of five years commencing on the relevant Reset Date, (ii) is in an amount that is representative of a single transaction in the relevant market at the relevant time with an acknowledged dealer of good credit in the swap market, and (iii) has a floating leg based on the six-month EURIBOR rate (calculated on the basis of the actual number of days elapsed and a year of 360 days) or, if the six-month EURIBOR rate is no longer being calculated or administered as at the relevant Reset Interest Determination Date, any alternative rate which has replaced the Euro Interbank Offered Rate ("EURIBOR") in customary market usage for the purposes of determining floating rates of interest in respect of euro-denominated securities, as determined by an independent financial adviser (the "IFA") appointed by the Issuer in its sole discretion, together with any Benchmark Amendments that the IFA may determine. The alternative rate and any related Benchmark Amendments

will be notified to the Issuer by the IFA, and promptly thereafter by the Issuer to the Agent Bank, the Paying Agents and, in accordance with Condition 14, the Holders, *provided however*, that if the IFA determines that there is no clear market consensus as to whether any rate has replaced EURIBOR in customary market usage, the IFA may determine an appropriate alternative rate and any related Benchmark Amendments, and the decision of the IFA will, in each case, be binding on the Issuer, the Agent Bank, the Paying Agents and the Holders, without any requirement for consent or approval of the Holders. Any such notice from the Issuer shall be irrevocable and shall specify the effective date of the alternative rate and any Benchmark Amendments. If the IFA is unable to determine an appropriate alternative rate, the Reset Reference Bank Rate for the relevant period will be: (i) in the case of each Reset Period other than the Reset Period commencing on the First Reset Date, the Reset Reference Bank Rate in respect of the immediately preceding reset period, or (ii) in the case of the Reset Period commencing on the First Reset Date, 0.163 per cent. per annum.

An IFA appointed pursuant to this Condition 4(c) shall act in good faith and in a commercially reasonable manner as an expert and in consultation with the Issuer. In the absence of bad faith or fraud, the IFA shall have no liability whatsoever to the Issuer, the Agent Bank, the Paying Agents, or the Holders for any determination made by it or, pursuant to this Condition 4(c).

For the purposes of this definition:

"Adjustment Spread" means either a spread (which may be positive or negative), or the formula or methodology for calculating a spread, in either case, which the IFA determines is required to be applied to the alternative rate to reduce or eliminate, to the extent reasonably practicable in the circumstances, any economic prejudice or benefit (as the case may be) to Holders as a result of the replacement of EURIBOR with the alternative rate and is the spread, formula or methodology which the IFA determines to be appropriate in a manner consistent with customary market usage in, and any published guidance from relevant associations involved in, the establishment of market standards and/or protocols for the purposes of determining rates of interest (or the relevant component part thereof) in the international debt capital markets.

"Benchmark Amendments" means the application of an Adjustment Spread and/or Benchmark Operational Adjustments.

"Benchmark Operational Adjustments" means any changes to the Conditions which the IFA determines are reasonably necessary to ensure the proper operation of the alternative rate and/or Adjustment Spread.

(d) **Publication of Subsequent Fixed Interest Rates**

The Issuer shall cause notice of each Subsequent Fixed Interest Rate and the corresponding amount payable per Calculation Amount determined in accordance with this Condition 4 and the relevant dates scheduled for payment to be given to the Fiscal Agent, the Paying Agents, any stock exchange on which the Securities are for the time being listed or admitted to trading and, in accordance with Condition 14, the Holders of the Securities and the Coupons, in each case as soon as practicable after its determination but in any event not later than the fourth Business Day thereafter.

The relevant Subsequent Fixed Interest Rate and the dates scheduled for payment so notified may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without notice in the event of any extension or shortening of the relevant period in accordance with these Conditions.

(e) **Agent Bank and Reset Reference Banks**

With effect from the first Reset Interest Determination Date, the Issuer will maintain an Agent Bank and the number of Reset Reference Banks provided above where the Prevailing Interest Rate is to be calculated by reference to them. The name of the initial Agent Bank is The Bank of New York Mellon, London Branch and its initial specified office is One Canada Square, London E14 5AL, United Kingdom.

The Issuer may from time to time replace the Agent Bank or any Reset Reference Bank with another leading financial institution in London. If the Agent Bank is unable or unwilling to continue to act as the Agent Bank or fails duly to determine the Prevailing Interest Rate in respect of any Reset Period as provided in Condition 4(c), the Issuer shall forthwith appoint another leading financial institution in London to act as such in its place. The Agent Bank may not resign its duties or be removed without a successor having been appointed as aforesaid.

(f) **Determinations of Agent Bank Binding**

All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of this Condition 4 by the Agent Bank shall (in the absence of wilful default, fraud or manifest error) be binding on the Issuer, the Agent Bank, the Fiscal Agent, the Paying Agents and all Holders and (in the absence of wilful default or fraud) no liability to the Holders or the Issuer shall attach to the Agent Bank in connection with the exercise or non-exercise by it of any of its powers, duties and discretions.

(g) **Step-up after Change of Control Event**

Notwithstanding any other provision of this Condition 4, if the Issuer does not elect to redeem the Securities in accordance with Condition 6(f) following the occurrence of a Change of Control Event, the then currently applicable Prevailing Interest Rate, and each subsequent Prevailing Interest Rate otherwise determined in accordance with the provisions of this Condition 4, on the Securities shall be increased by 5 per cent. per annum with effect from (and including) the date on which the Change of Control Event occurred.

5 Optional Interest Deferral

(a) **Deferral of Interest Payments**: The Issuer may, subject as provided in Conditions 5(b) and 5(c) below, elect in its sole discretion to defer (in whole or in part) any Interest Payment that is otherwise scheduled to be paid on an Interest Payment Date by giving notice (a "Deferral Notice") of such election to the Holders in accordance with Condition 14, the Fiscal Agent and the Paying Agents not more than 14 and not less than seven Business Days prior to the relevant Interest Payment Date. Any Interest Payment that the Issuer has elected to defer pursuant to this Condition 5(a) and that has not been satisfied is referred to as a "Deferred Interest Payment".

If any Interest Payment is deferred pursuant to this Condition 5(a) then such Deferred Interest Payment shall itself bear interest (such further interest together with the Deferred Interest Payment, being "Arrears of Interest"), at the relevant Prevailing Interest Rate applicable from time to time, from (and including) the date on which (but for such deferral) the Deferred Interest Payment would otherwise have been due to be made to (but excluding) the date on which such Deferred Interest Payment is paid in accordance with Condition 5(b) or 5(c), in each case such further interest being compounded on each Interest Payment Date.

Non-payment of interest deferred pursuant to this Condition 5(a) shall not constitute a default by the Issuer or the Guarantor under the Securities or the Guarantee or for any other purpose.

(b) **Optional Settlement of Arrears of Interest**: Arrears of Interest may be satisfied at the option of the Issuer, in whole or in part, at any given time (the "Optional Deferred Interest Settlement Date") following delivery of a notice to such effect given by the Issuer to the Holders in accordance with Condition 14, the Fiscal Agent and the Paying Agents not more than 14 and no less than seven Business Days prior to the relevant Optional Deferred Interest Settlement Date informing them of its election so to satisfy such Arrears of Interest (or part thereof) and specifying the relevant Optional Deferred Interest Settlement Date.

(c) **Mandatory Settlement of Arrears of Interest**: Notwithstanding the provisions of Condition 5(b), the Issuer shall pay any outstanding Arrears of Interest in whole, but not in part, on the first occurring Mandatory Settlement Date following the Interest Payment Date on which any outstanding Deferred Interest Payment was first deferred.

Notice of the occurrence of any Mandatory Settlement Date shall be given to the Holders in accordance with Condition 14, the Fiscal Agent and the Paying Agents not more than 14 and no less than seven Business Days prior to the relevant Mandatory Settlement Date.

"Mandatory Settlement Date" means the earliest of:

(i) as soon as reasonably practicable (but not later than the fifth business day) following the date on which a Compulsory Arrears of Interest Settlement Event occurs;

(ii) on the next scheduled Interest Payment Date on which the Issuer does not elect to defer in whole the interest accrued in respect of the relevant Interest Period;

(iii) the date on which the Securities are redeemed or repaid in accordance with Condition 6 or become due and payable in accordance with Condition 9; and

(iv) the date on which the Securities are substituted or varied in accordance with Condition 12(c).

A "Compulsory Arrears of Interest Settlement Event" shall have occurred if:

(i) a Dividend Declaration is made in respect of any Junior Obligations or any Parity Obligations (other than in respect of any Dividend Declaration made exclusively in Ordinary Shares of the Guarantor); or

(ii) the Guarantor or any of its subsidiaries has repurchased, redeemed or otherwise acquired any Junior Obligations or any Parity Obligations,

save, in the case of (a) any such Dividend Declaration or such redemption, repurchase or acquisition that is mandatory under the terms of any such Parity Obligations; (b) any purchase of Ordinary Shares of the Guarantor by or on behalf of the Guarantor that is made pursuant to a buy-back program approved under Article 5 of Regulation (EU) No 596/2014 of the European Parliament and of the Council of 16 April 2014 on market abuse; (c) any Dividend Declaration in respect of any such dividend, distribution or payment by the Issuer to the Guarantor, (d) any Dividend Declaration or repurchase which is required to be validly resolved on, declared, paid or made in respect of, share option, or free share allocation plan in each case reserved for directors, officers and/or employees of the Guarantor or any of its Affiliates or any associated liquidity agreements or any associated hedging transactions; (e) any purchase of Ordinary Shares of the Guarantor by or on behalf of the Guarantor as part of an intra-day transaction that does not result in an increase in the aggregate number of Ordinary Shares of the Guarantor held by or on behalf of the Guarantor as treasury shares at 8:30 a.m. Madrid time on the Interest Payment Date on which any

outstanding Deferred Interest Payment was first deferred; (f) any repurchase or acquisition of Parity Obligations that is made for a consideration less than the aggregate nominal or par value of such Parity Obligations that are purchased or acquired; (g) any repurchase or acquisition of Ordinary Shares of the Guarantor resulting from mandatory obligations or hedging of any convertible securities issued by the Issuer or the Guarantor; or (h) any repurchase or acquisition of Ordinary Shares of the Guarantor resulting from the settlement of existing equity derivatives after the Interest Payment Date on which any outstanding Deferred Interest Payment was first deferred.

"Dividend Declaration" means the authorisation by resolution of the general meeting of shareholders or the board of directors or other competent corporate body (as the case may be) of the Issuer or the Guarantor (as applicable) of the payment, or the making of, a dividend or other distribution or payment (or, if no such authorisation is required, the payment, or the making of, a dividend or other distribution or payment).

6 Redemption and Purchase

(a) **Final redemption**: Subject to any early redemption described below, the Securities are undated securities with no specified maturity date. The Securities may not be redeemed at the option of the Issuer other than in accordance with Condition 6(b), 6(c), 6(d), 6(e), 6(f) or 6(g).

(b) **Issuer's Call Option**: The Issuer may, by giving not less than 30 nor more than 60 days' notice to the Fiscal Agent, the Paying Agents and, in accordance with Condition 14, the Holders (which notice shall be irrevocable), redeem the Securities in whole, but not in part, on any date during the period commencing on (and including) 12 November 2024 and ending on (and including) the First Reset Date (the "Relevant Period") and on any Interest Payment Date thereafter at their principal amount together with any accrued and unpaid interest up to (but excluding) the Redemption Date and any outstanding Arrears of Interest.

(c) **Redemption for Taxation Reasons**: If, immediately prior to the giving of the notice referred to below, a Tax Event or a Withholding Tax Event has occurred and is continuing, then the Issuer may, subject to having given not less than 30 nor more than 60 days' notice to the Fiscal Agent, the Paying Agents and, in accordance with Condition 14, the Holders (which notice shall be irrevocable) and subject to Condition 6(h), redeem the Securities in whole, but not in part, in accordance with these Conditions at any time, in each case at (i) their Early Redemption Amount (in the case of a Tax Event if the Redemption Date falls before the first day of the Relevant Period) or (ii) their principal amount (in the case of (a) a Withholding Tax Event or (b) a Tax Event if the Redemption Date falls on or after the first day of the Relevant Period), together, in each case, with any accrued and unpaid interest up to (but excluding) the Redemption Date and any outstanding Arrears of Interest. Upon the expiry of such notice, the Issuer shall redeem the Securities.

(d) **Redemption for Accounting Reasons**: If, immediately prior to the giving of the notice referred to below, an Accounting Event has occurred and is continuing, then the Issuer may, subject to having given not less than 30 nor more than 60 days' notice to the Fiscal Agent, the Paying Agent and, in accordance with Condition 14, the Holders (which notice shall be irrevocable) and subject to Condition 6(h), redeem the Securities in accordance with these Conditions in whole, but not in part, at any time, in each case (i) at their Early Redemption Amount if the Redemption Date falls before the first day of the Relevant Period, or (ii) at their principal amount if the Redemption Date falls on or after the first day of the Relevant Period, together with any accrued and unpaid interest up to (but excluding) the Redemption Date and any outstanding Arrears of Interest. Upon the expiry of such notice, the Issuer shall redeem the Securities.

(e) **Redemption for Rating Reasons**: If, immediately prior to the giving of the notice referred to below, a Capital Event has occurred and is continuing, then the Issuer may, subject to having given not less than 30 nor more than 60 days' notice to the Fiscal Agent, the Paying Agent and, in accordance with Condition 14, the Holders (which notice shall be irrevocable) and subject to Condition 6(h), redeem the Securities in accordance with these Conditions in whole, but not in part, at any time, in each case (i) at their Early Redemption Amount if the Redemption Date falls before the first day of the Relevant Period, or (ii) at their principal amount if the Redemption Date falls on or after the first day of the Relevant Period, together with any accrued and unpaid interest up to (but excluding) the Redemption Date and any outstanding Arrears of Interest. Upon the expiry of such notice, the Issuer shall redeem the Securities.

(f) **Redemption for Change of Control**: If, immediately prior to the giving of the notice referred to below, a Change of Control Event has occurred and is continuing, then the Issuer may, subject to having given not less than 30 nor more than 60 days' notice to the Fiscal Agent, the Paying Agents and, in accordance with Condition 14, the Holders (which notice shall be irrevocable) and subject to Condition 6(h), redeem the Securities in whole, but not in part, in accordance with these Conditions at any time, in each case at their principal amount, together with any accrued and unpaid interest up to (but excluding) the Redemption Date and any outstanding Arrears of Interest. Upon the expiry of such notice, the Issuer shall redeem the Securities.

At or around the Issue Date, the Guarantor intends to undertake with and for the benefit of all holders of certain of its securities ("Qualifying Securities") that, for so long as any of the Securities is outstanding, following the occurrence of a Change of Control Event in respect of which it intends to deliver a notice exercising its right to redeem the Securities under Condition 6(f) it will do so only after making a tender offer, directly or indirectly, to all holders of Qualifying Securities to repurchase their respective Qualifying Securities at their respective aggregate nominal amounts together with any interest accrued until the day of completion of the repurchase.

(g) **Redemption following a Substantial Purchase Event**

If, immediately prior to the giving of the notice referred to below, a Substantial Purchase Event has occurred, then the Issuer may, subject to having given not less than 30 nor more than 60 days' notice to the Fiscal Agent, the Paying Agents and, in accordance with Condition 14, the Holders (which notice shall be irrevocable) and subject to Condition 6(h), redeem the Securities in whole, but not in part, in accordance with these Conditions at any time, in each case at their Principal Amount, together with any accrued and unpaid interest up to (but excluding) the Redemption Date and any outstanding Arrears of Interest. Upon expiry of such notice, the Issuer shall redeem the Securities.

(h) **Preconditions to Redemption:**

Prior to serving any notice of redemption pursuant to this Condition 6 (other than Condition 6(b)), the Guarantor shall

(i) deliver to the Fiscal Agent a certificate signed by an authorised officer of the Guarantor stating that the relevant requirement or circumstance giving rise to the right to redeem is satisfied;

(ii) in the case of a Tax Event or Withholding Tax Event deliver to the Fiscal Agent an opinion of independent legal or other tax advisers to the effect set out in paragraph (i) above;

(iii) in the case of an Accounting Event, deliver to the Fiscal Agent the relevant opinion from the relevant accountancy firm; and

(iv) in the case of a Capital Event, deliver to the Fiscal Agent the relevant confirmation from the relevant Rating Agency.

(i) **Purchase**: Each of the Issuer, the Guarantor and their respective subsidiaries may at any time purchase Securities in the open market or otherwise at any price (provided that, if they should be cancelled pursuant to this Condition 6(i), they are purchased together with all unmatured Coupons and all unexchanged Talons relating to them). The Securities so purchased may be held, re-issued or re-sold or, at the option of the relevant purchaser, surrendered to the Fiscal Agent for cancellation, but while held by or on behalf of the Issuer, the Guarantor or any such subsidiary, shall not entitle the holder to vote at any meetings of the Holders of Securities and shall not be deemed to be outstanding for the purposes of calculating quorums at meetings of the Holders of Securities or for the purposes of Condition 12.

(j) **Cancellation**: All Securities so redeemed and any unmatured Coupons attached to or surrendered with them will be cancelled and may not be re-issued or re-sold.

