BASE PROSPECTUS

IBERDROLA INTERNATIONAL B.V.

(Incorporated with limited liability in The Netherlands and having its corporate domicile in Amsterdam)

and

IBERDROLA FINANZAS, S.A.U.

(Incorporated with limited liability in the Kingdom of Spain)

Euro 20,000,000,000
Euro Medium Term Note Programme

Guaranteed by

IBERDROLA, S.A.

(Incorporated with limited liability in the Kingdom of Spain)

Under the Guaranteed Euro Medium Term Note Programme (the **Programme**) described in this Base Prospectus, each of Iberdrola International B.V. (**Iberdrola International**) and Iberdrola Finanzas, S.A.U. (**Iberdrola Finanzas**) (each an **Issuer** and together, the **Issuers**) may from time to time issue notes (the **Notes**) subject to compliance with all relevant laws, regulations and directives. The payment of all amounts due in respect of the Notes will be unconditionally and irrevocably guaranteed by Iberdrola, S.A. (**Iberdrola** or the **Guarantor**). The aggregate principal amount of Notes outstanding and guaranteed will not at any time exceed Euro 20,000,000,000 (or the equivalent in other currencies).

Application has been made to the *Commission de Surveillance du Secteur Financier* (the **CSSF**) in its capacity as competent authority under the Luxembourg Act dated 10 July 2005 on prospectuses for securities (the **Prospectus Act 2005**) to approve this document as a base prospectus of the Issuers. By approving this Base Prospectus, the CSSF assumes no responsibility for the economic and financial soundness of the transactions contemplated by this Base Prospectus or the quality or solvency of the Issuers in accordance with Article 7(7) of the Prospectus Act 2005. Application has also been made to the Luxembourg Stock Exchange for Notes issued under the Programme to be admitted to trading on the Regulated Market of the Luxembourg Stock Exchange and to be listed on the official list of the Luxembourg Stock Exchange. References in this Base Prospectus to Notes being listed (and all related references) shall mean that such Notes have been admitted to trading on the Luxembourg Stock Exchange's regulated market and have been admitted to the Official List of the Luxembourg Stock Exchange. The Luxembourg Stock Exchange's regulated market is a regulated market for the purposes of the Markets in Financial Instruments Directive (Directive 2004/39/EC). The requirement to publish a prospectus under the Prospectus Directive (as defined below) only applies to Notes which are to be admitted to trading on a regulated market in the European Economic Area and/or offered to the public in the European Economic Area other than in circumstances where an exemption is available under Article 3.2 of the Prospectus Directive (as implemented in the relevant Member State(s)). Notice of the aggregate nominal amount of Notes, interest (if any) payable in respect of Notes, the issue price of Notes and certain other information which is applicable to each issue of Notes will be set out in a final terms document (the **Final Terms**) which will be filed with the CSSF. Copies of Final Terms in relation to Notes to be listed on the Luxembourg Stock Exchange will also be published on the website of the Luxembourg Stock Exchange (www.bourse.lu). The Programme provides that Notes may be listed or admitted to trading, as the case may be, on such other or further stock exchanges or markets as may be agreed between the relevant Issuer, the Guarantor and the relevant Dealer (such other or further stock exchanges or markets to include, if so agreed, the AIAF Mercado de Renta Fija (**AIAF**). Iberdrola International may also issue unlisted Notes.

The Notes may be issued in bearer form (**Bearer Notes**), in registered form (**Registered Notes**) or in bearer form exchangeable for Registered Notes (**Exchangeable Bearer Notes**). Bearer Notes may be issued in new global note (**NGN**) form and Registered Notes may be held under the new safekeeping structure (**NSS**) to allow Eurosystem eligibility. Unless otherwise specified in the Final Terms, each Tranche of Bearer Notes having an original maturity of more than one year will initially be represented by a temporary Global Note and each Tranche of Bearer Notes having an original maturity of one year or less will initially be represented by a permanent Global Note which, in each case, will (i) if the Global Notes are stated in the applicable Final Terms to be issued in NGN form, be delivered on or prior to the original issue date of the relevant Tranche to a common safekeeper (the **Common Safekeeper**) for Euroclear (as defined below) and Clearstream, Luxembourg (as defined below); or (ii) if the Global Notes are not intended to be issued in NGN form (**Classic Global Notes** or **CGNs**), be delivered on or prior to the original issue date of the relevant Tranche to a Common Depositary (as defined below) for, Euroclear and Clearstream, Luxembourg, or as otherwise agreed between the relevant Issuer and the relevant Dealer. Interests in temporary Global Notes will be exchangeable for interests in a permanent Global Note or, if so stated in the relevant Final Terms, for definitive Bearer Notes after the date falling 40 days after the issue date upon certification as to non-U.S. beneficial ownership or for definitive Registered Notes at any time after the issue date. If specified in the relevant Final Terms, interests in permanent Global Notes will be exchangeable for definitive Bearer Notes or definitive Registered Notes. Registered Notes will be represented by registered certificates (each a **Certificate**), one Certificate being issued in respect of each Holder's entire holding of Registered Notes of one Series and may be represented by registered global certificates (each a **Global Certificate**). Registered Notes which are held in Euroclear and Clearstream, Luxembourg will be registered (i) if the Global Certificate is not to be held under the NSS, in the name of nominees for Euroclear and Clearstream, Luxembourg or a common nominee for both or (ii) if the Global Certificate is to be held under the NSS, in the name of a nominee of the Common Safekeeper and the relevant Certificate(s) will be delivered to the appropriate depositary, a common depositary or Common Safekeeper, as the case may be.

This document comprises a base prospectus of the Issuers for the purposes of Article 5.4 of Directive 2003/71/EC as amended (which includes the amendments made by Directive 2010/73/EU to the extent that such amendments have been implemented in a relevant Member State of the European Economic Area) (the **Prospectus Directive**) and for the purpose of giving information with regard to the Issuers, the Guarantor and the Notes which, according to the particular nature of the relevant Issuer, the Guarantor and the Notes, is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profit and losses and prospects of the relevant Issuer and the Guarantor.

The Programme has been rated BBB+ by Standard & Poor's Credit Market Services Europe Limited (**Standard & Poor's**), Baa1 by Moody's Investors Service Limited (**Moody's**), and BBB+ by Fitch Ratings Limited (**Fitch**). Each of Standard & Poor's, Moody's and Fitch is established in the European Union and is registered under Regulation (EC) No. 1060/2009 (as amended) (the **CRA Regulation**). As such each of Standard & Poor's, Moody's and Fitch is included in the list of credit rating agencies published by the European Securities and Markets Authority on its website (http://www.esma.europa.eu/page/List-registered-and-certified-CRAs) in accordance with the CRA Regulation. Notes issued under the Programme may be rated or unrated. Where an issue of Notes is rated, its credit rating may not necessarily be the same as the credit rating applicable to the Programme. A credit rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation.

The rating of certain Series of Notes to be issued under the Programme may be specified in the applicable Final Terms. Whether or not each credit rating applied for in relation to relevant Series of Notes will be issued by a credit rating agency established in the European Union and registered under the CRA Regulation will be disclosed in the Final Terms.

In the case of any Notes which are to be admitted to trading on a regulated market within the European Economic Area or offered to the public in a Member State of the European Economic Area in circumstances which require the publication of a prospectus under the Prospectus Directive, the minimum denomination shall be €100,000 (or its equivalent in any other currency as at the date of issue of the Notes).

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

Arranger
Barclays
Dealers

Banco Bilbao Vizcaya Argentaria, S.A. Barclays

BNP PARIBAS
Crédit Agricole CIB
ING
Mizuho Securities
Santander

BofA Merrill Lynch
HSBC
J.P. Morgan
Morgan Stanley
The Royal Bank of Scotland

The date of this Base Prospectus is 22 June 2016

The Issuers and the Guarantor accept responsibility for the information contained in this Base Prospectus and the Final Terms for each Tranche of Notes issued under the Programme. To the best of the knowledge and belief of the Issuers and the Guarantor (each of which has taken all reasonable care to ensure that such is the case), the information contained in the Base Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information. This Base Prospectus is to be read in conjunction with all documents which are deemed to be incorporated herein by reference (see "Documents Incorporated by Reference").

References herein to **Conditions** are to the "Terms and Conditions of Notes issued by Iberdrola International B.V." or to the "Terms and Conditions of Notes issued by Iberdrola Finanzas, S.A.U.", as the case may be.

Copies of Final Terms will be available, free of charge, from the registered offices of the Issuers, the registered office of the Guarantor and the specified office set out below of each of the Paying Agents (as defined below).

Subject as provided in the applicable Final Terms, the only persons authorised to use this Base Prospectus in connection with an offer of Notes are the persons named in the applicable Final Terms as the relevant Dealers or the Managers, as the case may be.

No person has been authorised to give any information or to make any representation other than those contained in this Base Prospectus in connection with the issue or sale of the Notes and if given or made, such information or representation must not be relied upon as having been authorised by the Issuers, the Guarantor or any of the Dealers. Neither the delivery of this Base Prospectus nor any sale made in connection herewith shall, under any circumstances, create any implication that there has been no change in the affairs of either of the Issuers or the Guarantor since the date hereof or the date upon which this document has been most recently supplemented or that there has been no adverse change in the financial position of the Issuers or the Guarantor since the date hereof or the date upon which this document has been most recently supplemented or that any other information supplied in connection with the Programme 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 Arranger and the Dealers have not separately verified the information contained in this Base Prospectus. None of the Dealers or the Arranger makes any representation, express or implied, or accepts any responsibility with respect to the accuracy or completeness of any of the information in this Base Prospectus. Neither this Base Prospectus nor any other financial statements are intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by the Issuers, the Guarantor, the Arranger or the Dealers that any recipient of this Base Prospectus or any other financial statements should purchase the Notes. Each potential purchaser of Notes should determine for itself the relevance of the information contained in this Base Prospectus and its purchase of Notes should be based upon such investigation as it deems necessary. None of the Dealers or the Arranger undertakes to review the financial condition or affairs of the Issuers or the Guarantor during the life of the arrangements contemplated by this Base Prospectus nor to advise any investor or potential investor in the Notes of any information coming to the attention of any of the Dealers or the Arranger.

This Base Prospectus does not constitute an offer of, or an invitation by or on behalf of the Issuers, the Guarantor or the Dealers to subscribe for, or purchase, any Notes.

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

This Base Prospectus does not constitute an offer to sell or the solicitation of an offer to buy any Notes in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. The distribution of this Base Prospectus and the offer or sale of Notes may be restricted by law in certain

jurisdictions. The Issuers, the Guarantor and the Dealers do not represent that this Base Prospectus may be lawfully distributed, or that any Notes may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Issuers, the Guarantor or the Dealers which is intended to permit a public offering of any Notes or distribution of this Base Prospectus in any jurisdiction where action for that purpose is required. Accordingly, no Notes may be offered or sold, directly or indirectly, and neither this Base Prospectus 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 Base Prospectus or any Notes may come must inform themselves about, and observe, any such restrictions on the distribution of this Base Prospectus and the offering and sale of Notes. In particular, there are restrictions on the distribution of this Base Prospectus and the offer or sale of Notes in the United States, the United Kingdom, the European Economic Area, the Netherlands, Spain and Japan.

The Notes may not be a suitable investment for all investors. Each potential investor in the Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor may wish to consider either on its own or with the help of its financial and other professional advisers, whether it:

(a) has sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained or incorporated by reference in this Base Prospectus or any applicable supplement;

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

(c) has sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes, including Notes with principal or interest payable in one or more currencies, or where the currency for principal or interest payments is different from the potential investor's currency;

(d) understands thoroughly the terms of the Notes and is familiar with the behaviour of any relevant indices and financial markets; and

(e) is able to evaluate possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

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

The maximum aggregate principal amount of Notes outstanding at any one time under the Programme will not exceed Euro 20,000,000,000 (and for this purpose, any Notes denominated in another currency shall be translated into Euro at the date of the agreement to issue such Notes). The maximum aggregate principal amount of Notes which may be outstanding at any one time under the Programme may be increased from time to time, subject to compliance with the relevant provisions of the Dealership Agreement, as defined under "Subscription and Sale". Any such increase to the maximum aggregate principal amount of Notes which may be outstanding at any one time under the Programme may require the production of a supplement to the Base Prospectus by the Issuers and the Guarantor.

In this Base Prospectus, unless otherwise specified or the context otherwise requires, references to "Euro", "euro" or "€" are to the single currency which was introduced at the start of the third stage of European

Economic and Monetary Union, pursuant to the Treaty on the Functioning of the European Union, as amended (the **Treaty**), to "U.S. Dollars" or "U.S.$" are to the lawful currency of the United States of America, to "pounds sterling", "GBP" or "£" are to the lawful currency of the United Kingdom and to "Japanese yen", "yen" or "¥" are to the lawful currency of Japan.

Any websites included in this Base Prospectus are for information purposes only and do not form part of the Base Prospectus.

In connection with the issue of any Tranche of Notes, the Dealer or Dealers (if any) named as the stabilisation manager(s) (the Stabilisation Manager(s)) (or persons acting on behalf of any Stabilisation Manager(s)) in the applicable Final Terms may over-allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilisation Manager(s) (or persons acting on behalf of a Stabilisation Manager) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the relevant Tranche of Notes is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the relevant Tranche of Notes and 60 days after the date of the allotment of the relevant Tranche of Notes. Any stabilisation action or over-allotment must be conducted by the relevant Stabilisation Manager(s) (or person(s) acting on behalf of any Stabilisation Manager(s)) in accordance with all applicable laws and rules.

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OVERVIEW OF THE PROGRAMME

The following overview does not purport to be complete and is taken from, and is qualified in its entirety by, the remainder of this document and, in relation to the terms and conditions of any particular Tranche of Notes, the applicable Final Terms. The relevant Issuer may agree with any Dealer that Notes may be issued in a form other than that contemplated in Terms and Conditions of the Notes issued by Iberdrola International B.V." or "Terms and Conditions of the Notes issued by Iberdrola Finanzas, S.A.U.", as applicable, herein, in which event, in the case of listed Notes only and if appropriate, a drawdown prospectus will be published.

This overview constitutes a general description of the Programme for the purposes of Article 22.5(3) of Commission Regulation (EC) No. 809/2004 implementing the Prospectus Directive (the ***Prospectus Regulation****). Words and expressions defined in the "Form of Notes", "Terms and Conditions of the Notes issued by Iberdrola International B.V." or "Terms and Conditions of the Notes issued by Iberdrola Finanzas, S.A.U." shall have the same meanings in this overview.*

Issuers:	Iberdrola International B.V. and Iberdrola Finanzas, S.A.U. (each an **Issuer** and together, the **Issuers**)
Guarantor:	Iberdrola, S.A. (the **Guarantor**)
Description:	Guaranteed Euro Medium Term Note Programme (the **Programme**).
Arranger:	Barclays Bank PLC.
Dealers:	Banco Bilbao Vizcaya Argentaria, S.A., Banco Santander, S.A., Barclays Bank PLC, BNP Paribas, Crédit Agricole Corporate and Investment Bank, HSBC Bank plc, ING Bank NV, J.P. Morgan Securities plc, Merrill Lynch International, Mizuho International plc, Morgan Stanley & Co. International plc and The Royal Bank of Scotland plc. The Issuers may from time to time terminate the appointment of any dealer under the Programme or appoint additional dealers either in respect of a single Tranche or in respect of the whole Programme. References in this Base Prospectus to "Permanent Dealers" are to the persons listed above as Dealers and to such additional persons which are appointed as dealers in respect of the whole Programme (and whose appointment has not been terminated) and to "Dealers" are to all Permanent Dealers and all persons appointed as a dealer in respect of one or more Tranches.
Fiscal Agent:	The Bank of New York Mellon, London Branch.
Size:	Up to Euro 20,000,000,000 (or the equivalent in other currencies at the date of issue) aggregate principal amount of Notes outstanding at any one time. The Issuers and the Guarantor have the option, subject to the fulfilment of certain conditions, to increase the size of the Programme.
Currencies:	Subject to compliance with all relevant laws, regulations and directives, Notes may be issued in Euro, U.S. Dollars, Australian dollars, Canadian dollars, Danish krone, Hong Kong dollars, New Zealand dollars, pounds sterling, Swedish kronor, Swiss francs or Japanese yen or in other currencies if the relevant Issuer, the Guarantor and the Dealers so agree.
Maturities:	Any maturity subject to compliance with all relevant laws, regulations and

directives. Where Notes have a maturity of less than one year and either (a) the issue proceeds are received by the relevant Issuer in the United Kingdom or (b) the activity of issuing the Notes is carried on from an establishment maintained by the relevant Issuer in the United Kingdom, such Notes must: (i) have a minimum redemption value of £100,000 (or its equivalent in other currencies) and be issued only to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses; or (ii) be issued in other circumstances which do not constitute a contravention of section 19 of the Financial Services and Markets Act 2000 (the **FSMA**) by the relevant Issuer.

Under Part II of the Luxembourg Act dated 10 July 2005 on prospectuses for securities, which implements the Prospectus Directive, prospectuses for the admission to trading of money market instruments having a maturity at issue of less than 12 months and complying also with the definition of securities are not subject to the approval provisions of Part II of such Act.

Specified Denomination: Notes will be issued in such denominations as may be agreed between the relevant Issuer and the relevant Dealers and as indicated in the applicable Final Terms save that the minimum denomination of each Note will be such as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the specified currency and save that (a) the minimum denomination of each Note admitted to trading on a regulated market within the European Economic Area or offered to the public in a Member State of the European Economic Area in circumstances which would otherwise require the publication of a prospectus under the Prospectus Directive will be €100,000 (or, if the Notes are denominated in a currency other than euro, the equivalent amount in such currency); and (b) unless otherwise permitted by then current laws and regulations Notes which have a maturity of less than one year from their date of issue will have a minimum denomination of £100,000 (or its equivalent in another currency).

Method of Issue: The Notes will be issued on a syndicated or non-syndicated basis. The Notes will be issued in one or more Series (which may be issued on the same date or which may be issued in more than one Tranche on different dates). The Notes may be issued in Tranches on a continuous basis with no minimum issue size, subject to compliance with all applicable laws, regulations and directives. Further Notes may be issued as part of an existing Series.

Form of Notes: The Notes may be issued in bearer form only (**Bearer Notes**), in bearer form exchangeable for Registered Notes (**Exchangeable Bearer Notes**) or in registered form only (**Registered Notes**). Bearer Notes may be issued in new global note (**NGN**) form. Unless otherwise specified in the Final Terms, each Tranche of Bearer Notes having an initial maturity of more than one year will initially be represented by a temporary Global Note and each Tranche of Bearer Notes having an original maturity of one year or less will initially be represented by a permanent Global Note which (a) in each case, will (i) if the Global Notes are stated in the applicable Final

	Terms to be issued in NGN form, be delivered on or prior to the original issue date of the Tranche to a common safekeeper (the **Common Safekeeper**) for Euroclear Bank SA/NV (**Euroclear**) and Clearstream Banking, *société anonyme* (**Clearstream, Luxembourg**); and (ii) if the Global Notes are not intended to be issued in NGN form, be delivered on or prior to the original issue date of the Tranche to a common depositary (the **Common Depositary**) for, Euroclear and Clearstream, Luxembourg, or (b) in the case of a Tranche intended to be cleared through a clearing system other than or in addition to Euroclear and Clearstream, Luxembourg or delivered outside a clearing system, be deposited as agreed between the relevant Issuer and the relevant Dealer. No interest will be payable in respect of a temporary Global Note except as described under "Description of Provisions Relating to the Notes while in Global Form or while Registered in the Name of a Nominee for a Clearing System". Interests in temporary Global Notes will be exchangeable for interests in permanent Global Notes or, if so stated in the relevant Final Terms, for definitive Bearer Notes after the date falling 40 days after the issue date upon certification as to non-U.S. beneficial ownership or (in the case of Exchangeable Bearer Notes) definitive Registered Notes at any time after the issue date. If specified in the relevant Final Terms, interests in permanent Global Notes will be exchangeable for definitive Bearer Notes or (in the case of Exchangeable Bearer Notes) definitive Registered Notes as described under "Description of Provisions Relating to the Notes while in Global Form or while Registered in the Name of a Nominee for a Clearing System". Registered Notes will be represented by certificates (each a **Certificate**), one Certificate being issued in respect of each Noteholder's entire holding of Registered Notes of one Series and may be represented by a Global Certificate. Registered Notes which are held in Euroclear and Clearstream, Luxembourg will be registered (i) if the Global Certificate is not to be held under the new safekeeping structure (**NSS**), in the name of nominees for Euroclear and Clearstream, Luxembourg or a common nominee or (ii) if the Global Certificate is to be held under the NSS, in the name of a nominee of the Common Safekeeper, and the relevant Certificate(s) will be delivered to the appropriate depositary, common depositary or Common Safekeeper, as the case may be.
Issue Price:	Notes may be issued at their principal amount or at a discount or premium to their principal amount. Partly-paid Notes may also be issued, the Issue Price of which will be payable in two or more instalments.
Fixed Rate Notes:	Interest on Fixed Rate Notes will be payable in arrear on the date or dates in each year specified in the relevant Final Terms.
Floating Rate Notes:	Floating Rate Notes will bear interest set separately for each Series by reference to EURIBOR or LIBOR as adjusted for any applicable margin as specified in the applicable Final Terms.
Zero Coupon Notes:	Zero Coupon Notes may be issued at their principal amount or at a discount to it and will not bear interest.
Interest Periods and Interest Rates:	The length of the interest periods for the Notes and the applicable interest rate or its method of calculation may differ from time to time or be constant for any Series. Notes may have a maximum interest rate, a minimum interest rate, or both. The use of interest accrual periods permits the Notes to bear interest at different rates in the same interest period. All

	such information will be set out in the relevant Final Terms.
Optional Redemption:	The Final Terms issued in respect of each issue of Notes will state whether such Notes may be redeemed prior to their stated maturity at the option of the relevant Issuer (either in whole or in part) and/or the Noteholders and the terms applicable to such redemption.
Status of the Notes and the Deed of Guarantee:	The Notes and the guarantee in respect of them will constitute unsubordinated and unsecured obligations of the relevant Issuer and the Guarantor, respectively, all as described in Condition 3 (*Status and Guarantee*).
Negative Pledge:	The Notes will contain a negative pledge as more fully set out in Condition 4 (*Negative Pledge*). The negative pledge applies to Relevant Indebtedness of the relevant Issuer, the Guarantor and each Relevant Subsidiary (each as defined in the Conditions).
Cross Default:	The Notes will contain a cross default as more fully set out in Condition 10 (*Events of Default*). The cross default applies to any Relevant Indebtedness incurred by the relevant Issuer, Guarantor or any Relevant Subsidiary which becomes due and payable prior to its stated maturity otherwise than at the option of the relevant Issuer or Guarantor or which is not paid when due or within any applicable grace period provided that the aggregate amount of Relevant Indebtedness is equal to or exceeds €125,000,000 or its equivalent.
Rating:	The Programme has been rated BBB+ by Standard & Poor's Credit Market Ratings Services (**Standard & Poor's**), Baa1 by Moody's Investors Service Limited (**Moody's**) and BBB+ by Fitch Ratings Limited (**Fitch**). Each of Standard & Poor's, Moody's and Fitch is established in the European Union and is registered under Regulation (EC) No. 1060/2009 (as amended) (the **CRA Regulation**). As such each of Standard & Poor's, Moody's and Fitch is included in the list of credit rating agencies published by the European Securities and Markets Authority on its website in accordance with the CRA Regulation. Notes issued under the Programme may be rated or unrated. Where an Issue of Notes is rated, its credit rating may not necessarily be the same as the credit rating applicable to the Programme. The rating of certain Series of Notes to be issued under the Programme may be specified in the applicable Final Terms. Whether or not each credit rating applied for in relation to the relevant Series of Notes will be issued by a credit ratings agency established in the European Union and registered under the CRA Regulation will be disclosed in the Final Terms. A credit rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation.
Early Redemption:	Except as provided in "Optional Redemption" above, Notes will be redeemable at the option of the relevant Issuer prior to maturity only for tax reasons.
Taxation on Notes issued by Iberdrola International B.V.:	All payments of principal and interest in respect of the Notes and the Deed of Guarantee will be made free and clear of any withholding or deduction,

	subject to customary exceptions, as described Condition 8 (*Taxation*).
Taxation on Notes issued by Iberdrola Finanzas, S.A.U.:	All payments in respect of the Notes issued by Iberdrola Finanzas, S.A.U. will be made without deduction for, or on account of, withholding taxes imposed by Spain unless such taxes are required by law to be withheld. In the event that any such deduction is made, Iberdrola Finanzas, S.A.U. or, as the case may be, the Guarantor, will, save in certain circumstances provided in Condition 8 (*Taxation*), be required to pay additional amounts to cover any amounts so deducted. Iberdrola Finanzas, S.A.U. considers that, according to Foral Decree of the territory of Bizkaia 205/2008, of 22 December (**Foral Decree 205/2008**) and Royal Decree 1065/2007, it is not obliged to withhold taxes in Spain in relation to interest paid on the Notes to any investor (whether tax resident in Spain or not) provided that the information procedures described in section "Taxation", which do not require identification of the Noteholders, are fulfilled. In the event that the current applicable procedures were modified, amended or supplemented by, amongst others, a Spanish law, regulation, interpretation or ruling of the Spanish Tax Authorities, Iberdrola Finanzas, S.A.U. will inform the Noteholders of such information procedures and of their implications, as Iberdrola Finanzas, S.A.U. may be required to apply withholding tax on interest payments under the Notes if the Noteholders would not comply with such information procedures. For further information regarding the interpretation of Foral Decree 205/2008 and Royal Decree 1065/2007, please refer to "*Risk Factors— Risks in Relation to Spanish Withholding Tax in Notes issued by Iberdrola Finanzas*" and "*Risk Factors— Application of Law 10/2014 to Notes issued by Iberdrola Finanzas"*.
Governing Law:	English law, save for (a) in relation to Notes issued by Iberdrola International B.V. Condition 3(a) (*Status of Notes*) which will be governed by, and shall be construed in accordance with, Dutch law and the status of the Guarantee, as described in Condition 3(b)(ii) (*Guarantee*), which will be governed by, and shall be construed in accordance with, Spanish law and (b) in relation to Notes issued by Iberdrola Finanzas, S.A.U., Condition 3(a) (*Status of Notes*) and the status of the Guarantee, as described in Condition 3(b)(ii) (*Guarantee*), which will be governed by, and shall be construed in accordance with, Spanish law.
Approval, listing and admission to trading:	Application has been made to the CSSF to approve this document as a base prospectus of the Issuers. Application has also been made to the Luxembourg Stock Exchange for Notes issued under the Programme to be listed on the Official List of the Luxembourg Stock Exchange and to be admitted to trading on the regulated market of the Luxembourg Stock Exchange. Notes may be listed or admitted to trading, as the case may be, on such other or further stock exchanges or markets agreed between the relevant Issuer, the Guarantor and the relevant Dealer (such other or further stock exchanges or markets, to include, if so agreed, the AIAF). Iberdrola International may also issue unlisted Notes. The applicable Final Terms will state whether or not the relevant Notes are to be listed and/or admitted to trading and, if so, on which stock exchanges and/or markets.

Rule 144A:	Offers and sales in accordance with Rule 144A under the Securities Act will be permitted if specified in the relevant Final Terms, subject to compliance with all relevant legal and regulatory requirements of the United States of America.
Selling Restrictions:	United States, European Economic Area (in respect of Notes having a denomination of less than €100,000 (or its equivalent in any other currency as at the date of issue of the Notes)), The Netherlands, the Kingdom of Spain and Japan. See "Subscription and Sale". In connection with the offering and sale of a particular Tranche of Notes, additional selling restrictions may be imposed which will be set out in the relevant Final Terms.
Substitution:	The Issuers and the Guarantor may, subject to the fulfilment of certain conditions, substitute the relevant Issuer. See Condition 15 (*Substitution of either Issuer*).

RISK FACTORS

Each of the Issuers and the Guarantor believes that the following factors may affect its ability to fulfil its obligations under Notes issued under the Programme. Most of these factors are contingencies which may or may not occur and neither of the Issuers 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 Notes issued under the Programme are also described below.

Each of the Issuers and the Guarantor believes that the factors described below represent the principal risks inherent in investing in Notes issued under the Programme, at the date of this Base Prospectus, but the inability of either Issuer or the Guarantor to pay interest, principal or other amounts on or in connection with any Notes may occur for other reasons which may not be considered significant risks by the Issuers 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 Base Prospectus (including any documents incorporated by reference herein) and reach their own views prior to making any investment decision.

Factors that may affect the Issuers' ability to fulfil their obligations under Notes issued under the Programme

Each Issuer has minimal share capital

The Issuers issue debt securities on behalf of the Group. Furthermore, each Issuer has been established with a minimal share capital. Each Issuer's principal liabilities will comprise the Notes 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 Notes 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 Notes, each Issuer is dependent on the Guarantor (or other members of the Group) meeting its obligations under such agreements or deposits or the relevant 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 Issuers are wholly owned by the Guarantor may limit the ability of the Issuers 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, the cost of substituting products not supplied and also, in the case of dedicated plants, outstanding amounts.

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 current difficult economic environment. 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 2015 or 2014.

As at 31 December 2015 and 2014, respectively, there was no significant credit risk concentration in the Iberdrola Group.

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.

Debt arranged at floating interest rates is broadly tied to Euribor, Libor-GBP and Libor-USD and to the most liquid local reference indices in the case of the borrowings of the Latin American subsidiaries.

Foreign currency risk

As the Iberdrola Group's presentation 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 an effect on the finance costs, profit and equity of the Group.

The following items could be affected by foreign currency risk:

- Proceeds from energy supplies and payments for energy supplies and raw materials purchased in currencies other than the euro.

- Settlement of financial operations to hedge the price of energy commodities. Debt denominated in currencies other than the local or functional currency of the Iberdrola Group companies.

- 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 currency.

- Profit or loss on consolidation of foreign subsidiaries.

- Consolidated carrying amount of net investments in foreign subsidiaries.

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.

- 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.

Considering the composition of the Group's financial cost in foreign currency in 2015 (59% euro, 21% U.S. Dollar, 15% pounds sterling, 5% Brazilian real), and assuming the composition remains the same in the future, a 5% rise in the main currencies would have a negative impact on profit and loss of 24 million euro through a higher consolidated finance cost in euros.

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.

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 economic value of its businesses.

The following are a few of the most significant regulatory measures that were approved in 2015 or are due to be implemented in 2016:

- Spain

Approval of Ministerial Order IET/2660/2015 of 11 December 2015 approving unit remuneration for electricity distributors and establishing the first regulation period up to 31 December 2019.

- United Kingdom

The approval of the new remuneration framework for electricity distributors in the UK, RIIO-ED1, which will regulate income over an eight-year period between April 2015 and March 2023.

There is uncertainty concerning the implementation and the measures approved regarding the regulation of the obligation to install smart meters.

- United States

Approval of the new PTC tax incentive scheme for renewable energies, valid up to the year 2020.

There is uncertainty concerning the forthcoming review of tariffs for network companies CMP and UI.

- Brazil

Approval of Elektro's four-year tariff review, which came into force on 27 August 2015, by Brazilian regulator ANEEL, valid up to August 2019.

- Mexico

Risks and opportunities related to the Energy Market Reform that is currently being drawn up.

Network business risk

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.

The network businesses 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 supply 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 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 ultimately on profits recognised under IFRS.

Renewables Business

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 wind resource risk and market risk.

The Iberdrola Group has a high number of wind power farms available and is geographically diversified so that it can compensate for high wind energy periods with those with less wind energy in the medium term.

With respect to the electricity price risk in connection with the renewables business, the following should be mentioned:

- Renewables business – Spain

Subsequent to the approval of the new regulatory framework (Royal Decree-Law 9/2013, of 12 July 2013, Law 24/2013, of 26 December 2013, Royal Decree 413/2014, of 6 June 2014, and Ministerial Order IET/1045/2014, of 16 June 2014), all renewable energy generated is remunerated at market price plus a premium per MW. This guarantees a reasonable regulated return based on a recognised standard investment. This return is adjusted every three years within predetermined bands to cover any possible deviation in market price. This premium per MW is not applicable for wind farms brought on line before 2004. As a result, initially all output would be fully or partially exposed to market risk.

- Renewables business – United Kingdom

The renewables business in the United Kingdom is partially exposed to the risk of fluctuations in the market price of electricity in the United Kingdom, since the obtained revenue comprises income from the energy sold and income from the sale of renewable energy certificates.

- Renewables business – United States and countries other than the United Kingdom and Spain

The renewables businesses in the United States and countries other than the United Kingdom and Spain in which the Group operates sell their energy, preferably at a fixed price, whether through regulated tariffs or through long-term power purchase agreements.

However, in the USA, 33 per cent. of the energy produced is sold at market price over more or less short terms.

With electricity prices around 30 U.S.$/MWh, a 5 per cent. change in prices could result in an impact of Euro ±8 million on operating results.

Deregulated electricity and gas generation and retailing businesses Commodity price risk

The activities of the Group's deregulated businesses are subject to a range of market, credit, operating, business and regulatory risks, coming from the uncertainty of the main variables that affect them, such as: fluctuations in commodity prices, changes in hydroelectric and wind energy production (of both the Group's and of third parties), changes in electricity and gas demand, and plant availability.

The main variable that affects Iberdrola's result in terms of raw materials' market price is the electricity price. However, in many countries, electricity prices are strongly correlated with the price of the fuels used in its production. Therefore, risk studies are carried out on fuel price trends.

In the case of fuel and CO2 emission allowances, these risks are evident in:

- The electricity generation and retailing business, in which the Iberdrola Group is exposed to variations in the price of CO2 emission rights and in the sale price of electricity, as well as to variations in fuel costs (mainly gas and coal).

- The gas retailing business, in which a large portion of the Iberdrola Group's operating expenses relate to the purchase of gas for customer supplies. The Iberdrola Group is therefore exposed to the risk of variations in the price of gas.