The Guarantor intends (without thereby assuming any obligation) at any time that it or the Issuer will redeem or repurchase the Securities only to the extent that the equity credit of the Securities to be redeemed or repurchased does not exceed the aggregate equity credit received by the Guarantor or any subsidiary of the Guarantor on or prior to the date of such redemption or repurchase from the sale or issuance by the Guarantor or such subsidiary to third party purchasers (other than group entities of the Guarantor) of replacement capital securities which are assigned by S&P, at the time of sale or issuance, an "equity credit" (or such similar nomenclature used by S&P from time to time) that is equal to or greater than the "equity credit" assigned to the Securities to be redeemed or repurchased (taking into account any changes in hybrid capital methodology or another relevant methodology or the interpretation thereof since the issuance of the Securities), unless:

(i) *the rating assigned by S&P to the Guarantor is at least "BBB+" (or such similar nomenclature then used by S&P) and the Guarantor is of the view that such rating would not fall below this level as a result of such redemption or repurchase, or*

(ii) *in the case of a repurchase, such repurchase is of less than (a) 10 per cent. of the aggregate principal amount of the Securities originally issued in any period of 12 consecutive months or (b) 25 per cent. of the aggregate principal amount of the Securities originally issued in any period of 10 consecutive years, or*

(iii) *in the case of a repurchase, such repurchase relates to an aggregate principal amount of Securities which is less than or equal to the excess (if any) above the maximum aggregate principal amount of the Guarantor's hybrid capital to which S&P then assigns equity content under its prevailing methodology, or*

(iv) *the Securities are redeemed pursuant to a Tax Event, a Capital Event, an Accounting Event, a Change of Control Event, a Substantial Purchase Event or a Withholding Tax Event, or*

(v) *if the Securities are not assigned an "equity credit" (or such similar nomenclature then used by S&P) at the time of such redemption or repurchase, or*

(vi) *such redemption or repurchase occurs on or after the Reset Date falling on 12 February 2045*.

7 Payments

(a) **Method of Payment**: Payments of principal and interest will be made against presentation and surrender (or, in the case of a partial payment, endorsement) of Securities or the appropriate Coupons (as the case may be) at the specified office of any Paying Agent by transfer to a euro account maintained by the payee with a bank in city in which banks have access to the TARGET System. Payments of interest due in

respect of any Security other than on presentation and surrender of matured Coupons shall be made only against presentation and either surrender or endorsement (as appropriate) of the relevant Security.

(b) **Payments subject to fiscal laws**: All payments 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 8. No commissions or expenses shall be charged to the Holders in respect of such payments.

(c) **Unmatured Coupons**: Upon the due date for redemption of any Security, unmatured Coupons relating to such Security (whether or not attached) shall become void and no payment shall be made in respect of them. Where any Security is presented for redemption without all unmatured Coupons relating to it, redemption shall be made only against the provision of such indemnity as the Issuer and the Guarantor may require.

(d) **Exchange of Talons**: On or after the Interest Payment Date for the final Coupon forming part of a Coupon sheet issued in respect of any Securities, the Talon forming part of such Coupon sheet may be surrendered at the specified office of the Fiscal Agent in exchange for a further Coupon sheet (and another Talon for a further Coupon sheet) (but excluding any Coupons that may have become void pursuant to Condition 10).

(e) **Payments on business days**: A Security or Coupon may only be presented for payment on a day which is a business day in the place of presentation (and, in the case of payment by transfer to a euro account, a day that is a Business Day). No further interest or other payment will be made as a consequence of the day on which the relevant Security or Coupon may be presented for payment under this Condition 7 falling after the due date. In this Condition "business day" means a day on which commercial banks and foreign exchange markets settle payments and are open in the relevant city.

(f) **Paying Agents**: The initial Paying Agents and their initial specified offices are listed below. The Issuer and the Guarantor reserve the right at any time to vary or terminate the appointment of any Paying Agent and appoint additional or other Paying Agents, provided that they will maintain (i) a Fiscal Agent, (ii) a Paying Agent (which may be the Fiscal Agent) having specified offices in London and (iii) a Paying Agent with a specified office in a European Union member state. Notice of any change in the Paying Agents or their specified offices will promptly be given to the Holders in accordance with Condition 14.

8 Taxation

(a) **Additional Amounts**: All payments of principal and interest in respect of the Securities and the Coupons by the Issuer or (as the case may be) the Guarantor under the Guarantee will be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or on behalf of the Netherlands or the Kingdom of Spain or, in each case, any authority therein or thereof having power to tax (each a "Taxing Authority"), unless the withholding or deduction of such taxes, duties, assessments or governmental charges is required by law. In that event, the Issuer or, as the case may be, the Guarantor will pay such additional amounts ("Additional Amounts") as may be necessary in order that the net amounts received by the Holders after such withholding or deduction shall equal the respective amounts of principal and interest which would have been received in respect of the Securities or (as the case may be) Coupons, in the absence of such withholding or deduction; except that no Additional Amounts shall be payable with respect to any payment in respect of any Security or Coupon or (as the case may be) under the Guarantee:

(i) to, or to a third party on behalf of, a Holder who is liable for taxes, duties, assessments or governmental charges in respect of such Security by reason of his having some connection with the Netherlands or the Kingdom of Spain other than the mere holding of the Security;

(ii) presented for payment more than 30 days after the Relevant Date except to the extent that the relevant Holder thereof would have been entitled to such Additional Amounts on presenting the same for payment on the thirtieth such day;

(iii) in respect of any tax, assessment or other governmental charge that is imposed or withheld by reason of the failure by the Holder or the beneficial owner of the Security to comply with a request of the Issuer, or the Guarantor addressed to the Holder or the beneficial owner of the Security (a) to provide information concerning the nationality, residence, identity or connection with a Taxing Authority of the Holder or such beneficial owner or (b) to make any declaration or other similar claim to satisfy any information or reporting requirement, which in the case of (a) or (b), is required or imposed by a law, statute, treaty, rule, regulation or administrative practice of the Taxing Authority as a precondition to exemption from all or part of such tax assessment or other governmental charge, in each case, within any applicable time limits as may from time to time be imposed by such law, statute, treaty, rule, regulation, or administrative practice;

(iv) presented for payment in the Kingdom of Spain; or

(v) presented for payment by or on behalf of a Holder who would have been able to avoid such withholding or deduction by presenting the relevant Security to another Paying Agent in a Member State of the European Union.

(b) **FATCA**: Notwithstanding any other provision herein, any amounts to be paid by Issuer on the Securities will be paid net of any deduction or withholding imposed or required pursuant to Sections 1471 through 1474 of the Internal Revenue Code of 1986 ("FATCA") (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, and any official interpretations thereof or any agreements entered into in connection with the implementation thereof, and the Issuer will not be required to pay Additional Amounts on account of any FATCA deduction or withholding.

(c) **Tax Credit Payment**: If any Additional Amounts are paid by the Issuer or, as the case may be, the Guarantor under this Condition for the benefit of any Holder and such Holder, in its sole discretion, determines that it has obtained (and has derived full use and benefit from) a credit against, a relief or remissions for, or repayment of, any tax, then, if and to the extent that such Holder, in its sole opinion, determines that (i) such credit, relief, remission or repayment is in respect of or calculated with reference to the Additional Amounts paid pursuant to this Condition; and (ii) its tax affairs for its tax year in respect of which such credit, relief, remission or repayment was obtained have been finally settled, such Holder shall, to the extent that it can do so without prejudice to the retention of the amount of such credit, relief, remission or repayment, pay to the Issuer or, as the case may be, the Guarantor such amount as such Holder shall in its sole opinion, determine to be the amount which will leave such Holder (after such payment) in no worse after tax position than it would have been in had the additional payment in question not been required to be made by the Issuer or, as the case may be, the Guarantor.

(d) **Tax Credit Clawback**: If any Holder makes any payment to the Issuer or, as the case may be, the Guarantor pursuant to this Condition and such Holder subsequently determines in its sole opinion, that the credit, relief, remission or repayment in respect of which such payment was made was not available or has been withdrawn or that it was unable to use such credit, relief, remission or repayment in full, the Issuer or, as the case may be, the Guarantor shall reimburse such Holder such amount as such Holder determines, in its sole opinion, is necessary to place it in the same after tax position as it would have been in if such credit, relief, remission or repayment had been obtained and fully used and retained by such Holder, such amount not exceeding in any case the amount paid by the Holder to the Issuer or, as the case may be, the Guarantor.

(e) **Tax Affairs**: Nothing in Conditions 8(b) and (c) above shall interfere with the right of any Holder to arrange its tax or any other affairs in whatever manner it thinks fit, oblige any Holder to claim any credit, relief, remission or repayment in respect of any payment made under this Condition in priority to any credit, relief, remission or repayment available to it nor oblige any Holder to disclose any information relating to its tax or other affairs or any computations in respect thereof.

(f) **Definitions**: References in these Conditions to (i) "Principal" shall be deemed to include all amounts in the nature of principal payable pursuant to Condition 7 or any amendment or supplement to it; (ii) "interest" shall be deemed to include all Arrears of Interest and all other amounts payable pursuant to Condition 4 or any amendment or supplement to it; and (iii) "principal" and/or "interest" shall be deemed to include any Additional Amounts.

(g) **Substitute taxing jurisdiction**: If, pursuant to the Issuer's option under Condition 12(c), the Securities are exchanged for new securities of any wholly-owned direct or indirect finance subsidiary of the Guarantor that is subject to any taxing jurisdiction other than the Netherlands or Spain, respectively, references in these Conditions to the Netherlands or Spain shall be construed as references to the Netherlands or (as the case may be) Spain and/or such other jurisdiction.

9 Enforcement Events and No Events of Default

There are no events of default in respect of the Securities.

However, if an Issuer Winding-up occurs, or an order is made or an effective resolution passed for the winding-up, dissolution or liquidation of the Guarantor, then without notice from the Holder of any Security to the Fiscal Agent, each Security shall immediately become due and payable at its principal amount together with any accrued and unpaid interest and any outstanding Arrears of Interest.

In such case the Holder of a Security may, at its sole discretion, institute steps in order to obtain a judgment against the Issuer and/or the Guarantor for any amounts due in respect of the Securities, including but not limited to proving and/or claiming in an Issuer Winding-up or in the winding-up, dissolution, liquidation or insolvency proceeding of the Guarantor for such amount.

Each Holder may, at its discretion and without further notice, institute such proceedings as it may think fit to enforce any term or condition binding on the Issuer or the Guarantor under the Securities or the Guarantee but in no event shall the Issuer or the Guarantor by the virtue of such proceedings be obliged to pay any sum or sums sooner than the same would otherwise have been payable by it.

No remedy against the Issuer or the Guarantor, other than as referred to in this Condition 9 shall be available to the Holders, whether for the recovery of amounts owing in respect of the Securities or the Guarantee or in respect of any other breach by the Issuer or the Guarantor of any of their respective other obligations under or in respect of the Securities or the Guarantee.

10 Prescription

Claims in respect of principal and interest or any other amount will become void unless presentation for payment is made as required by Condition 7 within a period of 10 years in the case of principal (or any other amount in the nature of principal) and five years in the case of interest (or any other amount in the nature of interest, including Arrears of Interest) from the appropriate Relevant Date.

11 Replacement of Securities and Coupons

If any Security or Coupon is lost, stolen, mutilated, defaced or destroyed it may be replaced at the specified office of the Fiscal 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 and the Guarantor may require (provided that the requirement is reasonable in the light of prevailing market practice). Mutilated or defaced Securities or Coupons must be surrendered before replacements will be issued.

12 Meetings of Holders of Securities and Modification, Substitution and Variation

(a) **Meetings of Holders of Securities**: The Fiscal Agency Agreement contains provisions for convening meetings of Holders of Securities to consider matters affecting their interests, including the sanctioning by Extraordinary Resolution (as defined in the Fiscal Agency Agreement) of a modification of any of these Conditions. Such a meeting may be convened by Holders of Securities holding not less than 10 per cent in principal amount of the Securities for the time being outstanding. The quorum for any meeting convened to consider an Extraordinary Resolution will be two or more persons holding or representing a clear majority in the principal amount of the Securities for the time being outstanding, or at any adjourned meeting two or more persons being or representing Holders of Securities whatever the principal amount of the Securities held or represented, unless the business of such meeting includes consideration of proposals, inter alia, (i) to modify the maturity of the Securities or the dates on which interest is payable in respect of the Securities, (ii) to reduce or cancel the principal amount of, or interest on or to vary the method of calculating the rate of interest on, the Securities, (iii) to change the currency of payment of the Securities or the Coupons, (iv) to modify the provisions concerning the quorum required at any meeting of Holders of Securities or the majority required to pass an Extraordinary Resolution, or (v) to modify or cancel the Guarantee, in which case the necessary quorum will be two or more persons holding or representing not less than 75 per cent, or at any adjourned meeting not less than 25 per cent, in principal amount of the Securities for the time being outstanding. Any Extraordinary Resolution duly passed shall be binding on Holders of Securities (whether or not they were present at the meeting at which such resolution was passed) and on all Holders of Coupons.

The Fiscal Agency Agreement provides that a resolution in writing signed by or on behalf of the holders of not less than 90 per cent. in principal amount of the Securities outstanding shall for all purposes be as valid and effective as an Extraordinary Resolution passed at a meeting of Holders of Securities duly convened and held. 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 Holders of Securities.

(b) **Modification**: The Securities, these Conditions, the Deed of Covenant and the Deed of Guarantee may be amended by the Issuer and the Guarantor without the consent of the Holders of Securities to correct a manifest error. No other modification may be made to the Securities, these Conditions, the Deed of Covenant or the Deed of Guarantee except with the sanction of a resolution of the Holders of the Securities.

In addition, the parties to the Fiscal Agency Agreement may agree to modify any provision thereof, but the Issuer and the Guarantor shall not agree, without the consent of the Holders of Securities, to any such modification unless, in the sole opinion of the Issuer and the Guarantor, (i) it is of a formal, minor or technical nature; (ii) it is made to correct a manifest error; or (iii) it is not materially prejudicial to the interests of the Holders of Securities.

(c) **Substitution and Variation**: If at any time after the Issue Date the Issuer and/or the Guarantor determines that a Tax Event, a Withholding Tax Event, an Accounting Event or a Capital Event has

occurred, the Issuer may, as an alternative to an early redemption of the Securities, on any applicable Interest Payment Date, without the consent of the Holders, (i) exchange the Securities (the "Exchanged Securities") into new securities of the Issuer, the Guarantor or any wholly-owned direct or indirect subsidiary of the Guarantor (a "Substitute Issuer") with a guarantee of the Guarantor, or (ii) vary the terms of the Securities (the "Varied Securities"), so that in either case (A) in the case of a Tax Event, in respect of (I) the Issuer's (or Substitute Issuer's) obligation to make any payment of interest under the Exchanged Securities or Varied Securities; or (II) the obligation of the Guarantor to make any payment of interest in favour of the Issuer (or the Substitute Issuer) under the Subordinated Loan (or any replacement thereof between the Guarantor and the Substitute Issuer), the Issuer, the Guarantor or the Substitute Issuer (as the case may be) is entitled to claim a deduction or a higher deduction (as the case may be) in respect of interest paid when computing its tax liabilities in the Netherlands, in Spain or in the taxing jurisdiction of the Substitute Issuer (as the case may be), as compared with the entitlement (in the case of the Issuer and the Guarantor) after the occurrence of the relevant Tax Event, (B) in the case of a Withholding Tax Event, in making any payments in respect of the Exchanged Securities or Varied Securities or the Exchanged or Varied Guarantee (as defined below) the Issuer, the Guarantor or the Substitute Issuer are not required to pay a greater amount of Additional Amounts in respect of the Exchanged Securities or Varied Securities or the Exchanged or Varied Guarantee, (C) in the case of an Accounting Event, the aggregate nominal amount of the Exchanged Securities or Varied Securities (as the case may be) is recorded as "equity" pursuant to IFRS-EU or any other accounting standards that may replace IFRS-EU for the purposes of the consolidated financial statements of the Guarantor, or (D) in the case of a Capital Event, the aggregate nominal amount of the Exchanged Securities or Varied Securities (as the case may be) is assigned "equity credit" (or such other nomenclature that the relevant Rating Agency may then use to describe the degree to which an instrument exhibits the characteristics of an ordinary share) by the relevant Rating Agency that is equal to or greater than that which was assigned to the Securities on the Issue Date (or, if "equity credit" is not assigned to the Securities by the relevant Rating Agency on the Issue Date, at the date on which "equity credit" is assigned by such Rating Agency).

Any such exchange or variation shall be subject to the following conditions:

(i) the Issuer giving not less than 30 nor more than 60 days' notice to the Fiscal Agent, the Paying Agent and, in accordance with Condition 14, the Holders;

(ii) the Issuer complying with the rules of any stock exchange (or any other relevant authority) on which the Securities are for the time being admitted to trading, and (for so long as the rules of such exchange require) the publication of any appropriate supplement, listing particulars or offering circular in connection therewith, and the Exchanged Securities or Varied Securities continue to be admitted to trading on the same stock exchange as the Securities if they were admitted to trading immediately prior to the relevant exchange or variation;

(iii) the Issuer paying any outstanding Arrears of Interest in full prior to such exchange or variation;

(iv) the Exchanged Securities or Varied Securities shall: (A) rank at least *pari passu* with the ranking of the Securities prior to the exchange or variation, (B) have the benefit of a guarantee (the "Exchanged or Varied Guarantee") from the Guarantor on terms not less favourable to Holders than the terms of the Guarantee (as reasonably determined by the Issuer or Substitute Issuer and the Guarantor) and (C) benefit from the same or more favourable interest rates and the same Interest Payment Dates, the same First Reset Date and early redemption rights (provided that the relevant exchange or variation may not itself trigger any early redemption right), the same rights to accrued interest or Arrears of Interest and any other amounts payable under the Securities which, in each case, has accrued to the Holders and has not been paid, the same rights to principal

and interest, and, if publicly rated by S&P, Moody's and/or Fitch Ratings immediately prior to such exchange or variation, at least the same credit rating immediately after such exchange or variation by each of S&P, Moody's and/or Fitch Ratings (as the case may be), as compared with the relevant rating(s) immediately prior to such exchange or variation (as determined by the Issuer or Substitute Issuer and the Guarantor using reasonable measures available to it including discussions with S&P, Moody's and/or Fitch Ratings to the extent practicable) (D) shall not contain terms providing for the mandatory deferral of interest and (E) not contain terms providing for loss absorption through principal write-down or conversion to shares;

(v) the preconditions to redemption set out in Condition 6(h) having been satisfied and the terms of the exchange or variation (in the sole opinion of the Issuer or Substitute Issuer or the Guarantor, as the case may be) not being prejudicial to the interests of the Holders, including compliance with (iv) above, as certified to the benefit of the Holders by an authorised officer of the Guarantor, having consulted with an independent investment bank of international standing, and any such certificate shall, absent fraud or manifest error, be final and binding on all parties. However, a change in the governing law of the provisions of Condition 2(b) (Status and Subordination of the Securities and Coupons – Subordination of the Securities) to the laws of the jurisdiction of incorporation of the Substitute Issuer, in connection with any substitution pursuant to Condition 12(c) (Substitution and Variation), shall be deemed not to be prejudicial to the interests of the Holders; and

(vi) the issue of legal opinions addressed to the Fiscal Agent (copies of which shall be made available to the Holders at the specified offices of the Fiscal Agent during usual office hours) for the benefit of the Holders from one or more international law firms of good reputation selected by the Issuer or the Guarantor and confirming (x) that each of the Issuer and the Guarantor has capacity to assume all rights, duties and obligations under the Exchanged Securities or Varied Securities and the Exchanged or Varied Guarantee (as the case may be) and has obtained all necessary corporate or governmental authorisation to assume all such rights and obligations and (y) the legality, validity and enforceability of the Exchanged Securities or Varied Securities.

13 Further Issues

The Issuer may from time to time without the consent of the Holders create and issue further securities either having the same terms and conditions as the Securities in all respects (or in all respects except for the first payment of interest on them) and so that such further issue shall be consolidated and form a single series with the outstanding securities of any series (including the Securities) or upon such terms as the Issuer may determine at the time of their issue. References in these Conditions to the Securities include (unless the context requires otherwise) any other securities issued pursuant to this Condition and forming a single series with the Securities.

14 Notices

Notices to Holders of Securities will be deemed to be validly given if published in a leading daily newspaper having general circulation in London (which is expected to be the *Financial Times*) or, if such publication is not practicable, if published in a leading English language daily newspaper having general circulation in Europe. The Issuer shall also ensure that all notices are duly published in a manner which complies with the rules and regulations of any stock exchange or other relevant authority on which the Securities are for the time being listed and/or admitted to trading. Any such notice shall be deemed to have been validly given on the date of the first such publication or, if published more than once, on the first date on which publication is made.

Notwithstanding the above, while all the Securities are represented by a Security in global form and such global form Security is deposited with a common depositary for Euroclear and/or Clearstream, Luxembourg, notices to Holders of Securities may be given by delivery of the relevant notice to Euroclear or Clearstream, Luxembourg in accordance with their respective rules and operating procedures, and such notices shall be deemed to have been given to Holders on the date of delivery to Euroclear and/or Clearstream, Luxembourg. Holders of Coupons will be deemed for all purposes to have notice of the contents of any notice given to the Holders of Securities in accordance with this Condition.

15 Currency Indemnity

Euro is the sole currency of account and payment for all sums payable by the Issuer or the Guarantor under or in connection with the Securities, the Coupons and the Guarantee, including damages. Any amount received or recovered in a currency other than euro (whether as a result of, or of the enforcement of, a judgment or order of a court of any jurisdiction, in the insolvency, winding-up or dissolution of the Issuer or the Guarantor or otherwise) by any Holder in respect of any sum expressed to be due to it from the Issuer or Guarantor shall only constitute a discharge to the Issuer and/or Guarantor to the extent of the euro amount which the recipient is able to purchase with the amount so received or recovered in that other currency on the date of that receipt or recovery (or, if it is not practicable to make that purchase on that date, on the first date on which it is practicable to do so). If that euro amount is less than the euro amount expressed to be due to the recipient under any Security or Coupon or the Guarantee, the Issuer or the Guarantor (as the case may be) shall indemnify it against any loss sustained by it as a result. In any event, the Issuer or the Guarantor (as the case may be) shall indemnify the recipient against the cost of making any such purchase. For the purposes of this Condition, it will be sufficient for the Holder to demonstrate that it would have suffered a loss had an actual purchase been made. These indemnities constitute a separate and independent obligation from the Issuer's and Guarantor's other obligations, shall give rise to a separate and independent cause of action, shall apply irrespective of any indulgence granted by any Holder and shall continue in full force and effect despite any other judgment, order, claim or proof for a liquidated amount in respect of any sum due under any Security, Coupon or Guarantee or any other judgment or order.

16 Contracts (Rights of Third Parties) Act 1999

No person shall have any right to enforce any term or condition of the Securities under the Contracts (Rights of Third Parties) Act 1999.

17 Governing Law

(a) **Governing Law**: The Fiscal Agency Agreement, the Securities, the Coupons and the Guarantee and any non-contractual obligations arising out of or in connection with them are governed by and shall be construed in accordance with English law, other than the provisions of Condition 2(b) which are governed by and construed in accordance with the laws of the Netherlands, and the provisions of Condition 3(b) and Condition 3(c) and the corresponding provisions of the Guarantee which are governed by and construed in accordance with the laws of the Kingdom of Spain.

(b) **Jurisdiction**: The courts of England are to have jurisdiction to settle any disputes which may arise out of or in connection with the Securities, the Coupons or the Guarantee and accordingly any legal action or proceedings arising out of or in connection with the Securities, the Coupons or the Guarantee ("Proceedings") may be brought in such courts. Each of the Issuer and the Guarantor irrevocably submits to the jurisdiction of such courts and waives any objection to Proceedings in such courts whether on the ground of venue or on the ground that the Proceedings have been brought in an inconvenient forum. This Condition is for the benefit of each of the Holders and shall not limit the right of any of them to take

Proceedings in any other court of competent jurisdiction nor shall the taking of Proceedings in one or more jurisdictions preclude the taking of Proceedings in any other jurisdiction (whether concurrently or not).

(c) **Agent for Service of Process**: Each of the Issuer and the Guarantor irrevocably appoints SPW Investments Ltd., 4th Floor, 1 Tudor Street, London EC4Y 0AH, United Kingdom, as its agent in England to receive service of process in any Proceedings in England based on any of the Securities, the Coupons or the Guarantee. If for any reason the Issuer or the Guarantor as the case may be does not have such an agent in England, it will promptly appoint a substitute process agent and notify the Holders of Securities of such appointment. Nothing herein shall affect the right to serve process in any other manner permitted by law.

18 Definitions

In these Conditions:

"30/360 Day Count" means, in respect of any period, the number of days in the relevant period, from (and including) the first day in such period to (but excluding) the last day in such period (such number of days being calculated on the basis of a 360 day year consisting of 12 months of 30 days each), divided by 360;

"5 year Swap Rate" has the meaning given to it in Condition 4(c);

"5 year Swap Rate Quotations" has the meaning given to it in Condition 4(c);

an "Accounting Event" shall be deemed to occur if the Issuer or the Guarantor has received, and notified the Holders in accordance with Condition 14 that it has so received, an opinion of a recognised accountancy firm of international standing, stating that, as a result of a change in the accounting rules or methodology effective after the Issue Date, the Securities must not or must no longer be recorded as "equity" pursuant to IFRS-EU or any other accounting standards that may replace IFRS-EU for the purposes of the Consolidated Financial Statements of the Guarantor;

"Additional Amounts" has the meaning given to it in Condition 8(a);

"Affiliates" means an entity that directly, or indirectly through one or more intermediaries, controls, or is controlled by, or is under common control with, the Guarantor;

"Arrears of Interest" has the meaning given to it in Condition 5(a);

"business day" has the meaning given to it in Condition 7(e);

"Business Day" means a day, other than a Saturday, Sunday or public holiday, on which the Target System is operating;

"Calculation Amount" has the meaning given to it in Condition 4(b);

a "Capital Event" shall be deemed to occur if the Issuer or the Guarantor has, directly or via publication by such Rating Agency, received, and notified the Holders in accordance with Condition 14 that it has so received, confirmation from any Rating Agency that, due to any amendment to, clarification of, or change in hybrid capital methodology or a change in the interpretation thereof, in each case occurring or becoming effective after the Issue Date, the Securities will no longer be eligible for the same or a higher amount of "equity credit" (or such other nomenclature that the relevant Rating Agency may then use to describe the degree to which an instrument exhibits the characteristics of an ordinary share) attributed to the Securities at the Issue Date (or, if "equity credit" is not assigned to the Securities by the relevant Rating Agency on the Issue Date, at the date on which "equity credit" is assigned by such Rating Agency for the first time);

a "Change of Control" shall be deemed to have occurred at each time that any person or persons acting in concert ("Relevant Persons") or any person or persons acting on behalf of such Relevant Persons, acquire(s) control, directly or indirectly, of the Guarantor;

a "Change of Control Event" shall be deemed to occur if a Change of Control occurs and, during the Change of Control Period, a Rating Downgrade occurs;

"Change of Control Period" means the period commencing on the date that is the earlier of (1) the date of the occurrence of the relevant Change of Control; and (2) the date of the earliest Potential Change of Control Announcement (if any), and ending on the date which is 270 days after the date of the occurrence of the relevant Change of Control;

"Change of Control Rating Agency" means Standard & Poor's Credit Market Services Europe Limited ("S&P"), Moody's Investors Service Limited ("Moody's"), or Fitch Ratings Limited ("Fitch Ratings") or any other credit rating agency of equivalent international standing specified from time to time by the Issuer and, in each case, their respective successors or affiliates;

"Compulsory Arrears of Interest Settlement Event" has the meaning given to it in Condition 5(c);

"Condition" means the terms and conditions of the Securities;

"Consolidated Financial Statements" means the most recently published: (i) audited annual consolidated financial statements of the Guarantor, as approved by the annual general meeting of its shareholders and audited by an independent auditor; or, as the case may be, (ii) unaudited (but subject to a "review" from an independent auditor) condensed consolidated half-year financial statements of the Guarantor, as approved by its Board of Directors, in each case prepared in accordance with IFRS-EU;

"control" means: (a) the acquisition or control of more than 50 per cent. of the voting rights of the issued share capital of the Guarantor; or (b) the right to appoint and/or remove all or the majority of the members of the Guarantor's Board of Directors or other governing body, whether obtained directly or indirectly, and whether obtained by ownership of share capital, the possession of voting rights, contract or otherwise;

"Deferral Notice" has the meaning given to it in Condition 5(a);

"Deferred Interest Payment" has the meaning given to it in Condition 5(a);

"Dividend Declaration" has the meaning given to it in Condition 5(c);

"Early Redemption Amount" means in respect of a redemption of the Securities following the occurrence of a Tax Event, an Accounting Event or a Capital Event, 101 per cent. of the principal amount of such Securities;

"First Reset Date" means 12 February 2025;

"Further Securities" means any Securities issued pursuant to Condition 13 and forming a single series with the outstanding Securities;

"Holder" has the meaning given to it in Condition 1(b);

"IFRS-EU" means International Financial Reporting Standards, as adopted by the European Union;

"Interest Payment" means, in respect of an interest payment on an Interest Payment Date, the amount of interest payable on the presentation and surrender of the relevant Coupon for the relevant Interest Period in accordance with Condition 4;

"Interest Payment Date" means 12 February in each year;

"Interest Period" means the period beginning on (and including) the Issue Date and ending on (but excluding) the first Interest Payment Date and each successive period beginning on (and including) an Interest Payment Date and ending on (but excluding) the next succeeding Interest Payment Date;

"Investment Grade Rating" means: (1) with respect to S&P, any of the categories from and including AAA to and including BBB- (or equivalent successor categories); (2) with respect to Moody's, any of the categories from and including Aaa to and including Baa3 (or equivalent successor categories); and (3) with respect to Fitch Ratings, any of the categories from and including AAA to and including BBB- (or equivalent successor categories);

"Issue Date" means 12 February 2019;

"Issuer Winding-up" means a situation where (i) an order is made or a decree or resolution is passed for the winding-up, liquidation or dissolution of the Issuer, except for the purposes of a solvent merger, reconstruction or amalgamation, or (ii) a trustee (curator) is appointed by the competent District Court in the Netherlands in the event of bankruptcy (*faillissement*) affecting the whole or a substantial part of the undertaking or assets of the Issuer and such appointment is not discharged within 30 days;

"Junior Obligations" means the Junior Obligations of the Guarantor and the Junior Obligations of the Issuer;

"Junior Obligations of the Guarantor" means all obligations of the Guarantor issued or incurred directly or indirectly by it which rank or are expressed to rank junior to the Guarantee, including Ordinary Shares of the Guarantor and any other shares (*acciones*) in the capital of the Guarantor (and, if divided into classes, each class thereof);

"Junior Obligations of the Issuer" means all obligations of the Issuer, issued or incurred directly or indirectly by it, which rank or are expressed to rank junior to the Securities, including (i) Ordinary Shares of the Issuer and (ii) Preferred Shares of the Issuer, if any;

"Mandatory Settlement Date" has the meaning given to it in Condition 5(c);

"March 2018 Securities" means the €700,000,000 Undated Deeply Subordinated Reset Rate Guaranteed Securities issued by Iberdrola International B.V. on 26 March 2018 (ISIN: XS1797138960) and unconditionally and irrevocably guaranteed on a subordinated basis by Iberdrola, S.A.;

"November 2017 Securities" means the €1,000,000,000 Undated Deeply Subordinated Reset Rate Guaranteed Securities issued by Iberdrola International B.V. on 22 November 2017 (ISIN: XS1721244371) and unconditionally and irrevocably guaranteed on a subordinated basis by Iberdrola, S.A.;

"Ordinary Shares of the Guarantor" means ordinary shares in the capital of the Guarantor, having at the Issue Date a nominal value of €0.75 each;

"Ordinary Shares of the Issuer" means ordinary shares in the capital of the Issuer, having on the Issue Date a nominal amount of €0.75 each;

"Outstanding Hybrid Securities" means the November 2017 Securities and the March 2018 Securities;

"Parity Obligations" means the Parity Obligations of the Guarantor and the Parity Obligations of the Issuer;

"Parity Obligations of the Guarantor" means all obligations of the Guarantor which are either (i) issued directly by the Guarantor and which rank or are expressed to rank *pari passu* with the Guarantor's obligations under the Guarantee or (ii) issued by any Subsidiary of the Guarantor and where the terms of such obligations benefit from a guarantee or support agreement entered into by the Guarantor which ranks or is expressed to rank *pari passu* with the Guarantor's obligations under the Guarantee (which include the guarantee granted by the Guarantor in connection with each of the Outstanding Hybrid Securities);

"Parity Obligations of the Issuer" means all obligations of the Issuer, issued or incurred directly or indirectly by it, which rank, or are expressed to rank, *pari passu* with the Securities including the Outstanding Hybrid Securities;

"Potential Change of Control Announcement" means any public announcement or public statement by the Issuer, the Guarantor, any actual or potential bidder or any advisor thereto relating to any potential Change of Control;

"Preferred Shares of the Issuer" means any preference shares in the capital of the Issuer (and, if divided into classes, each class thereof);

"Prevailing Interest Rate" means the rate of interest payable on the Securities applicable from time to time pursuant to Condition 4;

"Proceedings" has the meaning given to it in Condition 17(b);

"Rating Agency" means S&P, Moody's or Fitch Ratings;

A "Rating Downgrade" shall be deemed to have occurred in respect of a Change of Control if: (A) within the Change of Control Period the rating previously assigned to the Guarantor by any Change of Control Rating Agency is: (x) withdrawn; (y) ceases to be an Investment Grade Rating; or (z) if the rating assigned to the Guarantor by any Change of Control Rating Agency which is current at the time the Change of Control Period begins is below an Investment Grade Rating, that rating is lowered one full rating notch by any Change of Control Rating Agency (for example BB+ to BB by S&P), provided that a Rating Downgrade shall be deemed not to have occurred in respect of a particular Change of Control if the Change of Control Rating Agency withdrawing or lowering the rating does not publicly announce or otherwise confirms in writing to the Issuer that the reduction or withdrawal was the result, in whole or, in part, of any event or circumstance comprised in or arising as a result of, or in respect of, the applicable Change of Control; or (B) at the time of the Change of Control there is no rating assigned to the Guarantor;

"Redemption Date" means the date fixed for redemption of the Securities pursuant to Condition 6;

"Relevant Date" means (i) in respect of any payment other than a sum to be paid by the Issuer or the Guarantor in a winding-up or administration of the Issuer or Guarantor, as the case may be, the date on which such payment first becomes due and payable, but if the full amount of moneys payable on such date has not been received by the Fiscal Agent on or prior to such date, the Relevant Date means the date on which such moneys shall have been so received and notice to that effect shall have been given to the Holders of Securities in accordance with Condition 14 and (ii) in respect of a sum to be paid by the Issuer or the Guarantor in a winding-up or administration of the Issuer or the Guarantor, as the case may be, the date that is one day prior to the date on which an order is made or a resolution is passed for the winding-up, or in the case of an administration, one day prior to the date on which any dividend is distributed;

"Relevant Period" has the meaning given to it in Condition 6(b);

"Reset Date" means the First Reset Date and each date falling on the fifth anniversary thereafter;

"Reset Interest Determination Date" means, in respect of any Reset Period, the day falling two Business Days prior to the beginning of the relevant Reset Period;

"Reset Period" means each period from and including the First Reset Date to but excluding the next following Reset Date and thereafter from and including each Reset Date to but excluding the next following Reset Date;

"Reset Reference Banks" has the meaning given to it in Condition 4(c);

"Reset Reference Bank Rate" has the meaning given to it in Condition 4(c);

"Reset Screen Page" has the meaning given to it in Condition 4(c);

"Senior Obligations of the Guarantor" means all obligations of the Guarantor, including subordinated obligations of the Guarantor according to Spanish insolvency law, other than Parity Obligations of the Guarantor and Junior Obligations of the Guarantor;

"Senior Obligations of the Issuer" means all obligations of the Issuer, including subordinated obligations of the Issuer according to Dutch insolvency law, other than Parity Obligations of the Issuer and Junior Obligations of the Issuer;

"Subordinated Loan" means the subordinated loan made by the Issuer to Iberdrola Financiación, S.A.U. ("Iberdrola Financiación") dated 12 February 2019, pursuant to which the proceeds of the issue of the Securities are on-lent to Iberdrola Financiación;

"Subsidiary" means at any particular time: (i) any company which is then directly or indirectly controlled, or more than 50 per cent. of whose issued equity share capital (or equivalent) is then beneficially owned, by the first person and/or one or more of its subsidiaries, and (ii) in relation to the Guarantor, a company which fulfils the definition in paragraph (i) above and which is included in the Consolidated Financial Statements on a fully integrated basis.