- Unhedged energy transactions (discretionary trading).

Deregulated business in Spain

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 revenues from the other less expensive technologies which are used to cover demand. With coal prices around 45 U.S.$/t, a 5 per cent. change in the prices could give rise to an impact of Euro ±20 million on operating results.

The price of CO2 influences the cost of production in coal-fired power plants. With carbon prices around 8.5 Euro/t, a 5 per cent. change in the prices could give rise to an impact of Euro ±10 million on operating results.

The majority of gas supplied in Spain is indexed to the price of oil by means of complex formulas. Iberdrola has these types of agreements for the supply of gas, as well as other types of fixed-price supply and 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 Euro -3/+2 million.

Hydraulic resources risk

Despite having a large water storage capacity, Iberdrola's results depend significantly on the flow contributions. The 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, the variability would be between Euro -150/+100 million. This potential loss of profit is not covered as it is an inherent risk of Iberdrola's business.

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 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/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.

Taking both effects into account, it is estimated that a 1 per cent. fluctuation in demand would have an impact of Euro ±15 million overall.

Operational risk

The main operational risk to business results arises from nuclear power plant outages (due to stoppages for fuel reloading, in accordance with a pre-established schedule) and hydroelectric power plant outages which are not associated with a large storage reservoir (flow facilities, in which water is not storable). As a result of such outages, production and, therefore, the margin associated with this production are lost.

Deregulated business – United Kingdom

Commodity price risk

The spark spread is the theoretical gross margin received from a gas-fired power plant from selling a unit of electricity, with the gas-fired power plant having bought the fuel required to produce this unit of electricity. In addition and when calculating this gross margin, generators have to consider the cost of CO2 emission allowances that will be under a cap and trade regime. Therefore the clean spark spread is calculated by subtracting the carbon price per tonne from the spark spread. An analogous spread for coal-fired generation plants is typically referred to as a clean dark spread.

In a market like the British market, geared towards thermal power generation, the clean spark spread has become the appropriate index to follow the uncertainty of the margins of coal-fired power plants. Despite the fact that commodities (coal, CO2 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 dark spread levels around 3 GBP/MWh, a 5 per cent. change in the spreads could give rise to an impact of Euro ±1 million on operating results.

In addition to its use as fuel in combined cycle power plants, Iberdrola sells gas to customers in the United Kingdom and has long-term gas agreements to do so. A portion of the aforementioned agreements have their price linked to the British wholesale markets and, therefore, they do not represent any risk for Iberdrola. However, there are agreements for which the price is fixed and which are linked to other indices. These represent a risk if the price of gas changes. At the current levels, a 5 per cent. change to the price would have an impact of Euro ±8 million on operating results.

The Iberdrola Group will not have any coal plants in the UK after the closure of Longannet, which was effective on 31 March 2016.

Demand risk

Electricity consumption demand is usually one of the most significant risk factors for any electricity company. However, Iberdrola currently purchases from third parties a significant portion of the energy it sells (1,800, 2,500 and 4,100 GWh in 2015, 2014 and 2013, respectively, of a total amount of electricity sold of 22,000 GWh/year), since it is more profitable to do so under current market conditions than Iberdrola producing it 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.

Deregulated business – Mexico

Commodity price risk

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

Approximately 85 per cent. of the electricity generated in Mexico is 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 CFE. These tariffs depend on the price of the various fuels, specially fuel-oil, diesel, natural gas and coal.

As a result, there is a risk associated with the price of these fuels on the international markets:

- A 5 per cent. change in fuel-oil or diesel prices (which are closely linked) would give rise to a Euro ±3 million change in operating results.
- A 5 per cent. change in the natural gas price would give rise to a Euro ±1 million change in operating results.
- A 5 per cent. change in the price of coal would give rise to a Euro ±1 million change in operating results.

Operational risk

The main operational risk to business results arises from combined cycle power plant outages. With regard to these outages, all profit or loss obtained from production is compromised, although the high operating and maintenance standards of the plants and a culture focused on total quality and the reduction of operational risks, allow the impact of this risk to be kept low. Loss of profit from this type of event (material damages or machinery malfunctions) is covered by an insurance policy after a certain deductible level, which is marked by the risk retention level that Iberdrola can assume, and the insurance conditions that the market offers for risks of these types.

Deregulated business – United States and Canada

Commodity price risk

Iberdrola's business in the United States and Canada is geared towards natural gas transport and storage. As a result, the risk assumed mainly arises from fluctuations in the price of natural gas over time. There is no risk arising from the price levels but rather from the difference in the price of natural gas between the period of high prices (winter) and the period of low prices (summer). In the event the difference between both periods is 0.35 U.S.$/MMBTU, if the aforementioned difference were to fluctuate by 5 per cent., the uncertainty of the results would be Euro ±3 million.

Operational risk

The business' gas storage facilities are exposed to operational risks associated with outages impeding the injection or extraction of gas, gas storage leaks and shifts in geological structures that hinder recovering injected gas.

Other 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 Iberdrola Group is exposed, among other risks, to malfunctions, explosions, fire, toxic spillages or polluting emissions at its gas and electricity distribution networks and generating plants. It could also be adversely affected by sabotage, adverse meteorological conditions or force majeure. 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, etc.).

However, this insurance does not completely eliminate operational risk, since it is not always possible, or it is not in its interest to pass such risk on to insurance companies and, in addition, cover is always subject to certain limitations.

The Iberdrola Group is also exposed to the following operational risks:

- Risks in connection with cybersecurity. Threats or vulnerabilities concerning data, control systems or Group information and communications systems, and any consequences arising from access to, use, disclosure, deterioration, interruption, unauthorised modification or destruction of information or information systems.

- Risk of terrorism.

Risks in connection with nuclear business

Current Spanish law caps the liability of nuclear power plant operators in the event of a nuclear accident at Euro 700 million. It is compulsory that liability for a nuclear accident is 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 ceiling on mandatory insurance to Euro 1,200 million for nuclear power plants. The law will enter into force when all signatories of the Paris and Brussels Conventions ratify the 2004 Amendment Protocols, as established in these conventions.

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

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 in 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.

Environmental risks

The Iberdrola Group is subject to risks relating to the existence of wide-ranging environmental regulations and standards. Environmental regulations and standards, among other issues, require the Iberdrola Group to conduct environmental impact studies for future projects and obtain licences, permits and other mandatory authorisations and to comply with the terms and conditions of the licences, permits and authorisations. In addition, the Group's activities involve inherent environmental risks relating to waste management, emissions, spillages and the land where facilities are based or where biodiversity might be affected, and these could give rise to legal claims for damages.

Iberdrola accepts that the environment places constraints on all human activities and is a factor of companies' competitiveness, and it is committed to promoting innovation in this field as well as in eco-efficiency, to gradually reducing the environmental impact of its activities, facilities, products and services, and striving 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, which set forth the principles through which the Company will continue to improve its environmental management.

Legal risks

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 Iberdorla 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.

Country risk

To a greater or lesser extent, and depending on their nature, all of the Iberdrola Group's international activities are exposed to the risks described above and also to other risks inherent to the countries in which they take place, such as:

- Changes to administrative policies and regulations in the country.
- Imposition of monetary and other restrictions on the movement of capital.
- Changes in the market.
- Economic crises, political instability and social unrest which affects operations.
- Public expropriation of assets.

- Exchange rate fluctuations.
- The cancellation of operating licences.
- The termination of government contracts.

The results of our 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:

Country	Moody's	S&P	Fitch
Spain	Baa2	BBB+	BBB +
United Kingdom	Aa1	AAA	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.

Factors which are material for the purpose of assessing the market risks associated with Notes issued under the Programme

There is no active trading market for the Notes

Notes issued under the Programme will be new securities which may not be widely distributed and for which there is currently no active trading market (unless, in the case of any particular tranche, such Tranche is to be consolidated with and form a single series with an outstanding Tranche of Notes). If the Notes are traded after their initial issuance, they may trade at a discount to their initial offering price, depending upon prevailing interest rates, the market for similar securities, general economic conditions and the financial condition of the Issuers and the Guarantor. Although applications have been made for the Notes issued under the Programme to be admitted to trading on the Regulated Market of the Luxembourg Stock Exchange and to be listed on the official list of the Luxembourg Stock Exchange, there is no assurance that such applications will be accepted, that any particular Tranche of Notes will be so admitted or that an active trading market will develop. Accordingly, there can be no assurance as to the development or liquidity of any trading market for any particular Tranche of Notes.

Risks related to the structure of a particular issue of Notes

A range of Notes may be issued under the Programme. A number of these Notes may have features which contain particular risks for potential investors. Set out below is a description of the most common such features:

Notes subject to optional redemption by the relevant Issuer

An optional redemption feature of Notes is likely to limit their market value. During any period when an Issuer may elect to redeem Notes, the market value of those Notes generally will not rise substantially above the price at which they can be redeemed. This also may be true prior to any redemption period.

An Issuer may be expected to redeem Notes when its cost of borrowing is lower than the interest rate on the Notes. At those times, an investor generally would not be able to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Notes being redeemed and may only be able to do so at a significantly lower rate. Potential investors should consider reinvestment risk in light of other investments available at that time.

Fixed/Floating Rate Notes

Fixed/Floating Rate Notes may bear interest at a rate that converts from a fixed rate to a floating rate, or from a floating rate to a fixed rate. Where an Issuer has the right to effect such a conversion, this will affect the secondary market and the market value of the Notes since such Issuer may be expected to convert the rate when it is likely to produce a lower overall cost of borrowing. If an Issuer converts from a fixed rate to a floating rate in such circumstances, the spread on the Fixed/Floating Rate Notes may be less favourable than then prevailing spreads on comparable Floating Rate Notes tied to the same reference rate. In addition, the new floating rate at any time may be lower than the rates on other Notes. If an Issuer converts from a floating rate to a fixed rate in such circumstances, the fixed rate may be lower than then prevailing rates on its Notes.

Notes issued at a substantial discount or premium

The market values of securities issued at a substantial discount or premium from their principal amount tend to fluctuate more in relation to general changes in interest rates than do prices for conventional interest-bearing securities. Generally, the longer the remaining term of the securities, the greater the price volatility as compared to conventional interest-bearing securities with comparable maturities.

Risks related to Notes generally

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

Modification, waivers and substitution

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

Change of law

The conditions of the Notes are based on English law in effect as at the date of this Base Prospectus. No assurance can be given as to the impact of any possible judicial decision or change to English law or administrative practice after the date of this Base Prospectus.

Risks Relating to Spanish Withholding Tax in Notes issued by Iberdrola Finanzas

Iberdrola Finanzas considers that, pursuant to the provisions of Foral Decree 205/2008 and Royal Decree 1065/2007, it is not obliged to withhold taxes in Spain on any interest paid under the Notes to any Noteholder, irrespective of whether such Noteholder is tax resident in Spain or not. The foregoing is subject to the fulfilment of certain information procedures described in "*Taxation in Spain - Disclosure of Information in Connection with the Notes*" below.

In this regard, according to Foral Decree 205/2008 and Royal Decree 1065/2007, any interest paid by Iberdrola Finanzas under securities that (i) can be regarded as listed debt securities issued under Law 10/2014 and (ii) are initially registered at a foreign clearing and settlement entity that is recognised under Spanish regulations or under those of another OECD member state, will be made free of Spanish withholding tax provided that the relevant paying agent fulfils the information procedures described in "*Taxation in Spain - Disclosure of Information in Connection with the Notes*" below. Iberdrola Finanzas considers that the Notes meet the requirements referred to in (i) and (ii) above and that, consequently, payments made by Iberdrola Finanzas to Noteholders should be paid free of Spanish withholding tax (subject to the fulfilment of the aforementioned information procedures).

Notwithstanding the above, with regard to Noteholders subject to Spanish Corporate Income Tax whose Notes are deposited with a Spanish resident entity acting as depositary or custodian, withholding could be made by such depositary or custodian if it is concluded that the Notes do not comply with the relevant exemption requirements specified in the ruling issued by the Spanish tax authorities (*Dirección General de Tributos*) on 27 July 2004. According to said ruling, application of the withholding exemption requires that, in addition to the Notes being traded in an organised market of an OECD country, they are placed outside Spain in another OECD country. If it was determined that such withholding exemption does not apply on the basis that the Notes were placed, totally or partially, in Spain, said depositaries or custodians could eventually make such a withholding at the applicable rate, currently 19 per cent.

In the event that the current applicable procedures were modified, amended or supplemented by, amongst others, a Spanish law, regulation, interpretation or ruling of the Spanish Tax Authorities, Iberdrola Finanzas will inform the Noteholders of the new information procedures and of their implications, as it might be required to apply withholding tax on interest payments under the Notes if the Noteholders do not comply with such new information procedures.

Holders of the Notes must seek their own advice to ensure that they comply with all procedures to ensure the correct tax treatment of their Notes. None of Iberdrola International, Iberdrola Finanzas, the Guarantor, the Dealers, or the Paying Agent assume any responsibility thereof.

Application of Law 10/2014 to Notes issued by Iberdola Finanzas

Foral Law 1/2012, of 29 February (applicable in the territory of Bizkaia) which establishes a special tax regime identical to that set forth under Law 13/1985, of 25 May, formerly applicable in the Spanish common territory and repealed by Law 10/2014, has not yet been amended so as to reflect, for the territory of Bizkaia, identical provisions to those set forth under Law 10/2014.

However, it should be noted that according to Law 12/2002 of 23 May of the Economic Arrangement with the territory of the Basque Country (i) withholding tax rates applicable to capital income in the foral territories should be identical to those applicable in the common territory; and (ii) the legislation applicable in the common territory should also be applicable to the foral territories, as long as the relevant foral territory has not passed the corresponding legislation.

On the basis of the above, Iberdrola Finanzas is of the opinion that Law 10/2014 should be applicable to the Notes issued by it and consequently:

(i) the Notes issued by Finanzas would benefit from the application of Law 10/2014, irrespective of the use given to the net proceeds of the issue of the Notes (i.e., there is no need for the net proceeds to be deposited with its parent company);

(ii) Iberdrola Finanzas is not obliged to withhold taxes in Spain on any interest paid under the Notes to any Noteholder, irrespective of whether such Noteholder is tax resident in Spain; and

(iii) information procedures to be fulfilled in order for the Notes to benefit from the application of Law 10/2014 are those stated under Article 55 of Foral Decree 205/2008 in accordance with Article 44 of

Royal Decree 1065/2007 (the annex of which serves as a form for the Declaration to be made by the Agent in the absence of a specific annex provided for under Foral Decree 205/2008).

However, in March 2016 Iberdrola Finanzas submitted a tax ruling/confirmation request to the tax authorities of the territory of Bizkaia in order to confirm whether the tax treatment described in points (i) to (iii) above is correct.

The Proposed Financial Transactions Tax (FTT)

On 14 February 2013, the European Commission published a proposal (the **Commission's proposal**) for a Directive for a common FTT in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the **Participating Member States**).

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

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

Notwithstanding the Commission's Proposal, a joint statement issued in May 2014 by ten of the eleven participating Member States indicated an intention to implement the FTT progressively, such that it would initially apply to shares and certain derivatives, with this initial implementation occurring by 1 January 2016. The FTT, as initially implemented on this basis, may not apply to dealings in the Notes.

Countries such as France and Italy have recently introduced their own taxes, while others of the group of eleven already had an FTT in place (Belgium and Greece).

On 31 October 2014, the Council of the European Union published document No. 15949/14 concerning the status at the time of the FTT.

On 8 December 2015, the Council of the European Union discussed the current state of play with regard to the proposal of a number of EU Member States to introduce the FTT. In the context of this discussion, ten of the original eleven Participating Member States issued a statement setting out areas where agreement had been reached as well as areas that were still open. Estonia, however, has indicated that it no longer supports the proposal.

The statement issued by the 10 remaining Member States supporting the FTT (Austria, Belgium, France, Germany, Greece, Italy, Portugal, Slovakia, Slovenia, Spain) (**FTT10**) sets out details of the features the tax should have. The statement indicates that a decision on the open issues should be made by end of June 2016.

The first part deals with shares and the second deals with derivatives, so it appears that there is agreement as to these being in scope. However, there is no mention of other financial instruments such as the Notes. Consideration is being given to possibly initially limiting the scope of the tax to shares issued in the FTT10 Member States.

Notwithstanding the above, the FTT proposal remains subject to negotiation between the participating FTT10 Member States. It may therefore be altered prior to any implementation, the timing of which remains unclear. Prospective holders of the Notes are advised to seek their own professional advice in relation to the FTT.

Prospective holders of the Notes are advised to seek their own professional advice in relation to the FTT.

Risks arising under the Spanish Insolvency Law

Certain risks arise under the Spanish Insolvency Law which will apply in the event of the Guarantor's or Iberdrola Finanzas' insolvency.

Risk of Noteholders' claims being subordinated as a result of being especially related to the Guarantor or Iberdrola Finanzas

Under Law 22/2003 of 9 July, on Insolvency (the **Spanish Insolvency Law**), the claims of creditors are classified as either: credits against the estate (*créditos contra la masa*), privileged credits (*créditos privilegiados*), ordinary credits (*créditos ordinarios*) or subordinated credits (*créditos subordinados*). On insolvency of an entity under the Spanish Insolvency Law, ordinary creditors rank ahead of subordinated creditors but behind privileged creditors and creditors with claims against the estate. It is intended that claims against the Guarantor under the Guarantee or Iberdrola Finanzas under the Notes respectively will be classified as ordinary credits. However, certain actions or circumstances which are beyond the control of the Guarantor or Iberdrola Finanzas may result in these claims being classified as subordinated credits. For example, under Article 92.5 of the Spanish Insolvency Law, the claims of those persons especially related to the Guarantor or Iberdrola Finanzas (as the case may be) will be classified as subordinated creditors.

Among others, the following persons may be considered especially related to the Guarantor or Iberdrola Finanzas:

(a) shareholders who, when the right of claim arose, were direct or indirect holders of at least 5% of the share capital if the shares of the Guarantor or Iberdrola Finanzas are traded on an official secondary market (as it is currently the case), or 10% if they are not (in the future). If the shareholders are individual persons, it shall be understood that the persons specially related to these shareholders in accordance with the Spanish insolvency Law are also specially related to the Guarantor or Iberdrola Finanzas;

(b) actual or shadow directors (including those who acted as such in the two years leading up to the declaration of insolvency); and

(c) members of the same group of companies as the Guarantor or Iberdrola Finanzas and their common shareholders, if they comply with the requirements established in article 93.2.1 of the Spanish Insolvency Law.

Furthermore, any person who acquires credits which were held by one of the above persons is also presumed to be especially related if the acquisition takes place in the two years leading up to the declaration of insolvency. This presumption is rebuttable.

The claims of Noteholders may, therefore, to the extent they are considered especially related to the Guarantor or Iberdrola Finanzas, be subordinated as a result of the application of the provisions of the Spanish Insolvency Law. Noteholders should be aware of this subordination risk and take those precautions they consider appropriate to ensure that their claims are not subordinated.

Risks related to the market generally

Set out below is a brief description of the principal market risks, including liquidity risk, exchange rate risk, interest rate risk and credit risk:

The secondary market generally

Notes may have no established trading market when issued, and one may never develop. If a market does develop, it may not be very liquid. Therefore, investors may not be able to sell their Notes easily or at prices

that will provide them with a yield comparable to similar investments that have a developed secondary market. This is particularly the case for Notes that are especially sensitive to interest rate, currency or market risks, are designed for specific investment objectives or strategies or have been structured to meet the investment requirements of limited categories of investors. These types of Notes generally would have a more limited secondary market and more price volatility than conventional debt securities. Illiquidity may have a severely adverse effect on the market value of Notes.

Exchange rate risks and exchange controls

Each Issuer will pay principal and interest on the Notes and the Guarantor will make any payments under the Guarantee in the Specified Currency. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the **Investor's Currency**) other than the Specified Currency. These include the risk that exchange rates may significantly change (including changes due to devaluation of the Specified Currency 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 the Specified Currency would decrease (a) the Investor's Currency-equivalent yield on the Notes, (b) the Investor's Currency equivalent value of the principal payable on the Notes and (c) the Investor's Currency equivalent market value of the Notes.

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

Interest rate risks

Investment in Fixed Rate Notes involves the risk that subsequent changes in market interest rates may adversely affect the value of the Fixed Rate Notes.

Credit ratings may not reflect all risks

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

DOCUMENTS INCORPORATED BY REFERENCE

The following documents which have previously been published and which have been filed with the CSSF shall be incorporated in, and form part of, this Base Prospectus:

(a) the independent auditor's report and audited non-consolidated annual financial statements of Iberdrola International for the financial year ended 31 December 2015;

(b) the independent auditor's report and audited non-consolidated annual financial statements of Iberdrola International for the financial year ended 31 December 2014;

(c) the independent auditor's report and audited non-consolidated annual financial statements of Iberdrola Finanzas for the financial year ended 31 December 2015;

(d) the independent auditor's report and audited non-consolidated annual financial statements of Iberdrola Finanzas for the financial year ended 31 December 2014;

(e) the auditors' report and audited consolidated annual financial statements of the Guarantor for the financial year ended 31 December 2015;

(f) the auditors' report and audited consolidated annual financial statements of the Guarantor for the financial year ended 31 December 2014;

(g) the unaudited consolidated interim financial statements of the Guarantor for the three months ended 31 March 2016;

(h) the Terms and Conditions of the Notes set out on pages 25 to 55 (inclusive) of the Base Prospectus of Iberdrola International dated 14 June 2012 prepared by Iberdrola International in connection with the Programme;

(i) the Terms and Conditions of the Notes set out on pages 23 to 52 (inclusive) of the Base Prospectus of Iberdrola International dated 12 June 2013 prepared by Iberdrola International in connection with the Programme;

(j) the Terms and Conditions of the Notes set out on pages 25 to 54 (inclusive) of the Base Prospectus of Iberdrola International dated 25 June 2014 prepared by Iberdrola International in connection with the Programme; and

(k) the Terms and Conditions of the Notes set out on pages 27 to 59 (inclusive) of the Base Prospectus of Iberdrola International dated 26 June 2015 prepared by Iberdrola International in connection with the Programme.

The information set out in the table below, which is required by the Prospectus Regulation, is contained in the documents incorporated by reference:

Information incorporated by reference	*Page number*
Iberdrola International B.V.	
Annual report for 2015	
Independent auditor's report	27-30
Directors' report	3-6
Balance sheet	8
Profit and loss account	9
Accounting policies and explanatory notes	11-24

Annual report for 2014

Independent auditor's report	26-34
Profit and loss account	9
Balance sheet	8
Accounting policies and explanatory notes	11-25

Iberdrola Finanzas, S.A.U.

Annual report for 2015

Independent audit report	Cover pages
Balance sheet	2
Income statement	3
Statement of changes in equity	4-5
Cash flow statement	6
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Annual report for 2014

Independent audit report	Cover pages
Balance sheet	2
Income statement	3
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Iberdrola, S.A.

Annual report for 2015 (including audited consolidated annual financial statements)

Audit report	Cover pages
Consolidated statements of financial position	4-5
Consolidated income statements	6
Consolidated statements of comprehensive income	7
Consolidated statements of changes in equity	8-9
Consolidated statements of cash flow	10

Annual report for 2014 (including audited consolidated annual financial statements)

Audit report	Cover pages
Balance sheet	4-5
Profit and loss account	6
Accounting policies and explanatory notes	11-154

Interim report for first quarter 2016

Profit and loss	43
Balance sheet	41-42

Any information incorporated by reference that is not listed in the cross reference table above is considered as additional information and is not required by the relevant schedules of the Prospectus Regulation.

Any non-incorporated parts of a document referred to herein are deemed not relevant for an investor.

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

Following the publication of this Base Prospectus, a supplement may be prepared by the Issuers and approved by the CSSF in accordance with Article 16 of the Prospectus Directive. Statements contained in any such supplement (or contained in any document incorporated by reference therein) shall, to the extent applicable, be deemed to modify or supersede statements contained in this Base Prospectus or in a document which is incorporated by reference in this Base Prospectus. Any statement so modified or superseded shall not, except as so modified or superseded, constitute a part of this Base Prospectus.

The Issuers and the Guarantor will, in the event of any significant new factor, material mistake or inaccuracy relating to information included in this Base Prospectus which is capable of affecting the assessment of any Notes, prepare a supplement to this Base Prospectus or publish a new Base Prospectus for use in connection with any subsequent issue of Notes.

TERMS AND CONDITIONS OF THE NOTES ISSUED BY IBERDROLA INTERNATIONAL B.V.

The following is the text of the terms and conditions which, subject to completion in accordance with the provisions of the relevant Final Terms, will be applicable to the Notes in definitive form (if any) issued in exchange for the Global Note(s) representing each Series and, subject further to simplification by deletion of non-applicable provisions, will be endorsed on such Bearer Notes or on the Certificates relating to such Registered Notes, details of the relevant Series being shown on the relevant Notes or Certificates and in the relevant Final Terms. References in the Conditions to "Notes" are to Notes issued by Iberdrola International B.V. and are to the Notes of one Series only, not to all Notes which may be issued under the Programme.

Sentences in italics shall not form part of these terms and conditions in respect of Definitive Notes.

The euro medium term notes (the **Notes**) are issued pursuant to an amended and restated agency agreement (as amended or supplemented from time to time, the **Agency Agreement**) dated 22 June 2016 between Iberdrola Finanzas, S.A.U., Iberdrola International B.V. (the **Issuer**), Iberdrola, S.A. (the **Guarantor**), The Bank of New York Mellon, London Branch as fiscal agent (the **Fiscal Agent**), paying agent and transfer agent, The Bank of New York Mellon (Luxembourg) S.A. as paying agent (together with the Fiscal Agent and any additional or other paying agents in respect of the Notes from time to time appointed, the **Paying Agents**, and each a **Paying Agent**), as transfer agent (together with the transfer agent referred to above and any additional or other transfer agents in respect of the Notes from time to time appointed, the **Transfer Agent**) and as registrar (the **Registrar**) and with the benefit of a deed of covenant (the **Deed of Covenant**) dated 22 June 2016 executed by the Issuer in relation to the Notes. The Guarantor has, for the benefit of the Noteholders from time to time, executed and delivered a deed of guarantee dated 22 June 2016 (the **Deed of Guarantee**) under which it has guaranteed the due and punctual payment of all amounts due by the Issuer under the Notes and the Deed of Covenant as and when the same shall become due and payable. The initial Calculation Agent(s) (if any) is specified on the Notes. The Noteholders (as defined below), the Holders of the interest coupons (the **Coupons**) appertaining to interest bearing Notes in bearer form and, where applicable in the case of such Notes, talons for further Coupons (the **Talons**) (the **Couponholders**) are deemed to have notice of all of the provisions of the Agency Agreement applicable to them. As used in these terms and conditions (the **Conditions**), **Tranche** means Notes which are identical in all respects. Copies of the Agency Agreement, the Deed of Covenant and the Deed of Guarantee are available for inspection at the specified offices of each of the Paying Agents, the Registrar and the Transfer Agents. If the Notes are to be admitted to trading on the regulated market of the Luxembourg Stock Exchange, the applicable Final Terms will be published on the website of the Luxembourg Stock Exchange at www.bourse.lu.

1. Form, Specified Denomination and Title

The Notes are issued in bearer form (**Bearer Notes**, which expression includes Notes which are specified to be Exchangeable Bearer Notes), in registered form (**Registered Notes**) or in bearer form exchangeable for Registered Notes (**Exchangeable Bearer Notes**) in each case in the Specified Denomination(s) and in the Specified Currency shown in the relevant Final Terms provided that in the case of any Notes which are to be admitted to trading on a regulated market within the European Economic Area or offered to the public in a Member State of the European Economic Area in circumstances which require the publication of a Prospectus under the Prospectus Directive, the minimum Specified Denomination shall be €100,000 (or its equivalent in any other currency as at the date of issue of the relevant Notes).

All Registered Notes shall have the same Specified Denomination. Where Exchangeable Bearer Notes are issued, the Registered Notes for which they are exchangeable shall have the same Specified Denomination as the lowest specified denomination of the Exchangeable Bearer Notes.

Bearer Notes are issued with Coupons (and, where appropriate, a Talon or Talons) attached, save in the case of Notes which do not bear interest, in which case references to interest (other than in relation to interest due after the Maturity Date), Coupon and Talons in these Conditions are not applicable. Registered Notes are represented by registered certificates (**Certificates**), each Certificate representing a holding of one or more Registered Notes by the same Holder.

Title to the Bearer Notes and Coupons and Talons shall pass by delivery. Title to the Registered Notes shall pass by registration in the register which the Issuer shall procure to be kept by the Registrar in accordance with the provisions of the Agency Agreement (the **Register**). Except as ordered by a court of competent jurisdiction or as required by law, the Holder of any Note, Coupon or Talon shall be deemed to be and may be treated as the absolute owner of such Note, Coupon or Talon, as the case may be, for the purpose of receiving payment thereof or on account thereof and for all other purposes, whether or not such Note, Coupon or Talon shall be overdue and notwithstanding any notice of ownership, theft or loss thereof or any writing thereon made by anyone.

In these Conditions, **Noteholder** means the bearer of any Bearer Note or the person in whose name a Registered Note is registered (as the case may be), **Holder** (in relation to a Note, Coupon or Talon) means the bearer of any Bearer Note, Coupon or Talon or the person in whose name a Registered Note is registered (as the case may be) and capitalised terms have the meanings given to them herein, the absence of any such meaning indicating that such term is not applicable to the Notes.

All capitalised terms which are not defined in these Conditions will have the meanings given to them in Part A of the relevant Final Terms. Those definitions will be endorsed on the Definitive Notes.

2. Exchanges of Exchangeable Bearer Notes and Transfers of Registered Notes

(a) Exchange of Exchangeable Bearer Notes

Subject as provided in Condition 2(f), Exchangeable Bearer Notes may be exchanged for the same aggregate principal amount of Registered Notes at the request in writing of the relevant Noteholder and upon surrender of each Exchangeable Bearer Note to be exchanged, together with all unmatured Coupons and Talons relating to it, at the specified office of the Registrar or any Transfer Agent; provided, however, that where an Exchangeable Bearer Note is surrendered for exchange after the Record Date (as defined in Condition 7(b)) for any payment of interest, the Coupon in respect of that payment of interest need not be surrendered with it. Registered Notes may not be exchanged for Bearer Notes. Bearer Notes of one Specified Denomination may not be exchanged for Bearer Notes of another Specified Denomination. Bearer Notes which are not Exchangeable Bearer Notes may not be exchanged for Registered Notes.

(b) Transfer of Registered Notes

One or more Registered Notes may be transferred upon the surrender of the Certificate representing such Registered Notes to be transferred together with the form of transfer endorsed on such Certificate duly completed and executed, at the specified office of the Registrar or any Transfer Agent. In the case of a transfer of part only of a holding of Registered Notes represented by one Certificate, a new Certificate in respect of the balance not transferred will be issued to the transferor. In the case of a transfer of Registered Notes to a person who is already a Holder of Registered Notes, a new Certificate representing the enlarged holding shall only be issued against surrender to the Transfer Agent of the Certificate representing the existing holding.

(c) Exercise of Options or Partial Redemption in Respect of Registered Notes

In the case of an exercise of an option by the Issuer or a Noteholder in respect of, or a partial redemption of, a holding of Registered Notes represented by a single Certificate, a new Certificate

shall be issued to the Holder to reflect the exercise of such option or in respect of the balance of the holding not redeemed. In the case of a partial exercise of an option resulting in Registered Notes of the same holding having different terms, separate Certificates shall be issued in respect of those Notes of that holding that have the same terms. New Certificates shall only be issued against surrender of the existing Certificates to the Registrar or any Transfer Agent. In the case of a transfer of Registered Notes to a person who is already a Holder of Registered Notes, a new Certificate representing the enlarged holding shall only be issued against surrender to the Transfer Agent of the Certificate representing the existing holding.

(d) Delivery of new Certificates

Each new Certificate to be issued pursuant to Conditions 2(a), 2(b) or 2(c) will, within three business days (being a day, other than a Saturday or Sunday, on which banks are open for business in the place of the specified office of the Transfer Agent or the Registrar to whom such request for exchange or form of transfer shall have been delivered) of receipt of such request for exchange or form of transfer, be available for delivery at the specified office of the Transfer Agent or of the Registrar (as the case may be) to whom such delivery shall have been made or, at the option of the Holder making such delivery as aforesaid and as specified in the relevant request for exchange or form of transfer, be mailed at the risk of the Holder entitled to the new Certificate to such address as may be specified in such request for exchange or form of transfer.

(e) Exchange free of charge

Exchange and transfer of Notes and Certificates on registration, transfer, partial redemption or exercise of an option will be effected without charge by or on behalf of the Issuer, the Registrar or the Transfer Agents, but upon payment (or the giving of such indemnity as the Registrar or the relevant Transfer Agent may require in respect thereof) of any tax or other governmental charges which may be imposed in relation to it.

(f) Closed periods

No Noteholder may require the transfer of a Registered Note to be registered or an Exchangeable Bearer Note to be exchanged for a Registered Note (i) during the period of 15 days ending on the due date for redemption of that Note, (ii) during the period of 15 days prior to any date on which Notes may be redeemed by the Issuer at its option pursuant to Condition 6(e), or (iii) after any such Note has been drawn for redemption in whole or in part. An Exchangeable Bearer Note called for redemption may, however, be exchanged for a Registered Note in respect of which the Certificate is simultaneously surrendered not later than the relevant Record Date.

(g) Restricted Securities

For so long as any Registered Note is outstanding and is a "*restricted security*" (as defined in Rule 144(a)(3) under the United States Securities Act of 1933 (as amended) (the **Securities Act**) and during any period in relation thereto during which it is neither subject to Sections 13 or 15(d) of the United States Exchange Act of 1934 (as amended) (the **Exchange Act**) nor exempt from reporting pursuant to Rule 12g3-2(b) of the Exchange Act, the Issuer and the Guarantor will make available on request to each Holder of such Note in connection with any resale thereof and to any prospective purchaser of such Note from such Holder, in each case upon request, the information specified in and meeting the requirements of Rule 144A(d)(4) under the Securities Act.