For a company to be "controlled" by another means that the other (whether directly or indirectly and whether by the ownership of share capital, the possession of voting power, contract or otherwise) has the power to appoint and/or remove all or the majority of the members of the board of directors or other governing body of that company or otherwise controls or has the power to control the affairs and policies of that company;

a "Substantial Purchase Event" shall be deemed to have occurred if at least 75 per cent. of the aggregate principal amount of the Securities originally issued (which for these purposes shall include any Further Securities) is purchased by the Issuer, the Guarantor or any subsidiary of the Guarantor (and in each case is cancelled in accordance with Condition 6(j));

"Target System" means the Trans-European Automated Real-Time Gross Settlement Express Transfer payment system which utilises a single shared platform and which was launched on 19 November 2007, or any successor thereof;

a "Tax Event" shall be deemed to have occurred if, as a result of a Tax Law Change, in respect of (i) the Issuer's obligation to make any payment under the Securities (including any Interest Payment) on the next following Interest Payment Date; or (ii) the obligation of Iberdrola Financiación to make any payment in favour of the Issuer under the Subordinated Loan on the next following due date for such payment, the Issuer or Iberdrola Financiación (as the case may be) would no longer be entitled to claim a deduction in respect of computing its tax liabilities in the Netherlands or in Spain (as the case may be), or such entitlement is materially reduced.

For the avoidance of doubt, a Tax Event shall not occur if payments of interest under the Subordinated Loan by Iberdrola Financiación are not deductible in whole or in part for Spanish corporate income tax purposes solely as a result of general tax deductibility limits set forth by Article 16 of Law 27/2014 dated 27 November, on Corporate Income Tax, as at 12 February 2019;

"Tax Law Change" means a change in or proposed change in, or amendment to, or proposed amendment to, the laws or regulations of the Netherlands or Spain or, in either case, any political subdivision or any authority thereof or therein having power to tax, including, without limitation, any treaty to which the Netherlands or Spain is a party, or any change in the official or generally published interpretation of such laws or regulations, including a decision of any court or tribunal, or any interpretation or pronouncement by any relevant tax authority that provides for a position with respect to such laws or regulations or interpretations thereof that

differs from the previously generally accepted position in relation to similar transactions, which change, amendment or interpretation becomes or would become, effective after 12 February 2019;

"Taxing Authority" has the meaning given to it in Condition 8(a); and

a "Withholding Tax Event" shall be deemed to occur if as a result of a Tax Law Change, in making any payments in respect of the Securities or the Guarantee the Issuer or the Guarantor has paid or will or would on the next Interest Payment Date be required to pay Additional Amounts in respect of the Securities or the Guarantee that cannot be avoided by the Issuer or the Guarantor, as the case may be, taking measures reasonably available to it.

Summary of Provisions relating to the Securities while in Global Form

The Temporary Global Security and the Permanent Global Security contain provisions which apply to the Securities while they are in global form, some of which modify the effect of the Conditions set out in this document. The following is a summary of certain of those provisions:

1 Exchange

The Temporary Global Security is exchangeable, in whole or in part, for interests in the Permanent Global Security on or after a date which is expected to be 25 March 2019, upon certification as to non-U.S. beneficial ownership in the form set out in the Temporary Global Security. The Permanent Global Security is exchangeable in whole but not, except as provided in the next paragraph, in part (free of charge to the holder) for the Definitive Securities described below (i) if the Permanent Global Security is held on behalf of a clearing system and such clearing system is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so or (ii) if principal in respect of any Securities is not paid when due and payable. Thereupon, the holder may give notice to the Fiscal Agent of its intention to exchange the Permanent Global Security for Definitive Securities on or after the Exchange Date specified in the notice.

If principal in respect of any Securities is not paid when due and payable the holder of the Permanent Global Security may, by notice to the Fiscal Agent, require the exchange of a specified principal amount of the Permanent Global Security (which may be equal to or (provided that, if the Permanent Global Security is held by or on behalf of a clearing system, that clearing system agrees) less than the outstanding principal amount of Securities represented thereby) for Definitive Securities on or after the Exchange Date (as defined below) specified in such notice.

On or after any Exchange Date the holder of the Permanent Global Security may surrender the Permanent Global Security or, in the case of a partial exchange, present it for endorsement to or to the order of the Fiscal Agent. In exchange for the Permanent Global Security, or on endorsement in respect of the part thereof to be exchanged, the Issuer shall deliver, or procure the delivery of, an equal aggregate principal amount of duly executed and authenticated Definitive Securities (having attached to them all Coupons in respect of interest which has not already been paid on the Permanent Global Security), security printed in accordance with any applicable legal and stock exchange requirements and in or substantially in the form set out in Schedule 1 to the Fiscal Agency Agreement. On exchange in full of the Permanent Global Security, the Issuer will, if the holder so requests, procure that it is cancelled and returned to the holder together with any relevant Definitive Securities.

"Exchange Date" means a day falling not less than 60 days or, in the case of exchange pursuant to (ii) above, 30 days, after that on which the notice requiring exchange is given and on which banks are open for business in the city in which the specified office of the Fiscal Agent is located and, except in the case of exchange pursuant to (i) above, in the cities in which the relevant clearing system is located.

2 Payments

No payment will be made on the Temporary Global Security unless exchange for an interest in the Permanent Global Security is improperly withheld or refused. Payments of principal, premium and interest in respect of Securities represented by the Permanent Global Security will be made against presentation for endorsement and, if no further payment falls to be made in respect of the Securities, surrender of the Permanent Global Security to or to the order of the Fiscal Agent or such other Paying Agent as shall have been notified to the Holders for such purpose. A record of each payment so made will be endorsed in the appropriate schedule to the Permanent Global Security, which endorsement will be *prima facie* evidence that such payment has been

made in respect of the Securities. Condition 7(f)(iii) and Condition 8(a)(vi) will apply to the Definitive Securities only. For the purpose of any payments made in respect of a Permanent Global Security, Condition 7(e) shall not apply, and all such payments shall be made on a day on which the TARGET system is open.

3 Notices

So long as the Securities are represented by the Permanent Global Security and the Permanent Global Security is held on behalf of a clearing system, notices to Holders may be given by delivery of the relevant notice to that clearing system for communication by it to entitled accountholders in substitution for publication as required by the Conditions except that, so long as the Securities are listed on the Official List of the Luxembourg Stock Exchange and the rules of that Exchange so require, notices shall also be published either on the website of the Luxembourg Stock Exchange (www.bourse.lu) or in a leading newspaper having general circulation in Luxembourg (which is expected to be the *Luxemburger Wort*).

4 Prescription

Claims against the Issuer in respect of principal, interest or any other amount on the Securities while the Securities are represented by the Permanent Global Security will become void unless it is presented for payment within a period of 10 years in the case of principal or any other amount in the nature of principal) and five years in the case of interest (or any other amount in the nature of interest, including Arrears of Interest (as defined in Condition 5(a)) from the appropriate Relevant Date (as defined in Condition 18).

5 Meetings

The holder of the Permanent Global Security shall (unless the Permanent Global Security represents only one Security) be treated as being two persons for the purposes of any quorum requirements of a meeting of Holders and, at any such meeting, as having one vote in respect of each €100,000 in principal amount of Securities.

6 Purchase and Cancellation

Cancellation of any Security, to be cancelled in accordance with the Conditions following its purchase, will be effected by reduction in the principal amount of the Permanent Global Security.

7 Accountholders

For so long as any of the Securities is represented by a Global Security and such Global Security is held on behalf of Euroclear and/or Clearstream, Luxembourg, each person (other than Euroclear or Clearstream, Luxembourg) who is for the time being shown in the records of Euroclear or Clearstream, Luxembourg as the holder of a particular principal amount of such Securities (in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg as to the principal amount of such Securities standing to the account of any person shall be conclusive and binding for all purposes save in the case of manifest error) shall be treated as the holder of such principal amount of such Securities for all purposes (including but not limited to, for the purposes of any quorum requirements of meetings of the Holders and giving notice to the Issuer pursuant to the Conditions) other than with respect to payment of principal and interest on such principal amount of such Securities, for which purpose the bearer of the relevant Global Security shall be treated as the holder of such principal amount of such Securities in accordance with and subject to the terms of the relevant Global Security and the expression "Holder" and related expressions shall be construed accordingly.

8 Electronic Consent and Written Resolution

While any Global Security is held on behalf of a relevant Clearing System, then:

(i) approval of a resolution proposed by the Issuer given by way of electronic consents communicated through the electronic communications systems of the relevant Clearing System(s) in accordance with their operating rules and procedures by or on behalf of the holders of not less than 90 per cent. in nominal amount of the Securities outstanding (an "Electronic Consent" as defined in the Fiscal Agency Agreement) shall, for all purposes (including matters that would otherwise require an Extraordinary Resolution to be passed at a meeting for which the Special Quorum was satisfied), take effect as an Extraordinary Resolution passed at a meeting of Holders duly convened and held, and shall be binding on all Holders and holders of Coupons and Talons whether or not they participated in such Electronic Consent; and

(ii) where Electronic Consent is not being sought, for the purpose of determining whether a Written Resolution has been validly passed, the Issuer and the Guarantor shall be entitled to rely on consent or instructions given in writing directly to the Issuer and/or the Guarantor, as the case may be (a) by accountholders in the clearing systems with entitlements to such Global Security and/or, (b) where the accountholders hold any such entitlement on behalf of another person, on written consent from or written instruction by the person identified by that accountholder as the person for whom such entitlement is held. For the purpose of establishing the entitlement to give any such consent or instruction, the Issuer and the Guarantor shall be entitled to rely on any certificate or other document issued by, in the case of (a) above, Euroclear, Clearstream, Luxembourg or any other relevant alternative clearing system (the "relevant clearing system") and, in the case of (b) above, the relevant clearing system and the accountholder identified by the relevant clearing system for the purposes of (b) above. Any resolution passed in such manner shall be binding on all Holders of Securities and Holders of Coupons, even if the relevant consent or instruction proves to be defective. Any such certificate or other document shall be conclusive and binding for all purposes. Any such certificate or other document may comprise any form of statement or print out of electronic records provided by the relevant clearing system (including Euroclear's EUCLID or Clearstream, Luxembourg's CreationOnline system) in accordance with its usual procedures and in which the accountholder of a particular principal or nominal amount of the Securities is clearly identified together with the amount of such holding. The Issuer and/or the Guarantor shall not be liable to any person by reason of having accepted as valid or not having rejected any certificate or other document to such effect purporting to be issued by any such person and subsequently found to be forged or not authentic.

Form of Guarantee

The following is the text of the deed of guarantee in respect of the Securities substantially in the form in which it will be executed by the Guarantor:

This Deed of Guarantee is made on 12 February 2019

BY

(1) IBERDROLA, S.A. (the "Guarantor")

IN FAVOUR OF

(2) THE HOLDERS (as defined in the Conditions (as defined in the Deed of Covenant)); and

(3) THE RELEVANT ACCOUNT HOLDERS (as defined in the Deed of Covenant described below).

WHEREAS

(A) Iberdrola International B.V. (the "Issuer") proposes to issue €800,000,000 Undated Deeply Subordinated Reset Rate Guaranteed Securities (the "Securities", which expression shall, if the context so admits, include the Global Securities (whether in temporary or permanent form)) in connection with which, the Issuer and Guarantor have become parties to a fiscal agency agreement (the "Fiscal Agency Agreement") dated 12 February 2019 between, *inter alios*, the Issuer, the Guarantor and The Bank of New York Mellon, London Branch in its various capacities as set out therein relating to the Securities, and the Issuer has executed and delivered a deed of covenant (the "Deed of Covenant") dated 12 February 2019.

(B) The Guarantor has duly authorised the giving of a guarantee on a subordinated basis in respect of the Securities and the Deed of Covenant.

THIS DEED WITNESSES as follows**:**

1 Interpretation

1.1 All terms and expressions which have defined meanings in the Conditions, the Fiscal Agency Agreement or the Deed of Covenant shall have the same meanings in this Deed of Guarantee except where the context requires otherwise or unless otherwise stated.

1.2 Any reference in this Deed of Guarantee to a Clause is, unless otherwise stated, to a clause hereof.

1.3 All references in this Deed of Guarantee to an agreement, instrument or other document (including the Conditions, the Fiscal Agency Agreement and the Deed of Covenant) shall be construed as a reference to that agreement, instrument or other document as the same may be amended, supplemented, replaced or novated from time to time.

1.4 Any reference in this Deed of Guarantee to any legislation (whether primary legislation or regulations or other subsidiary legislation made pursuant to primary legislation) shall be construed as a reference to such legislation as the same may have been, or may from time to time be, amended or re-enacted.

1.5 Clause headings are for ease of reference only.

2 Guarantee and Indemnity

2.1 The Guarantor hereby unconditionally and irrevocably guarantees, on a subordinated basis:

2.1.1 to each Holder the due and punctual payment of any and every sum or sums of money which the Issuer shall at any time be liable to pay under or pursuant to any Security as and when the same

shall become due and payable and agrees unconditionally to pay to such Holder, forthwith upon demand by such Holder in euro and in the manner prescribed by the Conditions for payments by the Issuer thereunder, any and every sum or sums of money which the Issuer shall at any time be liable to pay under or pursuant to such Security and which the Issuer shall have failed to pay at the time such demand is made; and

2.1.2 to each Relevant Account Holder the due and punctual payment of all amounts due to such Relevant Account Holder under the Deed of Covenant as and when the same shall become due and payable and agrees unconditionally to pay to such Relevant Account Holder, forthwith on demand by such Relevant Account Holder in euro and in the manner prescribed by the Conditions for payments by the Issuer thereunder, any and every sum or sums of money which the Issuer shall at any time be liable to pay under or pursuant to the Deed of Covenant and which the Issuer shall have failed to pay at the time demand is made.

2.2 As a separate, additional and continuing obligation, the Guarantor unconditionally and irrevocably undertakes to each Holder and each Relevant Account Holder that, should any amount referred to in Clause 2.1 not be recoverable from the Guarantor thereunder for any reason whatsoever (including, without limitation, by reason of any Security, any provision of any Security, the Deed of Covenant or any provision thereof being or becoming void, unenforceable or otherwise invalid under any applicable law) then, notwithstanding that the same may have been known to such Holder or Relevant Account Holder, the Guarantor will, as a sole, original and independent obligor, upon first written demand under Clause 2.1, make payment of such amount by way of a full indemnity in such currency and otherwise in such manner as is provided for in the Securities or the Deed of Covenant (as the case may be) and indemnify each Holder and each Relevant Account Holder against all losses, claims, costs, charges and expenses to which it may be subject or which it may incur under or in connection with the Conditions, the Deed of Covenant or this Deed of Guarantee.

3 Taxes and Withholdings

The Guarantor covenants in favour of each Holder and each Relevant Account Holder that it will duly perform and comply with its obligations expressed to be undertaken by it in Condition 8.

4 Preservation of Rights

4.1 The obligations of the Guarantor herein contained shall be deemed to be undertaken as sole or principal debtor.

4.2 The obligations of the Guarantor herein contained shall constitute and be continuing obligations notwithstanding any settlement of account or other matters or things whatsoever and, in particular but without limitation, shall not be considered satisfied by any partial payment or satisfaction of all or any of the Issuer's obligations under any Security or the Deed of Covenant and shall continue in full force and effect in respect of each Security and the Deed of Covenant until final repayment in full of all amounts owing by the Issuer thereunder and total satisfaction of all the Issuer's actual and contingent obligations thereunder.

4.3 Neither the obligations of the Guarantor herein contained nor the rights, powers and remedies conferred upon the Holders, the Relevant Account Holders or any of them by this Deed of Guarantee or by law shall be discharged, impaired or otherwise affected by:

4.3.1 the insolvency, winding-up, liquidation, dissolution, amalgamation, reconstruction or reorganisation of the Issuer or analogous proceeding in any jurisdiction or any change in its status, function, control or ownership; or

4.3.2 any of the obligations of the Issuer under any of the Securities or the Deed of Covenant being or becoming illegal, invalid or unenforceable in any respect; or

4.3.3 time or other indulgence being granted or agreed to be granted to the Issuer in respect of its obligations under any of the Securities or the Deed of Covenant; or

4.3.4 any amendment to, or any variation, waiver or release of, any obligation of the Issuer under any of the Securities or the Deed of Covenant; or

4.3.5 any other act, event or omission which, but for this Clause 4.3, would or might operate to discharge, impair or otherwise affect the obligations of the Guarantor herein contained or any of the rights, powers or remedies conferred upon the Holders, the Relevant Account Holders or any of them by this Deed of Guarantee or by law.

4.4 Without prejudice to the generality of the foregoing, any settlement or discharge between the Guarantor and the Holders, the Relevant Account Holders or any of them shall be conditional upon no payment to the Holders, the Relevant Account Holders or any of them by the Issuer or any other person on the Issuer's behalf being avoided or reduced by virtue of any provisions or enactments relating to bankruptcy, insolvency or liquidation for the time being in force and, in the event of any such payment being so avoided or reduced, the Holders and the Relevant Account Holders shall each be entitled to recover the amount by which such payment is so avoided or reduced from the Guarantor subsequently as if such settlement or discharge had not occurred.

4.5 No Holder or Relevant Account Holder shall be obliged before exercising any of the rights, powers or remedies conferred upon it by this Deed of Guarantee or by law:

4.5.1 to make any demand of the Issuer, other than (in the case of a Holder) the presentation of the relevant Security; or

4.5.2 to take any action or obtain judgment in any court against the Issuer; or

4.5.3 to make or file any claim or proof in a winding-up or dissolution of the Issuer and, save as aforesaid, the Guarantor hereby expressly waives, in respect of each Security, presentment, demand and protest and notice of dishonour.

4.6 The Guarantor agrees that so long as any amounts are or may be owed by the Issuer under any of the Securities or the Deed of Covenant or the Issuer is under any actual or contingent obligations thereunder, the Guarantor shall not exercise rights which the Guarantor may at any time have by reason of performance by the Guarantor of its obligations hereunder:

4.6.1 to be indemnified by the Issuer; and/or

4.6.2 to claim any contribution from any other guarantor of the Issuer's obligations under the Securities or the Deed of Covenant; and/or

4.6.3 to take the benefit, in whole or in part, of any security taken pursuant to, or in connection with, any of the Securities or the Deed of Covenant issued by the Issuer, by all or any of the persons to whom the benefit of the Guarantor's obligations are given; and/or

4.6.4 to be subrogated to the rights of any Holder or Relevant Account Holder against the Issuer in respect of amounts paid by the Guarantor pursuant to the provisions of this Deed of Guarantee.

5 Conditions, Status and Subordination

5.1 The Guarantor undertakes to comply with and be bound by those provisions of the Conditions which relate to it and which are expressed to relate to it.

5.2 The Guarantor undertakes that its obligations hereunder rank, and will at all times rank, as described in the Condition 3(b).

5.3 In the event of the Guarantor being declared in insolvency ("*concurso*") under Spanish insolvency law, the provisions of Condition 3(c) shall apply.

6 Deposit of Deed of Guarantee

An original of his Deed of Guarantee shall be deposited with and held by the Fiscal Agent until the date on which all the obligations of the Issuer under or in respect of the Securities (including, without limitation, its obligations under the Deed of Covenant) have been discharged in full. The Guarantor hereby acknowledges the right of every Holder and every Relevant Account Holder to the production of this Deed of Guarantee.

7 Stamp Duties

The Guarantor will promptly pay any stamp duty or other documentary taxes (including any penalties and interest in respect thereof) payable in connection with the execution, delivery, performance and enforcement of this Deed of Guarantee, and will indemnify and hold harmless each Holder and each Relevant Account Holder on demand from all liabilities arising from any failure to pay, or delay in paying, such taxes.

8 Currency Indemnity

If any sum due from the Guarantor under this Deed of Guarantee or any order or judgment given or made in relation thereto has to be converted from the currency (the "first currency") in which the same is payable under this Deed of Guarantee or such order or judgment into another currency (the "second currency") for the purpose of (a) making or filing a claim or proof against the Guarantor, (b) obtaining an order or judgment in any court or other tribunal or (c) enforcing any order or judgment given or made in relation to this Deed of Guarantee, the Guarantor shall indemnify each Holder and Relevant Account Holder on demand against any loss suffered as a result of any discrepancy between (i) the rate of exchange used for such purpose to convert the sum in question from the first currency into the second currency and (ii) the rate or rates of exchange at which such Holder or Relevant Account Holder may in the ordinary course of business purchase the first currency with the second currency upon receipt of a sum paid to it in satisfaction, in whole or in part, of any such order, judgment, claim or proof. This indemnity constitutes a separate and independent obligation of the Guarantor and shall give rise to a separate and independent cause of action.

9 Deed Poll; Benefit of Guarantee

9.1 This Deed of Guarantee shall take effect as a Deed Poll for the benefit of the Holders and the Relevant Account Holders from time to time and for the time being.

9.2 The Guarantor hereby acknowledges and covenants that the obligations binding upon it contained herein are owed to, and shall be for the benefit of, each and every Holder and Relevant Account Holder, and that each Holder and each Relevant Account Holder shall be entitled severally to enforce the said obligations against the Guarantor.

9.3 The Guarantor may not assign or transfer all or any of its rights, benefits and obligations hereunder except for the purpose of and followed by a reconstruction, amalgamation, reorganisation, merger or consolidation of the Guarantor on terms approved by an Extraordinary Resolution of the Holders.

10 Provisions Severable

Each of the provisions in this Deed of Guarantee shall be severable and distinct from the others and the illegality, invalidity or unenforceability of any one or more provisions under the law of any jurisdiction shall not affect or impair the legality, validity or enforceability of any other provisions in that jurisdiction nor the legality, validity or enforceability of any provisions under the law of any other jurisdiction.

11 Notices

Notices to the Guarantor will be deemed to be validly given if delivered at Iberdrola, S.A., Departamento de Financiación, Plaza Euskadi 5, 48009 Bilbao, Spain (or at such other address and for such other attention as may have been notified to Holders in accordance with the Conditions, or sent by fax (fax no: +34 944 15 4037/16 6701). A notice or communication will be deemed received (if by fax) when a transmission report shows the fax has been sent, (if by telex) when a confirmed answer is received at the end of the transmission and (if by writing) when delivered, provided that any notice or communication which is received outside business hours or on a non-business day in Madrid shall be deemed received at the opening of business on the next following business day in Madrid.

12 Law and Jurisdiction

12.1 **Governing Law:** This Deed of Guarantee and all matters arising from or connected with it, including any non-contractual obligations arising out of or in connection with it, are governed by and shall be governed by and construed in accordance with English law, except for the provisions of Conditions 3(b) and 3(c) referred to in Clauses 5.2 and 5.3, respectively, which shall be governed by, and construed in accordance with, Spanish law.

12.2 **English courts**: The courts of England have exclusive jurisdiction to settle any dispute (a "Dispute"), arising from or connected with this Deed of Guarantee (including a dispute regarding the existence, validity or termination of this Deed of Guarantee) or the consequences of its nullity.

12.3 **Appropriate forum:** The Guarantor agrees that the courts of England are the most appropriate and convenient courts to settle any Dispute and, accordingly, that it will not argue to the contrary.

12.4 **Rights of the Holders and Relevant Account Holders:** Clause 12.2 (English courts) is for the benefit of the Holders and the Relevant Account Holders only. As a result, nothing in this Clause 12 (Law and jurisdiction) prevents the Holders and Relevant Account Holders from taking proceedings relating to a Dispute ("Proceedings") in any other courts with jurisdiction. To the extent allowed by law, the Holders and Relevant Account Holders may take concurrent Proceedings in any number of jurisdictions.

12.5 **Process agent:** The Guarantor agrees that the 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 SPW Investments Limited, 4th Floor, 1 Tudor Street, London, EC4Y 0AH, United Kingdom or, if different, its registered office for the time being or at any address of the Guarantor in the United Kingdom at which process may be served on it in accordance with Part 34 of the Companies Act 2006. If such person is not or ceases to be effectively appointed to accept service of process on behalf of the Guarantor, the Guarantor shall, on the written demand of any Holder or Relevant Account Holder addressed and delivered to the Guarantor appoint a further person in England to accept service of process on its behalf

and, failing such appointment within 15 days, any Holder or Relevant Account Holder shall be entitled to appoint such a person by written notice addressed to the Guarantor and delivered to the Guarantor. Nothing in this paragraph shall affect the right of any Holder or Relevant Account Holder to serve process in any other manner permitted by law. This clause applies to Proceedings in England and to Proceedings elsewhere.

In witness whereof this Deed has been signed as a deed by the Guarantor and is hereby delivered on the date first above written.

SIGNED as a **DEED** and **DELIVERED**)

on behalf of **Iberdrola, S.A.**)

a company incorporated in the Kingdom of Spain)

by:)

[●])

and)

[●])

being persons who, in accordance with)

the laws of that territory are acting under)

the authority of the company.)

Description of the Issuer

General information

Iberdrola International, a wholly-owned subsidiary of Iberdrola, was incorporated as a private company with limited liability (*besloten vennootschap met beperkte aansprakelijkheid*) on 10 September 1992 under the laws of the Netherlands. The registered office of Iberdrola International is at Rapenburgerstraat 179, D, 1011 VM Amsterdam, the Netherlands, with telephone number + 31 20 579 21 24. Iberdrola International is registered at the Dutch Chamber of Commerce (*Kamer van Koophandel*) under number 33241226. Iberdrola International was incorporated for an indefinite period. Iberdrola International prepares annual financial statements only and does not prepare or publish interim financial statements.

Share capital

As at 31 December 2017, Iberdrola International's issued and fully paid-up share capital was 388,000 euro, divided into 776 ordinary shares of 500 euro each. The whole of the issued and paid-up share capital of Iberdrola International is owned by Iberdrola. There are currently no arrangements in place, the operation of which may at a future date result in a change of control of Iberdrola International. There are no measures in place to ensure that the control of Iberdrola International by Iberdrola is not abused.

Business

Iberdrola International is a finance company which is authorised to raise funds by issuing debt instruments in the capital and money markets as well as to raise funds in the bank market. The net proceeds from the issuance of these instruments will be used to prepay maturing debt and for the general corporate purposes of the Iberdrola Group. Iberdrola International is dependent on Iberdrola to service its obligations under these instruments.

Management

The members of Iberdrola International's board of management (the "Board of Management") are detailed in the following table:

Name	Function
Mr. J.E. Hardeveld	Managing Director
Mr. J.P. van Leeuwen	Managing Director
Mr. G.F. Nicolaï	Managing Director
Mr. G. Colino Salazar	Managing Director

The business address of each member of the Board of Management is Rapenburgerstraat 179, D, 1011 VM Amsterdam, the Netherlands.

No conflict of interest has been notified to Iberdrola International between the duties of the members of the Board of Management and their private interests or other duties. None of the members of the Board of Management performs any activities outside Iberdrola International that are significant with respect to Iberdrola International.

Material contracts

The material contracts entered into by Iberdrola International (other than in its ordinary course of business) which are relevant to its ability to meet its obligations in respect of the Securities are the Fiscal Agency Agreement and the Deed of Covenant.

Description of the Guarantor

General information

Iberdrola, S.A. is a listed corporation which was incorporated in the Kingdom of Spain for an indefinite period on 19 July 1901. Iberdrola is registered in volume 17 of the Companies Section, folio 114, sheet 901 (current BI-167-A), entry no. 1 in the Biscay Commercial Registry. Its present name was adopted at the General Shareholders' Meeting held on 1 November 1992, formalised in a deed executed on 12 December 1992 and recorded with the Biscay Commercial Registry in volume BI-223 of the General Companies Section, folio 156, sheet BI-167-A, entry no. 923, following the merger of Iberduero, S.A. and Hidroeléctrica Española, S.A.

Iberdrola (together with its subsidiaries, the "Iberdrola Group" and the "Group") is now one of the world's leading private electricity companies in terms of market capitalisation and the number of clients it serves.

Iberdrola's registered offices are in Bilbao (Spain), at Plaza Euskadi, nº.5, 48009 Bilbao, with telephone number +34 94 415 14 11.

Iberdrola is the parent company of a group of companies carrying out activities primarily in the electricity and gas industries, in the Kingdom of Spain and other countries, with a significant presence in the United Kingdom, the United States, Mexico and Brazil. With the scope and under the conditions established in applicable regulations in each territory, the activities carried out in such industries may be classified into regulated activities and liberalised activities.

Share capital and major shareholders

Iberdrola's shares are listed on the Spanish stock exchange and admitted to listing on the Spanish electronic stock market, energy sector, electricity sub-sector, and are included in the IBEX-35 index. In addition, since 23 June 2003, Iberdrola's shares have been included in the FTSE EuroStoxx 100 index and, since 1 September 2003, in the EuroStoxx 50 index.

As at 31 December 2017, there were 6,317,515,000 shares in issue, all of which are fully subscribed and paid up. The nominal value of each share is 0.75 euro. As at 31 December 2017, the closing price was 6.460 euro, resulting in a market capitalisation of 40,811 million euro. All of Iberdrola's shares are ordinary shares, represented in book-entry form and the book-entry registry is kept by Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A. Unipersonal (Iberclear), domiciled at Palacio de la Bolsa, Plaza de la Lealtad, 1, 28014 Madrid, Spain.

According to information available to Iberdrola, no single person (or group of persons) controls Iberdrola. Nonetheless, based on publicly available information, at the date of this Offering Circular the significant shareholders holding more than 3 per cent. of Iberdrola's ordinary share capital are (a) Qatar Investment Authority holding an 8.57 per cent. interest through Qatar Holding Luxembourg II, S.à r.l.; (b) Blackrock, Inc holding a 5.132 per cent. interest, of which 5.073 per cent. interest is held through Blackrock Group; and; (c) Norges Bank with a direct interest of 3.057 per cent.

As at the date of this Offering Circular, the share capital of Iberdrola amounted to 4,890,342,750 euro, corresponding to 6,520,457,000 shares, with a nominal value of 0.75 euro each, as a result of the increase of share capital on 30 January 2019 by means of a scrip issue within the "*Iberdrola Retribución Flexible*" optional dividend system approved by the General Shareholders' Meeting of Iberdrola held on 13 April 2018.