3. Status and Guarantee

(a) Status of Notes

The Notes constitute direct, unconditional, unsubordinated and (without prejudice to the provisions of Condition 4) unsecured obligations of the Issuer and rank *pari passu* and rateably without any preference among themselves and (subject to any applicable statutory exceptions) at least *pari passu* with all other unsecured and unsubordinated indebtedness and monetary obligations of the Issuer, present and future.

(b) Guarantee

(i) The Guarantor has unconditionally and irrevocably guaranteed the due payment of all sums expressed to be payable by the Issuer under the Notes and Coupons on an unsubordinated basis.

(ii) The obligations of the Guarantor in respect of Notes constitute direct, unconditional, unsubordinated and (without prejudice to Condition 4) unsecured obligations of the Guarantor and (subject to any applicable statutory exceptions and unless they qualify by law as subordinated credits under Article 92 of the Spanish Insolvency Law) rank *pari passu* with all other unsubordinated and unsecured indebtedness and monetary obligations involving or otherwise related to borrowed money of the Guarantor, present and future. Its obligations in that respect (the **Guarantee**) are contained in the Deed of Guarantee.

4. Negative Pledge

(a) So long as any of the Notes or Coupons remain outstanding (as defined in the Agency Agreement):

(i) neither the Issuer nor the Guarantor will create or permit to subsist any mortgage, charge, pledge, lien or other form of encumbrance or security interest (**Security**) (other than Permitted Security) upon the whole or any part of its undertaking, assets or revenues present or future to secure any Relevant Indebtedness, or any guarantee of or, indemnity in respect of, any Relevant Indebtedness;

(ii) each of the Issuer and the Guarantor will procure that no other person creates or permits to subsist any Security (other than Permitted Security) upon the whole or any part of the undertaking, assets or revenues present or future of that other person to secure (A) any of the Issuer's Relevant Indebtedness or the Guarantor's Relevant Indebtedness, or any guarantee of or indemnity in respect of any of the Issuer's Relevant Indebtedness or the Guarantor's Relevant Indebtedness or (B) where the person in question is a Subsidiary of the Guarantor, any of the Relevant Indebtedness of any person other than (1) that Subsidiary of the Guarantor or (2) if that Subsidiary is not a Relevant Subsidiary, any other Subsidiary of the Guarantor (which is not the Issuer or a Relevant Subsidiary), or in each case any guarantee of, or indemnity in respect, of any such Relevant Indebtedness; and

(iii) each of the Issuer and the Guarantor will procure that no person other than the Guarantor gives any guarantee of, or indemnity in respect of, any of its Relevant Indebtedness,

unless, at the same time or prior thereto, the Issuer's obligations under the Notes and Coupons or, as the case may be, the Guarantor's obligations under the Guarantee (aa) are secured equally and rateably therewith or benefit from a guarantee or indemnity in substantially identical terms thereto, as the case may be, or (bb) have the benefit of such other security, guarantee, indemnity or other arrangement as shall be approved by an Extraordinary Resolution (as defined in the Agency Agreement) of the Noteholders.

(b) For the purposes of these Conditions

Permitted Security means any Security created in respect of any Relevant Indebtedness of a company which has merged with the Guarantor or one of its Subsidiaries or which has been acquired by the Guarantor or one of its Subsidiaries, provided that such security was already in existence at the time of the merger or the acquisition, was not created for the purpose of financing the merger or the acquisition and is not increased in amount and not extended following the merger or the acquisition;

person means any individual, company, corporation, firm, partnership, joint venture, association, organisation, state or agency of a state or other entity, whether or not having a separate legal personality;

Relevant Indebtedness means any present or future indebtedness for borrowed money of the Guarantor, the Issuer or any other person or entity in the form of, or represented by, bonds, notes, debentures, loan stock or other securities which are or are capable of being quoted, listed or ordinarily dealt in on any stock exchange, over the counter market or other securities market (for which purpose any such bonds, notes, debentures, loan stock or other securities shall be deemed not to be capable of being so quoted, listed or ordinarily dealt in if the terms of the issue thereof expressly so provide);

Relevant Subsidiary means a Subsidiary of the Guarantor which is incorporated in a country whose sovereign debt is rated A or more by Standard & Poor's (or any equivalent rating) and whose total assets or revenues or EBITDA (consolidated if it has Subsidiaries) represent 7 per cent. or more of the consolidated total assets, revenues or EBITDA of the Guarantor and its Subsidiaries for the time being, EBITDA for these purposes being the aggregate of (a) "profits from operations" (after adding back "depreciation and amortisation charge, allowances and provisions") and (b) "results of companies accounted for using the equity method"; and

Subsidiary means, at any particular time, 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. 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.

5. Interest and Other Calculations

(a) Interest on Fixed Rate Notes

Each Fixed Rate Note bears interest on its outstanding nominal amount from and including the Interest Commencement Date at the rate per annum (expressed as a percentage) equal to the Rate of Interest, such interest being payable in arrear on each Interest Payment Date.

If a Fixed Coupon Amount or a Broken Amount is specified hereon, the amount of interest payable on each Interest Payment Date will amount to the Fixed Coupon Amount or, if applicable, the Broken Amount so specified and, in the case of the Broken Amount, will be payable on the particular Interest Payment Date(s).

(b) Interest on Floating Rate Notes

(i) Interest Payment Dates

Each Floating Rate Note bears interest on its outstanding nominal amount from the Interest Commencement Date at the rate per annum (expressed as a percentage) equal to the Rate of Interest, such interest being payable in arrear on each Interest Payment Date. Such Interest Payment Date(s) is/are either shown in the relevant Final Terms as Specified Interest Payment Dates or, if no Specified Interest Payment Date(s) is/are shown thereon, Interest Payment Date shall mean each date which falls the number of months or other period specified as the Interest Period in the relevant Final Terms after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date.

(ii) Business Day Convention

If any date referred to in these Conditions which is specified to be subject to adjustment in accordance with a Business Day Convention would otherwise fall on a day which is not a Relevant Business Day, then, if the Business Day Convention specified is (i) the Floating Rate Convention, such date shall be postponed to the next day which is a Relevant Business Day unless it would thereby fall into the next calendar month, in which event (A) such date shall be brought forward to the immediately preceding Relevant Business Day and (B) each subsequent such date shall be the last Relevant Business Day of the month in which such date would have fallen had it not been subject to adjustment, (ii) the Following Business Day Convention, such date shall be postponed to the next day which is a Relevant Business Day, (iii) the Modified Following Business Day Convention, such date shall be postponed to the next day which is a Relevant Business Day unless it would thereby fall into the next calendar month, in which event such date shall be brought forward to the immediately preceding Relevant Business Day or (iv) the Preceding Business Day Convention, such date shall be brought forward to the immediately preceding Relevant Business Day.

(iii) Rate of Interest for Floating Rate Notes

The Rate of Interest in respect of Floating Rate Notes for each Interest Accrual Period shall be determined in the manner specified hereon and the provisions below relating to either ISDA Determination or Screen Rate Determination shall apply, depending upon which is specified in the relevant Final Terms as being applicable.

(A) ISDA Determination for Floating Rate Notes

Where ISDA Determination is specified in the relevant Final Terms as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Accrual Period shall be determined by the Calculation Agent as a rate equal to the relevant ISDA Rate. For the purposes of this sub-paragraph (A), **ISDA Rate** for an Interest Accrual Period means a rate equal to the Floating Rate that would be determined by the Calculation Agent under a Swap Transaction under the terms of an agreement incorporating the ISDA Definitions and under which:

(x) the Floating Rate Option is as specified in the relevant Final Terms;

(y) the Designated Maturity is a period specified in the relevant Final Terms; and

(z) the relevant Reset Date is the first day of that Interest Accrual Period unless otherwise specified in the relevant Final Terms;

For the purposes of this sub-paragraph (A), "Floating Rate", "Calculation Agent", "Floating Rate Option", "Designated Maturity", "Reset Date" and "Swap Transaction" have the meanings given to those terms in the ISDA Definitions.

(B) Screen Rate Determination for Floating Rate Notes

Where Screen Rate Determination is specified in the relevant Final Terms as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Accrual Period will, subject as provided below, be either:

(1) the offered quotation; or

(2) the arithmetic mean of the offered quotations,

(expressed as a percentage rate per annum) for the Reference Rate (being either LIBOR or EURIBOR, as specified in the applicable Final Terms) which appears or appear, as the case may be, on the Relevant Screen Page (or such replacement page on that service which displays the information) as at 11.00 a.m. (London time in the case of LIBOR or Brussels time in the case of EURIBOR) on the Interest Determination Date in question as determined by the Calculation Agent. If five or more of such offered quotations are available on the Relevant Screen Page, the highest (or, if there is more than one such highest quotation, one only of such quotations) and the lowest (or, if there is more than one such lowest quotation, one only of such quotations) shall be disregarded by the Calculation Agent for the purpose of determining the arithmetic mean of such offered quotations.

(x) if the Relevant Screen Page is not available or, if sub paragraph (B)(1) applies and no such offered quotation appears on the Relevant Screen Page, or, if sub-paragraph (B)(2) applies and fewer than three such offered quotations appear on the Relevant Screen Page, in each case as at the time specified above, subject as provided below, the Calculation Agent shall request, if the Reference Rate is LIBOR, the principal London office of each of the Reference Banks or, if the Reference Rate is EURIBOR, the principal Euro-zone office of each of the Reference Banks, to provide the Calculation Agent with its offered quotation (expressed as a percentage rate per annum) for the Reference Rate if the Reference Rate is LIBOR, at approximately 11.00 a.m. (London time), or if the Reference Rate is EURIBOR, at approximately 11.00 a.m. (Brussels time) on the Interest Determination Date in question. If two or more of the Reference Banks provide the Calculation Agent with such offered quotations, the Rate of Interest for such Interest Period shall be the arithmetic mean of such offered quotations as determined by the Calculation Agent; and

(y) if paragraph (x) above applies and the Calculation Agent determines that fewer than two Reference Banks are providing offered quotations, subject as provided below, the Rate of Interest shall be the arithmetic mean of the rates per annum (expressed as a percentage) as communicated to (and at the request of) the Calculation Agent by the Reference Banks or any two or more of them, at which such banks were offered, if the Reference Rate is LIBOR, at approximately 11.00 a.m. (London time) or, if the Reference Rate is EURIBOR, at approximately 11.00 a.m. (Brussels time) on the relevant Interest Determination Date, deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate by leading banks in, if the Reference Rate is LIBOR, the London inter-bank market or, if the Reference Rate is EURIBOR, the Euro-zone inter-bank

market, as the case may be, or, if fewer than two of the Reference Banks provide the Calculation Agent with such offered rates, the offered rate for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, or the arithmetic mean of the offered rates for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, at which, if the Reference Rate is LIBOR, at approximately 11.00 a.m. (London time) or, if the Reference Rate is EURIBOR, at approximately 11.00 a.m. (Brussels time), on the relevant Interest Determination Date, any one or more banks (which bank or banks is or are suitable for such purpose) informs the Calculation Agent it is quoting to leading banks in, if the Reference Rate is LIBOR, the London inter-bank market or, if the Reference Rate is EURIBOR, the Euro-zone inter-bank market, as the case may be, provided that, if the Rate of Interest cannot be determined in accordance with the foregoing provisions of this paragraph, the Rate of Interest shall be determined as at the last preceding Interest Determination Date (though substituting, where a different Margin or Maximum or Minimum Rate of Interest is to be applied to the relevant Interest Accrual Period from that which applied to the last preceding Interest Accrual Period, the Margin or Maximum or Minimum Rate of Interest relating to the relevant Interest Accrual Period, in place of the Margin or Maximum or Minimum Rate of Interest relating to that last preceding Interest Accrual Period).

(C) Linear Interpolation

Where Linear Interpolation is specified hereon as applicable in the Applicable Final Terms in respect of an Interest Accrual Period, the Rate of Interest for such Interest Accrual Period shall be calculated by the Calculation Agent by straight line linear interpolation by reference to two rates based on the relevant Reference Rate (where Screen Rate Determination is specified in the Applicable Final Terms as applicable) or the relevant Floating Rate Option (where ISDA Determination is specified in the Applicable Final Terms as applicable), one of which shall be determined as if the Applicable Maturity were the period of time for which rates are available next shorter than the length of the relevant Interest Accrual Period and the other of which shall be determined as if the Applicable Maturity were the period of time for which rates are available next longer than the length of the relevant Interest Accrual Period provided however that if there is no rate available for the period of time next shorter or, as the case may be, next longer, then the Calculation Agent shall determine such rate at such time and by reference to such sources as its determines appropriate.

Applicable Maturity means: (a) in relation to Screen Rate Determination, the period of time designated in the Reference Rate, and (b) in relation to ISDA Determination, the Designated Maturity.

(c) Interest on Zero Coupon Notes

Where a Note the interest basis of which is specified to be Zero Coupon is repayable prior to the Maturity Date and is not paid when due, the amount due and payable prior to the Maturity Date shall be the Early Redemption Amount of such Note. As from the Maturity Date, the Rate of Interest for any overdue principal of such a Note shall be a rate per annum (expressed as a percentage) equal to the Amortisation Yield (calculated in accordance with Condition 6(d)).

(d) Accrual of Interest

Interest shall cease to accrue on each Note on the due date for redemption unless payment is improperly withheld or refused, in which event interest shall continue to accrue (both before and after judgment) at the Rate of Interest in the manner provided in this Condition 5 to the Relevant Date (as defined in Condition 8).

(e) Margin, Maximum/Minimum Interest Rates and Redemption Amounts, and Rounding

(i) If any Margin is specified hereon (either (x) generally, or (y) in relation to one or more Interest Accrual Periods), an adjustment shall be made to all Rates of Interest, in the case of (x), or the Rates of Interest for the specified Interest Accrual Periods, in the case of (y), calculated in accordance with Condition 5(b) above by adding (if a positive number) or subtracting (if a negative number) the absolute value of such Margin subject always to the next paragraph.

(ii) If any Maximum or Minimum Interest Rate or Redemption Amount is specified hereon, then any Rate of Interest or Redemption Amount shall be subject to such maximum or minimum, as the case may be.

(iii) For the purposes of any calculations required pursuant to these Conditions (unless otherwise specified), (x) all percentages resulting from such calculations will be rounded, if necessary, to the nearest one hundred-thousandth of a percentage point (with halves being rounded up), (y) all figures will be rounded to seven significant figures (with halves being rounded up) and (z) all currency amounts which fall due and payable will be rounded to the nearest unit of such currency (with halves being rounded up), save in the case of Yen, which shall be rounded down to the nearest Yen. For these purposes **unit** means, with respect to any currency other than Euro, the lowest amount of such currency which is available as legal tender in the country of such currency and, with respect to Euro, means 0.01 Euro.

(f) Calculations

The amount of interest payable in respect of any Note for any period shall be calculated by multiplying the product of the Rate of Interest and the outstanding principal amount of each Note by the Day Count Fraction specified in the relevant Final Terms save that, where an Interest Amount (or a formula for its calculation) is specified in respect of such period, the amount of interest payable in respect of such Note for such period will equal such Interest Amount (or be calculated in accordance with such formula). Where any Interest Period comprises two or more Interest Accrual Periods, the amount of interest payable in respect of such Interest Period shall be the sum of the amounts of interest payable in respect of each of those Interest Accrual Periods.

(g) Determination and Publication of Rates of Interest, Interest Amounts, Final Redemption Amounts, Early Redemption Amounts and Optional Redemption Amounts

The Calculation Agent shall, as soon as practicable on each Interest Determination Date or such other time on such date as the Calculation Agent may be required to calculate any rate or amount, obtain any quote or make any determination or calculation, determine the Rate of Interest and calculate the Interest Amounts in respect of each Specified Denomination of the Notes for the relevant Interest Accrual Period, calculate the Final Redemption Amount, Early Redemption Amount or the Optional Redemption Amount, obtain such quote or make such determination or calculation, as the case may be, and cause the Rate of Interest and the Interest Amounts for each Interest Period and the relevant Interest Payment Date and, if required to be calculated, the Final Redemption Amount, Early Redemption Amount or Optional Redemption Amount to be notified to the Fiscal Agent, the Issuer, each of the Paying Agents, the Noteholders, any other Calculation Agent appointed in respect of the Notes which is to make a further calculation upon receipt of such

information and, if the Notes are listed on a stock exchange or other relevant authority and the rules of such exchange or other relevant authority so require, such exchange or other relevant authority as soon as possible after their determination but in no event later than (i) the commencement of the relevant Interest Period, if determined prior to such time, in the case of a Rate of Interest, the Interest Amount, the Interest Payment Date, the Final Redemption Amount, Early Redemption Amount and Optional Redemption Amount, or (ii) in all other cases, as soon as practicable but in no event later than the fourth Relevant Business Day after such determination. The Interest Amounts and the Interest Payment Date so published may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without notice in the event of an extension or shortening of the Interest Period. If the Notes become due and payable under Condition 10, the accrued interest and the Rate of Interest payable in respect of the Notes shall nevertheless continue to be calculated as previously in accordance with this Condition but no publication of the Rate of Interest or the Interest Amounts so calculated need be made. The determination of each Rate of Interest, Interest Amount, Final Redemption Amount, the Early Redemption Amount and the Optional Redemption Amount, the obtaining of each quote and the making of each determination or calculation by the Calculation Agent shall (in the absence of manifest error) be final and binding upon all parties.

(h) Definitions

In these Conditions, unless the context otherwise requires, the following defined terms shall have the meanings set out below:

Day Count Fraction means, in respect of the calculation of an amount of interest on any Note for any period of time (whether or not constituting an Interest Period, the **Calculation Period**):

(i) if **Actual/Actual** or **Actual/Actual (ISDA**) is specified in the relevant Final Terms, the actual number of days in the Calculation Period divided by 365 (or, if any portion of that Calculation Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Calculation Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Calculation Period falling in a non-leap year divided by 365);

(ii) if **Actual/365 (Fixed)** is specified in the relevant Final Terms, the actual number of days in the Calculation Period divided by 365;

(iii) if **Actual/360** is specified in the relevant Final Terms, the actual number of days in the Calculation Period divided by 360;

(iv) if **30/360**, **360/360** or **Bond Basis** is specified in the relevant Final Terms, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$Day\ Count\ Fraction = \frac{[360 \times (Y_2 - Y_1] + [30 \times (M_2 - M_1] + (D_2 - D_1)}{360}$$

where:

"Y1" is the year, expressed as a number, in which the first day of the Interest Period falls;

"Y2" is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"M1" is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

"M2" is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"D1" is the first calendar day, expressed as a number, of the Interest Period, unless such number is 31, in which case D1 will be 30; and

"D2" is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 32 and D2 is greater than 29, in which case D2 will be 30;

(v) if **30E/360** or **Eurobond Basis** is specified in the relevant Final Terms, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$Day\ Count\ Fraction = \frac{[360 \times (Y_2 - Y_1] + [30 \times (M_2 - M_1] + (D_2 - D_1)}{360}$$

where:

"Y1" is the year, expressed as a number, in which the first day of the Interest Period falls;

"Y2" is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"M1" is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

"M2" is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"D1" is the first calendar day, expressed as a number, of the Interest Period, unless such number would be 31, in which case D1 will be 30; and

"D2" is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31, in which case D2 will be 30;

(vi) if **30E/360 (ISDA)** is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$Day\ Count\ Fraction = \frac{[360 \times (Y_2 - Y_1] + [30 \times (M_2 - M_1] + (D_2 - D_1)}{360}$$

where:

"Y1" is the year, expressed as a number, in which the first day of the Interest Period falls;

"Y2" is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"M1" is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

"M2" is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"D1" is the first calendar day, expressed as a number, of the Interest Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case D1 will be 30; and

"D2" is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless (i) that day is the last day of February but not the Maturity Date or (ii) such number would be 31, in which case D2 will be 30; and

(vii) if **Actual/Actual (ICMA)** is specified in the relevant Final Terms:

(i) where the Calculation Period is equal to or shorter than the Determination Period during which it falls, the actual number of days in the Calculation Period divided by the product of (A) the actual number of days in such Determination Period and (B) the number of Determination Periods in any year;

(ii) where the Calculation Period is longer than one Determination Period, the sum of:

(A) the actual number of days in such Calculation Period falling in the Determination Period in which it begins divided by the product of (I) the actual number of days in such Determination Period and (II) the number of Determination Periods in any period of one year; and

(B) the actual number of days in such Calculation Period falling in the next Determination Period divided by the product of (I) the actual number of days in such Determination Period and (II) the number of Determination Periods in any period of one year,

where:

Designated Maturity means, in relation to Screen Rate Determination, the period of time designated in the Reference Rate.

Determination Period means the period from and including a Determination Date in any year to but excluding the next Determination Date; and

Determination Date means the date specified as such in the relevant Final Terms or, if none is so specified, the Interest Payment Date.

Euro-zone means the member states of the European Union that are participating in the third stage of European Monetary Union.

Interest Accrual Period means the period beginning on, and including, the Interest Commencement Date and ending on, but excluding, the first Interest Period Date and each successive period beginning on an Interest Period Date and ending on, but excluding, the next succeeding Interest Period Date.

Interest Amount means the amount of interest payable and, in the case of Fixed Rate Notes, means the Fixed Coupon Amount or Broken Amount, as the case may be.

Interest Commencement Date means the date of issue of the Notes (the **Issue Date**) or such other date as may be specified in the relevant Final Terms.

Interest Determination Date means, with respect to a Rate of Interest and Interest Accrual Period, the date specified as such in the relevant Final Terms or, if none is so specified, (i) the first day of such Interest Accrual Period if the Specified Currency is sterling or (ii) the day falling two Relevant Business Days in London prior to the first day of such Interest Accrual Period if the specified

currency is not sterling, or (iii) the day falling two TARGET2 Business Days prior to the first day of such Interest Accrual Period if the specified currency is euro.

Interest Period means the period beginning on, and including, the Interest Commencement 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.

Interest Period Date means each Interest Payment Date unless otherwise specified in the relevant Final Terms.

ISDA Definitions means the 2006 ISDA Definitions, as published by the International Swaps and Derivatives Association, Inc., unless otherwise specified in the relevant Final Terms.

Rate of Interest means the rate of interest payable from time to time in respect of the Notes and which is either specified, or calculated in accordance with the provisions, in the relevant Final Terms.

Reference Banks means, in the case of a determination of LIBOR, the principal London office of four major banks in the London inter-bank market and, in the case of a determination of EURIBOR, the principal Euro-zone office of four major banks in the Euro-zone inter-bank market, in each case selected by the Calculation Agent.

Reference Rate means the rate specified as such in the relevant Final Terms.

Relevant Business Day means:

(i) in the case of a currency other than euro, a day (other than a Saturday or a Sunday) on which commercial banks and foreign exchange markets settle payments in the principal financial centre for that currency; and/or

(ii) in the case of euro, a day on which the TARGET2 System is operating; and/or

(iii) in the case of a currency and/or one or more Business Centres, a day (other than a Saturday or a Sunday) on which commercial banks and foreign exchange markets settle payments in such currency in the Business Centre(s) or, if no currency is specified, generally in each of the Business Centres so specified.

Relevant Screen Page means such page, section, caption, column or other part of a particular information service as may be specified in the relevant Final Terms (or any successor replacement page, section, caption, column or other part of a particular information service).

Specified Currency means the currency specified as such in the relevant Final Terms or, if none is specified, the currency in which the Notes are denominated.

TARGET2 Business Day means a day on which the TARGET2 System is operating.

TARGET2 System means the Trans European Automated Real Time Gross Settlement Express Transfer system (TARGET2) which was launched on 19 November 2007 or any successor thereto.

(i) Change of Interest Basis

If Changes of Interest Basis is specified in the relevant Final Terms as being applicable, the Final Terms will indicate the relevant Interest Periods to which the Fixed Rate Note provisions, Floating Rate Note provisions and/or Zero Coupon Note provisions shall apply.

(j) Calculation Agent

The Issuer will procure that there shall at all times be one or more Calculation Agents if provision is made for them in the Conditions applicable to the Notes and for so long as any Notes are outstanding. Where more than one Calculation Agent is appointed in respect of the Notes, references in these Conditions to the Calculation Agent shall be construed as each Calculation Agent performing its duties under the Conditions. If the Calculation Agent is unable or unwilling to act as such or if the Calculation Agent fails duly to establish the Rate of Interest for any Interest Period or to calculate the Interest Amounts or any other requirements, the Issuer will appoint the London office of a leading bank engaged in the London interbank market to act as such in its place. The Calculation Agent may not resign its duties without a successor having been appointed as aforesaid.

6. Redemption, Purchase and Options

(a) Final Redemption

Unless previously redeemed, purchased and cancelled as provided below, each Note will be redeemed at its Final Redemption Amount (which is its principal amount) on the Maturity Date specified on each Note.

(b) Redemption for taxation reasons

The Notes may be redeemed at the option of the Issuer in whole, but not in part, on any Interest Payment Date or, if so specified hereon, at any time, on giving not less than 30 nor more than 60 days' notice to the Noteholders (which notice shall be irrevocable), at their Early Redemption Amount, (together with interest accrued to the date fixed for redemption), if (i) the Issuer (or, if the Guarantee were called, the Guarantor) has or will become obliged to pay additional amounts as provided or referred to in Condition 8 as a result of any change in, or amendment to, the laws or regulations of The Netherlands, the Kingdom of Spain or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the Issue Date, and (ii) such obligations cannot be avoided by the Issuer (or the Guarantor, as the case may be) taking reasonable measures available to it, provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer (or the Guarantor, as the case may be) would be obliged to pay such additional amounts if a payment in respect of the Notes (or the Guarantee, as the case may be) were then due. Prior to the publication of any notice of redemption pursuant to this Condition, the Issuer shall deliver to the Fiscal Agent a certificate signed by a director of the Issuer (or the Guarantor, as the case may be) stating that the Issuer (or the Guarantor, as the case may be) is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer (or the Guarantor, as the case may be) so to redeem have occurred.

(c) Purchases

The Issuer, the Guarantor and any of the Guarantor's Subsidiaries may at any time purchase Notes (provided that all unmatured Coupons and unexchanged Talons appertaining thereto are attached or surrendered therewith) in the open market or otherwise at any price.

(d) Early Redemption of Zero Coupon Notes

(i) The Early Redemption Amount payable in respect of any Note which does not bear interest prior to the Maturity Date upon redemption of such Note pursuant to Condition 6(b), Condition 6(e), Condition 6(f), Condition 6(g), Condition 6(h), Condition 6(i) or upon it becoming due and payable as provided in Condition 10, shall be the Amortised Face Amount (calculated as provided below) of such Note.

(ii) Subject to the provisions of sub-paragraph (iii) below the Amortised Face Amount of any such Note shall be the scheduled Final Redemption Amount of such Note on the Maturity Date discounted at a rate per annum (expressed as a percentage) equal to the Amortisation Yield (which, if none is shown hereon, shall be such rate as would produce an Amortised Face Amount equal to the issue price of the Notes if they were discounted back to their Issue Price on the Issue Date) compounded annually. Where such calculation is to be made for a period of less than one year, it shall be made on the basis of the Day Count Fraction shown in the relevant Final Terms.

(iii) If the Early Redemption Amount payable in respect of any such Note upon its redemption pursuant to Condition 6(b), Condition 6(e), Condition 6(f), Condition 6(g), Condition 6(h), Condition 6(i) or upon it becoming due and payable as provided in Condition 10 is not paid when due, the Redemption Amount due and payable in respect of such Note shall be the Amortised Face Amount of such Note as defined in sub-paragraph (ii) above, except that such sub-paragraph shall have effect as though the reference therein to the date on which the Note becomes due and payable were replaced by a reference to the Relevant Date. The calculation of the Amortised Face Amount in accordance with this sub-paragraph will continue to be made (both before and after judgment), until the Relevant Date unless the Relevant Date falls on or after the Maturity Date, in which case the amount due and payable shall be the scheduled Final Redemption Amount of such Note on the Maturity Date together with any interest which may accrue in accordance with Condition 5(d).

(e) Redemption at the Option of the Issuer

If Call Option is specified in the relevant Final Terms as being applicable, the Issuer may, on giving not less than 15 nor more than 30 days' irrevocable notice to the Noteholders (or such other notice period as may be specified in the relevant Final Terms) redeem, all or, if so provided some of the Notes on any Optional Redemption Date. Any such redemption of Notes shall be at their Optional Redemption Amount (as specified in the relevant Final Terms) together with interest accrued to the date fixed for redemption. Any such redemption or exercise must relate to Notes of a nominal amount at least equal to the Minimum Redemption Amount to be redeemed specified in the relevant Final Terms and no greater than the Maximum Redemption Amount to be redeemed specified in the relevant Final Terms.

If Make-Whole Amount is specified in the relevant Final Terms, the Optional Redemption Amount as determined by the Financial Adviser will be the higher of (a) 100 per cent. of the principal amount outstanding of the Notes to be redeemed and (b) the sum of the present values of the principal amount outstanding of the Notes to be redeemed and the Remaining Term Interest on such Notes (exclusive of interest accrued to the date of redemption) discounted to the date of redemption on an annual basis at (i) the Reference Note Rate plus the Redemption Margin or (ii) the Discount Rate, in each case as specified in the relevant Final Terms. If the Make-whole Exemption Period is specified as applicable and the Issuer gives notice to redeem the Notes during the Make-whole Exemption Period, the Optional Redemption Amount will be 100 per cent. of the principal amount outstanding of the Notes to be redeemed.

All Notes in respect of which any such notice is given shall be redeemed on the date specified in such notice in accordance with this Condition.

In the case of a partial redemption the notice to Noteholders shall also contain the serial numbers of the Notes to be redeemed, which shall have been drawn in such place as the Fiscal Agent may approve and in such manner as it deems appropriate, subject to compliance with any applicable laws and stock exchange requirements or other relevant authority requirements. So long as the Notes are listed on the Luxembourg Stock Exchange and the rules of that stock exchange so require, the Issuer shall, once in each year in which there has been a partial redemption of the Notes, cause to be published either on the website of the Luxembourg Stock Exchange (www.bourse.lu) or in a leading

newspaper of general circulation in Luxembourg (which is expected to be the *Luxemburger Wort)* a notice specifying the aggregate nominal amount of Notes outstanding and a list of the Notes drawn for redemption but not surrendered.

In these Conditions:

Discount Rate will be as set out in the relevant Final Terms.

FA Selected Note means a government security or securities selected by the Financial Adviser as having an actual or interpolated maturity comparable with the remaining term of the Notes that would be utilised, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities denominated in the same currency as the Notes and of a comparable maturity to the remaining term of the Notes.

Financial Adviser means the entity so specified in the relevant Final Terms or, if not so specified or if such entity is unable or unwilling to act, any financial adviser selected by the Issuer.

Make-whole Exemption Period will be as set out in the relevant Final Terms.

Redemption Margin will be as set out in the relevant Final Terms.

Reference Note shall be the note so specified in the relevant Final Terms or, if not so specified or if no longer available, the FA Selected Note.

Reference Note Price means, with respect to any date of redemption: (a) the arithmetic average of the Reference Government Note Dealer Quotations for such date of redemption, after excluding the highest and lowest such Reference Government Note Dealer Quotations or (b) if the Financial Adviser obtains fewer than four such Reference Government Note Dealer Quotations, the arithmetic average of all such quotations.

Reference Note Rate means, with respect to any date of redemption, the rate per annum equal to the annual or semi-annual yield (as the case may be) to maturity or interpolated yield to maturity (on the relevant day count basis) of the Reference Note, assuming a price for the Reference Note (expressed as a percentage of its principal amount) equal to the Reference Note Price for such date of redemption.

Reference Date will be set out in the relevant notice of redemption, such date to fall no earlier than the date falling 30 days prior to the date of such notice.

Reference Government Note Dealer means each of five banks selected by the Issuer which are (a) primary government securities dealers, and their respective successors, or (b) market makers in pricing corporate note issues.

Reference Government Note Dealer Quotations means, with respect to each Reference Government Note Dealer and any date for redemption, the arithmetic average, as determined by the Financial Adviser, of the bid and offered prices for the Reference Note (expressed in each case as a percentage of its principal amount) at the Quotation Time specified in the relevant Final Terms on the Reference Date quoted in writing to the Financial Adviser by such Reference Government Note Dealer.

Remaining Term Interest means with respect to any Note, the aggregate amount of scheduled payment(s) of interest on such Note for the remaining term of such Note determined by the Financial Adviser on the basis of the rate of interest applicable to such Note from and including the date on which such Note is to be redeemed by the Issuer in accordance with this Condition 6(e).

(f) Residual Maturity Call Option

If a Residual Maturity Call Option is specified in the relevant Final Terms as being applicable, the Issuer may, on giving not less than 15 nor more than 30 days' irrevocable notice to the Noteholders (which notice shall specify the date fixed for redemption (the **Residual Maturity Call Option Redemption Date**)), redeem all (but not only some) of the outstanding Notes at their principal amount together with interest accrued to, but excluding, the date fixed for redemption, which shall be no earlier than (i) three months before the Maturity Date in respect of Notes having a maturity of not more than ten years or (ii) six months before the Maturity Date in respect of Notes having a maturity of more than ten years.

For the purpose of the preceding paragraph, the maturity of not more than ten years or the maturity of more than ten years shall be determined as from the Issue Date of the Notes.

All Notes in respect of which any such notice is given shall be redeemed on the date specified in such notice in accordance with this Condition 6(f).

(g) Redemption following a Substantial Purchase Event

If a Substantial Purchase Event is specified in the Final Terms as being applicable and a Substantial Purchase Event has occurred and is continuing, then the Issuer may, subject to having given not less than 15 nor more than 30 days' notice to the Fiscal Agent and the Noteholders (which notice shall be irrevocable), redeem the Notes in whole, but not in part, at any time, in each case at their principal amount, together with any accrued and unpaid interest up to (but excluding) the date of redemption.

All Notes in respect of which any such notice is given shall be redeemed on the date specified in such notice in accordance with this Condition 6(g).