Iberdrola's position within the Group

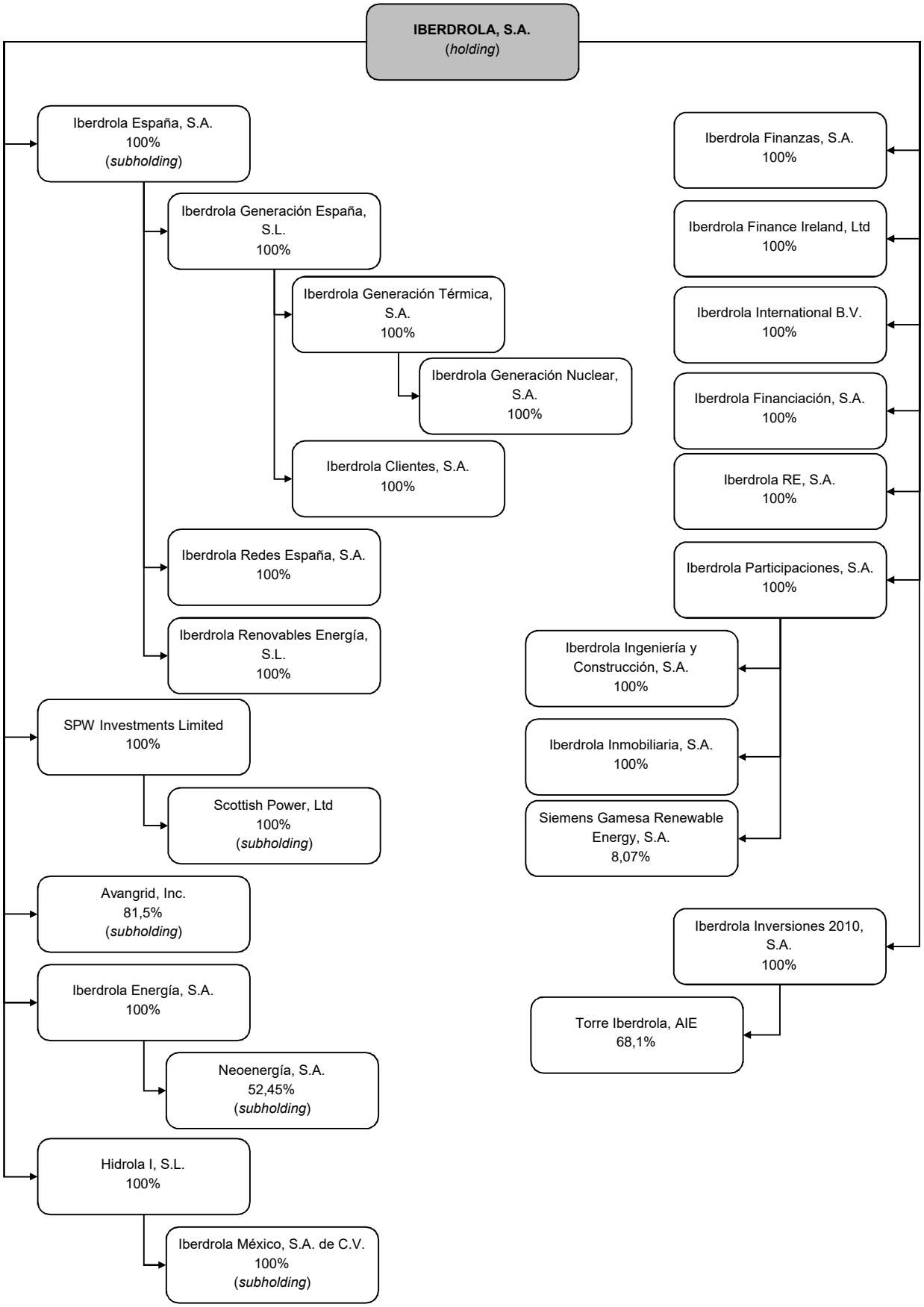
Regarding the regulatory framework in Spain, Section 8.1 of Law 24/2013, of December 26, on the Electricity Industry characterises the operation of the system, the operation of the market and the transmission and

distribution of electricity as regulated activities in the electricity industry. Section 60.1 of Law 34/1998, of October 7, on the Hydrocarbon Industry characterises the activities of regasification, basic storage, transportation and distribution of natural gas as regulated activities in the hydrocarbon industry. The production and sale of electricity and natural gas are considered as deregulated activities.

The Restated Text of the *Code for the Separation of Activities of the Companies of the Iberdrola Group Carrying out Regulated Activities* in Spain was approved by the Board of Directors of Iberdrola España at a meeting held on 10 December 2014 in compliance with the independence standards imposed in connection with the management separation of regulated and deregulated activities within the groups operating in the electricity and hydrocarbon industries. The Annual Report on Compliance with the Code of Separation of Activities and the updated text of the Code are available at www.iberdrola.es.

Following this separation of activities, all historical debt of the Iberdrola Group remains at Iberdrola.

The corporate structure of the principal subsidiaries of the Iberdrola Group as at the date of this Offering Circular is as follows:


IBERDROLA, S.A.
(holding)
Iberdrola España, S.A.
100%
(subholding)
Iberdrola Generación España, S.L.
100%
Iberdrola Generación Térmica, S.A.
100%
Iberdrola Generación Nuclear, S.A.
100%
Iberdrola Clientes, S.A.
100%
Iberdrola Redes España, S.A.
100%
Iberdrola Renovables Energía, S.L.
100%
SPW Investments Limited
100%
Scottish Power, Ltd
100%
(subholding)
Avangrid, Inc.
81,5%
(subholding)
Iberdrola Energía, S.A.
100%
Neoenergía, S.A.
52,45%
(subholding)
Hidrola I, S.L.
100%
Iberdrola México, S.A. de C.V.
100%
(subholding)
Iberdrola Finanzas, S.A.
100%
Iberdrola Finance Ireland, Ltd
100%
Iberdrola International B.V.
100%
Iberdrola Financiación, S.A.
100%
Iberdrola RE, S.A.
100%
Iberdrola Participaciones, S.A.
100%
Iberdrola Ingeniería y Construcción, S.A.
100%
Iberdrola Inmobiliaria, S.A.
100%
Siemens Gamesa Renewable Energy, S.A.
8,07%
Iberdrola Inversiones 2010, S.A.
100%
Torre Iberdrola, AIE
68,1%

Business

The Iberdrola Group is split into five strategic divisions (see table below). Additionally, Corporation includes the costs of the Group's structure (Single Corporation), of the administration services of the corporate areas that are subsequently invoiced to the other companies through specific service agreements. The Group's principal activities are the generation and distribution of electricity but, as can be seen from the table, the Group is also involved in other businesses, including engineering and gas retailing. The Group operates primarily in Spain but also has significant other investments, particularly in the United Kingdom, United States, Mexico and Brazil.

The economic and financial information of the Iberdrola Group is structured as follows:

Network Business

This includes the energy Transmission and Distribution businesses, as well as those of any other regulated nature, originating in Spain, the United Kingdom, the United States and Brazil.

Deregulated Business

This includes the energy Generation and Supply businesses that the Iberdrola Group operates in Spain and Portugal, the United Kingdom, the United States, Mexico and Brazil.

Renewables Business

Activities relating to renewable energies in Spain, the United Kingdom, the United States, Mexico, Brazil and the rest of the world.

Other Businesses

This is a grouping of Engineering and Construction, and the other non-energy businesses, such as Real Estate business.

Corporation

This encompasses the costs of the Iberdrola Group structure for the administrative services of the corporate areas that are later billed to the other companies through specific service contracts.

Percentage of Group EBITDA for the year ended 31 December 2017 and 2016 based on the Group's audited accounts:

Division	Description	2017 %	2016 %
Network	Includes all of the energy and distribution activities and any other regulated activity originated in Spain, the United Kingdom, the United States and Brazil	57.8%	51.4%
Deregulated	Includes the electricity generation and sales businesses as well as gas trading and storage businesses carried on by the Group in Spain, Portugal, the United Kingdom and North America	21.9%	28.4%
Renewables	Includes activities relating to renewable energies in Spain, the United Kingdom, the United States and the rest of the world	21.8%	18.9%
Other	Includes energy consulting, real estate and engineering	0.5%	-0.1%
Corporation		-1.9%	1.3%

In 2017, the activities of the Group related to the provision of engineering and construction services were abandoned, thereby meeting the requirements to be considered "discontinued activities". The profit or loss after tax of these discontinued operations is reflected under the sub-heading titled "Year's result from discontinued activities" on the consolidated income statement of Iberdrola for 2016 and 2017 in accordance with the main accounting principles. Subsequently, comparative information from the previous year has been revised.

General

As at 31 December 2017, the Group's installed capacity was 46,075 MW. This represented an increase of 6.5 per cent. in installed capacity (43,277 MW in 2016).

The breakdown of the Group's capacity by technology is shown in the following table:

Power per technology (MW)	**2017**	**2016**	**% change**
Hydraulic	10,984	10,392	5.7
Nuclear	3,166	3,166	0.0
Coal	874	874	0.0
Gas combined cycles	14,670	13,778	6.5
Cogeneration	299	299	0.0
Wind power, mini-hydraulic and other renewables	16,082	14,768	8.9
Total	46,075	43,277	6.5

The main changes during 2017 were:

– Following the transaction pursuant to which the Group acquired control over Neoenergia (as a consequence of the incorporation of the business of Elektro Holding S.A. in Neoenergia), the capacity of the Group increased by 591 MW in hydraulic power; 533 MW in gas combined cycles and 320MW in wind power.

– New capacity in gas combined cycle plants in Mexico (359 MW).

– Renewable energy: new capacity of 94 MW in the United Kingdom, 534 MW in the United States, 350 MW offshore in Germany and 8 MW in Brazil.

– Other renewables: new capacity of 43 MW in Mexico and 56 MW in the United States.

– Wind power sold in Italy decreased by 10 MW and 81 MW deconsolidated in the United States (as a result of the company Colorado Green Holdings, LLC, a company that was integrated in the Group by the full consolidation method until 2016 and in 2017 being integrated by the equity method).

Electricity generation decreased during 2017 by 4.6 per cent. compared with 2016 (126,198 GWh in 2017; 132,414 GWh in 2016). In 2017, hydroelectric energy decreased by 55.4 per cent., thermal coal generation by 29 per cent. and nuclear by 4.7 per cent., while the others increased generation: gas combined cycle plants by 9.8 per cent., co-generation by 15.3 per cent. and renewable energy by 5.1 per cent.

Of the total electricity generated by the Iberdrola Group in 2017, 50,358 GWh were generated in Spain (a 18.4 per cent. decrease compared to 2016), 11,945 GWh in the United Kingdom (a 11.7 per cent. decrease compared to 2016), 17,612 GWh in the United States (a 1.0 per cent. increase compared to 2016), 41,845 GWh in Mexico (a 11.4 per cent. increase compared to 2016), 3,076 GWh in Brazil (a 376.8 per cent. increase compared to 2016

due to the incorporation to the group of Neoenergia) and 1,382 GWh in the rest of the world (a 1.2 per cent. increase compared to 2016).

The breakdown of the Group's generation by technology is shown in the following table:

Net production per technology (GWh)	2017	2016	% charge
Hydroelectric	8,659	19,422	(55.4)
Coal	2,665	3,751	(29.0)
GCC	55,964	50,973	9.8
Nuclear	23,190	24,335	(4.7)
Renewables	33,557	31,917	5.1
Cogeneration	2,163	1,876	15.3
Total	126,198	132,274	(4.6)

The Iberdrola Group distributed a total of 193,225 GWh in 2017, a 7.0 per cent. increase compared to 2016. Electricity customers under management reached 30 million as at 31 December 2017.

NETWORK

In 2017, the regulated business obtained consolidated results of 2,766 million euro after tax, contributing 98.7 per cent. to the Group's consolidated results.

Spain

The regulated business in Spain obtained in 2017 consolidated results of 741 million euro after tax.

As at December 2017, Iberdrola had more than 10.9 million supply points and the total energy distributed amounted to 93,289 GWh, a 0.5 per cent. decrease compared with the same period of the previous year.

United Kingdom

The regulated business in United Kingdom obtained in 2017 consolidated results of 390 million euro after tax.

During 2017, Iberdrola distributed to more than 3.5 million customers. The volume of energy distributed during the year 2017 was 32,772 GWh, representing a decline of 2.1 per cent. in relation to the same period of the previous year.

United States

The regulated business in the United States obtained in 2017 consolidated results of 1,546 million euro after tax.

As at 31 December 2017, Avangrid had 2.2 million electricity supply points. The energy distributed during the year was 36,591 GWh, with a decrease of 1.2 per cent. compared with the same period of the previous year.

The number of gas users in the United States as at 31 December 2017 was 1 million, with 51,440 GWh supplied during the period, a decline of 3.8 per cent. compared with the same period of the previous year.

Brazil

The regulated business in Brazil obtained in 2017 consolidated results of 89 million euro after tax.

As at 31 December 2017, Iberdrola had 14 million electricity supply points, after the incorporation of the business of Elektro Holding S.A. in Neoenergia.

The increase in power demand of Brazilian distribution companies was 1.8 per cent. The energy distributed during 2017 was equal to 55,510 GWh (30,573 GWh attributable for the period in which Neoenergia has been fully consolidated).

DEREGULATED

In 2017, the non-regulated business obtained consolidated losses of 62.6 million euro after tax, contributing -2.2 per cent. to the Iberdrola Group's consolidated results, due to the impairment of the gas business in the United States and Canada, that amounted to 744 million euro.

Spain

The non-regulated business in Spain obtained in 2017 consolidated results of 275 million euro after tax.

In 2017, the installed capacity of Iberdrola in Spain (excluding Renewables) totalled 19,747 MW.

During 2017, production under the Ordinary Regime (hydroelectric, nuclear, CCGT and coal) decreased by 23.6 per cent., totalling 37,205 GWh. The breakdown of the yearly production by type of technology is as follows:

Production (GWh)	**2017**	**2016**	**% var. 2017-2016**
Hydroelectric	7,467	18,510	-59.7
Nuclear	23,190	24,335	-4.7
Thermal Coal	2,665	2,115	26.0
Gas combined cycle	3,883	3,724	4.3
Total Ordinary Regime	37,205	48,684	-23.6
Total Especial Regime (Co-generation)	2,163	1,875	15.4

United Kingdom

The non-regulated business in the United Kingdom generated in 2017 a consolidated loss of 79 million euro after tax.

As at 31 December 2017, the installed capacity in the United Kingdom (excluding Renewables) amounted to 2,531 MW.

With respect to the production deriving from Iberdrola's conventional generation in the United Kingdom, this decreased in 2017 by 25.5 per cent. to 7,792 GWh. This is as a result of the decommission of Longannet coal-fired power plant in 2016.

Mexico

The non-regulated business in México obtained in 2017 consolidated results of 286 million euro after tax.

The Iberdrola Group is the leading private electricity producer in Mexico, where its installed capacity (excluding Renewables) has reached 5,832 MW.

In 2017, the electrical energy supplied was 41,601 GWh, 13.7 per cent. higher than the figure for 2016.

Other

The non-regulated business in the United States and Canada obtained in 2017 consolidated losses of 560 million euro loss after tax.

RENEWABLES

In 2017, the renewables business obtained consolidated results of 520 million euro after tax, contributing 18.5 per cent. to the Group's consolidated results.

As at the end of 2017, the renewables business division reported an installed capacity of 16,083 MW, of which 63.6 per cent. are placed outside Spain, through a geographical diversification process being carried out by Iberdrola.

The geographical split of the assets is as follows: 5,859 MW for Spain, 6,252 MW for the United States, 2,085 MW for the United Kingdom (1,891 MW onshore and 194 MW offshore), 410 MW for Mexico, 516 MW for Brazil and 961 MW for the rest of the world (605 MW onshore, 350 MW offshore and 6 MW photovoltaic).

OTHER BUSINESSES AND CORPORATION

In 2017, Other Businesses obtained consolidated results of 29 million euro after tax (1.0 per cent. to the Group's consolidated results), and Corporation obtained consolidated results of 448 million euro loss after tax (-16.0 per cent. to the Group's consolidated results).

RECENT DEVELOPMENTS

Transfer of the equity stake of Scottish Power Generation Holdings Ltd. in Scottish Power Generation Ltd.

Scottish Power Generation Holdings Ltd., a company forming part of the Iberdrola Group in the United Kingdom, completed the sale of its entire equity stake in Scottish Power Generation Ltd. ("Scottish Power Generation"), representing 100 per cent. of its share capital, to Drax Smart Generation Holdco Ltd., an entity belonging to the group of which Drax Group Plc. ("Drax Group") is the parent company (the "UK Transaction"). The UK Transaction was publicly announced by the Guarantor by means of significant event announcements (*hechos relevantes*) on 16 October 2018 with official number (*número de registro oficial*) 270504 and on 2 January 2019 with official number (*número de registro oficial*) 273467.

The purchase price amounts to 702.0 million GBP (approximately 777.6 million euro) and is subject to adjustments customary in this type of transaction once the balance sheet of Scottish Power Generation as at 31 December 2018 is available, and to a mechanism for the sharing of risk and upside depending on the level of the capacity payments not received by Scottish Power Generation up to 30 September 2019.

The sale of Scottish Power Generation is framed within the 3,000 million euro asset rotation strategy announced at the Iberdrola Group's Investors Day held in February 2018.

Transfer of the equity stake of Iberdrola Renovables Castilla-La Mancha, S.A. (Sociedad Unipersonal) in, and assignment of the loan granted by Iberdrola Financiación, S.A. (Sociedad Unipersonal) to, Iberdrola Energía Solar de Puertollano, S.A.

On 30 November 2018, Iberdrola Renovables Castilla-La Mancha, S.A. (Sociedad Unipersonal) ("Iberdrola Renovables Castilla-La Mancha") sold the shares held in Iberdrola Energía Solar de Puertollano, S.A. (Sociedad Unipersonal) ("Ibersol"), representing 90 per cent. of the share capital of Ibersol, to Ence Energía Solar, S.L. (Sociedad Unipersonal) ("ENCE").

Likewise, Iberdrola Financiación, S.A. (Sociedad Unipersonal) assigned to ENCE the loan granted by it to Ibersol for an aggregate consideration equivalent to its outstanding principal amount and the accrued yet unpaid interest as of the closing date of the transaction (the "Spanish Transaction"). The Spanish Transaction was publicly announced by the Guarantor by means of significant event announcements (*hechos relevantes*) on 18 October 2018 with official number (*número de registro oficial*) 270615 and on 30 November 2018 with official number (*número de registro oficial*) 272036.

The definitive transaction consideration was approximately 181.3 million euro and is also framed within the 3,000 million euro asset rotation strategy announced at the Iberdrola Group's Investors Day held in February 2018.

REGULATION

The Iberdrola Group operates in a highly regulated environment. An overview of such laws and regulations is available at pages 212 – 272 of the audited consolidated annual financial statements of the Guarantor for the year ended 31 December 2017 incorporated by reference herein. Although this overview contains all the information that, as at the date of this Offering Circular, Iberdrola considers material in the context of the issue of the Securities, it is not an exhaustive account of all applicable laws and regulations (also, bear in mind that some regulatory changes are currently under review and, if approved, may have an impact on Iberdrola Group; examples are possible modifications regarding the closure of coal plants, the dismantling of nuclear facilities or "availability payments" – i.e. payments made to the generators of electricity to incentivise their availability in peak moments). Prospective investors and/or their advisers should make their own analysis of the current or prospective legislation and regulations applicable to the Iberdrola Group and of the impact they may have on the Iberdrola Group and any investment in the Securities and should not rely on this overview only. See also "*Risk Factors – Main risk factors associated with the activities of the Iberdrola Group – Regulatory risk*" above."

Insurance

The Group maintains insurance which provides cover against a number of risks, including property damage, fire, flood, third party liability and business interruption.

However, this insurance does not completely eliminate operational risk, since it is not always possible to transfer it to insurance companies and, in addition, cover is always subject to certain limitations.

Employees

In 2017 and 2016 the Iberdrola Group's average workforce totalled 28,750 and 26,411 respectively.

The average number of employees in the consolidated Group is calculated on the basis of the percentage ownership held by Iberdrola in the jointly controlled entities consolidated using proportionate consolidation and the total number of employees of fully-consolidated subsidiaries.

Board of Directors of Iberdrola, S.A.

As at the date of this Offering Circular, the Board of Directors is made up of the following 14 Directors:

Name	Title	Business address	Date of first appointment	Date of last appointment	Type of Director	Principle activity outside of the Board of Directors of the Guarantor
Mr. José Ignacio Sanchez Galán[(1)]	Chairman and Chief Executive Officer	Bilbao, Plaza Euskadi 5	21.05.2001	27.03.2015	Executive	Chairman of the boards of directors of the country subholding companies of the Iberdrola Group in the United Kingdom (Scottish Power Limited), the United States (Avangrid, Inc., a NYSE-listed company) and in Brazil (Neoenergia).
Ms. Inés Macho Stadler[(1)(4)]	Deputy Chairman	Bilbao, Plaza Euskadi 5	07.06.2006	08.04.2016	Other external	Professor of Economics in the Economics and Economic History Department of Universidad Autónoma de Barcelona.

Name	Title	Business address	Date of first appointment	Date of last appointment	Type of Director	Principle activity outside of the Board of Directors of the Guarantor
Mr. Íñigo Víctor de Oriol Ibarra[3][5]	Member	Bilbao, Plaza Euskadi 5	26.04.2006	08.04.2016	Other external	Member of the Board of Directors of Empresa de Alumbrado Eléctrico de Ceuta, S.A.
Ms. Samantha Barber[1] [5]	Member	Bilbao, Plaza Euskadi 5	31.07.2008	08.04.2016	External Independent	Chair of Scottish Ensemble, vice-chair of Scotland's 2020 Climate Group
Ms. Maria Helena Antolín Raybaud[3]	Member	Bilbao, Plaza Euskadi 5	26.03.2010	27.03.2015	External Independent	Vice-chair of the Board of Directors and member of the Management Committee of Grupo Antolin Irausa, S.A.
Mr. Ángel Jesús Acebes Paniagua[1] [3]	Member	Bilbao, Plaza Euskadi 5	24.04.2012	27.03.2015	External Independent	Chairman and founding partner of Grupo MA Abogados Estudio Jurídico, S.L.
Ms. Georgina Kessel Martínez[2]	Member	Bilbao, Plaza Euskadi 5	23.04.2013	13.04.2018	External Independent	Independent director of Fresnillo plc and of Grupo Financiero Scotiabank Inverlat, as well as chair of the Audit Committee of the latter, and partner of Spectron E&I.
Ms. Denise Mary Holt[2]	Member	Bilbao, Plaza Euskadi 5	24.06.2014	27.03.2015	External Independent	Independent director and member of the Risk Committee of HSBC Bank plc., chair and independent director of M&S Financial Services Ltd.
Mr. José W. Fernández[2]	Member	Bilbao, Plaza Euskadi 5	17.02.2015	27.03.2015	External Independent	Partner of Gibson, Dunn & Crutcher, member of the board of directors of the Council of the Americas and of the Center for American Progress.
Mr. Manuel Moreu Munaiz[1] [4]	Member	Bilbao, Plaza Euskadi 5	17.02.2015	27.03.2015	External Independent	Chairman of Seaplace, S.L., sole director of H.I. de Iberia Ingeniería y Proyectos S.L. and Howard Ingeniería y Desarrollo S.L., and member of the Board of Directors of Tubacex, S.A.
Mr. Xabier Sagredo Ormaza[2]	Member	Bilbao, Plaza Euskadi 5	08.04.2016	08.04.2016	Other external	Chair of the Board of Trustees of Bilbao Bizkaia Kutxa Fundación Bancaria-Bilbao Bizkaia Kutxa Banku Fundazioa, of BBK Fundazioa and of Fundación Eragintza.
Mr. Juan Manuel González Serna[4][6]	Lead Independent Director	Bilbao, Plaza Euskadi 5	31.03.2017	31.03.2017	External Independent	Chairman of the SIRO Group and founding trustee and chairman of Fundación Grupo SIRO
Mr. Francisco Martínez Córcoles	Member-Business CEO	Bilbao, Plaza Euskadi 5	31.03.2017	31.03.2017	Executive	Chairman of Iberdrola España, S.A. and member of the Board of Directors of Iberdrola México, S.A. de C.V., both subholding companies of the Iberdrola Group
Mr Anthony L. Gardner[5]	Member	Bilbao, Plaza Euskadi 5	13.04.2018	13.04.2018	External Independent	Senior adviser at the consulting firm Brunswick Group, LLP and Senior Counsel in the law firm Sidley Austin LLP

(1) Executive Committee.

(2) Audit and Risk Supervision Committee.

(3) Appointments Committee.
(4) Remuneration Committee
(5) Sustainable Development Committee
(6) Lead director.

The Secretary of the Board of Directors is Mr. Julián Martínez-Simancas Sánchez, and the Deputy Secretary of the Board of Directors is Mr. Santiago Martínez Garrido.

There are no potential conflicts of interest between the Board members' duties to Iberdrola and their private interests or other duties. All potential conflict of interest situations involving the Board members were avoided by operation of the procedures set forth in the applicable rules and regulations described in section D.6 of the Annual Corporate Governance Report 2017. In particular, the Regulations of the Board of Directors provide that directors who become involved in a conflict of interest (i) shall give written notice thereof to the Board of Directors, specifically to the Secretary of the Board, and (ii) shall not attend or participate in the deliberation and voting on those matters regarding which the director is involved in a conflict of interest. Additionally, transactions by the Company with directors and significant shareholders shall be subject to the approval of the Board and disclosed in the financial and corporate governance information. Also, conflicts of interest and transactions with senior officers are regulated in the Procedure for Conflicts of Interest and Related-Party Transactions with Senior Officers.

Iberdrola's Annual Corporate Governance Report 2017 is available on the internet at www.iberdrola.com. The Company website also provides further information about the Annual General Shareholders' Meeting, the updated composition of the Board of Directors and its Committees, as well as the curriculum vitae, other activities developed, and interest in the share capital held by each one of the members thereof. Iberdrola's website (www.iberdrola.com) does not form part of this Offering Circular.

Management Structure

The top officers of Iberdrola and their functions are as follows:

Function	Management
Chief Financial and Resources Officer (CFO):	Mr. José Sainz Armada
Administration and Control Director:	Mr. Juan Carlos Rebollo Liceaga
Director of Legal Services:	Mr. Santiago Martínez Garrido
Corporate Development Director:	Mr. Pedro Azagra Blázquez
Internal Audit Director:	Ms. Sonsoles Rubio Reinoso(1)

(1) Reporting functionally to the Board's Audit and Risk Supervision Committee.

Material contracts

The material contracts entered into by Iberdrola (other than in its ordinary course of business) and which are relevant to its ability to meet its obligations in respect of the Securities are the Fiscal Agency Agreement and the Deed of Guarantee.

Use of Proceeds

The net proceeds of the issue of the Securities are estimated at €795,880,000.

The net proceeds of the issue of the Securities will be on-lent or deposited with another member of the Group (other than the Guarantor) and used to finance and/or refinance, in whole or in part, Eligible Green Projects.

For the purpose of this section:

"**Eligible Green Projects**" means Renewable Energy Projects and Transmission, Distribution and Smart Grid Projects which meet a set of environmental and social criteria approved both by the Guarantor and by a reputed sustainability rating agency, and are available on the Guarantor's website (www.iberdrola.es) in the investor relations section.

"**Renewable Energy Projects**" means the financing of, or investments in the development, the construction, repowering and the installation of renewable energy production units for the production of energy through: (i) renewable non-fossil sources and (ii) hydro, geothermal, wind, solar, waves and other renewable energy sources.

"**Transmission, Distribution and Smart Grid Projects**" means the financing of, or investments in the building, the operation and the maintenance of electric power distribution, transmission networks and smart metering systems, that contribute to: (i) connecting renewable energy production units to the general network and (ii) improving networks in terms of demand-size management, energy efficiency and access to electricity.

Taxation

The following is a general description of certain tax considerations relating to the Securities. It does not purport to be a complete analysis of all tax considerations relating to the Securities, whether in the Kingdom of Spain or the Netherlands or elsewhere. Prospective purchasers of Securities should consult their own tax advisers as to which countries' tax laws could be relevant to acquiring, holding and disposing of Securities and receiving payments of interest, principal and/or other amounts under the Securities and the consequences of such actions under the tax laws of those countries. This summary is based upon the law (unpublished caselaw not included) as in effect on the date of this Offering Circular and it does not take into account any developments or amendments thereof after such date, whether or not such developments or amendments have retroactive effect. The language of this Offering Circular is English. Any foreign language text that is included with or within this document has been included for convenience purposes only and does not form part of this Offering Circular.

The proposed financial transaction tax ("FTT")

The European Commission published in February 2013 a proposal (the "Commission's Proposal") for a Directive for a common FTT in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (excluding Estonia, the "participating Member States"). Estonia has since stated that it will not participate.

The Commission's Proposal has a very broad scope and could, if introduced, apply to certain dealings in the Securities (including secondary market transactions) in certain circumstances. The issuance and subscription of Securities should, however, be exempt.

Under the Commission's Proposal 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 Securities where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, "established" in a participating Member State in a broad range of circumstances, including (a) by transacting with a person established in a participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a participating Member State.

In the ECOFIN meeting of 17 June 2016, the FTT was discussed between the EU Member States. It was reiterated in this meeting that participating Member States envisage introducing an FTT by the so-called enhanced cooperation process.

However, the Commission's Proposal remains subject to negotiation between participating Member States and the scope of any such tax is uncertain. It may therefore be altered prior to any implementation, the timing of which remains unclear. Additional EU Member States may decide to participate and participating Member States may withdraw.

Finally, the Spanish Government has drafted a bill to unilaterally establish an FTT in Spain, which is being discussed in the Spanish Parliament. In any case, according to its current drafting, Spanish FTT would be only applicable on shares of certain Spanish companies, so the Securities would not be affected by such tax.

Prospective Holders of the Securities are advised to seek their own professional advice in relation to the FTT.

Foreign Account Tax Compliance Act

Whilst the Securities are in global form and held within Euroclear Bank SA/NV or Clearstream Banking, S.A. (together, the "ICSDs"), it is expected that FATCA will not affect the amount of any payments made under, or in respect of, the Securities by the Issuer, the Guarantor, any paying agent and the common depositary, given that each of the entities in the payment chain between the Issuer and the participants in the ICSDs is a major financial institution whose business is dependent on compliance with FATCA and that any alternative approach

introduced under an intergovernmental agreement will be unlikely to affect the securities. The documentation expressly contemplates the possibility that the securities may go into definitive form and therefore that they may be taken out of the ICSDs. If this were to happen, then a non-FATCA compliant holder could be subject to withholding. However, definitive securities will only be printed in remote circumstances.

Taxation in the Netherlands

For the purposes of this section, "the Netherlands" and "Dutch" shall refer solely to the European part of the Kingdom of the Netherlands. Where in this summary English terms and expressions are used to refer to Dutch concepts, the meaning to be attributed to such terms and expressions shall be the meaning to be attributed to the equivalent Dutch concepts under Dutch tax law.

This summary assumes that the Issuer is organised, and that its business will be conducted, in the manner outlined in this Offering Circular. A change to such organisational structure or to the manner in which the Issuer conducts its business may invalidate the contents of this summary, which will not be updated to reflect any such change.

Scope

Regardless of whether or not a holder of Securities is, or is treated as being, a resident of the Netherlands, with the exception of the section on withholding tax below, this summary does not address the Dutch tax consequences for a holder of Securities:

(i) having a substantial interest in the Issuer or a deemed substantial interest in the Issuer for Dutch tax purposes. Generally, a person holds a substantial interest if (a) such person – either alone or, in the case of an individual, together with his partner or any of his relatives by blood or by marriage in the direct line (including foster-children) or of those of his partner for Dutch tax purposes – owns or is deemed to own, directly or indirectly, 5 per cent. or more of the shares or of any class of shares of the Issuer, or rights to acquire, directly or indirectly, such an interest in the shares of the Issuer or profit participating certificates relating to 5 per cent. or more of the annual profits or to 5 per cent. or more of the liquidation proceeds of the Issuer, or (b) such person's shares, rights to acquire shares or profit participating certificates in the Issuer are held by him following the application of a non-recognition provision;

(ii) who is a private individual and who may be taxable in box 1 for the purposes of Dutch income tax (*inkomstenbelasting*) as an entrepreneur (*ondernemer*) having an enterprise (*onderneming*) to which the Securities are attributable, or who may otherwise be taxable in box 1 with respect to benefits derived from the Securities;

(iii) which is a corporate entity and a taxpayer for the purposes of Dutch corporate income tax (*vennootschapsbelasting*), having a participation (*deelneming*) in the Issuer (such a participation is generally present in the case of an interest of at least 5 per cent. of the Issuer's nominal paid-in capital);

(iv) which is a corporate entity and an exempt investment institution (*vrijgestelde beleggingsinstelling*) or investment institution (*beleggingsinstelling*) for the purposes of Dutch corporate income tax, a pension fund, or otherwise not a taxpayer or exempt for tax purposes;

(v) owns Securities in connection with a membership of a management board or a supervisory board, an employment relationship, a deemed employment relationship or management role;

(vi) which is a corporate entity and a resident of Aruba, Curaçao or Sint Maarten; or

(vii) which is not considered the beneficial owner (*uiteindelijk gerechtigde*) of the Securities and/or the benefits derived from the Securities.

This summary does not describe the Dutch tax consequences for a person to whom the Securities are attributed on the basis of the separated private assets provisions (*afgezonderd particulier vermogen*) in the Dutch Tax Act 2001 (*Wet inkomstenbelasting 2001*) and/or the Dutch Gift and Inheritance Tax Act 1956 (*Successiewet 1956*).

Withholding tax

All payments made by the Issuer under the Securities may be made free from withholding or deduction of or for any taxes of whatsoever nature imposed, levied, withheld or assessed by the Netherlands or any political subdivision or taxing authority thereof or therein.

Income tax

Resident holders

A holder who is a private individual and a resident, or treated as being a resident of the Netherlands for the purposes of Dutch income tax, must record Securities as assets that are held in box 3. The value of his Securities forms part of the yield basis for purposes of box 3 taxation. A deemed benefit, which is determined on the basis of progressive rates starting from 0.13 per cent. up to 5.60 per cent. per annum of this yield basis, is taxed at the rate of 30 per cent. Actual benefits derived from or in connection with his Securities are not subject to Dutch income tax. The rates mentioned in this paragraph may change.

Non-resident holders

If a holder of Securities is an individual who is neither resident nor deemed to be resident in the Netherlands for purposes of Dutch income tax, he will not be subject to Dutch income tax in respect of any benefits derived or deemed to be derived from or in connection with Securities, except if:

(i) he derives profits from an enterprise, whether as an entrepreneur or pursuant to a co-entitlement to the net value of such enterprise, other than as a shareholder, and such enterprise is carried on, in whole or in part, through a permanent establishment or a permanent representative in the Netherlands, and his Securities are attributable to such permanent establishment or permanent representative; or

(ii) he derives benefits or is deemed to derive benefits from or in connection with Securities that are taxable as benefits from miscellaneous activities performed in the Netherlands.

Corporate income tax

Resident holders

A holder which is a corporate entity, or an entity, including an association, a partnership or a mutual fund, taxable as a corporate entity, and, for the purposes of Dutch corporate income tax, a resident, or treated as being a resident, of the Netherlands, is generally subject to Dutch corporate income tax and taxable in respect of benefits derived from the Securities at rates of up to 25 per cent.

Non-resident holders

A holder which is a corporate entity, or an entity, including an association, a partnership or a mutual fund, taxable as a corporate entity, and, for the purposes of Dutch corporate income tax, is neither a resident, nor treated as being a resident, of the Netherlands, will not be subject to Dutch corporate income tax in respect of any benefits derived or deemed to be derived from or in connection with Securities, except if:

(i) it derives profits from an enterprise which is carried on, in whole or in part, through a permanent establishment or a permanent representative which is taxable in the Netherlands, and to which permanent establishment or permanent representative its Securities are attributable; or

(ii) it derives profits pursuant to a co-entitlement to the net value of an enterprise which is managed in the Netherlands, other than as a holder of securities, and to which enterprise its Securities are attributable.