A **Substantial Purchase Event** shall be deemed to have occurred if at least 80 per cent. of the aggregate principal amount of the Notes 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));

(h) Redemption at the option of the Noteholders upon a Change of Control

If a Change of Control Put Option is specified in the relevant Final Terms as being applicable, at any time while any Note remains outstanding, each holder of Notes will have the option (the **Change of Control Put Option**) to require the Issuer to redeem or, at the Issuer's option, to procure the purchase of such Notes on the Optional Redemption Date at the Optional Redemption Amount (plus interest accrued to, but excluding the Optional Redemption Date) (both terms as defined below), if a Change of Control occurs and, during the Change of Control Period, a Rating Downgrade occurs (together, a **Put Event**).

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 of the Guarantor.

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, in each case whether obtained directly or indirectly, and whether obtained by ownership of share capital, the possession of voting rights, contract or otherwise.

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.

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.

Rating Agency means any of the following: (a) Standard & Poor's Credit Market Services Europe Limited (**S&P**); (b) Moody's Investors Service Limited (**Moody's**); (c) Fitch Ratings Limited (**Fitch Ratings**); or (d) 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.

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 Rating Agency is: (x) withdrawn; (y) ceases to be an Investment Grade Rating; or (z) if the rating assigned to the Guarantor by any 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 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 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 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.

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).

Optional Redemption Amount means an amount equal to par.

Promptly upon the Issuer becoming aware that a Put Event has occurred, the Issuer shall give notice (a **Put Event Notice**) to the Fiscal Agent, the Paying Agents and the Noteholders in accordance with Condition 14 specifying the nature of the Put Event and the circumstances giving rise to it and the procedure for exercising the Change of Control Put Option, as well as the date upon which the Put Period (as defined below) will end and the Optional Redemption Date (as defined below).

To exercise the Change of Control Put Option to require redemption or, as the case may be, purchase of a Note under this section, the holder of that Note must transfer or cause to be transferred its Notes to be so redeemed or purchased to the account of the Fiscal Agent specified in the Change of Control Put Option Notice for the account of the Issuer within the period (the **Put Period**) of 45 days after the Put Event Notice is given together with a duly signed and completed notice of exercise in the form (for the time being current) obtainable from the specified office of any Paying Agent (a **Put Option Notice**) and in which the holder may specify a bank account to which payment is to be made under this Condition.

The Issuer shall redeem or, at the option of the Issuer, procure the purchase of the Notes in respect of which the Change of Control Put Option has been validly exercised as provided above, and subject to the transfer of such Notes to the account of the Fiscal Agent for the account of the Issuer as described above on the date which is the fifth Business Day following the end of the Put Period (the **Optional Redemption Date**). Payment in respect of any Note so transferred will be made in the Specified Currency to the holder to the bank account denominated in the Specified Currency specified in the Put Option Notice on the Optional Redemption Date via the relevant account holders.

(i) Redemption at the Option of the Noteholder

If Put Option is specified in the relevant Final Terms as being applicable, the Issuer shall, at the option of the Holder of any such Note, upon the Holder of such Note giving not less than 15 nor more than 30 days' notice to the Issuer (or such other notice period as may be specified in the relevant Final Terms) redeem such Note on the Optional Redemption Dates at its Optional Redemption Amount together with interest accrued to the date fixed for redemption. It may be that before a Put Option can be exercised, certain conditions and/or circumstances will need to be satisfied. Where relevant, the provisions will be set out in the applicable Final Terms.

To exercise such option the Holder must deposit such Note with any Paying Agent (in the case of Bearer Notes) or the Certificate representing such Note(s) with the Registrar or any Transfer Agent (in the case of Registered Notes) at its specified office, together with a duly completed option exercise notice (**Exercise Notice**) in the form obtainable from any Paying Agent, the Registrar or any Transfer Agent (as applicable) within the notice period. No Note or Certificate so deposited and option exercised may be withdrawn (except as provided in the Agency Agreement) without the prior consent of the Issuer.

(j) Cancellation

All Notes purchased by or on behalf of the Issuer, the Guarantor or any of the Guarantor's Subsidiaries may be surrendered for cancellation, in the case of Bearer Notes, by surrendering each such Note together with all unmatured Coupons and all unexchanged Talons to the Fiscal Agent and, in the case of Registered Notes, by surrendering the Certificate representing such Notes to the Registrar and, in each case, if so surrendered, will, together with all Notes redeemed by the Issuer, be cancelled forthwith (together with all unmatured and Coupons and unexchanged Talons attached thereto or surrendered therewith). Any Notes so surrendered for cancellation may not be reissued or resold and the obligations of the Issuer and the Guarantor in respect of any such Notes shall be discharged.

(k) Other Notes

The Early Redemption Amount payable in respect of any Note, upon redemption of such Note pursuant to Condition 6(b) or upon it becoming due and payable as provided in Condition 10, shall be the Final Redemption Amount unless otherwise specified in the relevant Final Terms.

7. Payments and Talons

(a) Bearer Notes

Payments of principal and interest in respect of Bearer Notes will, subject as mentioned below, be made, where applicable, against presentation and surrender of the relevant Notes (in the case of all payments of principal and, in the case of interest, as specified in Condition 7(f)(vi) or Coupons (in the case of interest, save as specified in Condition 7(f)(ii)), as the case may be, at the specified office of any Paying Agent outside the United States by a cheque payable in the currency in which such payment is due drawn on, or, at the option of the Holder, by transfer to an account denominated in that currency with, a bank in the principal financial centre of that currency and, in the case of Euro, by cheque drawn down or by transfer to, a Euro account to which Euro may be credited or transferred as specified by the payee.

(b) Registered Notes

(i) Payments of principal in respect of Registered Notes will be made against presentation and surrender of the relevant Certificates at the specified office of any of the Transfer Agents or of the Registrar and in the manner provided in paragraph (ii) below.

(ii) Interest on Registered Notes will be paid to the person shown on the Register (i) where in global form, at the close of the business day (being for this purpose a day on which Euroclear and Clearstream, Luxembourg are open for business) before the relevant due date, and (ii) where in definitive form, at the close of business on the fifteenth day before the due date for payment thereof (the **Record Date**). Payments of interest on each Registered Note will be made in the currency in which such payments are due by cheque drawn on a bank in the principal financial centre of the country of the currency concerned and mailed to the Holder (or to the first named of joint Holders) of such Note at its address appearing in the Register maintained by the Registrar. Upon application by the Holder to the specified office of the Registrar or any Transfer Agent before, the Record Date and subject as provided in Condition 7(a) above, such payment of interest may be made by transfer to an account in the specified currency designated by the Holder with a bank in the principal financial centre of the country of that currency.

(c) Payments in the United States

Notwithstanding the foregoing, if any Bearer Notes are denominated in U.S. Dollars, payments in respect thereof may be made at the specified office of any Paying Agent in New York City in the same manner as aforesaid if (i) the Issuer shall have appointed Paying Agents with specified offices outside the United States with the reasonable expectation that such Paying Agents would be able to make payment of the amounts on the Notes in the manner provided above when due, (ii) payment in full of such amounts at all such offices is illegal or effectively precluded by exchange controls or other similar restrictions on payment or receipt of such amounts and (iii) such payment is then permitted by United States law, without involving, in the opinion of the Issuer, any adverse tax consequence to the Issuer.

(d) Payments Subject to Law, etc

All payments are subject in all cases to (i) any applicable fiscal or other laws, regulations and directives in the place of payment, but without prejudice to the provisions of Condition 8 and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986 (the **Code**) or otherwise imposed pursuant to Sections 1471 through 1474 of the Code (or any regulations or agreements thereunder or official interpretations thereof) or an intergovernmental agreement between the United States and another jurisdiction facilitating the implementation thereof (or any law implementing such an intergovernmental agreement). No commission or expenses shall be charged to the Noteholders or Coupon holders in respect of such payments.

(e) Appointment of Agents

The Fiscal Agent, the Paying Agents, the Registrar, the Transfer Agents and the Calculation Agent initially appointed by the Issuer and their respective specified offices are listed below. The Fiscal Agent, the Paying Agents, the Registrar, the Transfer Agents and the Calculation Agent act solely as agents of the Issuer and the Guarantor and do not assume any obligation or relationship of agency or trust for or with any Holder. The Issuer and the Guarantor reserve the right at any time to vary or terminate the appointment of the Fiscal Agent, any other Paying Agent, the Calculation Agent, the Registrar or any Transfer Agent and to appoint additional or other agents provided that the Issuer and the Guarantor will at all times maintain (i) a Fiscal Agent, (ii) a Registrar in relation to Registered Notes, (iii) a Transfer Agent having a specified office in at least two major European cities (including Luxembourg so long as the Notes are admitted to trading on the Regulated Market of the Luxembourg Stock Exchange and listed on the official list of the Luxembourg Stock Exchange and the rules of such exchange so require) in relation to Registered Notes, (iv) a Calculation Agent where the Conditions so require one, (v) Paying Agents having a specified office in at least two major European cities (including Luxembourg so long as the Notes are admitted to trading on the Regulated Market of the Luxembourg Stock Exchange and listed on the official list of

the Luxembourg Stock Exchange and the rules of such exchange so require), (vi) a Paying Agent having a specified office in a city in Continental Europe outside the European Union and (vii) such other agents as may be required by any other stock exchange on which the Notes may be listed.

In addition, the Issuer shall forthwith appoint a Paying Agent in New York in respect of any Notes denominated in U.S. Dollars in the circumstances described in Condition 7(c) above.

Notice of any such change or any change of any specified office will promptly be given to the Noteholders in accordance with Condition 14.

(f) Unmatured Coupons and unexchanged Talons

(i) Upon the due date for redemption of those Notes, Bearer Notes which comprise Fixed Rate Notes, should be surrendered for payment together with all unmatured Coupons (if any) appertaining thereto, failing which an amount equal to the face value of each missing unmatured Coupon (or, in the case of payment not being made in full, that proportion of the amount of such missing unmatured Coupon which the sum of principal so paid bears to the total principal due) will be deducted from the Final Redemption Amount, Early Redemption Amount or Optional Redemption Amount then due for payment. Any amount so deducted will be paid in the manner mentioned above against surrender of such missing Coupon within a period of 10 years from the Relevant Date for the payment of such principal (whether or not such Coupon has become void pursuant to Condition 9).

(ii) Upon the due date for redemption of any Bearer Note comprising a Floating Rate Note, unmatured Coupons relating to such Note (whether or not attached) shall become void and no payment shall be made in respect of them.

(iii) Upon the due date for redemption of any Bearer Note, any unexchanged Talon relating to such Note (whether or not attached) shall become void and no Coupon shall be delivered in respect of such Talon.

(iv) Where any Bearer Note which provides that the relative Coupons are to become void upon the due date for redemption of those Notes is presented, where applicable, for redemption without all unmatured coupons and any unexchanged Talon relating to it, and where any Bearer Note is presented, where applicable, for redemption without any unexchanged Talon relating to it, redemption shall be made only against the provision of such indemnity as the Issuer may require.

(v) If the due date for redemption of any Note is not a due date for payment of interest, interest accrued from the preceding due date for payment of interest or the Interest Commencement Date as the case may be, shall only be payable against presentation, where applicable (and surrender if appropriate) of the relevant Bearer Note or Certificate representing it, as the case may be. Interest accrued on a Note which only bears interest after its Maturity Date shall be payable on redemption of such Note against presentation, where applicable, of the relevant Note or Certificate representing it, as the case may be.

(g) Talons

On or after the Interest Payment Date for the final Coupon forming part of a Coupon sheet issued in respect of any Bearer Note, 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 if necessary another Talon for a further Coupon sheet) (but excluding any Coupons which may have become void pursuant to Condition 9).

(h) Non-Business Days

If any date for payment in respect of any Note or Coupon is not a business day, the Holder shall not be entitled to payment until the next following business day nor to any interest or other sum in respect of such postponed payment. In this Condition 7(h), **business day** means a day which is:

(i) a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for business: (A) in, as regards Bearer Notes, the relevant place of presentation (if presentation is required) and (B) in such jurisdictions as shall be specified as **Financial Centres** in the relevant Final Terms; and

(ii) (A) (in the case of a payment in a currency other than Euro) where payment is to be made by transfer to an account maintained with a bank in the specified currency, on which foreign exchange transactions may be carried on in the specified currency in the principal financial centre of the country of such currency; or (B) (in the case of a payment in Euro) where payment is to be made by payment to an account, a day on which the TARGET2 System is operating.

(i) Redenomination, Renominalisation and Reconventioning

(i) *Notice of redenomination*: If the country of the Specified Currency becomes, or announces its intention to become, a Participating Member State, the Issuer may, without the consent of the Noteholders and Couponholders, on giving at least 30 days' prior notice to the Noteholders and the Paying Agents, designate a date (the **Redenomination Date**), being an Interest Payment Date under the Notes falling on or after the date on which that country becomes a Participating Member State.

(ii) *Redenomination*: Notwithstanding the other provisions of these Conditions, with effect from the Redenomination Date:

(a) the Notes shall be deemed to be redenominated into Euro in the specified denomination of Euro 0.01 with a principal amount for each Note equal to the principal amount of that Note in the Specified Currency, converted into Euro at the rate for conversion of such currency into Euro established by the Council of the European Union pursuant to the Treaty (including compliance with rules relating to rounding in accordance with European Community regulations); *provided, however, that*, if the Issuer determines, with the agreement of the Fiscal Agent that market practice in respect of the redenomination into Euro 0.01 of internationally offered securities is different from that specified above, such provisions shall be deemed to be amended so as to comply with such market practice and the Issuer shall promptly notify the Noteholders and Couponholders, each listing authority, stock exchange and/or quotation system (if any) by which the Notes have then been admitted to listing, trading and/or quotation and the Paying Agents of such deemed amendments;

(b) if Notes have been issued in definitive form:

(A) all unmatured Coupons denominated in the Specified Currency (whether or not attached to the Notes) will become void with effect from the date (the **Euro Exchange Date**) on which the Issuer gives notice (the **Euro Exchange Notice**) to the Noteholders that replacement Notes and Coupons denominated in Euro are available for exchange (provided that such Notes and Coupons are available) and no payments will be made in respect thereof;

(B) the payment obligations contained in all Notes denominated in the Specified Currency will become void on the Euro Exchange Date but all other obligations of the Issuer thereunder (including the obligation to exchange such Notes in accordance with this Condition 7) shall remain in full force and effect;

(c) new Notes and Coupons denominated in Euro will be issued in exchange for Notes and Coupons denominated in the Specified Currency in such manner as the Fiscal Agent may specify and as shall be notified to the Noteholders in the Euro Exchange Notice; and

(d) all payments in respect of the Notes (other than, unless the Redenomination Date is on or after such date as the Specified Currency ceases to be a sub-division of the Euro, payments of interest in respect of periods commencing before the Redenomination Date) will be made solely by Euro cheque drawn on, or by credit or transfer to a Euro account (or other account to which Euro may be credited or transferred) maintained by the payee with a bank in a city in a country in which banks have access to the TARGET2 System.

(iii) *Interest*: Following redenomination of the Notes pursuant to this Condition 7, where Notes have been issued in definitive form, the amount of interest due in respect of the Notes will be calculated by reference to the aggregate principal amount of the Notes held (or, as the case may be, in respect of which Coupons are presented for payment) by the relevant holder.

(iv) *Interpretation*: In this Condition:

Participating Member State means a member state of the European Union which adopts the Euro as its lawful currency in accordance with the Treaty; and

Treaty means the Treaty establishing the European Community, as amended.

8. Taxation

(a) Additional Amounts

All payments of principal and interest in respect of the Notes and the Coupons by or on behalf of the Issuer or (as the case may be) the Guarantor under the Deed of 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 any authority therein or thereof having power to tax (in the case of the Issuer), or the Kingdom of Spain or any authority therein or thereof having power to tax (in the case of the Guarantor) (each a **Taxing Authority**), unless the withholding or deduction of such taxes, duties, assessments or governmental charges is required by law or required pursuant to an agreement described in Section 1471(b) of the Code. In that event, the Issuer or, as the case may be, the Guarantor will pay such additional amounts as may be necessary in order that the net amounts received by the Noteholders and the Coupon holders after such withholding or deduction shall equal the respective amounts of principal and interest which would have been received in respect of the Notes 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 Note or Coupon or (as the case may be) under the Deed of Guarantee:

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

(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; or

(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 Notes to comply with a request of the Issuer, or the Guarantor addressed to the Holder or the beneficial owner of the Notes (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 (i) or (ii), is required or imposed by a statute, treaty, 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 statute, treaty, regulation, or administrative practice;

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

(v) where such withholding or deduction is imposed on a payment to an individual resident of Luxembourg pursuant to the Luxembourg Law dated 23 December 2005 introducing a withholding tax in full discharge of income tax on certain interest income; or

(vi) where such withholding or deduction is required pursuant to an agreement described in Section 1471(b) of the Code or otherwise imposed pursuant to Sections 1471 through 1474 of the Code (or any regulations or agreements thereunder or official interpretations thereof) or an intergovernmental agreement between the United States and another jurisdiction facilitating the implementation thereof (or any law implementing such an intergovernmental agreement).

(b) 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 remission 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.

(c) 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.

(d) 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.

(e) Definitions

As used in these Conditions, **Relevant Date** in respect of any Note or Coupon means the date on which payment in respect thereof first becomes due or if any amount of the money payable is improperly withheld (or refused) the date on which payment in full of the amount outstanding is made or (if earlier) the date on which notice is duly given to the Noteholders in accordance with Condition 14 that, upon further presentation of the Note (or relative Certificate) or Coupon being made in accordance with the Conditions, such payment will be made, provided that payment is in fact made upon such presentation. References in these Conditions to (i) "principal" shall be deemed to include any premium payable in respect of the Notes, Final Redemption Amounts, Early Redemption Amounts, Optional Redemption Amounts, Amortised Face Amounts and all other amounts in the nature of principal payable pursuant to Condition 6 or any amendment or supplement to it; (ii) "interest" shall be deemed to include all Interest Amounts and all other amounts payable pursuant to Condition 5 or any amendment or supplement to it; and (iii) "principal" and/or "interest" shall be deemed to include any additional amounts which may be payable under this Condition.

9. Prescription

Claims against the Issuer and, as the case may be, the Guarantor for payment in respect of the Notes and Coupons (which, for this purpose shall not include Talons) shall be prescribed and become void unless made within ten years (in the case of principal) or five years (in the case of interest) from the appropriate Relevant Date in respect thereof.

10. Events of Default

If any of the following events (each an **Event of Default**) occurs and is continuing, the Holder of a Note of any Series may give written notice to the Fiscal Agent at its specified office that such Note is immediately repayable, whereupon the Early Redemption Amount of such Note, together with accrued interest to the date of payment, shall become immediately due and payable:

(a) *Non-Payment*: default is made for more than 14 days (in the case of interest) or seven days (in the case of principal) in the payment on the due date of interest or principal in respect of any of the Notes; or

(b) *Breach of Other Obligations*: the Issuer or the Guarantor does not perform or comply with any one or more of its other obligations under or in respect of the Notes, the Agency Agreement or the Deed of Guarantee which default is incapable of remedy or is not remedied within 30 days after notice of such default shall have been given to the Fiscal Agent by any Noteholder; or

(c) *Cross-Default*: (i) subject as provided below, any Relevant Indebtedness incurred by the Issuer or the Guarantor or any Relevant Subsidiary becomes (or becomes capable of being declared) due and payable prior to its stated maturity otherwise than at the option of the Issuer or the Guarantor, as the case may be, or, provided that no event of default on such

Relevant Indebtedness, however described, has occurred, at the option of any person entitled to such Relevant Indebtedness, or (ii) any Relevant Indebtedness of the Issuer or of the Guarantor or of any Relevant Subsidiary is not paid when due or, as the case may be, within any applicable grace period, or (iii) the Issuer, the Guarantor or any Relevant Subsidiary fails to pay when due any amount payable by it under any present or future guarantee for, or indemnity in respect of any Relevant Indebtedness, provided that the aggregate amount of the Relevant Indebtedness, guarantees and indemnities in respect of which one or more of the events mentioned above in this Condition 10(c) have occurred equals or exceeds €125,000,000 or its equivalent in other currencies.

Paragraph (c)(i) above shall not apply to Relevant Indebtedness which:

(A) (1) was incurred before 27 July 2007; and (2) becomes (or becomes capable of being declared) due and payable prior to its stated maturity solely as a result of an event of default occurring under Relevant Indebtedness of an entity which is not a Relevant Subsidiary; or

(B) (1) is Relevant Indebtedness of a Relevant Subsidiary; and (2) becomes (or becomes capable of being declared) due and payable prior to its stated maturity solely as a result of an event of default triggered by the acquisition of that Relevant Subsidiary by the Guarantor (or any of its Subsidiaries),

provided that none of these exceptions shall be applicable if such Relevant Indebtedness (I) has become (or is declared to become) due and payable, and (II) is not paid in full when so due and payable; or

(d) *Enforcement Proceedings*: any distress, attachment, execution or other legal process which is material in the context of the issue and offering of the Notes is levied, enforced or sued on or against any part of the property, assets or revenues of the Issuer or the Guarantor or any of the Guarantor's Subsidiaries and is not discharged or stayed within 90 days; or

(e) *Security Enforced:* any mortgage, charge, pledge, lien or other encumbrance, present or future, created or assumed by the Issuer or the Guarantor or any of the Guarantor's Subsidiaries which is material in the context of the issue and offering of the Notes becomes enforceable and any step is taken to enforce it (including the taking of possession by or the appointment of a receiver, administrative receiver, manager or other similar person); or

(f) *Insolvency, etc*: (i) the Issuer or the Guarantor or any Relevant Subsidiary becomes, or is adjudicated to be, insolvent (including bankrupt — *failliet* — or in moratorium of payments — *surséance van betaling*) or is adjudicated to be unable to pay its debts as they fall due, (ii) an administrator or liquidator of the Issuer or the Guarantor or any Relevant Subsidiary or the whole or any part of the undertaking, assets and revenues of the Issuer or the Guarantor or any Relevant Subsidiary is appointed (or application for any such appointment is made), (iii) the Issuer or the Guarantor or any Relevant Subsidiary takes any action for a general readjustment or deferment of its obligations or makes a general assignment or arrangement or composition with or for the benefit of its creditors generally or declares a moratorium in respect of its indebtedness or guarantees given by it, (iv) the entry of a decree, judgment or order by a court having jurisdiction adjudging the Issuer to be in a situation requiring emergency measures (*noodregeling*) in the interest of all creditors as referred to in Chapter 3.5.5 of the Dutch Financial Supervision Act (*Wet op het financieel toezicht)* or (v) any other proceeding is commenced which requires the application of priorities provided by any applicable Spanish laws; or

(g) *Winding-up*: an order is made or an effective resolution passed for the winding-up or dissolution (*ontbinding en vereffening*) or administration of the Issuer or the Guarantor or

any Relevant Subsidiary, or the Issuer or the Guarantor or any Relevant Subsidiary shall cease or through an official action of its board of directors threaten to cease to carry on all or a substantial part of its business or operations, except for the purpose of and followed by a reconstruction, amalgamation, reorganisation, merger or consolidation (i) on terms approved by an Extraordinary Resolution of the Noteholders or (ii) in the case of a Relevant Subsidiary, whereby the undertaking or assets of the Relevant Subsidiary are transferred to or otherwise vested in (A) the Issuer or the Guarantor or another Relevant Subsidiary or (B) any other person provided, in this case, that the undertaking or assets are transferred to that person for full consideration on an arm's length basis and the proceeds of the consideration are applied as soon as practicable by the Relevant Subsidiary in its business or operations or the business or operations of the Issuer or the Guarantor or another Relevant Subsidiary or (iii) in the case of the Issuer, whereby the undertakings or assets of the Issuer are transferred to or otherwise vested in the Guarantor; or (iv) to comply with any mandatory requirements set forth by any regulation, directives or rules issued by the Spanish government or the relevant administrative authority in connection with the reorganisation of the Spanish electricity sector; or

(h) *Authorisation and Consents*: any action, condition or thing (including the obtaining or effecting of any necessary consent, approval, authorisation, exemption, filing, licence, order, recording or registration) at any time required to be taken, fulfilled or done in order (i) to enable the Issuer and the Guarantor lawfully to enter into, exercise their respective rights and perform and comply with their respective obligations under the Notes and the Deed of Guarantee, (ii) to ensure that those obligations are legally binding and enforceable and (iii) to make the Notes and the Deed of Guarantee admissible in evidence in the courts of The Netherlands or the Kingdom of Spain is not taken, fulfilled or done; or

(i) *Illegality*: it is or will become unlawful for the Issuer or the Guarantor to perform or comply with any one or more of its obligations under any of the Notes or the Deed of Guarantee; or

(j) *Analogous Events*: any event occurs which under the laws of any relevant jurisdiction has an analogous effect to any of the events referred to in any of the foregoing paragraphs including, but not limited to, *concurso;* or

(k) *Guarantee*: the Guarantee is not (or is claimed by the Guarantor not to be) in full force and effect; or

(l) *Nationalisation*: any step is taken by any person with a view to the seizure, compulsory acquisition, expropriation or nationalisation of all or a material part of the Guarantor or any of its Relevant Subsidiaries.

In this Condition, "Relevant Indebtedness", "Relevant Subsidiary" and "Subsidiary" shall have the respective meanings given to them in Condition 4(b).

11. Meetings of Noteholders and Modifications

(a) Meetings of Noteholders

The Agency Agreement contains provisions for convening meetings of Noteholders to consider any matter affecting their interest, including modification by Extraordinary Resolution of the Notes (including these Conditions insofar as the same may apply to such Notes). An Extraordinary Resolution duly passed at any such meeting shall be binding on all the Noteholders, whether present or not and on all relevant Couponholders, except that any Extraordinary Resolution proposed, *inter alia*, (i) to amend the dates of maturity or redemption of the Notes or any date for payment of interest thereon, (ii) to reduce or cancel any premium payable on redemption of the Notes, (iii) to reduce the rate or rates of interest in respect of the Notes or to vary the method or basis of

calculating the rate or rates or amount of interest or the basis for calculating the Interest Amount in respect thereof, (iv) if a Minimum and/or a Maximum Interest Rate or Redemption Amount is shown hereon, to reduce any such Minimum and/or Maximum, (v) to change any method of calculating the Final Redemption Amount, the Early Redemption Amount or the Optional Redemption Amount, including the method for calculating the Amortised Face Amount, (vi) to change the currency or currencies of payment or specified denomination of the Notes, or (vii) to modify the provisions concerning the quorum required at any meeting of Noteholders or the majority required to pass the Extraordinary Resolution, will only be binding if passed at a meeting of the Noteholders (or at any adjournment thereof) at which a special quorum (provided for in the Agency Agreement) is present.

These Conditions may be amended, modified, or varied in relation to any Series of Notes by the terms of the relevant Final Terms in relation to such Series.

(b) Modification of Agency Agreement

The Issuer and the Guarantor shall only permit any modification of, or any waiver or authorisation of any breach or proposed breach of or any failure to comply with, the Agency Agreement, if to do so could not, in the opinion of the Issuer or the Guarantor (as the case may be), reasonably be expected to be prejudicial to the interests of the Noteholders.

12. Replacement of Notes, Certificates, Coupons and Talons

If a Note, Certificate, Coupon or Talon is lost, stolen, mutilated, defaced or destroyed, it may be replaced, subject to applicable laws and stock exchange regulations, at the specified office of the Fiscal Agent (in the case of the Bearer Notes, Coupons or Talons) and the Registrar (in the case of Certificates) or such other Paying Agent or Transfer Agent, as the case may be, as may from time to time be designated by the Issuer for such purpose, and notice of whose designation is given to Noteholders in accordance with Condition 14, in each case on payment by the claimant of the fees and costs incurred in connection therewith and on such terms as to evidence, security and indemnity (which may provide, *inter alia,* that if the allegedly lost, stolen or destroyed Note, Certificate, Coupon or Talon is subsequently presented for payment or, as the case may be, for exchange for further Coupons, there will be paid to the Issuer on demand the amount payable by the Issuer in respect of such Notes, Certificates, Coupons or further Coupons) and otherwise as the Issuer may require. Mutilated or defaced Notes, Certificates, Coupons or Talons must be surrendered before replacements will be issued.

13. Further Issues

The Issuer may from time to time without the consent of the Noteholders or Coupon holders create and issue further notes having the same terms and conditions as the Notes and so that the same shall be consolidated and form a single series with such Notes, and references in these Conditions to "Notes" shall be construed accordingly.

14. Notices

Notices to the Holders of Registered Notes will be mailed to them at their respective addresses in the Register and deemed to have been given on the fourth weekday (being a day other than a Saturday or a Sunday) after the date of mailing. With respect to Registered Notes admitted to trading on the Regulated Market of the Luxembourg Stock Exchange and listed on the official list of the Luxembourg Stock Exchange (so long as such Notes are admitted to trading on the Regulated Market of the Luxembourg Stock Exchange and listed on the official list of the Luxembourg Stock Exchange and the rules of that exchange so require), any notices must also be published either on the website of the Luxembourg Stock Exchange (www.bourse.lu) or in a leading daily newspaper having general circulation in Luxembourg (which is expected to be the *Luxemburger Wort).*

Notices to the Holders of Bearer Notes will be valid if published in a daily newspaper of general circulation in London (which is expected to be the *Financial Times)*. With respect to Bearer Notes admitted to trading on the Regulated Market of the Luxembourg Stock Exchange and listed on the official list of the Luxembourg Stock Exchange, any notice must be also published either on the website of the Luxembourg Stock Exchange (www.bourse.lu) or in a leading daily newspaper having general circulation in Luxembourg (which is expected to be the *Luxemburger Wort)*. If any such publication is not practicable, notice will be validly given if published in another leading English language newspaper of general circulation in Europe. Any such notice shall be deemed to have been given on the date of such publication or, if published more than once or on different dates, on the date of the first publication as provided above.

Coupon holders shall be deemed for all purposes to have notice of the contents of any notice to the Holders of Bearer Notes in accordance with this Condition.

Until such time as any definitive Notes are issued and so long as any Global Note is held in its entirety on behalf of Euroclear and/or Clearstream, Luxembourg, there may be substituted for such publication as aforesaid the delivery of the relevant notice to Euroclear and/or Clearstream, Luxembourg for communication by them to the Noteholders. Any such notice shall be deemed to have been given to the Noteholders on the seventh day after the day on which the said notice was given to Euroclear and/or Clearstream, Luxembourg, as appropriate.

Notices to be given by any Noteholder shall be in writing and given by lodging the same, together with the relative Note or Notes, with a Paying Agent. Whilst any of the Notes are represented by a Global Note, such notice may be given by any Noteholder to such Paying Agent via Euroclear and/or Clearstream, Luxembourg, as the case may be, in such manner as such Paying Agent and Euroclear and/or Clearstream, Luxembourg, as the case may be, may approve for this purpose.

15. Substitution of the Issuer

(a) The Issuer and the Guarantor may at any time, without the consent of the Noteholders or the Couponholders, substitute for the Issuer (x) the Guarantor or (y) any company which is wholly-owned by the Guarantor (the **Substitute**) upon notice by the Issuer, the Guarantor and the Substitute to be given in accordance with Condition 14 and, in the case of Notes admitted to trading on the Regulated Market of the Luxembourg Stock Exchange and listed on the official list of the Luxembourg Stock Exchange, to such exchange, provided that:

(i) no Event of Default has occurred in respect of the Notes;

(ii) no payment in respect of the Notes or the Coupons or the Deed of Guarantee (as the case may be) is at the relevant time overdue;

(iii) the Substitute shall, by means of a deed poll in the form scheduled to the Agency Agreement as Schedule 8 (the **Deed Poll**), agree to indemnify each Noteholder and Couponholder against any tax, duty, assessment or governmental charge which is imposed on it by (or by any authority in or of) the jurisdiction of the country of the Substitute residence for tax purposes and, if different, of its incorporation with respect to any Note, Coupon, Talon or the Deed of Covenant and which would not have been so imposed had the substitution not been made, as well as against any tax, duty, assessment or governmental charge, and any cost or expense, relating to the substitution;

(iv) where the Substitute is not the Guarantor, the obligations of the Substitute under the Deed Poll, the Notes, Coupons, Talons and Deed of Covenant shall be unconditionally and irrevocably guaranteed by the Guarantor by means of the Deed Poll;

(v) all action, conditions and things required to be taken, fulfilled and done (including the obtaining of any necessary consents) to ensure that the Deed Poll, the Notes, Coupons, Talons and Deed of Covenant represent valid, legally binding and enforceable obligations of the Substitute and in the case of the Deed Poll of the Guarantor have been taken, fulfilled and done and are in full force and effect;

(vi) the Substitute shall have become party to the Agency Agreement with any appropriate consequential amendments, as if it had been an original party to it;

(vii) legal opinions shall have been delivered to the Fiscal Agent from lawyers of recognised standing in each jurisdiction referred to in (iii) above, in Spain and in England as to the fulfilment of the requirements of this Condition 15 and the other matters specified in the Deed Poll and that the Notes, Coupons and Talons are legal, valid and binding obligations of the Substitute;

(viii) each stock exchange on which the Notes are listed shall have confirmed that, following the proposed substitution of the Substitute, the Notes will continue to be listed on such stock exchange;

(ix) Standard & Poor's and/or Moody's and/or Fitch, as the case may be, shall have confirmed that following the proposed substitution of the Substitute, the credit rating of the Notes will not be adversely affected, save where the Substitute is the Guarantor;

(x) if applicable, the Substitute has appointed a process agent as its agent in England to receive service of process on its behalf in relation to any legal proceedings in the courts of England arising out of or in connection with the Notes; and

(xi) in the case of Notes admitted to trading on the Regulated Market of the Luxembourg Stock Exchange and listed on the official list of the Luxembourg Stock Exchange, a prospectus supplement is filed with such exchange.