Gift and inheritance tax

Resident holders

Dutch gift tax or Dutch inheritance tax (*schenk- of erfbelasting*) will arise in respect of an acquisition (or deemed acquisition) of Securities by way of a gift by, or on the death of, a holder of Securities who is a resident, or treated as being a resident, of the Netherlands for the purposes of Dutch gift and Dutch inheritance tax.

For purposes of Dutch gift tax and Dutch inheritance tax, a gift of Securities made under a condition precedent is deemed to be made at the time the condition precedent is satisfied.

Non-resident holders

No Dutch gift tax or Dutch inheritance tax will arise in respect of an acquisition (or deemed acquisition) of Securities by way of a gift by, or on the death of, a holder of Securities who is neither a resident, nor treated as being a resident, of the Netherlands for the purposes of Dutch gift and inheritance tax, except if, in the event of a gift whilst not being a resident nor being a deemed resident in the Netherlands for purposes of Dutch gift tax or Dutch inheritance tax, the holder of Securities becomes a resident or a deemed resident in the Netherlands and dies within 180 days after the date of the gift.

Registration taxes and duties

No Dutch registration tax, transfer tax, stamp duty or any other similar documentary tax or duty, other than court fees, is payable in the Netherlands in respect of or in connection with the execution and/or enforcement (including by legal proceedings and including the enforcement of any foreign judgment in the courts of the Netherlands) of the documents relating to the issue of Securities, the performance by the Issuer of its obligations under such documents or under Securities, or the transfer of Securities, except that Dutch real property transfer tax may be due upon an acquisition, in connection with Securities, of real property situated in the Netherlands, (an interest in) an asset that qualifies as real property situated in the Netherlands, or (an interest in) a right over real property situated in the Netherlands, for the purposes of Dutch real property transfer tax.

Taxation in the Kingdom of Spain

Payments made by the Issuer

On the basis that the Issuer is not resident in the Kingdom of Spain for tax purposes and does not operate in the Kingdom of Spain through a permanent establishment, branch or agency, all payments of principal and interest in respect of the Securities can be made free of any withholding or deduction for or on account of any taxes in the Kingdom of Spain of whatsoever nature imposed, levied, withheld, or assessed by the Kingdom of Spain or any political subdivision or taxing authority thereof or therein, in accordance with applicable Spanish law.

Under certain conditions, withholding taxes may apply to Spanish taxpayers when a Spanish resident entity or a non-resident entity that operates in the Kingdom of Spain through a permanent establishment in the Kingdom of Spain is acting as depositary of the Securities or as collecting agent of any income arising from the Securities.

Payments made by the Guarantor

In the opinion of the Guarantor, any payments of principal and interest made by the Guarantor under the Guarantee may be characterised as an indemnity and, accordingly, be made free and clear of, and without withholding or deduction for, any taxes, duties, assessments or governmental charges of whatsoever nature imposed, levied, collected, withheld or assessed by the Kingdom of Spain or any political subdivision or authority thereof or therein having power to tax.

However, although no clear precedent, statement of law or regulation exists in relation thereto, in the event that the Spanish Tax Authorities take the view that the Guarantor has validly, legally and effectively assumed all the

obligations of the Issuer under the Securities subject to and in accordance with the Guarantee, they may attempt to impose withholding tax in the Kingdom of Spain on any payments made by the Guarantor in respect of interest. Such interest withholding tax shall not apply when the recipient is either (a) resident for tax purposes in a Member State of the European Union, other than the Kingdom of Spain, not acting through a territory considered as a tax haven pursuant to Spanish law (currently set out in Royal Decree 1080/1991, of 5 of July) nor through a permanent establishment in the Kingdom of Spain, provided that such person submits to the Guarantor the relevant tax residence certificate, issued by the competent Tax Authorities, each certificate being valid for a period of one year beginning on the date of the issuance, or (b) resident in a country which has entered into a Tax Treaty with the Kingdom of Spain which provides for the exemption from withholding of interest paid under the Securities, provided that such person submits to the Guarantor the relevant tax resident certificate, issued by the competent Tax Authorities, each certificate being valid for a period of one year beginning on the date of the issuance. Tax treaties could eliminate or reduce this hypothetical withholding taxation.

Taxation in Luxembourg

The comments below are intended as a basic summary of certain withholding tax consequences in relation to the purchase, ownership and disposal of the Securities under Luxembourg law. Persons who are in any doubt as to their tax position should consult a professional tax adviser.

Withholding tax and Self-Applied Tax

Under Luxembourg tax law currently in effect and subject to the exception below, there is no Luxembourg withholding tax on payments of interest (including accrued but unpaid interest). There is also no Luxembourg withholding tax upon repayment of principal in case of reimbursement, redemption, repurchase or exchange of the Securities.

In accordance with the law of 23 December 2005, as amended (the "Law"), interest payments made by Luxembourg paying agents to individual beneficial owners resident in Luxembourg are currently subject to a 20 per cent. withholding tax. Responsibility for withholding such tax will be assumed by the Luxembourg paying agent.

Pursuant to the Law, Luxembourg resident individuals, acting in the framework of their private wealth, can opt to self-declare and pay a 20 per cent. tax on interest payments made by paying agents located in an EU Member State other than Luxembourg or a Member State of the European Economic Area other than an EU Member State.

Subscription and Sale

Crédit Agricole Corporate and Investment Bank ("CACIB") and J.P. Morgan Securities plc ("J.P. Morgan"), Banco Bilbao Vizcaya Argentaria, S.A., Banco Santander, S.A., Barclays Bank PLC, Commerzbank Aktiengesellschaft, Credit Suisse Securities (Europe) Limited, ING Bank N.V., MUFG Securities EMEA plc and Natixis (together with CACIB and J.P. Morgan, the "Joint Bookrunners") have, pursuant to a Subscription Agreement dated 6 February 2019, agreed with the Issuer and the Guarantor, subject to the satisfaction of certain conditions, to subscribe the Securities at 100.00 per cent. of their principal amount less certain commissions. In addition, the Issuer has agreed to reimburse the Joint Bookrunners for certain of their expenses, and has agreed to indemnify the Joint Bookrunners against certain liabilities in connection with the issue of the Securities. The Subscription Agreement entitles CACIB and J.P. Morgan, on behalf of the Joint Bookrunners, to terminate it in certain circumstances prior to payment being made to the Issuer.

General

Neither the Issuer nor the Guarantor nor any Joint Bookrunner has made any representation that any action will be taken in any jurisdiction by the Joint Bookrunners or the Issuer or the Guarantor that would permit a public offering of the Securities, or possession or distribution of this Offering Circular (in preliminary or final form) in any country or jurisdiction where action for that purpose is required. Each Joint Bookrunner has agreed that it will comply to the best of its knowledge and belief in all material respects with all applicable laws and regulations in each jurisdiction in which it acquires, offers, sells or delivers Securities or has in its possession or distributes this Offering Circular (in preliminary or final form), in all cases at its own expense unless agreed otherwise.

Prohibition of Sales to EEA Retail Investors

Each Joint Bookrunner has represented and agreed that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Securities to any retail investor in the EEA. For the purposes of this provision, the expression "retail investor" means a person who is one (or more) of the following:

(a) a retail client as defined in point (11) of Article 4(1) of MiFID II; or

(b) a customer within the meaning of Directive 2002/92/EC, as amended or superseded, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II.

United States

The Securities have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

The Securities are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. tax regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code and regulations thereunder.

Each Joint Bookrunner has represented and agreed that, except as permitted by the Subscription Agreement, it has not offered, sold or delivered and will not offer, sell or deliver the Securities, (i) as part of their distribution at any time or (ii) otherwise until 40 days after the later of the commencement of the offering and the Closing Date (as defined in the Subscription Agreement) within the United States or to, or for the account or benefit of, U.S. persons, and it will have sent to each dealer to which it sells Securities during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Securities within the United States or to, or for the account or benefit of, U.S. persons.

In addition, until 40 days after the commencement of the offering, an offer or sale of Securities within the United States by a dealer that is not participating in the offering may violate the registration requirements of the Securities Act.

United Kingdom

Each Joint Bookrunner has represented, warranted and undertaken to the Issuer and the Guarantor that:

(a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated in the United Kingdom any invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act, as amended (the "FSMA") received by it in connection with the issue or sale of the Securities 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 Securities in, from or otherwise involving the United Kingdom.

The Netherlands

The Securities are not and may not be offered in the Netherlands other than to persons or entities who or which are qualified investors (*gekwalificeerde beleggers*) as defined in the Financial Supervision Act (*Wet op het financieel toezicht*).

The Kingdom of Spain

Neither the Securities nor this Offering Circular (in preliminary or final form) and its contents have been approved or registered in the administrative registries of the Spanish Securities Markets Commission (*Comisión Nacional del Mercado de Valores*). Accordingly, the Securities may not be offered, sold, distributed or re-sold in the Kingdom of Spain except in circumstances which do not constitute a public offering of securities in the Kingdom of Spain within the meaning of Article 35 of the Restated Text of the Spanish Securities Market Law (*texto refundido de la Ley del Mercado de Valores aprobado por el Real Decreto Legislativo 4/2015, de 23 de octubre*) Article 38 of Royal Decree 1310/2005 of 4 November (*Real Decreto 1310/2005 de 4 de noviembre*), and supplemental rules enacted thereunder or in substitution thereof from time to time.

Republic of Italy

The offering of the Securities has not been registered with the *Commissione Nazionale per le Società e la Borsa* ("CONSOB") pursuant to Italian securities legislation and, accordingly, no Securities may be offered, sold or delivered, nor may copies of this Offering Circular or of any other document relating to any Securities be distributed in Italy, except, in accordance with any Italian securities, tax and other applicable laws and regulations.

Each Joint Bookrunner has represented and agreed that it has not offered, sold or delivered, and will not offer, sell or deliver any Securities or distribute any copy of this Offering Circular or any other document relating to the Securities in Italy except:

(a) to qualified investors (*investitori qualificati*), as defined pursuant to Article 100 of Legislative Decree no. 58 of 24 February 1998 (the "Financial Services Act") and Article 34-ter, paragraph 1, letter (b) of CONSOB regulation No. 11971 of 14 May 1999 (the "Issuers Regulation"), all as amended from time to time; or

(b) in other circumstances which are exempted from the rules on public offerings pursuant to Article 100 of the Financial Services Act and Issuers Regulation.

In any event, any offer, sale or delivery of the Securities or distribution of copies of this Offering Circular or any other document relating to the Securities in Italy under paragraphs (a) or (b) above must be

(i) made by an investment firm, bank or financial intermediary permitted to conduct such activities in Italy in accordance with the Financial Services Act, Legislative Decree No. 385 of 1 September 1993 (the "Banking Act") and CONSOB Regulation No. 20307 of 15 February 2018, all as amended from time to time;

(ii) in compliance, as applicable, with Article 129 of the Banking Act, as amended from time to time, and the implementing guidelines of the Bank of Italy, as amended from time to time; and

(iii) in compliance with any other applicable laws and regulations, including any limitation or requirement which may be imposed from time to time by CONSOB or the Bank of Italy or other competent authority.

General Information

1. Application has been made for the Securities to be listed on the Official List of the Luxembourg Stock Exchange and admitted to trading on the Euro MTF Market.

2. Each of the Issuer and the Guarantor has obtained all necessary consents, approvals and authorisations in connection with the issue and performance of the Securities and the Guarantee.

3. The issue of the Securities was duly authorised by a resolution of the Board of Directors of the Issuer dated 26 September 2018 and the giving of the Guarantee by the Guarantor was duly authorised by a resolution of the Executive Committee of the Board of Directors of the Guarantor dated 27 September 2018 following the delegation of powers approved by resolutions dated 31 March 2017 of (i) the General Shareholders' Meeting of the Guarantor under item 17 of the agenda and (ii) the Board of Directors of the Guarantor.

4. There has been no significant change in the financial or trading position of the Issuer and there has been no material adverse change in the financial position or prospects of the Issuer, in each case since 31 December 2017. There has been no significant change in the financial or trading position of the Guarantor or the Group since 30 September 2018 and there has been no material adverse change in the financial position or prospects of the Guarantor or the Group since 31 December 2017.

5. Neither the Issuer nor the Guarantor nor any other member of the Group is or has been involved in any governmental, legal or arbitration proceedings (including any such proceedings which 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, the Guarantor or the Group.

6. Each Security and Coupon will bear the following legend: "*Any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in Sections 165(j) and 1287(a) of the U.S. Internal Revenue Code of 1986*".

7. The Securities have been accepted for clearance through Euroclear and Clearstream, Luxembourg which are the entities in charge of keeping the records. The International Securities Identification Number (ISIN) for the Securities is XS1890845875, the Common Code is 189084587, the Classification of Financial Instruments (CFI) code is DYFXXB and the Financial Instrument Short Name (FISN) code is IBERDROLA INTER/EUR NT PERP SUB.

8. So long as the Securities are listed on the Official List and admitted to trading on the Euro MTF Market and the rules of the Luxembourg Stock Exchange shall so require, copies (and English translations where the documents in question are not in English) of the following documents will be available, during usual business hours on any weekday (Saturdays and public holidays excepted), in hard copy from the registered office of the Issuer and from the specified offices of the Paying Agents:

    a. the Fiscal Agency Agreement (which includes the form of the Global Securities, the definitive Securities, the Coupons, the Receipts and the Talons), the Guarantee and the Deed of Covenant and the Subscription Agreement;

    b. the articles of association of the Issuer and the by-laws (*estatutos*) of the Guarantor (with English translations);

    c. an English translation of KPMG Auditores, S.L.'s report and audited consolidated annual financial statements and consolidated management report of the Guarantor for the year ended 31

December 2017 and Ernst & Young, S.L.'s report and independent audited consolidated annual financial statements of the Guarantor for the financial year ended 31 December 2016;

d. an English translation of the unaudited condensed consolidated interim financial statements of the Guarantor for the six-month period ended 30 June 2018;

e. an English translation of the unaudited interim financial statements of the Guarantor for the nine-month period ended 30 September 2018;

f. KPMG Accountants N.V.'s report and audited annual financial information of the Issuer for the year ended 31 December 2017;

g. Ernst & Young Accountants LLP's report and audited annual financial information of the Issuer for the financial year ended 31 December 2016; and

h. a copy of this Offering Circular together with any Supplement to this Offering Circular.

This Offering Circular is available for viewing at the Luxembourg Stock Exchange at www.bourse.lu and www.iberdrola.com. Any website mentioned in this Offering Circular shall not form part of this Offering Circular.

9. Ernst & Young, S.L. has audited the consolidated annual accounts of the Guarantor for the financial year ended 31 December 2016 in accordance with auditing standards generally accepted in Spain and issued an unqualified independent auditor's report on these financial statements prepared by the Guarantor in accordance with IFRS-EU.

10. Ernst & Young Accountants LLP has audited the financial statements of the Issuer for the financial year ended 31 December 2016 in accordance with Dutch law and issued an unqualified independent auditor's report on these financial statements.

11. KPMG Auditores, S.L. has audited the consolidated annual accounts of the Guarantor in accordance with IFRS-EU for 2017 without qualification.

12. KPMG Accountants N.V. has audited the accounts of the Issuer for 2017 in accordance with Title 9, Book 2 of the Dutch Civil Code without qualification.

13. Ernst & Young, S.L. is registered in the *Registro Oficial de Auditores de Cuentas* (Official Registry of Auditors). The registered accountants of Ernst & Young Accountants LLP are members of the Netherlands Institute of Chartered Accountants (*Koninklijke Nederlandse Beroepsorganisatie van Accountants*), the Dutch institute of chartered accountants. Neither Ernst & Young, S.L. nor Ernst & Young Accountants LLP has any interest in the Issuer or the Guarantor.

14. KPMG Auditores, S.L. was appointed as the new independent auditor of the Guarantor for 2017, 2018 and 2019 (replacing Ernst & Young, S.L.), pursuant to the resolution of the shareholders' meeting of the Guarantor held on 31 March 2017. KPMG Auditores, S.L. is registered in the Registro Oficial de Auditores de Cuentas (*Official Registry of Auditors*). KPMG Accountants N.V. was appointed as the new independent auditor of the Issuer for 2017 (replacing Ernst & Young Accountants LLP), pursuant to the resolution of the shareholders' meeting of the Issuer held on 4 July 2017. The auditor who signs on behalf of KPMG Accountants N.V. is a member of the Netherlands Institute of Chartered Accountants (*Nederlandse Beroepsorganisatie van Accountants*), the Dutch accountants board, the professional body for accountants in the Netherlands. Neither KPMG Auditores, S.L. nor KPMG Accountants N.V. has any material interest in the Issuer or the Guarantor.

15. Certain of the Joint Bookrunners and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform services for the Issuer, the Guarantor and/or their affiliates in the ordinary course of business. They have received, or may in the future receive, customary fees and commissions for these transactions. In addition, in the ordinary course of their business activities, the Joint Bookrunners and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of the Issuer or its affiliates. The Joint Bookrunners and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments. For the purpose of this paragraph, the term "affiliates" also includes parent companies.

16. From (and including) the Issue Date to (but excluding) the First Reset Date, the yield on the Securities will be 3.250 per cent. per annum. The yield is calculated at the Issue Date on the basis of the Issue Price. It is not an indication of future yield.

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until the financial year ended 31 December 2016

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To the Issuer

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