(b) Upon the execution of the Deed Poll and the delivery of the legal opinions, the Substitute shall succeed to, and be substituted for, and may exercise every right and power, of the Issuer under the Notes and the Agency Agreement with the same effect as if the Substitute had been named as the Issuer herein, and the Issuer shall be released from its obligations under the Notes and under the Agency Agreement, and where the Substitute is the Guarantor, the Guarantor shall be released from its obligations under the Guarantee.

(c) After a substitution pursuant to Condition 15(a), the Substitute may, without the consent of any Noteholder, effect a further substitution. All of the provisions specified in Conditions 15(a) and 15(b) shall apply *mutatis mutandis,* and references in these Conditions to the Issuer shall, where the context so requires, be deemed to be or include references to any such further Substitute.

(d) After a substitution pursuant to Conditions 15(a) or 15(c) any Substitute may, without the consent of any Noteholder, reverse the substitution, *mutatis mutandis.*

(e) The Deed Poll and all documents relating to the substitution shall be delivered to, and kept by, the Fiscal Agent. Copies of such documents will be available free of charge at the specified office of each of the Paying Agents.

16. Currency Indemnity

Any amount received or recovered in a currency other than the currency in which payment under the relevant Note or Coupon is due (whether as a result of, or of the enforcement of, a judgment or order of a court or any jurisdiction in connection with, the winding-up or dissolution of the Issuer or the

Guarantor or otherwise) by any Noteholder or Couponholder in respect of any sum expressed to be due to it from the Issuer or the Guarantor shall only constitute a discharge to the Issuer or the Guarantor, as the case may be, to the extent of the amount in the currency of payment under the relevant Note or Coupon 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 the amount received or recovered is less than the amount expressed to be due to the recipient under any Note or Coupon, the Issuer, failing whom the Guarantor, shall indemnify the Noteholder or Couponholder, as the case may be, against any loss sustained by it as a result. In any event, the Issuer, failing whom the Guarantor, shall indemnify the recipient against the cost of making any such purchase. For the purposes of this Condition, it will be sufficient for the Noteholder or Couponholder, as the case may be, 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 the Guarantor's other obligations, shall give rise to a separate and independent cause of action, shall apply irrespective of any indulgence granted by any Noteholder or Couponholder 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 Note or Coupon or any other judgment or order.

17. Governing Law and Jurisdiction

(a) Governing Law

The Notes, the Coupons and the Talons and all matters arising from or connected therewith, including any non-contractual obligations arising from or connected therewith, are governed by and shall be construed in accordance with, English law. The status of the Guarantee as described in Condition 3(b)(ii) is governed by, and shall be construed in accordance with, Spanish law and Condition 3(a) is governed by, and shall be construed in accordance with, Dutch law.

(b) English courts

The courts of England have exclusive jurisdiction to settle any dispute (a **Dispute**) arising from or connected with any Notes, Coupons or Talons.

(c) Appropriate forum

The Issuer 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.

(d) Rights of the Noteholders to take proceedings outside England

Condition 17(b) (English courts) is for the benefit of the Noteholders only. As a result, nothing in this Condition 17 prevents any Noteholder from taking proceedings relating to a Dispute (**Proceedings**) in any other courts with jurisdiction. To the extent allowed by law, Noteholders may take concurrent Proceedings in any number of jurisdictions.

(e) Process Agent

The Issuer 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 Issuer in England 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 Issuer, the Issuer shall, on the written demand of any Noteholder addressed and delivered to the Issuer or to the specified office of the Fiscal Agent appoint a further person in England to accept service of process

on its behalf and, failing such appointment within 15 days, any Noteholder shall be entitled to appoint such a person by written notice addressed to the Issuer and delivered to the Issuer or to the specified office of the Fiscal Agent. Nothing in this paragraph shall affect the right of any Noteholder to serve process in any other manner permitted by law. This Condition applies to Proceedings in England and not to Proceedings elsewhere.

18. Rights of Third Parties

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

TERMS AND CONDITIONS OF THE NOTES ISSUED BY IBERDROLA FINANZAS, S.A.U.

The following is the text of the terms and conditions which, subject to completion in accordance with the provisions of the relevant Final Terms, will be applicable to the Notes in definitive form (if any) issued in exchange for the Global Note(s) representing each Series and, subject further to simplification by deletion of non-applicable provisions, will be endorsed on such Bearer Notes or on the Certificates relating to such Registered Notes, details of the relevant Series being shown on the relevant Notes or Certificates and in the relevant Final Terms. References in the Conditions to "Notes" are to Notes issued by Iberdrola Finanzas, S.A.U. and are to the Notes of one Series only, not to all Notes which may be issued under the Programme.

Sentences in italics shall not form part of these terms and conditions in respect of Definitive Notes.

The euro medium term notes (the **Notes**) are issued pursuant to an amended and restated agency agreement (as amended or supplemented from time to time, the **Agency Agreement**) dated 22 June 2016 between Iberdrola Finanzas, S.A.U. (the **Issuer**), Iberdrola International B.V., lberdrola, S.A. (the **Guarantor**), The Bank of New York Mellon, London Branch as fiscal agent (the **Fiscal Agent**), paying agent and transfer agent, The Bank of New York Mellon (Luxembourg) S.A. as paying agent (together with the Fiscal Agent and any additional or other paying agents in respect of the Notes from time to time appointed, the **Paying Agents**, and each a **Paying Agent**), as transfer agent (together with the transfer agent referred to above and any additional or other transfer agents in respect of the Notes from time to time appointed, the **Transfer Agent**) and as registrar (the **Registrar**) and with the benefit of a deed of covenant (the **Deed of Covenant**) dated 22 June 2016 executed by the Issuer and Iberdrola International B.V. in relation to the Notes. The Guarantor has, for the benefit of the Noteholders from time to time, executed and delivered a deed of guarantee dated 22 June 2016 (the **Deed of Guarantee**) under which it has guaranteed the due and punctual payment of all amounts due by the Issuer and Iberdrola International B.V. under the Notes and the Deed of Covenant as and when the same shall become due and payable. The initial Calculation Agent(s) (if any) is specified on the Notes. The Noteholders (as defined below), the Holders of the interest coupons (the **Coupons**) appertaining to interest bearing Notes in bearer form and, where applicable in the case of such Notes, talons for further Coupons (the **Talons**) (the **Couponholders**) are deemed to have notice of all of the provisions of the Agency Agreement applicable to them. As used in these terms and conditions (the **Conditions**), **Tranche** means Notes which are identical in all respects. Copies of the Agency Agreement, the Deed of Covenant and the Deed of Guarantee are available for inspection at the specified offices of each of the Paying Agents, the Registrar and the Transfer Agents. If the Notes are to be admitted to trading on the regulated market of the Luxembourg Stock Exchange, the applicable Final Terms will be published on the website of the Luxembourg Stock Exchange at www.bourse.lu. If so required by Spanish law, the Issuer will execute a public deed (*escritura pública*) (the **Public Deed**) before a Spanish public notary in relation to the Notes and will register the Public Deed with the Commercial Registry of Biscay. The Public Deed will contain, among other information, the terms and conditions of the Notes.

1. Form, Specified Denomination and Title

The Notes are issued in bearer form (**Bearer Notes**, which expression includes Notes which are specified to be Exchangeable Bearer Notes), in registered form (**Registered Notes**) or in bearer form exchangeable for Registered Notes (**Exchangeable Bearer Notes**) in each case in the Specified Denomination(s) and in the Specified Currency shown in the relevant Final Terms provided that in the case of any Notes which are to be admitted to trading on a regulated market within the European Economic Area or offered to the public in a Member State of the European Economic Area in circumstances which require the publication of a Prospectus under the Prospectus Directive, the minimum Specified Denomination shall be €100,000 (or its equivalent in any other currency as at the date of issue of the relevant Notes).

All Registered Notes shall have the same Specified Denomination. Where Exchangeable Bearer Notes are issued, the Registered Notes for which they are exchangeable shall have the same Specified Denomination as the lowest specified denomination of the Exchangeable Bearer Notes.

Bearer Notes are issued with Coupons (and, where appropriate, a Talon or Talons) attached, save in the case of Notes which do not bear interest, in which case references to interest (other than in relation to interest due after the Maturity Date), Coupon and Talons in these Conditions are not applicable. Registered Notes are represented by registered certificates (**Certificates**), each Certificate representing a holding of one or more Registered Notes by the same Holder.

Title to the Bearer Notes and Coupons and Talons shall pass by delivery. Title to the Registered Notes shall pass by registration in the register which the Issuer shall procure to be kept by the Registrar in accordance with the provisions of the Agency Agreement (the **Register**). Except as ordered by a court of competent jurisdiction or as required by law, the Holder of any Note, Coupon or Talon shall be deemed to be and may be treated as the absolute owner of such Note, Coupon or Talon, as the case may be, for the purpose of receiving payment thereof or on account thereof and for all other purposes, whether or not such Note, Coupon or Talon shall be overdue and notwithstanding any notice of ownership, theft or loss thereof or any writing thereon made by anyone.

In these Conditions, **Noteholder** means the bearer of any Bearer Note or the person in whose name a Registered Note is registered (as the case may be), **Holder** (in relation to a Note, Coupon or Talon) means the bearer of any Bearer Note, Coupon or Talon or the person in whose name a Registered Note is registered (as the case may be) and capitalised terms have the meanings given to them herein, the absence of any such meaning indicating that such term is not applicable to the Notes.

All capitalised terms which are not defined in these Conditions will have the meanings given to them in Part A of the relevant Final Terms. Those definitions will be endorsed on the Definitive Notes.

2. Exchanges of Exchangeable Bearer Notes and Transfers of Registered Notes

(a) Exchange of Exchangeable Bearer Notes

Subject as provided in Condition 2(f), Exchangeable Bearer Notes may be exchanged for the same aggregate principal amount of Registered Notes at the request in writing of the relevant Noteholder and upon surrender of each Exchangeable Bearer Note to be exchanged, together with all unmatured Coupons and Talons relating to it, at the specified office of the Registrar or any Transfer Agent; provided, however, that where an Exchangeable Bearer Note is surrendered for exchange after the Record Date (as defined in Condition 7(b)) for any payment of interest, the Coupon in respect of that payment of interest need not be surrendered with it. Registered Notes may not be exchanged for Bearer Notes. Bearer Notes of one Specified Denomination may not be exchanged for Bearer Notes of another Specified Denomination. Bearer Notes which are not Exchangeable Bearer Notes may not be exchanged for Registered Notes.

(b) Transfer of Registered Notes

One or more Registered Notes may be transferred upon the surrender of the Certificate representing such Registered Notes to be transferred together with the form of transfer endorsed on such Certificate duly completed and executed, at the specified office of the Registrar or any Transfer Agent. In the case of a transfer of part only of a holding of Registered Notes represented by one Certificate, a new Certificate in respect of the balance not transferred will be issued to the transferor. In the case of a transfer of Registered Notes to a person who is already a Holder of Registered Notes, a new Certificate representing the enlarged holding shall only be issued against surrender to the Transfer Agent of the Certificate representing the existing holding.

(c) Exercise of Options or Partial Redemption in Respect of Registered Notes

In the case of an exercise of an option by the Issuer or a Noteholder in respect of, or a partial redemption of, a holding of Registered Notes represented by a single Certificate, a new Certificate

shall be issued to the Holder to reflect the exercise of such option or in respect of the balance of the holding not redeemed. In the case of a partial exercise of an option resulting in Registered Notes of the same holding having different terms, separate Certificates shall be issued in respect of those Notes of that holding that have the same terms. New Certificates shall only be issued against surrender of the existing Certificates to the Registrar or any Transfer Agent. In the case of a transfer of Registered Notes to a person who is already a Holder of Registered Notes, a new Certificate representing the enlarged holding shall only be issued against surrender to the Transfer Agent of the Certificate representing the existing holding.

(d) Delivery of new Certificates

Each new Certificate to be issued pursuant to Conditions 2(a), 2(b) or 2(c) will, within three business days (being a day, other than a Saturday or Sunday, on which banks are open for business in the place of the specified office of the Transfer Agent or the Registrar to whom such request for exchange or form of transfer shall have been delivered) of receipt of such request for exchange or form of transfer, be available for delivery at the specified office of the Transfer Agent or of the Registrar (as the case may be) to whom such delivery shall have been made or, at the option of the Holder making such delivery as aforesaid and as specified in the relevant request for exchange or form of transfer, be mailed at the risk of the Holder entitled to the new Certificate to such address as may be specified in such request for exchange or form of transfer.

(e) Exchange free of charge

Exchange and transfer of Notes and Certificates on registration, transfer, partial redemption or exercise of an option will be effected without charge by or on behalf of the Issuer, the Registrar or the Transfer Agents, but upon payment (or the giving of such indemnity as the Registrar or the relevant Transfer Agent may require in respect thereof) of any tax or other governmental charges which may be imposed in relation to it.

(f) Closed periods

No Noteholder may require the transfer of a Registered Note to be registered or an Exchangeable Bearer Note to be exchanged for a Registered Note (i) during the period of 15 days ending on the due date for redemption of that Note, (ii) during the period of 15 days prior to any date on which Notes may be redeemed by the Issuer at its option pursuant to Condition 6(e), or (iii) after any such Note has been drawn for redemption in whole or in part. An Exchangeable Bearer Note called for redemption may, however, be exchanged for a Registered Note in respect of which the Certificate is simultaneously surrendered not later than the relevant Record Date.

(g) Restricted Securities

For so long as any Registered Note is outstanding and is a "*restricted security*" (as defined in Rule 144(a)(3) under the United States Securities Act of 1933 (as amended) (the **Securities Act**) and during any period in relation thereto during which it is neither subject to Sections 13 or 15(d) of the United States Exchange Act of 1934 (as amended) (the **Exchange Act**) nor exempt from reporting pursuant to Rule 12g3-2(b) of the Exchange Act, the Issuer and the Guarantor will make available on request to each Holder of such Note in connection with any resale thereof and to any prospective purchaser of such Note from such Holder, in each case upon request, the information specified in and meeting the requirements of Rule 144A(d)(4) under the Securities Act.

3. Status and Guarantee

(a) Status of Notes

The Notes constitute direct, unconditional, unsubordinated and (without prejudice to the provisions of Condition 4) unsecured obligations of the Issuer and (subject to any applicable statutory exceptions and unless they qualify by law as subordinated credits under Article 92 of the Law 22/2003 (*Ley Concursal*) dated 9 July 2003 (the **Spanish Insolvency Law**)) rank (i) *pari passu* and rateably without any preference among themselves and (ii) at least *pari passu* with all other unsecured and unsubordinated indebtedness and monetary obligations of the Issuer, present and future.

In the event of insolvency (concurso) of the Issuer, under the Spanish Insolvency Law claims relating to the Notes (which are not subordinated pursuant to Article 92 of the Spanish Insolvency Law) will be ordinary credits (créditos ordinarios) as defined in the Spanish Insolvency Law. Ordinary credits rank below credits against the insolvency state (créditos contra la masa) and credits with a general or special privilege (créditos con privilegio general o especial). Ordinary credits rank above subordinated credits and the rights of shareholders. Interest on the Notes accrued but unpaid as at the commencement of any insolvency proceeding (concurso) relating to the Issuer under Spanish law shall thereupon constitute subordinated obligations of the Issuer ranking below its unsecured and unsubordinated obligations. Under Spanish law, accrual of interest on the Notes shall be suspended as from the date of any declaration of insolvency (concurso) of the Issuer.

(b) Guarantee

(i) The Guarantor has unconditionally and irrevocably guaranteed the due payment of all sums expressed to be payable by the Issuer under the Notes and Coupons on an unsubordinated basis.

(ii) The obligations of the Guarantor in respect of Notes constitute direct, unconditional, unsubordinated and (without prejudice to Condition 4) unsecured obligations of the Guarantor and (subject to any applicable statutory exceptions and unless they qualify by law as subordinated credits under Article 92 of the Spanish Insolvency Law) rank *pari passu* with all other unsubordinated and unsecured indebtedness and monetary obligations involving or otherwise related to borrowed money of the Guarantor, present and future. Its obligations in that respect (the **Guarantee**) are contained in the Deed of Guarantee.

4. Negative Pledge

(a) So long as any of the Notes or Coupons remain outstanding (as defined in the Agency Agreement):

(i) neither the Issuer nor the Guarantor will create or permit to subsist any mortgage, charge, pledge, lien or other form of encumbrance or security interest (**Security**) (other than Permitted Security) upon the whole or any part of its undertaking, assets or revenues present or future to secure any Relevant Indebtedness, or any guarantee of or, indemnity in respect of, any Relevant Indebtedness;

(ii) each of the Issuer and the Guarantor will procure that no other person creates or permits to subsist any Security (other than Permitted Security) upon the whole or any part of the undertaking, assets or revenues present or future of that other person to secure (A) any of the Issuer's Relevant Indebtedness or the Guarantor's Relevant Indebtedness, or any guarantee of or indemnity in respect of any of the Issuer's Relevant Indebtedness or the Guarantor's Relevant Indebtedness or (B) where the person in question is a Subsidiary of the Guarantor, any of the Relevant Indebtedness of any person other than (1) that Subsidiary of the Guarantor or (2) if that Subsidiary is not a Relevant Subsidiary, any other Subsidiary of the

Guarantor (which is not the Issuer or a Relevant Subsidiary), or in each case any guarantee of, or indemnity in respect, of any such Relevant Indebtedness; and

(iii) each of the Issuer and the Guarantor will procure that no person other than the Guarantor gives any guarantee of, or indemnity in respect of, any of its Relevant Indebtedness,

unless, at the same time or prior thereto, the Issuer's obligations under the Notes and Coupons or, as the case may be, the Guarantor's obligations under the Guarantee (aa) are secured equally and rateably therewith or benefit from a guarantee or indemnity in substantially identical terms thereto, as the case may be, or (bb) have the benefit of such other security, guarantee, indemnity or other arrangement as shall be approved by an Extraordinary Resolution (as defined in the Agency Agreement) of the Noteholders.

(b) For the purposes of these Conditions

Permitted Security means any Security created in respect of any Relevant Indebtedness of a company which has merged with the Guarantor or one of its Subsidiaries or which has been acquired by the Guarantor or one of its Subsidiaries, provided that such security was already in existence at the time of the merger or the acquisition, was not created for the purpose of financing the merger or the acquisition and is not increased in amount and not extended following the merger or the acquisition;

person means any individual, company, corporation, firm, partnership, joint venture, association, organisation, state or agency of a state or other entity, whether or not having a separate legal personality;

Relevant Indebtedness means any present or future indebtedness for borrowed money of the Guarantor, the Issuer or any other person or entity in the form of, or represented by, bonds, notes, debentures, loan stock or other securities which are or are capable of being quoted, listed or ordinarily dealt in on any stock exchange, over the counter market or other securities market (for which purpose any such bonds, notes, debentures, loan stock or other securities shall be deemed not to be capable of being so quoted, listed or ordinarily dealt in if the terms of the issue thereof expressly so provide);

Relevant Subsidiary means a Subsidiary of the Guarantor which is incorporated in a country whose sovereign debt is rated A or more by Standard & Poor's (or any equivalent rating) and whose total assets or revenues or EBITDA (consolidated if it has Subsidiaries) represent 7 per cent. or more of the consolidated total assets, revenues or EBITDA of the Guarantor and its Subsidiaries for the time being, EBITDA for these purposes being the aggregate of (a) “profits from operations” (after adding back “depreciation and amortisation charge, allowances and provisions”) and (b) “results of companies accounted for using the equity method”; and

Subsidiary means, at any particular time, 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. 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.

5. Interest and Other Calculations

(a) Interest on Fixed Rate Notes

Each Fixed Rate Note bears interest on its outstanding nominal amount from and including the Interest Commencement Date at the rate per annum (expressed as a percentage) equal to the Rate of Interest, such interest being payable in arrear on each Interest Payment Date.

If a Fixed Coupon Amount or a Broken Amount is specified hereon, the amount of interest payable on each Interest Payment Date will amount to the Fixed Coupon Amount or, if applicable, the Broken Amount so specified and, in the case of the Broken Amount, will be payable on the particular Interest Payment Date(s).

(b) Interest on Floating Rate Notes

(i) Interest Payment Dates

Each Floating Rate Note bears interest on its outstanding nominal amount from the Interest Commencement Date at the rate per annum (expressed as a percentage) equal to the Rate of Interest, such interest being payable in arrear on each Interest Payment Date. Such Interest Payment Date(s) is/are either shown in the relevant Final Terms as Specified Interest Payment Dates or, if no Specified Interest Payment Date(s) is/are shown thereon, Interest Payment Date shall mean each date which falls the number of months or other period specified as the Interest Period in the relevant Final Terms after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date.

(ii) Business Day Convention

If any date referred to in these Conditions which is specified to be subject to adjustment in accordance with a Business Day Convention would otherwise fall on a day which is not a Relevant Business Day, then, if the Business Day Convention specified is (i) the Floating Rate Convention, such date shall be postponed to the next day which is a Relevant Business Day unless it would thereby fall into the next calendar month, in which event (A) such date shall be brought forward to the immediately preceding Relevant Business Day and (B) each subsequent such date shall be the last Relevant Business Day of the month in which such date would have fallen had it not been subject to adjustment, (ii) the Following Business Day Convention, such date shall be postponed to the next day which is a Relevant Business Day, (iii) the Modified Following Business Day Convention, such date shall be postponed to the next day which is a Relevant Business Day unless it would thereby fall into the next calendar month, in which event such date shall be brought forward to the immediately preceding Relevant Business Day or (iv) the Preceding Business Day Convention, such date shall be brought forward to the immediately preceding Relevant Business Day.

(iii) Rate of Interest for Floating Rate Notes

The Rate of Interest in respect of Floating Rate Notes for each Interest Accrual Period shall be determined in the manner specified hereon and the provisions below relating to either ISDA Determination or Screen Rate Determination shall apply, depending upon which is specified in the relevant Final Terms as being applicable.

(A) ISDA Determination for Floating Rate Notes

Where ISDA Determination is specified in the relevant Final Terms as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each

Interest Accrual Period shall be determined by the Calculation Agent as a rate equal to the relevant ISDA Rate. For the purposes of this sub-paragraph (A), **ISDA Rate** for an Interest Accrual Period means a rate equal to the Floating Rate that would be determined by the Calculation Agent under a Swap Transaction under the terms of an agreement incorporating the ISDA Definitions and under which:

(x) the Floating Rate Option is as specified in the relevant Final Terms;

(y) the Designated Maturity is a period specified in the relevant Final Terms; and

(z) the relevant Reset Date is the first day of that Interest Accrual Period unless otherwise specified in the relevant Final Terms;

For the purposes of this sub-paragraph (A), "Floating Rate", "Calculation Agent", "Floating Rate Option", "Designated Maturity", "Reset Date" and "Swap Transaction" have the meanings given to those terms in the ISDA Definitions.

(B) Screen Rate Determination for Floating Rate Notes

Where Screen Rate Determination is specified in the relevant Final Terms as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Accrual Period will, subject as provided below, be either:

(1) the offered quotation; or

(2) the arithmetic mean of the offered quotations,

(expressed as a percentage rate per annum) for the Reference Rate (being either LIBOR or EURIBOR, as specified in the applicable Final Terms) which appears or appear, as the case may be, on the Relevant Screen Page (or such replacement page on that service which displays the information) as at 11.00 a.m. (London time in the case of LIBOR or Brussels time in the case of EURIBOR) on the Interest Determination Date in question as determined by the Calculation Agent. If five or more of such offered quotations are available on the Relevant Screen Page, the highest (or, if there is more than one such highest quotation, one only of such quotations) and the lowest (or, if there is more than one such lowest quotation, one only of such quotations) shall be disregarded by the Calculation Agent for the purpose of determining the arithmetic mean of such offered quotations.

(x) if the Relevant Screen Page is not available or, if sub paragraph (B)**Error! Reference source not found.** applies and no such offered quotation appears on the Relevant Screen Page, or, if sub-paragraph (B)(2) applies and fewer than three such offered quotations appear on the Relevant Screen Page, in each case as at the time specified above, subject as provided below, the Calculation Agent shall request, if the Reference Rate is LIBOR, the principal London office of each of the Reference Banks or, if the Reference Rate is EURIBOR, the principal Euro-zone office of each of the Reference Banks, to provide the Calculation Agent with its offered quotation (expressed as a percentage rate per annum) for the Reference Rate if the Reference Rate is LIBOR, at approximately 11.00 a.m. (London time), or if the Reference Rate is EURIBOR, at approximately 11.00 a.m. (Brussels time) on the Interest Determination Date in question. If two or more of the Reference Banks provide the Calculation Agent with such offered quotations, the Rate of Interest for such Interest Period shall be the

arithmetic mean of such offered quotations as determined by the Calculation Agent; and

(y) if paragraph (2)(x) above applies and the Calculation Agent determines that fewer than two Reference Banks are providing offered quotations, subject as provided below, the Rate of Interest shall be the arithmetic mean of the rates per annum (expressed as a percentage) as communicated to (and at the request of) the Calculation Agent by the Reference Banks or any two or more of them, at which such banks were offered, if the Reference Rate is LIBOR, at approximately 11.00 a.m. (London time) or, if the Reference Rate is EURIBOR, at approximately 11.00 a.m. (Brussels time) on the relevant Interest Determination Date, deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate by leading banks in, if the Reference Rate is LIBOR, the London inter-bank market or, if the Reference Rate is EURIBOR, the Euro-zone inter-bank market, as the case may be, or, if fewer than two of the Reference Banks provide the Calculation Agent with such offered rates, the offered rate for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, or the arithmetic mean of the offered rates for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, at which, if the Reference Rate is LIBOR, at approximately 11.00 a.m. (London time) or, if the Reference Rate is EURIBOR, at approximately 11.00 a.m. (Brussels time), on the relevant Interest Determination Date, any one or more banks (which bank or banks is or are suitable for such purpose) informs the Calculation Agent it is quoting to leading banks in, if the Reference Rate is LIBOR, the London inter-bank market or, if the Reference Rate is EURIBOR, the Euro-zone inter-bank market, as the case may be, provided that, if the Rate of Interest cannot be determined in accordance with the foregoing provisions of this paragraph, the Rate of Interest shall be determined as at the last preceding Interest Determination Date (though substituting, where a different Margin or Maximum or Minimum Rate of Interest is to be applied to the relevant Interest Accrual Period from that which applied to the last preceding Interest Accrual Period, the Margin or Maximum or Minimum Rate of Interest relating to the relevant Interest Accrual Period, in place of the Margin or Maximum or Minimum Rate of Interest relating to that last preceding Interest Accrual Period).

(C) Linear Interpolation

Where Linear Interpolation is specified hereon as applicable in the Applicable Final Terms in respect of an Interest Accrual Period, the Rate of Interest for such Interest Accrual Period shall be calculated by the Calculation Agent by straight line linear interpolation by reference to two rates based on the relevant Reference Rate (where Screen Rate Determination is specified in the Applicable Final Terms as applicable) or the relevant Floating Rate Option (where ISDA Determination is specified in the Applicable Final Terms as applicable), one of which shall be determined as if the Applicable Maturity were the period of time for which rates are available next shorter than the length of the relevant Interest Accrual Period and the other of which shall be determined as if the Applicable Maturity were the period of time for which rates are available next longer than the length of the relevant Interest Accrual Period provided however that if there is no rate available for the period of time next shorter or, as the case may be, next longer, then the Calculation Agent shall determine such rate at such time and by reference to such sources as its determines appropriate.

Applicable Maturity means: (a) in relation to Screen Rate Determination, the period of time designated in the Reference Rate, and (b) in relation to ISDA Determination, the Designated Maturity.

(c) Interest on Zero Coupon Notes

Where a Note the interest basis of which is specified to be Zero Coupon is repayable prior to the Maturity Date and is not paid when due, the amount due and payable prior to the Maturity Date shall be the Early Redemption Amount of such Note. As from the Maturity Date, the Rate of Interest for any overdue principal of such a Note shall be a rate per annum (expressed as a percentage) equal to the Amortisation Yield (calculated in accordance with Condition 6(d)).

(d) Accrual of Interest

Interest shall cease to accrue on each Note on the due date for redemption unless payment is improperly withheld or refused, in which event interest shall continue to accrue (both before and after judgment) at the Rate of Interest in the manner provided in this Condition 5 to the Relevant Date (as defined in Condition 8).

(e) Margin, Maximum/Minimum Interest Rates and Redemption Amounts, and Rounding

(i) If any Margin is specified hereon (either (x) generally, or (y) in relation to one or more Interest Accrual Periods), an adjustment shall be made to all Rates of Interest, in the case of (x), or the Rates of Interest for the specified Interest Accrual Periods, in the case of (y), calculated in accordance with Condition 5(b) above by adding (if a positive number) or subtracting (if a negative number) the absolute value of such Margin subject always to the next paragraph.

(ii) If any Maximum or Minimum Interest Rate or Redemption Amount is specified hereon, then any Rate of Interest or Redemption Amount shall be subject to such maximum or minimum, as the case may be.

(iii) For the purposes of any calculations required pursuant to these Conditions (unless otherwise specified), (x) all percentages resulting from such calculations will be rounded, if necessary, to the nearest one hundred-thousandth of a percentage point (with halves being rounded up), (y) all figures will be rounded to seven significant figures (with halves being rounded up) and (z) all currency amounts which fall due and payable will be rounded to the nearest unit of such currency (with halves being rounded up), save in the case of Yen, which shall be rounded down to the nearest Yen. For these purposes **unit** means, with respect to any currency other than Euro, the lowest amount of such currency which is available as legal tender in the country of such currency and, with respect to Euro, means 0.01 Euro.

(f) Calculations

The amount of interest payable in respect of any Note for any period shall be calculated by multiplying the product of the Rate of Interest and the outstanding principal amount of each Note by the Day Count Fraction specified in the relevant Final Terms save that, where an Interest Amount (or a formula for its calculation) is specified in respect of such period, the amount of interest payable in respect of such Note for such period will equal such Interest Amount (or be calculated in accordance with such formula). Where any Interest Period comprises two or more Interest Accrual Periods, the amount of interest payable in respect of such Interest Period shall be the sum of the amounts of interest payable in respect of each of those Interest Accrual Periods.

(g) Determination and Publication of Rates of Interest, Interest Amounts, Final Redemption Amounts, Early Redemption Amounts and Optional Redemption Amounts

The Calculation Agent shall, as soon as practicable on each Interest Determination Date or such other time on such date as the Calculation Agent may be required to calculate any rate or amount, obtain any quote or make any determination or calculation, determine the Rate of Interest and calculate the Interest Amounts in respect of each Specified Denomination of the Notes for the relevant Interest Accrual Period, calculate the Final Redemption Amount, Early Redemption Amount or the Optional Redemption Amount, obtain such quote or make such determination or calculation, as the case may be, and cause the Rate of Interest and the Interest Amounts for each Interest Period and the relevant Interest Payment Date and, if required to be calculated, the Final Redemption Amount, Early Redemption Amount or Optional Redemption Amount to be notified to the Fiscal Agent, the Issuer, each of the Paying Agents, the Noteholders, any other Calculation Agent appointed in respect of the Notes which is to make a further calculation upon receipt of such information and, if the Notes are listed on a stock exchange or other relevant authority and the rules of such exchange or other relevant authority so require, such exchange or other relevant authority as soon as possible after their determination but in no event later than (i) the commencement of the relevant Interest Period, if determined prior to such time, in the case of a Rate of Interest, the Interest Amount, the Interest Payment Date, the Final Redemption Amount, Early Redemption Amount and Optional Redemption Amount, or (ii) in all other cases, as soon as practicable but in no event later than the fourth Relevant Business Day after such determination. The Interest Amounts and the Interest Payment Date so published may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without notice in the event of an extension or shortening of the Interest Period. If the Notes become due and payable under Condition 10, the accrued interest and the Rate of Interest payable in respect of the Notes shall nevertheless continue to be calculated as previously in accordance with this Condition but no publication of the Rate of Interest or the Interest Amounts so calculated need be made. The determination of each Rate of Interest, Interest Amount, Final Redemption Amount, the Early Redemption Amount and the Optional Redemption Amount, the obtaining of each quote and the making of each determination or calculation by the Calculation Agent shall (in the absence of manifest error) be final and binding upon all parties.

(h) Definitions

In these Conditions, unless the context otherwise requires, the following defined terms shall have the meanings set out below:

Day Count Fraction means, in respect of the calculation of an amount of interest on any Note for any period of time (whether or not constituting an Interest Period, the **Calculation Period**):

(i) if **Actual/Actual** or **Actual/Actual (ISDA**) is specified in the relevant Final Terms, the actual number of days in the Calculation Period divided by 365 (or, if any portion of that Calculation Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Calculation Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Calculation Period falling in a non-leap year divided by 365);

(ii) if **Actual/365 (Fixed)** is specified in the relevant Final Terms, the actual number of days in the Calculation Period divided by 365;

(iii) if **Actual/360** is specified in the relevant Final Terms, the actual number of days in the Calculation Period divided by 360;

(iv) if **30/360**, **360/360** or **Bond Basis** is specified in the relevant Final Terms, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$Day\ Count\ Fraction = \frac{[360 \times (Y_2 - Y_1] + [30 \times (M_2 - M_1] + (D_2 - D_1)}{360}$$

where:

"Y1" is the year, expressed as a number, in which the first day of the Interest Period falls;

"Y2" is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"M1" is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

"M2" is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"D1" is the first calendar day, expressed as a number, of the Interest Period, unless such number is 31, in which case D1 will be 30; and

"D2" is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 32 and D2 is greater than 29, in which case D2 will be 30;

(v) if **30E/360** or **Eurobond Basis** is specified in the relevant Final Terms, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$Day\ Count\ Fraction = \frac{[360 \times (Y_2 - Y_1] + [30 \times (M_2 - M_1] + (D_2 - D_1)}{360}$$

where:

"Y1" is the year, expressed as a number, in which the first day of the Interest Period falls;

"Y2" is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"M1" is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

"M2" is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"D1" is the first calendar day, expressed as a number, of the Interest Period, unless such number would be 31, in which case D1 will be 30; and

"D2" is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31, in which case D2 will be 30;

(vi) if **30E/360 (ISDA)** is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$Day\ Count\ Fraction = \frac{[360 \times (Y_2 - Y_1] + [30 \times (M_2 - M_1] + (D_2 - D_1)}{360}$$

where:

"Y1" is the year, expressed as a number, in which the first day of the Interest Period falls;

"Y2" is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"M1" is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

"M2" is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"D1" is the first calendar day, expressed as a number, of the Interest Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case D1 will be 30; and

"D2" is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless (i) that day is the last day of February but not the Maturity Date or (ii) such number would be 31, in which case D2 will be 30; and

(vii) if **Actual/Actual (ICMA)** is specified in the relevant Final Terms:

(i) where the Calculation Period is equal to or shorter than the Determination Period during which it falls, the actual number of days in the Calculation Period divided by the product of (A) the actual number of days in such Determination Period and (B) the number of Determination Periods in any year;

(ii) where the Calculation Period is longer than one Determination Period, the sum of:

(A) the actual number of days in such Calculation Period falling in the Determination Period in which it begins divided by the product of (I) the actual number of days in such Determination Period and (II) the number of Determination Periods in any period of one year; and

(B) the actual number of days in such Calculation Period falling in the next Determination Period divided by the product of (I) the actual number of days in such Determination Period and (II) the number of Determination Periods in any period of one year,

where:

Designated Maturity means, in relation to Screen Rate Determination, the period of time designated in the Reference Rate.

Determination Period means the period from and including a Determination Date in any year to but excluding the next Determination Date; and

Determination Date means the date specified as such in the relevant Final Terms or, if none is so specified, the Interest Payment Date.

Euro-zone means the member states of the European Union that are participating in the third stage of European Monetary Union.

Interest Accrual Period means the period beginning on, and including, the Interest Commencement Date and ending on, but excluding, the first Interest Period Date and each successive period beginning on an Interest Period Date and ending on, but excluding, the next succeeding Interest Period Date.

Interest Amount means the amount of interest payable and, in the case of Fixed Rate Notes, means the Fixed Coupon Amount or Broken Amount, as the case may be.

Interest Commencement Date means the date of issue of the Notes (the **Issue Date**) or such other date as may be specified in the relevant Final Terms.

Interest Determination Date means, with respect to a Rate of Interest and Interest Accrual Period, the date specified as such in the relevant Final Terms or, if none is so specified, (i) the first day of such Interest Accrual Period if the Specified Currency is sterling or (ii) the day falling two Relevant Business Days in London prior to the first day of such Interest Accrual Period if the specified currency is not sterling, or (iii) the day falling two TARGET2 Business Days prior to the first day of such Interest Accrual Period if the specified currency is euro.

Interest Period means the period beginning on, and including, the Interest Commencement 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.

Interest Period Date means each Interest Payment Date unless otherwise specified in the relevant Final Terms.

ISDA Definitions means the 2006 ISDA Definitions, as published by the International Swaps and Derivatives Association, Inc., unless otherwise specified in the relevant Final Terms.

Rate of Interest means the rate of interest payable from time to time in respect of the Notes and which is either specified, or calculated in accordance with the provisions, in the relevant Final Terms.

Reference Banks means, in the case of a determination of LIBOR, the principal London office of four major banks in the London inter-bank market and, in the case of a determination of EURIBOR, the principal Euro-zone office of four major banks in the Euro-zone inter-bank market, in each case selected by the Calculation Agent.

Reference Rate means the rate specified as such in the relevant Final Terms.

Relevant Business Day means:

(i) in the case of a currency other than euro, a day (other than a Saturday or a Sunday) on which commercial banks and foreign exchange markets settle payments in the principal financial centre for that currency; and/or

(ii) in the case of euro, a day on which the TARGET2 System is operating; and/or

(iii) in the case of a currency and/or one or more Business Centres, a day (other than a Saturday or a Sunday) on which commercial banks and foreign exchange markets settle payments in such currency in the Business Centre(s) or, if no currency is specified, generally in each of the Business Centres so specified.

Relevant Screen Page means such page, section, caption, column or other part of a particular information service as may be specified in the relevant Final Terms (or any successor replacement page, section, caption, column or other part of a particular information service).

Specified Currency means the currency specified as such in the relevant Final Terms or, if none is specified, the currency in which the Notes are denominated.

TARGET2 Business Day means a day on which the TARGET2 System is operating.

TARGET2 System means the Trans European Automated Real Time Gross Settlement Express Transfer system (TARGET2) which was launched on 19 November 2007 or any successor thereto.

(i) Change of Interest Basis

If Changes of Interest Basis is specified in the relevant Final Terms as being applicable, the Final Terms will indicate the relevant Interest Periods to which the Fixed Rate Note provisions, Floating Rate Note provisions and/or Zero Coupon Note provisions shall apply.

(j) Calculation Agent

The Issuer will procure that there shall at all times be one or more Calculation Agents if provision is made for them in the Conditions applicable to the Notes and for so long as any Notes are outstanding. Where more than one Calculation Agent is appointed in respect of the Notes, references in these Conditions to the Calculation Agent shall be construed as each Calculation Agent performing its duties under the Conditions. If the Calculation Agent is unable or unwilling to act as such or if the Calculation Agent fails duly to establish the Rate of Interest for any Interest Period or to calculate the Interest Amounts or any other requirements, the Issuer will appoint the London office of a leading bank engaged in the London interbank market to act as such in its place. The Calculation Agent may not resign its duties without a successor having been appointed as aforesaid.

6. Redemption, Purchase and Options

(a) Final Redemption

Unless previously redeemed, purchased and cancelled as provided below, each Note will be redeemed at its Final Redemption Amount (which is its principal amount) on the Maturity Date specified on each Note.

(b) Redemption for taxation reasons

The Notes may be redeemed at the option of the Issuer in whole, but not in part, on any Interest Payment Date or, if so specified hereon, at any time, on giving not less than 30 nor more than 60 days' notice to the Noteholders (which notice shall be irrevocable), at their Early Redemption Amount, (together with interest accrued to the date fixed for redemption), if (i) the Issuer (or, if the Guarantee were called, the Guarantor) has or will become obliged to pay additional amounts as provided or referred to in Condition 8 as a result of any change in, or amendment to, the laws or regulations of the Kingdom of Spain or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the Issue Date, and (ii) such obligations cannot be avoided by the Issuer (or the Guarantor, as the case may be) taking reasonable measures available to it, provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer (or the Guarantor, as the case may be) would be obliged to pay such additional amounts if a payment in respect of the Notes (or the Guarantee, as the case may be) were then due. Prior to the publication of any notice of redemption pursuant to this Condition, the Issuer shall deliver to the Fiscal Agent a certificate signed by a director of the Issuer (or the Guarantor, as the case may be) stating that the Issuer (or the Guarantor, as the case may be) is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer (or the Guarantor, as the case may be) so to redeem have occurred.

(c) Purchases

The Issuer, the Guarantor and any of the Guarantor's Subsidiaries may at any time purchase Notes (provided that all unmatured Coupons and unexchanged Talons appertaining thereto are attached or surrendered therewith) in the open market or otherwise at any price.

(d) Early Redemption of Zero Coupon Notes

(i) The Early Redemption Amount payable in respect of any Note which does not bear interest prior to the Maturity Date upon redemption of such Note pursuant to Condition 6(b), Condition 6(e), Condition 6(f), Condition 6(g), Condition 6(h), Condition 6(i), or upon it becoming due and payable as provided in Condition 10, shall be the Amortised Face Amount (calculated as provided below) of such Note.

(ii) Subject to the provisions of sub-paragraph (iii) below the Amortised Face Amount of any such Note shall be the scheduled Final Redemption Amount of such Note on the Maturity Date discounted at a rate per annum (expressed as a percentage) equal to the Amortisation Yield (which, if none is shown hereon, shall be such rate as would produce an Amortised Face Amount equal to the issue price of the Notes if they were discounted back to their Issue Price on the Issue Date) compounded annually. Where such calculation is to be made for a period of less than one year, it shall be made on the basis of the Day Count Fraction shown in the relevant Final Terms.

(iii) If the Early Redemption Amount payable in respect of any such Note upon its redemption pursuant to Condition 6(b), Condition 6(e), Condition 6(f), Condition 6(g), Condition 6(h), Condition 6(i), or upon it becoming due and payable as provided in Condition 10 is not paid when due, the Redemption Amount due and payable in respect of such Note shall be the Amortised Face Amount of such Note as defined in sub-paragraph (ii) above, except that such sub-paragraph shall have effect as though the reference therein to the date on which the Note becomes due and payable were replaced by a reference to the Relevant Date. The calculation of the Amortised Face Amount in accordance with this sub-paragraph will continue to be made (both before and after judgment), until the Relevant Date unless the Relevant Date falls on or after the Maturity Date, in which case the amount due and payable shall be the scheduled Final Redemption Amount of such Note on the Maturity Date together with any interest which may accrue in accordance with Condition 5(d).

(e) Redemption at the Option of the Issuer

If Call Option is specified in the relevant Final Terms as being applicable, the Issuer may, on giving not less than 15 nor more than 30 days' irrevocable notice to the Noteholders (or such other notice period as may be specified in the relevant Final Terms) redeem, all or, if so provided some of the Notes on any Optional Redemption Date. Any such redemption of Notes shall be at their Optional Redemption Amount (as specified in the relevant Final Terms) together with interest accrued to the date fixed for redemption. Any such redemption or exercise must relate to Notes of a nominal amount at least equal to the Minimum Redemption Amount to be redeemed specified in the relevant Final Terms and no greater than the Maximum Redemption Amount to be redeemed specified in the relevant Final Terms.

If Make-Whole Amount is specified in the relevant Final Terms, the Optional Redemption Amount as determined by the Financial Adviser will be the higher of (a) 100 per cent. of the principal amount outstanding of the Notes to be redeemed and (b) the sum of the present values of the principal amount outstanding of the Notes to be redeemed and the Remaining Term Interest on such Notes (exclusive of interest accrued to the date of redemption) discounted to the date of redemption on an annual basis at (i) the Reference Note Rate plus the Redemption Margin or (ii) the Discount Rate, in each case as specified in the relevant Final Terms. If the Make-whole Exemption Period is specified

as applicable and the Issuer gives notice to redeem the Notes during the Make-whole Exemption Period, the Optional Redemption Amount will be 100 per cent. of the principal amount outstanding of the Notes to be redeemed.

All Notes in respect of which any such notice is given shall be redeemed on the date specified in such notice in accordance with this Condition.

In the case of a partial redemption the notice to Noteholders shall also contain the serial numbers of the Notes to be redeemed, which shall have been drawn in such place as the Fiscal Agent may approve and in such manner as it deems appropriate, subject to compliance with any applicable laws and stock exchange requirements or other relevant authority requirements. So long as the Notes are listed on the Luxembourg Stock Exchange and the rules of that stock exchange so require, the Issuer shall, once in each year in which there has been a partial redemption of the Notes, cause to be published either on the website of the Luxembourg Stock Exchange (www.bourse.lu) or in a leading newspaper of general circulation in Luxembourg (which is expected to be the *Luxemburger Wort)* a notice specifying the aggregate nominal amount of Notes outstanding and a list of the Notes drawn for redemption but not surrendered.

In these Conditions:

Discount Rate will be as set out in the relevant Final Terms.

FA Selected Note means a government security or securities selected by the Financial Adviser as having an actual or interpolated maturity comparable with the remaining term of the Notes that would be utilised, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities denominated in the same currency as the Notes and of a comparable maturity to the remaining term of the Notes.

Financial Adviser means the entity so specified in the relevant Final Terms or, if not so specified or if such entity is unable or unwilling to act, any financial adviser selected by the Issuer.

Make-whole Exemption Period will be as set out in the relevant Final Terms.

Redemption Margin will be as set out in the relevant Final Terms.

Reference Note shall be the note so specified in the relevant Final Terms or, if not so specified or if no longer available, the FA Selected Note.

Reference Note Price means, with respect to any date of redemption: (a) the arithmetic average of the Reference Government Note Dealer Quotations for such date of redemption, after excluding the highest and lowest such Reference Government Note Dealer Quotations or (b) if the Financial Adviser obtains fewer than four such Reference Government Note Dealer Quotations, the arithmetic average of all such quotations.

Reference Note Rate means, with respect to any date of redemption, the rate per annum equal to the annual or semi-annual yield (as the case may be) to maturity or interpolated yield to maturity (on the relevant day count basis) of the Reference Note, assuming a price for the Reference Note (expressed as a percentage of its principal amount) equal to the Reference Note Price for such date of redemption.

Reference Date will be set out in the relevant notice of redemption, such date to fall no earlier than the date falling 30 days prior to the date of such notice.

Reference Government Note Dealer means each of five banks selected by the Issuer which are (a) primary government securities dealers, and their respective successors, or (b) market makers in pricing corporate note issues.

Reference Government Note Dealer Quotations means, with respect to each Reference Government Note Dealer and any date for redemption, the arithmetic average, as determined by the Financial Adviser, of the bid and offered prices for the Reference Note (expressed in each case as a percentage of its principal amount) at the Quotation Time specified in the relevant Final Terms on the Reference Date quoted in writing to the Financial Adviser by such Reference Government Note Dealer.

Remaining Term Interest means with respect to any Note, the aggregate amount of scheduled payment(s) of interest on such Note for the remaining term of such Note determined by the Financial Adviser on the basis of the rate of interest applicable to such Note from and including the date on which such Note is to be redeemed by the Issuer in accordance with this Condition 6(e).

(f) Residual Maturity Call Option

If a Residual Maturity Call Option is specified in the relevant Final Terms as being applicable, the Issuer may, on giving not less than 15 nor more than 30 days' irrevocable notice to the Noteholders (which notice shall specify the date fixed for redemption (the **Residual Maturity Call Option Redemption Date**)), redeem all (but not only some) of the outstanding Notes at their principal amount together with interest accrued to, but excluding, the date fixed for redemption, which shall be no earlier than (i) three months before the Maturity Date in respect of Notes having a maturity of not more than ten years or (ii) six months before the Maturity Date in respect of Notes having a maturity of more than ten years.

For the purpose of the preceding paragraph, the maturity of not more than ten years or the maturity of more than ten years shall be determined as from the Issue Date of the Notes.

All Notes in respect of which any such notice is given shall be redeemed on the date specified in such notice in accordance with this Condition 6(f).

(g) Redemption following a Substantial Purchase Event

If a Substantial Purchase Event is specified in the Final Terms as being applicable and a Substantial Purchase Event has occurred and is continuing, then the Issuer may, subject to having given not less than 15 nor more than 30 days' notice to the Fiscal Agent and the Noteholders (which notice shall be irrevocable), redeem the Notes in whole, but not in part, at any time, in each case at their principal amount, together with any accrued and unpaid interest up to (but excluding) the date of redemption.

All Notes in respect of which any such notice is given shall be redeemed on the date specified in such notice in accordance with this Condition 6(g).

A **Substantial Purchase Event** shall be deemed to have occurred if at least 80 per cent. of the aggregate principal amount of the Notes 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));

(h) Redemption at the option of the Noteholders upon a Change of Control

If a Change of Control Put Option is specified in the relevant Final Terms as being applicable, at any time while any Note remains outstanding, each holder of Notes will have the option (the **Change of Control Put Option**) to require the Issuer to redeem or, at the Issuer's option, to procure the purchase of such Notes on the Optional Redemption Date at the Optional Redemption Amount (plus interest accrued to, but excluding the Optional Redemption Date) (both terms as defined below), if a

Change of Control occurs and, during the Change of Control Period, a Rating Downgrade occurs (together, a **Put Event**).

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 of the Guarantor.

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, in each case whether obtained directly or indirectly, and whether obtained by ownership of share capital, the possession of voting rights, contract or otherwise.

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.

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.

Rating Agency means any of the following: (a) Standard & Poor's Credit Market Services Europe Limited (**S&P**); (b) Moody's Investors Service Limited (**Moody's**); (c) Fitch Ratings Limited (**Fitch Ratings**); or (d) 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.

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 Rating Agency is: (x) withdrawn; (y) ceases to be an Investment Grade Rating; or (z) if the rating assigned to the Guarantor by any 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 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 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 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.

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).

Optional Redemption Amount means an amount equal to par.

Promptly upon the Issuer becoming aware that a Put Event has occurred, the Issuer shall give notice (a **Put Event Notice**) to the Fiscal Agent, the Paying Agents and the Noteholders in accordance with Condition 14 specifying the nature of the Put Event and the circumstances giving rise to it and the procedure for exercising the Change of Control Put Option, as well as the date upon which the Put Period (as defined below) will end and the Optional Redemption Date (as defined below).

To exercise the Change of Control Put Option to require redemption or, as the case may be, purchase of a Note under this section, the holder of that Note must transfer or cause to be transferred its Notes

to be so redeemed or purchased to the account of the Fiscal Agent specified in the Change of Control Put Option Notice for the account of the Issuer within the period (the **Put Period**) of 45 days after the Put Event Notice is given together with a duly signed and completed notice of exercise in the form (for the time being current) obtainable from the specified office of any Paying Agent (a **Put Option Notice**) and in which the holder may specify a bank account to which payment is to be made under this Condition.

The Issuer shall redeem or, at the option of the Issuer, procure the purchase of the Notes in respect of which the Change of Control Put Option has been validly exercised as provided above, and subject to the transfer of such Notes to the account of the Fiscal Agent for the account of the Issuer as described above on the date which is the fifth Business Day following the end of the Put Period (the **Optional Redemption Date**). Payment in respect of any Note so transferred will be made in the Specified Currency to the holder to the bank account denominated in the Specified Currency specified in the Put Option Notice on the Optional Redemption Date via the relevant account holders.

(i) Redemption at the Option of the Noteholder

If Put Option is specified in the relevant Final Terms as being applicable, the Issuer shall, at the option of the Holder of any such Note, upon the Holder of such Note giving not less than 15 nor more than 30 days' notice to the Issuer (or such other notice period as may be specified in the relevant Final Terms) redeem such Note on the Optional Redemption Dates at its Optional Redemption Amount together with interest accrued to the date fixed for redemption. It may be that before a Put Option can be exercised, certain conditions and/or circumstances will need to be satisfied. Where relevant, the provisions will be set out in the applicable Final Terms.

To exercise such option the Holder must deposit such Note with any Paying Agent (in the case of Bearer Notes) or the Certificate representing such Note(s) with the Registrar or any Transfer Agent (in the case of Registered Notes) at its specified office, together with a duly completed option exercise notice (**Exercise Notice**) in the form obtainable from any Paying Agent, the Registrar or any Transfer Agent (as applicable) within the notice period. No Note or Certificate so deposited and option exercised may be withdrawn (except as provided in the Agency Agreement) without the prior consent of the Issuer.

(j) Cancellation

All Notes purchased by or on behalf of the Issuer, the Guarantor or any of the Guarantor's Subsidiaries may be surrendered for cancellation, in the case of Bearer Notes, by surrendering each such Note together with all unmatured Coupons and all unexchanged Talons to the Fiscal Agent and, in the case of Registered Notes, by surrendering the Certificate representing such Notes to the Registrar and, in each case, if so surrendered, will, together with all Notes redeemed by the Issuer, be cancelled forthwith (together with all unmatured and Coupons and unexchanged Talons attached thereto or surrendered therewith). Any Notes so surrendered for cancellation may not be reissued or resold and the obligations of the Issuer and the Guarantor in respect of any such Notes shall be discharged.

(k) Other Notes

The Early Redemption Amount payable in respect of any Note, upon redemption of such Note pursuant to Condition 6(b) or upon it becoming due and payable as provided in Condition 10, shall be the Final Redemption Amount unless otherwise specified in the relevant Final Terms.

7. Payments and Talons

(a) Bearer Notes

Payments of principal and interest in respect of Bearer Notes will, subject as mentioned below, be made, where applicable, against presentation and surrender of the relevant Notes (in the case of all payments of principal and, in the case of interest, as specified in Condition 7(f)(vi) or Coupons (in the case of interest, save as specified in Condition 7(f)(ii)), as the case may be, at the specified office of any Paying Agent outside the United States by a cheque payable in the currency in which such payment is due drawn on, or, at the option of the Holder, by transfer to an account denominated in that currency with, a bank in the principal financial centre of that currency and, in the case of Euro, by cheque drawn down or by transfer to, a Euro account to which Euro may be credited or transferred as specified by the payee.

(b) Registered Notes

(i) Payments of principal in respect of Registered Notes will be made against presentation and surrender of the relevant Certificates at the specified office of any of the Transfer Agents or of the Registrar and in the manner provided in paragraph (ii) below.

(ii) Interest on Registered Notes will be paid to the person shown on the Register (i) where in global form, at the close of the business day (being for this purpose a day on which Euroclear and Clearstream, Luxembourg are open for business) before the relevant due date, and (ii) where in definitive form, at the close of business on the fifteenth day before the due date for payment thereof (the **Record Date**). Payments of interest on each Registered Note will be made in the currency in which such payments are due by cheque drawn on a bank in the principal financial centre of the country of the currency concerned and mailed to the Holder (or to the first named of joint Holders) of such Note at its address appearing in the Register maintained by the Registrar. Upon application by the Holder to the specified office of the Registrar or any Transfer Agent before, the Record Date and subject as provided in Condition 7(a) above, such payment of interest may be made by transfer to an account in the specified currency designated by the Holder with a bank in the principal financial centre of the country of that currency.

(c) Payments in the United States

Notwithstanding the foregoing, if any Bearer Notes are denominated in U.S. Dollars, payments in respect thereof may be made at the specified office of any Paying Agent in New York City in the same manner as aforesaid if (i) the Issuer shall have appointed Paying Agents with specified offices outside the United States with the reasonable expectation that such Paying Agents would be able to make payment of the amounts on the Notes in the manner provided above when due, (ii) payment in full of such amounts at all such offices is illegal or effectively precluded by exchange controls or other similar restrictions on payment or receipt of such amounts and (iii) such payment is then permitted by United States law, without involving, in the opinion of the Issuer, any adverse tax consequence to the Issuer.

(d) Payments Subject to Law, etc

All payments are subject in all cases to (i) any applicable fiscal or other laws, regulations and directives in the place of payment, but without prejudice to the provisions of Condition 8 and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986 (the **Code**) or otherwise imposed pursuant to Sections 1471 through 1474 of the Code (or any regulations or agreements thereunder or official interpretations thereof) or an intergovernmental agreement between the United States and another jurisdiction facilitating the implementation thereof (or any law implementing such an intergovernmental agreement). No

commission or expenses shall be charged to the Noteholders or Coupon holders in respect of such payments.

(e) Appointment of Agents

The Fiscal Agent, the Paying Agents, the Registrar, the Transfer Agents and the Calculation Agent initially appointed by the Issuer and their respective specified offices are listed below. The Fiscal Agent, the Paying Agents, the Registrar, the Transfer Agents and the Calculation Agent act solely as agents of the Issuer and the Guarantor and do not assume any obligation or relationship of agency or trust for or with any Holder. The Issuer and the Guarantor reserve the right at any time to vary or terminate the appointment of the Fiscal Agent, any other Paying Agent, the Calculation Agent, the Registrar or any Transfer Agent and to appoint additional or other agents provided that the Issuer and the Guarantor will at all times maintain (i) a Fiscal Agent, (ii) a Registrar in relation to Registered Notes, (iii) a Transfer Agent having a specified office in at least two major European cities (including Luxembourg so long as the Notes are admitted to trading on the Regulated Market of the Luxembourg Stock Exchange and listed on the official list of the Luxembourg Stock Exchange and the rules of such exchange so require) in relation to Registered Notes, (iv) a Calculation Agent where the Conditions so require one, (v) Paying Agents having a specified office in at least two major European cities (including Luxembourg so long as the Notes are admitted to trading on the Regulated Market of the Luxembourg Stock Exchange and listed on the official list of the Luxembourg Stock Exchange and the rules of such exchange so require), (vi) a Paying Agent having a specified office in a city in Continental Europe outside the European Union and (vii) such other agents as may be required by any other stock exchange on which the Notes may be listed.

In addition, the Issuer shall forthwith appoint a Paying Agent in New York in respect of any Notes denominated in U.S. Dollars in the circumstances described in Condition 7(c) above.

Notice of any such change or any change of any specified office will promptly be given to the Noteholders in accordance with Condition 14.

(f) Unmatured Coupons and unexchanged Talons

(i) Upon the due date for redemption of those Notes, Bearer Notes which comprise Fixed Rate Notes, should be surrendered for payment together with all unmatured Coupons (if any) appertaining thereto, failing which an amount equal to the face value of each missing unmatured Coupon (or, in the case of payment not being made in full, that proportion of the amount of such missing unmatured Coupon which the sum of principal so paid bears to the total principal due) will be deducted from the Final Redemption Amount, Early Redemption Amount or Optional Redemption Amount then due for payment. Any amount so deducted will be paid in the manner mentioned above against surrender of such missing Coupon within a period of 10 years from the Relevant Date for the payment of such principal (whether or not such Coupon has become void pursuant to Condition 9).

(ii) Upon the due date for redemption of any Bearer Note comprising a Floating Rate Note, unmatured Coupons relating to such Note (whether or not attached) shall become void and no payment shall be made in respect of them.

(iii) Upon the due date for redemption of any Bearer Note, any unexchanged Talon relating to such Note (whether or not attached) shall become void and no Coupon shall be delivered in respect of such Talon.

(iv) Where any Bearer Note which provides that the relative Coupons are to become void upon the due date for redemption of those Notes is presented, where applicable, for redemption without all unmatured coupons and any unexchanged Talon relating to it, and where any Bearer Note is presented, where applicable, for redemption without any unexchanged Talon

relating to it, redemption shall be made only against the provision of such indemnity as the Issuer may require.

(v) If the due date for redemption of any Note is not a due date for payment of interest, interest accrued from the preceding due date for payment of interest or the Interest Commencement Date as the case may be, shall only be payable against presentation, where applicable (and surrender if appropriate) of the relevant Bearer Note or Certificate representing it, as the case may be. Interest accrued on a Note which only bears interest after its Maturity Date shall be payable on redemption of such Note against presentation, where applicable, of the relevant Note or Certificate representing it, as the case may be.

(g) Talons

On or after the Interest Payment Date for the final Coupon forming part of a Coupon sheet issued in respect of any Bearer Note, 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 if necessary another Talon for a further Coupon sheet) (but excluding any Coupons which may have become void pursuant to Condition 9).

(h) Non-Business Days

If any date for payment in respect of any Note or Coupon is not a business day, the Holder shall not be entitled to payment until the next following business day nor to any interest or other sum in respect of such postponed payment. In this Condition 7(h), **business day** means a day which is:

(i) a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for business: (A) in, as regards Bearer Notes, the relevant place of presentation (if presentation is required) and (B) in such jurisdictions as shall be specified as **Financial Centres** in the relevant Final Terms; and

(ii) (A) (in the case of a payment in a currency other than Euro) where payment is to be made by transfer to an account maintained with a bank in the specified currency, on which foreign exchange transactions may be carried on in the specified currency in the principal financial centre of the country of such currency; or (B) (in the case of a payment in Euro) where payment is to be made by payment to an account, a day on which the TARGET2 System is operating.

(i) Redenomination, Renominalisation and Reconventioning

(i) *Notice of redenomination*: If the country of the Specified Currency becomes, or announces its intention to become, a Participating Member State, the Issuer may, without the consent of the Noteholders and Couponholders, on giving at least 30 days' prior notice to the Noteholders and the Paying Agents, designate a date (the **Redenomination Date**), being an Interest Payment Date under the Notes falling on or after the date on which that country becomes a Participating Member State.

(ii) *Redenomination*: Notwithstanding the other provisions of these Conditions, with effect from the Redenomination Date:

(a) the Notes shall be deemed to be redenominated into Euro in the specified denomination of Euro 0.01 with a principal amount for each Note equal to the principal amount of that Note in the Specified Currency, converted into Euro at the rate for conversion of such currency into Euro established by the Council of the European Union pursuant to the Treaty (including compliance with rules relating to rounding in accordance with European Community regulations); *provided, however,*

that, if the Issuer determines, with the agreement of the Fiscal Agent that market practice in respect of the redenomination into Euro 0.01 of internationally offered securities is different from that specified above, such provisions shall be deemed to be amended so as to comply with such market practice and the Issuer shall promptly notify the Noteholders and Couponholders, each listing authority, stock exchange and/or quotation system (if any) by which the Notes have then been admitted to listing, trading and/or quotation and the Paying Agents of such deemed amendments;

(b) if Notes have been issued in definitive form:

(A) all unmatured Coupons denominated in the Specified Currency (whether or not attached to the Notes) will become void with effect from the date (the **Euro Exchange Date**) on which the Issuer gives notice (the **Euro Exchange Notice**) to the Noteholders that replacement Notes and Coupons denominated in Euro are available for exchange (provided that such Notes and Coupons are available) and no payments will be made in respect thereof;

(B) the payment obligations contained in all Notes denominated in the Specified Currency will become void on the Euro Exchange Date but all other obligations of the Issuer thereunder (including the obligation to exchange such Notes in accordance with this Condition 7) shall remain in full force and effect;

(c) new Notes and Coupons denominated in Euro will be issued in exchange for Notes and Coupons denominated in the Specified Currency in such manner as the Fiscal Agent may specify and as shall be notified to the Noteholders in the Euro Exchange Notice; and

(d) all payments in respect of the Notes (other than, unless the Redenomination Date is on or after such date as the Specified Currency ceases to be a sub-division of the Euro, payments of interest in respect of periods commencing before the Redenomination Date) will be made solely by Euro cheque drawn on, or by credit or transfer to a Euro account (or other account to which Euro may be credited or transferred) maintained by the payee with a bank in a city in a country in which banks have access to the TARGET2 System.

(iii) *Interest*: Following redenomination of the Notes pursuant to this Condition 7, where Notes have been issued in definitive form, the amount of interest due in respect of the Notes will be calculated by reference to the aggregate principal amount of the Notes held (or, as the case may be, in respect of which Coupons are presented for payment) by the relevant holder.

(iv) *Interpretation*: In this Condition:

Participating Member State means a member state of the European Union which adopts the Euro as its lawful currency in accordance with the Treaty; and

Treaty means the Treaty establishing the European Community, as amended.

8. Taxation

(a) Additional Amounts

All payments of principal and interest in respect of the Notes and the Coupons by or on behalf of the Issuer or (as the case may be) the Guarantor under the Deed of 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 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 or required pursuant to an agreement described in Section 1471(b) of the Code. In that event, the Issuer or, as the case may be, the Guarantor will pay such additional amounts as may be necessary in order that the net amounts received by the Noteholders and the Coupon holders after such withholding or deduction shall equal the respective amounts of principal and interest which would have been received in respect of the Notes 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 Note or Coupon or (as the case may be) under the Deed of Guarantee:

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

(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; or

(iii) to, or to a third party on behalf of, a Holder or Noteholder in respect of whom the Issuer (or an agent acting on behalf of the Issuer) has not received such information as may be necessary to allow payments on such Note to be made free and clear of withholding tax or deduction on account of any taxes imposed by a Tax Jurisdiction, including when the Issuer (or an agent acting on behalf of the Issuer) does not receive such information concerning such Noteholder's identity and tax residence as may be required in order to comply with the procedures that may be implemented to comply with the interpretation of Foral Decree 205/2008 and Royal Decree 1065/2007 eventually made by the Spanish Tax Authorities;

(iv) present for payment in The Netherlands or, as applicable, the Kingdom of Spain;

(v) where such withholding or deduction is imposed on a payment to an individual resident of Luxembourg pursuant to the Luxembourg Law dated 23 December 2005 introducing a withholding tax in full discharge of income tax on certain interest income; or

(vi) where such withholding or deduction is required pursuant to an agreement described in Section 1471(b) of the Code or otherwise imposed pursuant to Sections 1471 through 1474 of the Code (or any regulations or agreements thereunder or official interpretations thereof) or an intergovernmental agreement between the United States and another jurisdiction facilitating the implementation thereof (or any law implementing such an intergovernmental agreement).

(b) Tax Credit Payment

If any additional amounts are paid by the Issuers 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 remission 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.

(c) 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.

(d) 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.

(e) Definitions

As used in these Conditions, **Relevant Date** in respect of any Note or Coupon means the date on which payment in respect thereof first becomes due or if any amount of the money payable is improperly withheld (or refused) the date on which payment in full of the amount outstanding is made or (if earlier) the date on which notice is duly given to the Noteholders in accordance with Condition 14 that, upon further presentation of the Note (or relative Certificate) or Coupon being made in accordance with the Conditions, such payment will be made, provided that payment is in fact made upon such presentation. References in these Conditions to (i) "principal" shall be deemed to include any premium payable in respect of the Notes, Final Redemption Amounts, Early Redemption Amounts, Optional Redemption Amounts, Amortised Face Amounts and all other amounts in the nature of principal payable pursuant to Condition 6 or any amendment or supplement to it; (ii) "interest" shall be deemed to include all Interest Amounts and all other amounts payable pursuant to Condition 5 or any amendment or supplement to it; and (iii) "principal" and/or "interest" shall be deemed to include any additional amounts which may be payable under this Condition.

9. Prescription

Claims against the Issuer and, as the case may be, the Guarantor for payment in respect of the Notes and Coupons (which, for this purpose shall not include Talons) shall be prescribed and become void unless made within ten years (in the case of principal) or five years (in the case of interest) from the appropriate Relevant Date in respect thereof.

10. Events of Default

If any of the following events (each an **Event of Default**) occurs and is continuing, the Holder of a Note of any Series may give written notice to the Fiscal Agent at its specified office that such Note is immediately repayable, whereupon the Early Redemption Amount of such Note, together with accrued interest to the date of payment, shall become immediately due and payable:

(a) *Non-Payment*: default is made for more than 14 days (in the case of interest) or seven days (in the case of principal) in the payment on the due date of interest or principal in respect of any of the Notes; or

(b) *Breach of Other Obligations*: the Issuer or the Guarantor does not perform or comply with any one or more of its other obligations under or in respect of the Notes, the Agency Agreement or the Deed of Guarantee which default is incapable of remedy or is not remedied within 30 days after notice of such default shall have been given to the Fiscal Agent by any Noteholder; or

(c) *Cross-Default*: (i) subject as provided below, any Relevant Indebtedness incurred by the Issuer or the Guarantor or any Relevant Subsidiary becomes (or becomes capable of being declared) due and payable prior to its stated maturity otherwise than at the option of the Issuer or the Guarantor, as the case may be, or, provided that no event of default on such Relevant Indebtedness, however described, has occurred, at the option of any person entitled to such Relevant Indebtedness, or (ii) any Relevant Indebtedness of the Issuer or of the Guarantor or of any Relevant Subsidiary is not paid when due or, as the case may be, within any applicable grace period, or (iii) the Issuer, the Guarantor or any Relevant Subsidiary fails to pay when due any amount payable by it under any present or future guarantee for, or indemnity in respect of any Relevant Indebtedness, provided that the aggregate amount of the Relevant Indebtedness, guarantees and indemnities in respect of which one or more of the events mentioned above in this Condition 10(c) have occurred equals or exceeds €125,000,000 or its equivalent in other currencies.

Paragraph (c) shall not apply to Relevant Indebtedness which:

(A) (1) was incurred before 27 July 2007; and (2) becomes (or becomes capable of being declared) due and payable prior to its stated maturity solely as a result of an event of default occurring under Relevant Indebtedness of an entity which is not a Relevant Subsidiary; or

(B) (1) is Relevant Indebtedness of a Relevant Subsidiary; and (2) becomes (or becomes capable of being declared) due and payable prior to its stated maturity solely as a result of an event of default triggered by the acquisition of that Relevant Subsidiary by the Guarantor (or any of its Subsidiaries),

provided that none of these exceptions shall be applicable if such Relevant Indebtedness (I) has become (or is declared to become) due and payable, and (II) is not paid in full when so due and payable; or

(d) *Enforcement Proceedings*: any distress, attachment, execution or other legal process which is material in the context of the issue and offering of the Notes is levied, enforced or sued on or against any part of the property, assets or revenues of the Issuer or the Guarantor or any of the Guarantor's Subsidiaries and is not discharged or stayed within 90 days; or

(e) *Security Enforced:* any mortgage, charge, pledge, lien or other encumbrance, present or future, created or assumed by the Issuer or the Guarantor or any of the Guarantor's Subsidiaries which is material in the context of the issue and offering of the Notes becomes

enforceable and any step is taken to enforce it (including the taking of possession by or the appointment of a receiver, administrative receiver, manager or other similar person); or

(f) *Insolvency, etc*: (i) the Issuer or the Guarantor or any Relevant Subsidiary becomes, or is adjudicated to be, insolvent or is adjudicated to be unable to pay its debts as they fall due, (ii) an administrator or liquidator of the Issuer or the Guarantor or any Relevant Subsidiary or the whole or any part of the undertaking, assets and revenues of the Issuer or the Guarantor or any Relevant Subsidiary is appointed (or application for any such appointment is made), (iii) the Issuer or the Guarantor or any Relevant Subsidiary takes any action for a general readjustment or deferment of its obligations or makes a general assignment or arrangement or composition with or for the benefit of its creditors generally or declares a moratorium in respect of its indebtedness or guarantees given by it, or (iv) any other proceeding is commenced which requires the application of priorities provided by any applicable Spanish laws; or

(g) *Winding-up*: an order is made or an effective resolution passed for the winding-up or dissolution or administration of the Issuer or the Guarantor or any Relevant Subsidiary, or the Issuer or the Guarantor or any Relevant Subsidiary shall cease or through an official action of its board of directors threaten to cease to carry on all or a substantial part of its business or operations, except for the purpose of and followed by a reconstruction, amalgamation, reorganisation, merger or consolidation (i) on terms approved by an Extraordinary Resolution of the Noteholders or (ii) in the case of a Relevant Subsidiary, whereby the undertaking or assets of the Relevant Subsidiary are transferred to or otherwise vested in (A) the Issuer or the Guarantor or another Relevant Subsidiary or (B) any other person provided, in this case, that the undertaking or assets are transferred to that person for full consideration on an arm's length basis and the proceeds of the consideration are applied as soon as practicable by the Relevant Subsidiary in its business or operations or the business or operations of the Issuer or the Guarantor or another Relevant Subsidiary or (iii) in the case of the Issuer, whereby the undertakings or assets of the Issuer are transferred to or otherwise vested in the Guarantor; or (iv) to comply with any mandatory requirements set forth by any regulation, directives or rules issued by the Spanish government or the relevant administrative authority in connection with the reorganisation of the Spanish electricity sector; or

(h) *Authorisation and Consents*: any action, condition or thing (including the obtaining or effecting of any necessary consent, approval, authorisation, exemption, filing, licence, order, recording or registration) at any time required to be taken, fulfilled or done in order (i) to enable the Issuer and the Guarantor lawfully to enter into, exercise their respective rights and perform and comply with their respective obligations under the Notes and the Deed of Guarantee, (ii) to ensure that those obligations are legally binding and enforceable and (iii) to make the Notes and the Deed of Guarantee admissible in evidence in the courts of the Kingdom of Spain is not taken, fulfilled or done; or

(i) *Illegality*: it is or will become unlawful for the Issuer or the Guarantor to perform or comply with any one or more of its obligations under any of the Notes or the Deed of Guarantee; or

(j) *Analogous Events*: any event occurs which under the laws of any relevant jurisdiction has an analogous effect to any of the events referred to in any of the foregoing paragraphs including, but not limited to, *concurso;* or

(k) *Guarantee*: the Guarantee is not (or is claimed by the Guarantor not to be) in full force and effect; or

(l) *Nationalisation*: any step is taken by any person with a view to the seizure, compulsory acquisition, expropriation or nationalisation of all or a material part of the Guarantor or any of its Relevant Subsidiaries.

In this Condition, "Relevant Indebtedness", "Relevant Subsidiary" and "Subsidiary" shall have the respective meanings given to them in Condition 4(b).

11. Meetings of Noteholders and Modifications

(a) Meetings of Noteholders

The Agency Agreement contains provisions for convening meetings of Noteholders to consider any matter affecting their interest, including modification by Extraordinary Resolution of the Notes (including these Conditions insofar as the same may apply to such Notes). An Extraordinary Resolution duly passed at any such meeting shall be binding on all the Noteholders, whether present or not and on all relevant Couponholders, except that any Extraordinary Resolution proposed, *inter alia*, (i) to amend the dates of maturity or redemption of the Notes or any date for payment of interest thereon, (ii) to reduce or cancel any premium payable on redemption of the Notes, (iii) to reduce the rate or rates of interest in respect of the Notes or to vary the method or basis of calculating the rate or rates or amount of interest or the basis for calculating the Interest Amount in respect thereof, (iv) if a Minimum and/or a Maximum Interest Rate or Redemption Amount is shown hereon, to reduce any such Minimum and/or Maximum, (v) to change any method of calculating the Final Redemption Amount, the Early Redemption Amount or the Optional Redemption Amount, including the method for calculating the Amortised Face Amount, (vi) to change the currency or currencies of payment or specified denomination of the Notes, or (vii) to modify the provisions concerning the quorum required at any meeting of Noteholders or the majority required to pass the Extraordinary Resolution, will only be binding if passed at a meeting of the Noteholders (or at any adjournment thereof) at which a special quorum (provided for in the Agency Agreement) is present.

These Conditions may be amended, modified, or varied in relation to any Series of Notes by the terms of the relevant Final Terms in relation to such Series.

(b) Modification of Agency Agreement

The Issuer and the Guarantor shall only permit any modification of, or any waiver or authorisation of any breach or proposed breach of or any failure to comply with, the Agency Agreement, if to do so could not, in the opinion of the Issuer or the Guarantor (as the case may be), reasonably be expected to be prejudicial to the interests of the Noteholders.

12. Replacement of Notes, Certificates, Coupons and Talons

If a Note, Certificate, Coupon or Talon is lost, stolen, mutilated, defaced or destroyed, it may be replaced, subject to applicable laws and stock exchange regulations, at the specified office of the Fiscal Agent (in the case of the Bearer Notes, Coupons or Talons) and the Registrar (in the case of Certificates) or such other Paying Agent or Transfer Agent, as the case may be, as may from time to time be designated by the Issuer for such purpose, and notice of whose designation is given to Noteholders in accordance with Condition 14, in each case on payment by the claimant of the fees and costs incurred in connection therewith and on such terms as to evidence, security and indemnity (which may provide, *inter alia*, that if the allegedly lost, stolen or destroyed Note, Certificate, Coupon or Talon is subsequently presented for payment or, as the case may be, for exchange for further Coupons, there will be paid to the Issuer on demand the amount payable by the Issuer in respect of such Notes, Certificates, Coupons or further Coupons) and otherwise as the Issuer may require. Mutilated or defaced Notes, Certificates, Coupons or Talons must be surrendered before replacements will be issued.

13. Further Issues

The Issuer may from time to time without the consent of the Noteholders or Coupon holders create and issue further notes having the same terms and conditions as the Notes and so that the same shall be consolidated and form a single series with such Notes, and references in these Conditions to "Notes" shall be construed accordingly.

14. Notices

Notices to the Holders of Registered Notes will be mailed to them at their respective addresses in the Register and deemed to have been given on the fourth weekday (being a day other than a Saturday or a Sunday) after the date of mailing. With respect to Registered Notes admitted to trading on the Regulated Market of the Luxembourg Stock Exchange and listed on the official list of the Luxembourg Stock Exchange (so long as such Notes are admitted to trading on the Regulated Market of the Luxembourg Stock Exchange and listed on the official list of the Luxembourg Stock Exchange and the rules of that exchange so require), any notices must also be published either on the website of the Luxembourg Stock Exchange (www.bourse.lu) or in a leading daily newspaper having general circulation in Luxembourg (which is expected to be the *Luxemburger Wort).*

Notices to the Holders of Bearer Notes will be valid if published in a daily newspaper of general circulation in London (which is expected to be the *Financial Times).* With respect to Bearer Notes admitted to trading on the Regulated Market of the Luxembourg Stock Exchange and listed on the official list of the Luxembourg Stock Exchange, any notice must be also published either on the website of the Luxembourg Stock Exchange (www.bourse.lu) or in a leading daily newspaper having general circulation in Luxembourg (which is expected to be the *Luxemburger Wort).* If any such publication is not practicable, notice will be validly given if published in another leading English language newspaper of general circulation in Europe. Any such notice shall be deemed to have been given on the date of such publication or, if published more than once or on different dates, on the date of the first publication as provided above.

Coupon holders shall be deemed for all purposes to have notice of the contents of any notice to the Holders of Bearer Notes in accordance with this Condition.

Until such time as any definitive Notes are issued and so long as any Global Note is held in its entirety on behalf of Euroclear and/or Clearstream, Luxembourg there may, be substituted for such publication as aforesaid the delivery of the relevant notice to Euroclear and/or Clearstream, Luxembourg for communication by them to the Noteholders. Any such notice shall be deemed to have been given to the Noteholders on the seventh day after the day on which the said notice was given to Euroclear and/or Clearstream, Luxembourg, as appropriate.

Notices to be given by any Noteholder shall be in writing and given by lodging the same, together with the relative Note or Notes, with a Paying Agent. Whilst any of the Notes are represented by a Global Note, such notice may be given by any Noteholder to such Paying Agent via Euroclear and/or Clearstream, Luxembourg, as the case may be, in such manner as such Paying Agent and Euroclear and/or Clearstream, Luxembourg, as the case may be, may approve for this purpose.

15. Substitution of the Issuer

(a) The Issuer and the Guarantor may at any time, without the consent of the Noteholders or the Couponholders, substitute for the Issuer (x) the Guarantor or (y) any company which is wholly-owned by the Guarantor (the **Substitute**) upon notice by the Issuer, the Guarantor and the Substitute to be given in accordance with Condition 14 and, in the case of Notes admitted to trading on the Regulated Market of the Luxembourg Stock Exchange and listed on the official list of the Luxembourg Stock Exchange, to such exchange, provided that:

(i) no Event of Default has occurred in respect of the Notes;

(ii) no payment in respect of the Notes or the Coupons or the Deed of Guarantee (as the case may be) is at the relevant time overdue;

(iii) the Substitute shall, by means of a deed poll in the form scheduled to the Agency Agreement as Schedule 8 (the **Deed Poll**), agree to indemnify each Noteholder and Couponholder against any tax, duty, assessment or governmental charge which is imposed on it by (or by any authority in or of) the jurisdiction of the country of the Substitute residence for tax purposes and, if different, of its incorporation with respect to any Note, Coupon, Talon or the Deed of Covenant and which would not have been so imposed had the substitution not been made, as well as against any tax, duty, assessment or governmental charge, and any cost or expense, relating to the substitution;

(iv) where the Substitute is not the Guarantor, the obligations of the Substitute under the Deed Poll, the Notes, Coupons, Talons and Deed of Covenant shall be unconditionally and irrevocably guaranteed by the Guarantor by means of the Deed Poll;

(v) all action, conditions and things required to be taken, fulfilled and done (including the obtaining of any necessary consents) to ensure that the Deed Poll, the Notes, Coupons, Talons and Deed of Covenant represent valid, legally binding and enforceable obligations of the Substitute and in the case of the Deed Poll of the Guarantor have been taken, fulfilled and done and are in full force and effect;

(vi) the Substitute shall have become party to the Agency Agreement with any appropriate consequential amendments, as if it had been an original party to it;

(vii) legal opinions shall have been delivered to the Fiscal Agent from lawyers of recognised standing in each jurisdiction referred to in (iii) above, in Spain and in England as to the fulfilment of the requirements of this Condition 15 and the other matters specified in the Deed Poll and that the Notes, Coupons and Talons are legal, valid and binding obligations of the Substitute;

(viii) each stock exchange on which the Notes are listed shall have confirmed that, following the proposed substitution of the Substitute, the Notes will continue to be listed on such stock exchange;

(ix) Standard & Poor's and/or Moody's and/or Fitch, as the case may be, shall have confirmed that following the proposed substitution of the Substitute, the credit rating of the Notes will not be adversely affected, save where the Substitute is the Guarantor;

(x) if applicable, the Substitute has appointed a process agent as its agent in England to receive service of process on its behalf in relation to any legal proceedings in the courts of England arising out of or in connection with the Notes; and

(xi) in the case of Notes admitted to trading on the Regulated Market of the Luxembourg Stock Exchange and listed on the official list of the Luxembourg Stock Exchange, a prospectus supplement is filed with such exchange.

(b) Upon the execution of the Deed Poll and the delivery of the legal opinions, the Substitute shall succeed to, and be substituted for, and may exercise every right and power, of the Issuer under the Notes and the Agency Agreement with the same effect as if the Substitute had been named as the Issuer herein, and the Issuer shall be released from its obligations under the Notes and under the Agency Agreement, and where the Substitute is the Guarantor, the Guarantor shall be released from its obligations under the Guarantee.

(c) After a substitution pursuant to Condition 15(a), the Substitute may, without the consent of any Noteholder, effect a further substitution. All of the provisions specified in Conditions 15(a) and 15(b) shall apply *mutatis mutandis*, and references in these Conditions to the Issuer shall, where the context so requires, be deemed to be or include references to any such further Substitute.

(d) After a substitution pursuant to Conditions 15(a) or 15(c) any Substitute may, without the consent of any Noteholder, reverse the substitution, *mutatis mutandis*.

(e) The Deed Poll and all documents relating to the substitution shall be delivered to, and kept by, the Fiscal Agent. Copies of such documents will be available free of charge at the specified office of each of the Paying Agents.

16. Currency Indemnity

Any amount received or recovered in a currency other than the currency in which payment under the relevant Note or Coupon is due (whether as a result of, or of the enforcement of, a judgment or order of a court or any jurisdiction in connection with, the winding-up or dissolution of the Issuer or the Guarantor or otherwise) by any Noteholder or Couponholder in respect of any sum expressed to be due to it from the Issuer or the Guarantor shall only constitute a discharge to the Issuer or the Guarantor, as the case may be, to the extent of the amount in the currency of payment under the relevant Note or Coupon 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 the amount received or recovered is less than the amount expressed to be due to the recipient under any Note or Coupon, the Issuer, failing whom the Guarantor, shall indemnify the Noteholder or Couponholder, as the case may be, against any loss sustained by it as a result. In any event, the Issuer, failing whom the Guarantor, shall indemnify the recipient against the cost of making any such purchase. For the purposes of this Condition, it will be sufficient for the Noteholder or Couponholder, as the case may be, 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 the Guarantor's other obligations, shall give rise to a separate and independent cause of action, shall apply irrespective of any indulgence granted by any Noteholder or Couponholder 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 Note or Coupon or any other judgment or order.

17. Governing Law and Jurisdiction

(a) Governing Law

The Notes, the Coupons and the Talons and all matters arising from or connected therewith, including any non-contractual obligations arising from or connected therewith, are governed by and shall be construed in accordance with, English law. The status of the Notes as described in Condition 3(a) and the status of the Guarantee as described in Condition 3(b)(ii) are governed by, and shall be construed in accordance with, Spanish law.

(b) English courts

The courts of England have exclusive jurisdiction to settle any dispute (a **Dispute**) arising from or connected with any Notes, Coupons or Talons.

(c) Appropriate forum

The Issuer 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.

(d) Rights of the Noteholders to take proceedings outside England

Condition 17(b) (English courts) is for the benefit of the Noteholders only. As a result, nothing in this Condition 17 prevents any Noteholder from taking proceedings relating to a Dispute (**Proceedings**) in any other courts with jurisdiction. To the extent allowed by law, Noteholders may take concurrent Proceedings in any number of jurisdictions.

(e) Process Agent

The Issuer 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 Issuer in England 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 Issuer, the Issuer shall, on the written demand of any Noteholder addressed and delivered to the Issuer or to the specified office of the Fiscal Agent appoint a further person in England to accept service of process on its behalf and, failing such appointment within 15 days, any Noteholder shall be entitled to appoint such a person by written notice addressed to the Issuer and delivered to the Issuer or to the specified office of the Fiscal Agent. Nothing in this paragraph shall affect the right of any Noteholder to serve process in any other manner permitted by law. This Condition applies to Proceedings in England and not to Proceedings elsewhere.

18. Rights of Third Parties

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

USE OF PROCEEDS

The net proceeds of the issue of each Tranche of Notes will be on-lent or deposited with another member of the Group (other than the Guarantor) and used either:

(a) for the general corporate purposes of such Group member; or

(b) 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.

DESCRIPTION OF PROVISIONS RELATING TO THE NOTES WHILE IN GLOBAL FORM OR WHILE REGISTERED IN THE NAME OF A NOMINEE FOR A CLEARING SYSTEM

1. Initial Issue of Notes

If the Global Notes are stated in the applicable Final Terms to be issued in NGN form or if the Global Certificates are to be held under the NSS, they will be delivered on or prior to the original issue date of the Tranche to a common safekeeper (the **Common Safekeeper**) for Euroclear and Clearstream, Luxembourg. If the Global Notes in NGN form or the Global Certificates held under the NSS are intended to be eligible collateral for Eurosystem monetary policy, depositing the Global Notes or the Global Certificates with the Common Safekeeper does not necessarily mean that the Notes will be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem either upon issue, or at any or all times during their life. Such recognition will depend upon satisfaction of the Eurosystem eligibility criteria.

If the Global Notes or the Global Certificates are stated in the applicable Final Terms to be issued in NGN form or under the NSS, respectively, the clearing systems will be notified whether or not such Global Notes or Global Certificates are intended to be held in a manner which would allow Eurosystem eligibility and, if so, will be delivered on or prior to the original issue date of the Tranche to the Common Safekeeper.

Global notes which are issued in CGN form and Global Certificates which are not held under the NSS may be delivered on or prior to the original issue date of the Tranche to a Common Depositary.

If the Global Note is a CGN, upon the initial deposit of a Global Note with a common depositary for Euroclear and Clearstream, Luxembourg (the **Common Depositary**) or registration of Registered Notes in the name of any nominee for Euroclear and Clearstream, Luxembourg if the Registered Note is not to be held under the NSS, or in the name of a nominee of the Common Safekeeper if the Registered Note is to be held under the NSS, and delivery of the relevant Global Certificate to the Common Depositary or Common Safekeeper, as the case may be, Euroclear or Clearstream, Luxembourg will credit each subscriber with a nominal amount of Notes equal to the nominal amount thereof for which it has subscribed and paid. If the Global Note is a NGN, the nominal amount of the Notes shall be the aggregate amount from time to time entered in the records of Euroclear or Clearstream, Luxembourg. The records of such clearing system shall be conclusive evidence of the nominal amount of Notes represented by the Global Note and a statement issued by such clearing system at any time shall be conclusive evidence of the records of the relevant clearing system at that time.

Notes that are initially deposited with the Common Depositary may also be credited to the accounts of subscribers with (if indicated in the relevant Final Terms) other clearing systems through direct or indirect accounts with Euroclear and Clearstream, Luxembourg held by such other clearing systems. Conversely, Notes that are initially deposited with any other clearing system may similarly be credited to the accounts of subscribers with Euroclear, Clearstream, Luxembourg or other clearing systems.

2. Relationship of Accountholders with Clearing Systems

Each of the persons shown in the records of Euroclear, Clearstream, Luxembourg or any other permitted clearing system (**Alternative Clearing System**) as the holder of a Note represented by a Global Note or a Global Certificate must look solely to Euroclear, Clearstream, Luxembourg or any such Alternative Clearing System (as the case may be) for his share of each payment made by the relevant Issuer to the bearer of such Global Note or the holder of the underlying Registered Notes, as the case may be, and in relation to all other rights arising under the Global Notes or Global Certificates, subject to and in accordance with the respective rules and procedures of Euroclear,

Clearstream, Luxembourg, or such Alternative Clearing System (as the case may be). Such persons shall have no claim directly against the relevant Issuer in respect of payments due on the Notes for so long as the Notes are represented by such Global Note or Global Certificate and such obligations of the relevant Issuer will be discharged by payment to the bearer of such Global Note or the holder of the underlying Registered Notes, as the case may be, in respect of each amount so paid.

3. Exchange

3.1 Temporary Global Notes

Each temporary Global Note will be exchangeable, free of charge to the holder, on or after its Exchange Date:

(a) if the relevant Final Terms indicate that such Global Note is issued in compliance with TEFRA C or in a transaction to which TEFRA is not applicable (as to which, see **Subscription and Sale**), in whole, but not in part, for the Definitive Notes defined and described below; and

(b) otherwise, in whole or in part upon certification as to non-U.S. beneficial ownership in the form set out in the Agency Agreement for interests in a permanent Global Note or, if so provided in the relevant Final Terms, for Definitive Notes.

Each temporary Global Note that is also an Exchangeable Bearer Note will be exchangeable for Registered Notes in accordance with the Conditions in addition to any permanent Global Note or Definitive Notes for which it may be exchangeable and, before its Exchange Date, will also be exchangeable in whole or in part for Registered Notes only.

3.2 Permanent Global Notes

Each permanent Global Note will be exchangeable, free of charge to the holder, on or after its Exchange Date in whole but not, except as provided under paragraph 3.3 below, in part for Definitive Notes or, in the case of paragraph 3.3 below, Registered Notes:

(a) if the permanent Global Note is an Exchangeable Bearer Note, by the holder giving notice to the Fiscal Agent of its election to exchange the whole or a part of such Global Note for Registered Notes; and

(b) (i) if the permanent Global Note is held on behalf of Euroclear or Clearstream, Luxembourg or an Alternative Clearing System and any 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 in fact does so; or

(ii) if principal in respect of any Notes is not paid when due, by the holder giving notice to the Fiscal Agent of its election for such exchange.

In the event that a Global Note is exchanged for Definitive Notes, such Definitive Notes shall be issued in Specified Denomination(s) only. A Noteholder who holds a nominal amount of less than the minimum Specified Denomination will not receive a Definitive Note in respect of such holding and would need to purchase a nominal amount of Notes such that it holds an amount equal to one or more Specified Denominations.

3.3 Partial Exchange of Permanent Global Notes

For so long as a permanent Global Note is held on behalf of a clearing system and the rules of that clearing system permit, such permanent Global Note will be exchangeable in part on one or more occasions (a) for Registered Notes if the permanent Global Note is an Exchangeable Bearer Note and the part submitted for exchange is to be exchanged for Registered Notes, or (b) for Definitive Notes if principal in respect of any Notes is not paid when due.

3.4 Transfer of Notes Represented by Global Certificates

If the Notes are to be represented by a Global Certificate on issue, transfers of the holding of Notes represented by the Global Certificate may only be made in part:

(a) if the Notes represented by the Global Certificate are held on behalf of Euroclear or Clearstream, Luxembourg or an Alternative Clearing System and any 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

(b) upon or following any failure to pay principal in respect of any Notes when it is due and payable; or

(c) with the consent of the relevant Issuer,

provided that, in the case of the first transfer of part of a holding pursuant to (a) or (b) above, the holder of the Notes represented by the Global Certificate has given the Registrar not less than 30 days' notice. Where the holding of Notes represented by the Global Certificate is only transferable in its entirety, the Certificate is issued to the transferee upon transfer shall be a Global Certificate. Where transfers are permitted in part, Certificates issued to transferees shall not be Global Certificates unless the transferee so requests and certifies to the Registrar that it is, or is acting as a nominee for, Clearstream, Luxembourg, Euroclear and/or an Alternative Clearing System.

3.5 Delivery of Notes

If the Global Note is a CGN, on or after any due date for exchange, the holder of a Global Note may surrender such Global Note or, in the case of a partial exchange, present it for endorsement to or to the order of the Fiscal Agent. In exchange for any Global Note, or the part thereof to be exchanged, the relevant Issuer will (a) in the case of a temporary Global Note exchangeable for a permanent Global Note, deliver, or procure the delivery of, a permanent Global Note in an aggregate nominal amount equal to that of the whole or that part of a temporary Global Note that is being exchanged or, in the case of a subsequent exchange, endorse, or procure the endorsement of, a permanent Global Note to reflect such exchange or (b) in the case of a Global Note exchangeable for Definitive Notes or Registered Notes, deliver, or procure the delivery of, an equal aggregate nominal amount of duly executed and authenticated Definitive Notes and/or Certificates, as the case may be or if the Global Note is a NGN, the relevant Issuer will procure that details of such exchange be entered *pro rata* in the records of the relevant clearing system. In this Prospectus, **Definitive Notes** means, in relation to any Global Note, the definitive Bearer Notes for which such Global Note may be exchanged (if appropriate, having attached to them all Coupons in respect of interest that have not already been paid on the Global Note and a Talon). Definitive Notes will be security printed and Certificates will be printed in accordance with any applicable legal and stock exchange requirements in or substantially in the form set out in the Schedules to the Agency Agreement/Trust Deed. On exchange in full of each permanent Global Note, the relevant Issuer will, if the holder so requests, procure that it is cancelled and returned to the holder together with the relevant Definitive Notes.

3.6 Exchange Date

Exchange Date means, in relation to a temporary Global Note, the day falling after the expiry of 40 days after its issue date and, in relation to a permanent Global Note, a day falling not less than 60 days, or in the case of an exchange for Registered Notes five days, or in the case of failure to pay principal in respect of any Notes when due 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 in the city in which the relevant clearing system is located.

4. Amendment to Conditions

The temporary Global Notes, permanent Global Notes and Global Certificates contain provisions that apply to the Notes that they represent, some of which modify the effect of the terms and conditions of the Notes set out in this Prospectus. The following is a summary of certain of those provisions:

4.1 Payments

No payment falling due after the Exchange Date will be made on any Global Note unless exchange for an interest in a permanent Global Note or for Definitive Notes or Registered Notes is improperly withheld or refused. Payments on any temporary Global Note issued in compliance with the D Rules before the Exchange Date will only be made against presentation of certification as to non-U.S. beneficial ownership in the form set out in the Agency Agreement. All payments in respect of Notes represented by a Global Note in CGN form will be made against presentation for endorsement and, if no further payment falls to be made in respect of the Notes, surrender of that Global Note to or to the order of the Fiscal Agent or such other Paying Agent as shall have been notified to the Noteholders for such purpose. If the Global Note is a CGN, a record of each payment so made will be endorsed on each Global Note, which endorsement will be *prima facie* evidence that such payment has been made in respect of the Notes. If the Global Note is a NGN or if the Global Certificate is held under the NSS, the relevant Issuer shall procure that details of each such payment shall be entered *pro rata* in the records of the relevant clearing system and in the case of payments of principal, the nominal amount of the Notes recorded in the records of the relevant clearing system and represented by the Global Note or the Global Certificate will be reduced accordingly. Payments under the NGN will be made to its holder. Each payment so made will discharge the relevant Issuer's obligations in respect thereof. Any failure to make the entries in the records of the relevant clearing system shall not affect such discharge.

For the purpose of any payments made in respect of a Global Note, the relevant place of presentation shall be disregarded in the definition of "business day" set out in Condition 7(h) (*Non-Business Days*).

All payments in respect of Notes represented by a Global Certificate will be made to, or to the order of, the person whose name is entered on the Register at the close of business on the Clearing System Business Day immediately prior to the date for payment, where **Clearing System Business Day** means Monday to Friday inclusive except 25 December and 1 January.

4.2 Notices

So long as any Notes are represented by a permanent Global Note and such permanent Global Note is held on behalf of a clearing system, notices to the holders of Notes of that Series may be given by delivery of the relevant notice to the clearing system for communication by it to entitled accountholders in substitution for publication as required by the Conditions or by delivery of the relevant notice to the Holder of the permanent Global Note. Any such notice shall be deemed to have been given to Noteholders on the seventh day after the day on which the said notice was given to the clearing system. So long as the Notes are admitted to trading on the Regulated Market of the

Luxembourg Stock Exchange and listed on the official list of the Luxembourg Stock Exchange and the rules of such exchange so require, notices in respect of such Notes shall be published in a daily newspaper having circulation in Luxembourg (which is expected to be the *Luxemburger Wort)* or published on the website of the Luxembourg Stock Exchange (*www.bourse.lu)*.

4.3 Prescription

Claims against the relevant Issuer in respect of Notes which are represented by a permanent Global Note will become void unless it is presented for payment within a period of ten years (in the case of principal) and five years (in the case of interest) from the appropriate Relevant Date (as defined in Condition 8).

4.4 Meetings

In respect of Notes issued by the relevant Issuer, the holder of a permanent Global Note or of the Notes represented by a Global Certificate will be treated as being two persons for the purpose of any quorum requirements of a meeting of Noteholders and, at any such meeting, as having one vote in respect of each integral currency unit of the Specified Currency of Notes for which such Global Note may be exchanged.

4.5 Purchase and Cancellation

Cancellation of any Note surrendered for cancellation following its purchase will be effected by reduction in the principal amount of the relevant Global Note.

4.6 Default

Each Global Note and Global Certificate provides that the holder may cause such Global Note, or a portion of it, or one or more Registered Notes represented by such Global Certificate to become due and repayable in the circumstances described in Condition 10 by stating in the notice to the Fiscal Agent the principal amount of such Global Note or Registered Notes which is becoming due and repayable. Following the giving of a notice of an Event of Default by or through a common depository for Euroclear and Clearstream, Luxembourg or if the holder of a Global Note or Registered Notes represented by a Global Certificate so elects, the Global Note or Registered Notes represented by the Global Certificate will become void as to the specified portion and the persons entitled to such portion as accountholders with a clearing system will acquire direct enforcement rights against the relevant Issuer under the terms of the Deed of Covenant.

4.7 Issuers' Option

No drawing of Notes will be required under Condition 6 in the event that the relevant Issuer exercises any option relating to those Notes while all such Notes which are outstanding are represented by a permanent Global Note. In the event that any option of the relevant Issuer is exercised in respect of some but not all of the Notes of any Series, the rights of accountholders with Euroclear or Clearstream, Luxembourg in respect of the Notes will be governed by the standard procedures of Euroclear and/or Clearstream, Luxembourg and shall be reflected in the records of Euroclear and/or Clearstream, Luxembourg as either a pool factor or a reduction in nominal amount, at their discretion (as the case may be).

4.8 Noteholder's Options

Any Noteholders' option may be exercised by the holder of a Global Note giving notice within the time limits specified in the Conditions to the Fiscal Agent or any Paying Agent (in the case of Bearer Notes) or to the Registrar or the Transfer Agent (in the case of Registered Notes) of the principal

amount of Notes in respect of which the option is exercised and at the same time, where the Note is a CGN, presenting such Global Note for endorsement of exercise.

4.9 NGN nominal amount

Where the Global Note is a NGN, the relevant Issuer shall procure that any exchange, payment, cancellation, exercise of any option or any right under the Notes, as the case may be, shall be entered in the records of the relevant clearing systems and, upon any such entry being made, the nominal amount of the Notes represented by such Global Note shall be adjusted accordingly.

DESCRIPTION OF THE GUARANTEE

This is a description of the principal terms of the guarantee dated 22 June 2016 given by the Guarantor in respect of this Guaranteed Euro Medium Term Note Programme. It does not restate the Deed of Guarantee in its entirety.

1. Guarantee and Indemnity

1(A) The Guarantor has unconditionally and irrevocably guaranteed:

(1) to each Noteholder the due and punctual payment of any and every sum or sums of money which the relevant Issuer shall at any time be liable to pay under or pursuant to any Note as and when the same shall become due and payable and has agreed unconditionally to pay to such Noteholder, forthwith upon demand by such Noteholder and in the manner and currency prescribed by the Conditions for payments by the relevant Issuer thereunder, any and every sum or sums of money which the relevant Issuer shall at any time be liable to pay under or pursuant to such Note and which the relevant Issuer shall have failed to pay at the time such demand is made; and

(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 has agreed unconditionally to pay to such Relevant Account Holder, forthwith on demand by such Relevant Account Holder and in the manner and in the currency prescribed by the Conditions for payments by the relevant Issuer thereunder, any and every sum or sums of money which the relevant Issuer shall at any time be liable to pay under or pursuant to the Deed of Covenant and which the relevant Issuer shall have failed to pay at the time demand is made.

1(B) As a separate, additional and continuing obligation, the Guarantor has unconditionally and irrevocably undertaken to each Noteholder and each Relevant Account Holder that, should any amount referred to in Clause 1(A) not be recoverable from the Guarantor thereunder for any reason whatsoever (including, without limitation, by reason of any Note, any provision of any Note, 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 Noteholder or Relevant Account Holder, the Guarantor will, as a sole, original and independent obligor, upon first written demand under Clause 1(A), 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 Notes or the Deed of Covenant (as the case may be) and indemnify each Noteholder 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 terms and conditions of the Notes, the Deed of Covenant or the Deed of Guarantee.

2. Taxes and Withholdings

In the event that any payments made by the Guarantor under the Deed of Guarantee are or become subject to 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 Kingdom of Spain or any authority therein or thereof having power to tax, the Guarantor has undertaken to the Noteholders and the Relevant Account Holders that it will use its best endeavours, subject to all applicable laws, regulations and guidelines and for so long as it is required to make any such withholding or deduction, to effect payment under the Deed of Guarantee to the Noteholders and Relevant Account Holders through the relevant Issuer, or in such other manner so as to ensure that no such withholding or deduction is required.

If payments made to the Noteholders or the Relevant Account Holders under the Deed of Guarantee through the relevant Issuer or in such other manner so as to ensure that no such withholding or deduction is required, are or become illegal or contrary to the then applicable regulations or guidelines, the Guarantor has provided a covenant in favour of each Noteholder and each Relevant Account Holder that it will duly perform and comply with its obligations expressed to be undertaken in Condition 8.

3. Preservation of Rights

3(A) The obligations of the Guarantor contained in the Deed of Guarantee shall be deemed to be undertaken as sole or principal debtor.

3(B) The obligations of the Guarantor contained in the Deed of Guarantee 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 relevant Issuer's obligations under any Note or the Deed of Covenant and shall continue in full force and effect in respect of each Note and the Deed of Covenant until final repayment in full of all amounts owing by the relevant Issuer thereunder and total satisfaction of all the relevant Issuer's actual and contingent obligations thereunder.

3(C) Neither the obligations of the Guarantor contained in the Deed of Guarantee nor the rights, powers and remedies conferred upon the Noteholders, the Relevant Account Holders or any of them by the Deed of Guarantee or by law shall be discharged, impaired or otherwise affected by:

(1) the winding-up or dissolution (*ontbinding*, in the case of Iberdrola International) of the relevant Issuer or analogous proceeding in any jurisdiction or any change in its status, function, control or ownership; or

(2) any of the obligations of the relevant Issuer under any of the Notes or the Deed of Covenant being or becoming illegal, invalid or unenforceable in any respect; or

(3) time or other indulgence being granted or agreed to be granted to the relevant Issuer in respect of its obligations under any of the Notes or the Deed of Covenant; or

(4) any amendment to, or any variation, waiver or release of, any obligation of the relevant Issuer under any of the Notes or the Deed of Covenant; or

(5) any other act, event or omission which, but for this Clause 3(C), 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 Noteholders, the Relevant Account Holders or any of them by the Deed of Guarantee or by law.

3(D) Any settlement or discharge between the Guarantor and the Noteholders, the Relevant Account Holders or any of them shall be conditional upon no payment to the Noteholders, the Relevant Account Holders or any of them by the relevant Issuer or any other person on the relevant 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 Noteholders 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.

3(E) No Noteholder or Relevant Account Holder shall be obliged before exercising any of the rights, powers or remedies conferred upon it by the Deed of Guarantee or by law:

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

(2) to take any action or obtain judgment in any court against the relevant Issuer; or

(3) to make or file any claim or proof in a winding-up or dissolution (*ontbinding*, in the case of Iberdrola International) of the relevant Issuer and, save as aforesaid, the Guarantor hereby expressly waives, in respect of each Note, presentment, demand and protest and notice of dishonour.

3(F) The Guarantor has agreed that so long as any amounts are or may be owed by the relevant Issuer under any of the Notes or the Deed of Covenant or the relevant 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:

(1) to be indemnified by the relevant Issuer; and/or

(2) to claim any contribution from any other guarantor of the relevant Issuer's obligations under the Notes or the Deed of Covenant; and/or

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

(4) to be subrogated to the rights of any Noteholder or Relevant Account Holder against the relevant Issuer in respect of amounts paid by the Guarantor pursuant to the provisions of the Deed of Guarantee.

3(G) The obligations of the Guarantor under the Deed of Guarantee will at all times rank as described in Condition 3 of the Notes.

4. Law and Jurisdiction

4(A) **Governing Law:** The Guarantor has agreed that the Deed of Guarantee and all matters arising from or connected with it are governed by and shall be construed in accordance with English law.

4(B) **English courts:** The Guarantor has agreed that the courts of England will have exclusive jurisdiction to settle any dispute (a **Dispute**), arising from or connected with the Deed of Guarantee (including a dispute regarding the existence, validity or termination of the Deed of Guarantee) or the consequences of its nullity.

4(C) **Appropriate forum**: The Guarantor has agreed 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.

4(D) **Rights of the Noteholders and Relevant Account Holders:** It is agreed in the Deed of Guarantee that Clause 4(B) (English courts) is for the benefit of the Beneficiaries (as defined in the Deed of Covenant) only. As a result, it has been agreed that nothing in Clause 4 (Law and Jurisdiction) prevents the Noteholders 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 Noteholders and Relevant Account Holders may take concurrent Proceedings in any number of jurisdictions.

4(E) **Process agent**: The Guarantor has agreed 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 Great Britain 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 has agreed that it shall, on the written demand of any Noteholder 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 Noteholder or Relevant Account Holder shall be entitled to appoint such a person by written notice addressed to the Guarantor and delivered to the Guarantor. The Guarantor has agreed that nothing in this paragraph shall affect the right of any Noteholder 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.

5. Contracts (Rights of Third Parties) Act 1999

A person who is not a party to this Deed has no rights under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of this Deed, but this does not affect any right or remedy of a third party which exists or is available apart from that Act.

DESCRIPTION OF IBERDROLA INTERNATIONAL

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 non-consolidated annual financial statements only and does not prepare or publish interim financial statements.

Share capital

Iberdrola International's issued and fully paid-up share capital is 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 Programme are the Dealership Agreement, the Agency Agreement and the Deed of Covenant.

DESCRIPTION OF IBERDROLA FINANZAS

General information

Iberdrola Finanzas, a wholly-owned subsidiary of Iberdrola, was incorporated on 16 February 2005 as a corporation (*sociedad anónima*) under the laws of Spain. The registered office of Iberdrola Finanzas is Plaza Euskadi 5, Bilbao, Spain, with telephone number +34 94 415 1411. Iberdrola Finanzas is registered at Volume 4525, Book 0, Sheet BI-41875, Folio 89, entry no. 1 in the Biscay Commercial Registry. Iberdrola Finanzas was incorporated for an indefinite period.

Share capital

The issued and paid-up share capital of Iberdrola Finanzas is 100,061,000 euro, divided into 100,061 ordinary registered shares of 1,000 euro each. The whole of the issued and paid-up share capital of Iberdrola Finanzas 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 Finanzas. There are no measures in place to ensure that the control of Iberdrola Finanzas by Iberdrola is not abused.

Business

The corporate purpose of Iberdrola Finanzas is the issuance of debt securities, whether on a subordinated basis or not, which are to be traded on the Spanish and international markets. The net proceeds from the issuance of the debt securities will be deposited with Iberdrola and used for the general corporate purposes of the Iberdrola Group. Iberdrola Finanzas is dependent on Iberdrola to service its obligations under these debt securities.

Management

Iberdrola Finanzas is managed by a board of directors which are detailed in the following table:

Name	**Function**
Mr. J. Martínez Pérez.....	Chairman
Mr. J.C. Rebollo Liceaga	Vice-Chairman
Mr. G. Colino Salazar	Secretary

The business address of each director of Iberdrola Finanzas is Plaza Euskadi 5, Bilbao, Spain.

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

Material contracts

The material contracts entered into by Iberdrola Finanzas (other than in its ordinary course of business) which are relevant to its ability to meet its obligations in respect of the Programme are the Dealership Agreement, the Agency Agreement, the Deed of Covenant and each public deed (*escritura pública*) entered into in respect of Notes issued under the Programme.

DESCRIPTION OF IBERDROLA

General information

Iberdrola, S.A. (**Iberdrola**) 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 of America, 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 2015, there were 6,336,870,000 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 2015, the closing price was 6.550 euro, resulting in a market capitalisation of 41,506 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 31 December 2015 significant shareholders holding more than 3 per cent. of Iberdrola's ordinary share capital were (a) Qatar Investment Authority holding an indirect interest through Qatar Holding Luxembourg II, S.A.R.L. (with an interest of 9.467 per cent.) and through DGIC Luxembourg, S.A.R.L. (with an interest of 0.259 per cent.); (b) Kutxabank, S.A. holding an indirect interest through Kartera 1, S.L. (with an interest of 3.472 per cent.); (c) Norges Bank with a direct interest of 3.018 per cent.; and (d) Blackrock, Inc. with an indirect interest of 3.023 per cent.

On the date of this Base Prospectus, the share capital of Iberdrola amounts to 4,680,000,000 euro, corresponding to 6,240,000,000 shares, with a nominal value of 0.75 euro each, as a result of the reduction of share capital on 26 April 2016 by means of redemption of owned shares approved by the General Shareholders' Meeting of Iberdrola held on 8 April 2016.

Iberdrola's position within the Group

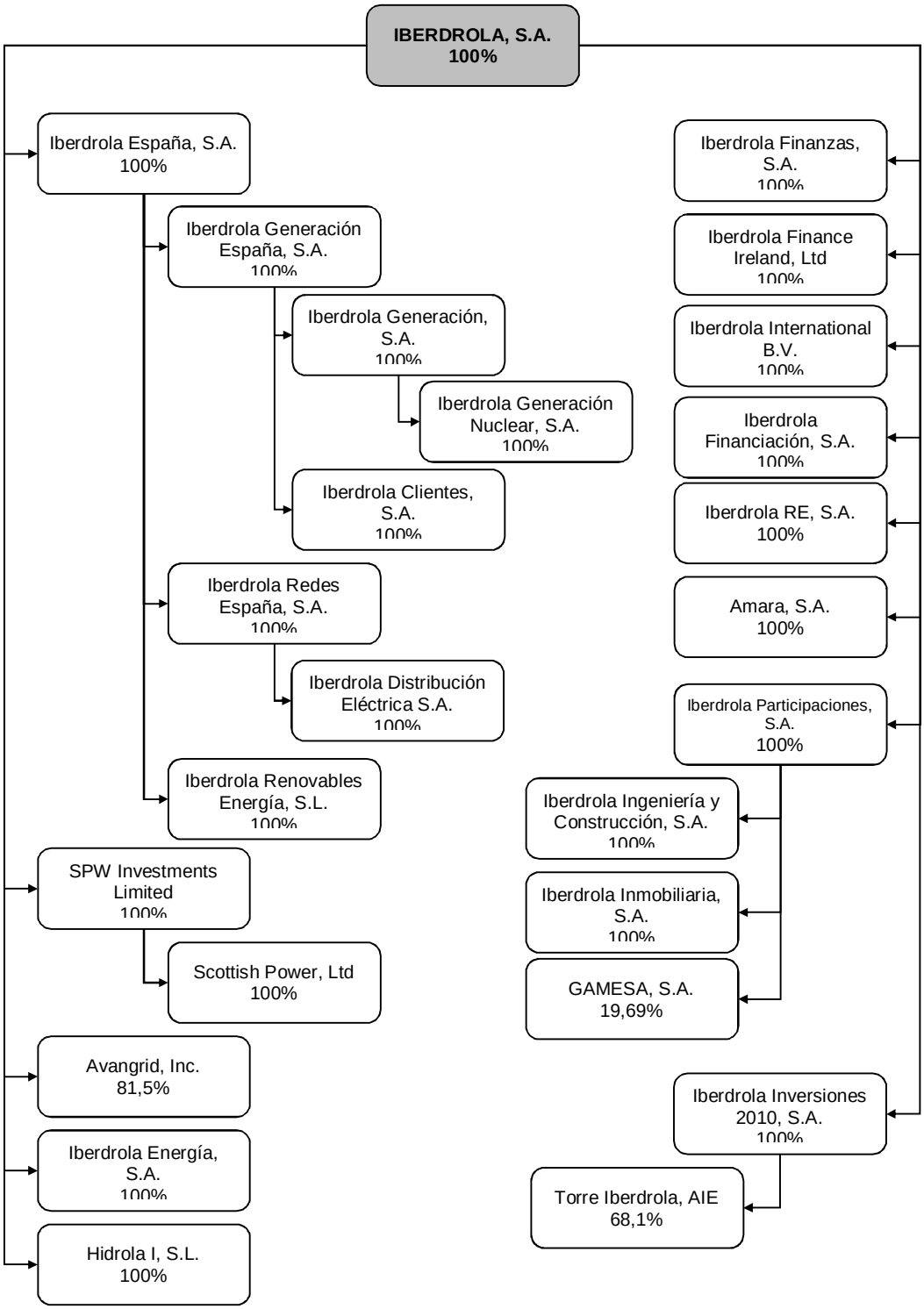
Regarding the regulatory framework in Spain, Section 8.1 of Law 24/2014, of December 26, on the Electricity Industry (hereinafter, the **Electricity Industry Law**) characterises the operation of the system, the operation of the market and the transmission and distribution of electricity as regulated activities in the

electricity industry. Section 60.1 of Law 34/1998, of October 7, on the Hydrocarbon Industry (hereinafter, the **Hydrocarbon Industry Law**) 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 Base Prospectus is as follows:



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, as well as the trading and gas storage businesses in the United States, that the Iberdrola Group operates in Spain and Portugal, the United Kingdom and North America.

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, the non-energy businesses.

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 financial year ended 31 December 2015 and 2014 based on the Group's audited accounts:

Division	Description	2015 %	2014 %
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	49.3%	50.8%
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	31.8%	32.9%

Renewables	Includes activities relating to renewable energies in Spain, the United Kingdom, the United States and the rest of the world	21.5%	19.0%
Other	Includes energy consulting, real estate and engineering	-0.1%	-0.2%
Corporation		-2.5%	-2.5%

General

As at 31 December 2015, the Group's installed capacity was 44,574 MW. This represented an increase of 2.5 per cent. in installed capacity (43,468 MW in 2014).

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

Installed capacity (MW)	**2015**	**2014**	**% var. 2015-2014**
Hydroelectric	10,392	9,486	9.6
Nuclear	3,166	3,166	-
Thermal Coal	3,178	3,178	-
Gas combined cycle	13,353	13,292	0.5
Co-generation	299	296	1.0
Renewable energy	14,186	14,050	1.0
Total	**44,574**	**43,468**	2.5

The main changes during 2015 were:

- New capacity in hydro plants La Muela (882 MW) and San Pedro (24MW);
- Gas Combined Cycle expanding La Laguna (9 MW) and Tamazunchale (52 MW) in Mexico;
- Cogeneration: in Spain, (3MW) Energyworks Cartagena cogeneration; and
- Renewable energy: 66 MW in Pier II and 70 MW in Dos Arbolitos in México.

Electricity generation decreased during 2015 by 1.6 per cent. compared with 2014 (130,594 GWh in 2015; 132,726 GWh in 2014). In 2015, the technologies that decreased their generation contribution were: hydroelectric energy by 29.5 per cent., nuclear by 5.3 per cent., thermal coal by 4.5 per cent. and renewable energy by 2.8 per cent. The technologies that increased generation contribution were combined cycle plants by 13.7 per cent. and co-generation by 11.1 per cent.

Of the total electricity generated by the Iberdrola Group in 2015, 54,453 GWh were generated in Spain (a 8.3 per cent. decrease compared to 2014), 18,448 GWh in the United Kingdom (a 1.5 per cent. decrease compared to 2014), 17,015 GWh in the United States (a 0.8 per cent. decrease compared to 2014), 38.866

GWh in Mexico (a 8.4 per cent. increase compared to 2014), 441 GWh in Brazil (a 28.2 per cent. increase compared to 2014) and 1,371 GWh in the rest of the world (a 9.9 per cent. increase compared to 2014).

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

Net Production (GWh)	**2015**	**2014**	**% var. 2015-2014**
Hydroelectric	13,205	18,724	-29.5
Nuclear	23,082	24,370	-5.3
Thermal Coal	11,497	12,037	-4.5
Gas combined cycle	49,436	43,490	13.7
Co-generation	1,793	1,614	11.1
Renewable energy	31,581	32,491	-2.8
Total	**130,594**	**132,726**	-1.6

The Iberdrola Group distributed a total of 176,359 GWh in 2015, a 0.7 per cent. increase compared to 2014, Electricity customers under management reached 18.8 million as at 31 December 2015.

NETWORK

In 2015, the regulated business obtained consolidated results of 1,935.0 million euro after tax, contributing 79.9 per cent. to the Group's consolidated results.

Spain

The regulated business in Spain obtained consolidated results of 917.8 million euro after tax.

As at December 2015, Iberdrola had more than 10.8 million supply points and the total energy distributed amounted to 94,113 GWh, a 2.2 per cent. increase compared with the same period of the previous year.

United Kingdom

The regulated business in United Kingdom obtained consolidated results of 648.8 million euro after tax.

As at 31 December 2015, Iberdrola distributed to more than 3.51 million customers. The volume of energy distributed during the year 2015 was 34,009 GWh, representing a decline of 0.6 per cent. in relation to the same period of the previous year.

United States

The regulated business in the United States obtained consolidated results of 192.8 million euro after tax.

As at 31 December 2015, Iberdrola USA had 2.2 million electricity supply points. The energy distributed during the year was 32,047 GWh, with an increase of 0.4 per cent. compared with the same period of the previous year.

The number of gas users in the United States as at 31 December 2015 was 0.99 million, with 31,652 GWh supplied during the period, 4.8 per cent. more than for the same period of the previous year.

Brazil

The regulated business in Brazil obtained consolidated results of 175.6 million euro after tax.

As at 31 December 2015, Iberdrola had 2.5 million electricity supply points (in addition, companies of the group Neoenergía, a joint venture, which are not included due to the application of IFRS 11, have 10.6 supply points).

The decrease in power demand of Brazilian distribution companies was 4.4 per cent., and the number of customers served by the distributors as at 31 December 2015 were 2.5 million and distributed 16,191 GWh (in addition, companies of the group Neoenergía, which are not included due to the application of IFRS 11, distributed 15, 960 GWh).

DEREGULATED

In 2015, the non-regulated business obtained consolidated results of 512.7 million euro after tax, contributing 21.2 per cent. to the Iberdrola Group's consolidated results.

Spain

The non-regulated business in Spain obtained consolidated results of 604.5 million euro after tax.

In 2015, the installed capacity of Iberdrola in Spain (excluding Renewables) totalled 19,745 MW.

During 2015, production under the Ordinary Regime (hydroelectric, nuclear, CCGT and coal) decreases by 8.8 per cent., totalling 47,157 GWh. The breakdown of the yearly production by type of technology is as follows:

Production (GWh)	**2015**	**2014**	**% var. 2015-2014**
Hydroelectric	12,488	18,029	-30.7
Nuclear	23,082	24,370	-5.3
Thermal Coal	3,684	2,514	46.5
Gas combined cycle	2,293	633	262.2
Co-generation	1,791	1,611	11.2
Total	**43,338**	**47,157**	-8.1

United Kingdom

The non-regulated business in the United Kingdom obtained consolidated losses of 208.6 million euro after tax.

As at 31 December 2015, the installed capacity in the United Kingdom (excluding Renewables) amounted to 4,835 MW. The decrease is mainly the result of closure of Longannet in the first quarter of 2016 a thermal coal facility of 2,400 MW and the impairment of 230 million euro after tax.

With respect to the production deriving from Iberdrola's conventional generation in the United Kingdom, this decreased in 2015 by 5.7 per cent. to 14,754 GWh, from 15,637 GWh in 2014.

Mexico

The non-regulated business in México obtained consolidated results of 197 million euro after tax.

The Iberdrola Group is the leading private electricity producer in Mexico, where its installed capacity (excluding Renewables) has reached 5,048 MW.

In 2015, the electrical energy supplied was 38,128 GWh, 8.4 per cent. higher than the figure for 2014.

US & Canada

The non-regulated business in the United States and Canada obtained consolidated losses of 79.9 million euro loss after tax.

The non-regulated business in the United States and Canada incorporates gas assets in the United States and Canadian assets.

RENEWABLES

In 2015, the renewables business obtained consolidated results of 511.2 million euro after tax, contributing 21.1 per cent. to the Group's consolidated results.

As at the end of 2015, the renewables business division (as described above) reported an installed capacity of 14,184 MW, with an operating capacity of 14,183 MW.

Of the 14,186 MW installed at the end of 2015, 58.7 per cent. are placed outside Spain, through geographical diversification process being carried out by Iberdrola.

The geographical split of the wind is as follows: 5,508 MW for Spain, 5,484 MW for the United States, 1.615 MW for the United Kingdom (1,421 MW onshore and 194 MW offshore) and 1,175 MW for the rest of the world.

OTHER BUSINESSES AND CORPORATION

In 2015, Other Businesses obtained consolidated results of 10.8 million euro after tax (0.4 per cent. to the Group's consolidated results), and Corporation obtained consolidated results of 548.1 million euro loss after tax (-22.6 per cent. to the Group's consolidated results).

Other Businesses fell due to (i) the lower margin of the Engineering business as a result of a decrease in activity and (ii) due to the negative contribution and write-off of some real estate assets.

INDUSTRY REGULATION AND FUNCTIONING OF THE ELECTRICITY AND GAS SYSTEM

Both Iberdrola and some of the fully or proportionately consolidated subsidiaries engage in electricity business activities in Spain and abroad (see the Appendix to the audited consolidated annual financial statements of the Guarantor for the financial year ended 31 December 2015 incorporated by reference herein) that are heavily affected by the respective regulatory frameworks. The following sections are a description of the main regulations affecting the Iberdrola Group.

European Union

Spain and United Kingdom as Member States of the European Union and all companies operating in them must comply with the legislation of the European Union.

The target of the energy industry legislation is the completion of the internal gas and electricity markets, in order to facilitate the exchange of this type of energy and allow any consumer in the European Union to deal

freely with any supplier in the European Union. In this respect, there are two types of legislation, the Directives, which set out common criteria to be observed in internal markets and which Member States should transpose into national legislation and the Regulations, which establish directly applicable norms for the supranational issues, often related to the transit of gas and electricity.

Another set of regulations that indirectly affects the energy sector are those arising from the energy and climate policy agreed in 2007. They include three strategic aims of reducing greenhouse gas emissions (**GGE**) by 20 per cent., targeting a renewable energy share of 20 per cent. and a 20 per cent. reduction in consumption, all to be achieved by 2020. Four pieces of complementary legislation have been developed to meet these targets by 2020: the reform of the EU Emissions Trading System (**EU-ETS**), national targets for non-EU ETS emissions, national renewable energy targets and carbon capture and storage.

Since 2009, work has been underway to implement the important regulation approved in 2009 related, first, to internal gas and electricity markets and, second, to the promotion of renewables and the struggle against climate change. It has been announced that these regulations are soon to be revised.

In October 2014, the European Council agreed new targets for 2030: a 40 per cent. reduction in GGE compared to 1990, a share of 27 per cent. for renewable energy and a reduction in consumption of 27 per cent. It also agreed to ensure that in 2020 the electricity exchange capacity among all EU Member States was at least 10 per cent of the installed capacity. The legislation arising from these agreements has yet to be developed.

The legislation on infrastructure is also relevant. The European Union has powers with regards to trans-European networks, specifically those of energy. Various regulations and programmes have been created to promote a greater connectivity among the Member States. Specifically, programmes like the trans-European energy networks (**TEN-E**), the European Energy Programme for Recovery (**EEPR**) and the Connecting Europe Facility (**CEF**). In December 2014, the European Council approved the creation of a Strategic Investment Plan for the European Union to mobilise Eur 315 billion in 2015 – 2017. It will be structured as a European Fund for Strategic Investments for investments in infrastructure, including energy and renewable energy networks. In January 2015, the European Commission submitted the proposal of a Regulation on the European Fund for Strategic Investments to create the necessary legal framework. On 27 May 2015, an agreement was reached between the Council, the Parliament and the European Commission on the proposed Regulation.

On 25 February 2015, the European Commission launched A Framework Strategy for a Resilient Energy Union with a Forward-Looking Climate Change Policy, that includes fifteen action points to be implemented during the mandate of the current European Commission, including, among others, setting out the goals of an energy union and the steps the Commission will take to achieve it, new legislation to redesign and overhaul the electricity market, ensure the supply for electricity and gas, EU funding for energy efficiency, a new renewables energy package and a structural reform of EU-ETS. On 18 November 2015, the European Commission presented its first State of Energy Union reporting advances made in 2015 and steps to be undertaken in 2016. A guidance on Governance of the Energy Union process was also provided.

On 15 July 2015, the European Commission has published a package of documents that anticipate legislative action in the field of energy markets. Among the numerous published documents, the following are most relevant to the Group:

- **Communication on market design**: analysis of the EC on the functioning of the market and their suggestions for improvement, which include removing price caps as well as a better integration of renewables in the market. The EC raise also proposals on capacity mechanisms.

- **Communication on retail market (*New Deal for customers*):** analyzes the functioning of the retail market and makes proposals for improvement to facilitate greater interaction with the client (improvements in information issues and development of new products and agents). Linked to this communication, the European Commission has published a document of "best practices" in self-consumption.

- **Reform of the ETS directive:** legislative proposal to send to the European Parliament and the Council for processing. Covers, inter alia, the Market Stability Reserve (**MSR**), and the protection of industrial sectors at risk of carbon leakage.

Other EU regulation

The following regulations of significance to the energy sector were approved in 2015:

- Commission Regulation (EU) **2015/1222** of 24 July 2015 established a guideline on capacity allocation and congestion management. This Regulation lays down detailed guidelines on cross-zonal capacity allocation and congestion management in the day-ahead and intraday markets, including the requirements for the establishment of common methodologies for determining the volumes of capacity simultaneously available between bidding zones, criteria to assess efficiency and a review process for defining bidding zones. This Regulation shall apply to all transmission systems and interconnections in the Union except the transmission systems on islands which are not connected with other.

- On 9 October 2015 the Decision 2015/1814 of the European Parliament and of The Council concerning the establishment and operation of a market stability reserve for the Union greenhouse gas emission trading scheme and amending Directive 2003/87/EC was published. A market stability reserve shall be established in 2018 and the placing of allowances in the reserve shall operate from 1 January 2019. It was established to reduce the quantity of 900 million allowances from auctioning volumes during the period 2014-2016, that shall not be added to the volumes to be auctioned in 2019 and 2020 but shall instead be placed in the reserve. Each year, a number of allowances equal to 12 per cent. of the total number of allowances in circulation, shall be deducted from the volume of allowances to be auctioned by the Member States and shall be placed in the reserve over a period of 12 months beginning on 1 September of that year, unless the number of allowances to be placed in the reserve would be less than 100 million. In any year, if the total number of allowances in circulation is less than 400 million, 100 million allowances shall be released from the reserve and added to the volume of allowances to be auctioned by the Member States.

- On 28 November 2015 the Directive 2015/2193 of the European Parliament and of The Council of 25 November 2015 on the limitation of emissions of certain pollutants into the air from medium combustion plants was published. This Directive establishes the mandatory register of this units, specific limit for certain components (sulphur dioxide, nitrogen oxides, ammonia and volatile organic compounds) and rules to control other polluants (carbon monoxide). The maximum deadline of adaptation contemplated in the Directive for certain existing plants is 2030.

In January 2016, the OJEU published *Delegated Regulation 2016/89 amending Regulation 347/2013, concerning the Union's list of projects of common interest*. It is an update of the first list of Projects of Common Interest of 2013. New projects are added and others disappear (basically those for which implementation has begun). This list was published for the first time by the European Commission on 18 November 2015, at the time of the State of the Energy Union Report.

INDUSTRY REGULATION IN SPAIN

The National Commission for Market and Competition CNMC is as a public body attached to the Ministry of Economy and Competitiveness and is subject to parliamentary scrutiny. It has the functions of market regulation and supervision.

Industry regulation and functioning of the electricity system in Spain

The electricity sector is regulated by the Electricity Industry Law 24/2013, of 26 December 2013 (**Law 24/2013**).

The following summarises the principles that govern Law 24/2013.

1. Separation of activities

The regulation prescribes a separation between the activities carried out in the competitive sector and others that are considered to be regulated activities. Companies that carry out any activities defined by the law as regulated (economic and technical management of the system, transmission and distribution) must have these as their sole corporate purpose and cannot, therefore, engage in unregulated activities (generation, retail or other activities unrelated to electricity or activities abroad). However, a group of companies may carry out incompatible activities provided that these are performed by different companies within it and meet independence criteria. In addition, it prescribes a separation between regulated and deregulated activities for accounting purposes.

2. Competition in power generation activity through the following measures

- The production of electricity is developed in a free competition environment.

- Generation dispatch is determined by the daily market. The producers of electricity, other than special cases and exceptions provided for in the law, tender hourly bids for the selling price of electricity of each of the production units owned by them. The operating order of the production units is established on the basis of the lowest bids made until demand is satisfied in each programming period and the energy produced in each programming period is remunerated at the price matched between supply and demand. There is also the option of recourse to the intraday markets (six every day), where operators can adjust their positions with respect to their daily programmes. Meanwhile, the production facilities contribute to the provision of whatever additional services may be necessary to guarantee adequate supply, obtaining additional remuneration for such services.

- In addition to the market remuneration, the Ministry of Industry, Energy and Tourism may establish remuneration entailing payment for capacity. In this regard, Orders ITC 2794/2007, ITC 3860/2007 and ITC 3127/2011 regulate payments for capacity, which consist of an investment incentive, an environmental incentive and an availability service. Royal Decree-Law 13/2012 temporarily modifies the investment incentive and the environmental incentive until a new capacity payment system is developed.

- The installation of new generating facilities is deemed to be liberalised, without prejudice to the obtainment of the necessary authorisations.

- Producers are entitled to use in their generating facilities the primary energy sources that they deem most appropriate, subject to such restrictions with respect to the environment, as might be provided for in current legislation.

- In December 2014 the Royal Decree 134/2010 related to incentivise the use of indigenous coal come to an end.

- On 10 June 2014, Royal Decree 413/2014 on electricity generation by means of renewable, cogeneration and waste facilities was published, confirming a new remuneration scheme for these installations and enabling investors to achieve a "reasonable rate of return" on their investments through the specific remuneration in addition to the electricity market price. The new specific remuneration scheme consists of the sum of:

    - "investment remuneration" (€/MW) to cover, where applicable, the investment costs that cannot be recovered from the electricity sale in market; and

    - "operation remuneration" (€/MWh) to cover, where applicable, the difference between the operating costs and income obtained from participation in the electricity market.

- This new specific remuneration scheme will be calculated on the basis of a standard installation during its useful regulatory lifetime and referenced to the activity carried out by an efficient and well-run company according to the following standards:

    - the revenues from the sale of power;

    - the operation costs needed for the activity; and

    - the value of the initial investment.

This remuneration regime will be based on a reasonable rate of return of the investments, defined on the basis of the average yield on 10 year government bonds plus a differential, initially fixed at 300 basis points for the first regulatory period ending on 31 December 2019 (that is, 7.398 per cent. before taxes).

Six year regulatory periods and three year regulatory sub-periods have been set. The remuneration parameters related to the market price forecasts may be changed every three years, including the deviations produced in the sub-period. The standard parameters of the installations may be changed every six years, except for the standard initial investment value and the regulatory lifetime, which will remain unchanged during the installations' regulatory lifetime. The reasonable rate of return may be changed by law every six years, but only for remuneration in the future. The return on operation in circumstances where the operating cost of a technology is dependent on fuel prices may be changed at least once a year. The last Order published regarding to update this operational costs is the Order IET/1345/2015.

The standard value of the investment for new installations will be set through a competitive tendering process. On the other hand, Royal Decree 413/2014 established that an order from the Ministry of Industry, Energy and Tourism will establish a classification of standard installations in terms of the technology, installed capacity or any another characteristic that may be considered necessary for the application of this remunerative scheme. Hence, on 20 June 2014, the Ministry published Order IET/1045/2014, of 16 June 2014 approving the remuneration parameters for standard installations already in operation.

Finally, on 21 January 2016, *the* Resolution of 18 January 2016 by the General Directorate of Energy and Mining Policy was published, resolving the auction for the allocation of the specific remuneration regime to new biomass-based electricity production facilities within the mainland power system and to wind technology facilities, pursuant to the provisions of Royal Decree 947/2015, of 16 October. Royal Decree 947/2015 stipulates a call for the granting of the specific remuneration regime to new biomass-based electricity production facilities within the mainland power system and to wind technology facilities (200 MW of biomass and 500 MW of wind). The allocation procedure and the remuneration parameters are set out in ministerial order IET/2212/2015, and the auction was called by the State Secretariat for Energy's Resolution of 30 November 2015. Said auction was held on 14 January. All of the MW, both wind and biomass, were awarded, with the peculiarity that in both technologies, the discount proved to be 100 per cent., so that no awardee will receive remuneration for investment costs.

3. Guarantee of the proper functioning of the system, by using the following measures

- **System operation:** Red Eléctrica de España, S.A. carries on the transmission management and system operation activities. As system operator, it is responsible for managing the adjustment markets to guarantee a balance between energy demand and generation.

- **Functioning of the market:** With the creation of the Iberian Electricity Market (**MIBEL**), since July 2006 the Portuguese and Spanish forward markets have operated on an integrated basis, and since July 2007 so have the short-term daily and intra-day markets. Currently the Iberian Market Operator (**OMI**) is responsible for the operation of MIBEL. OMI originated in the fusion of

OMI-Spain, responsible for the management of the daily and intra-day markets, and OMI-Portugal, responsible for the forward market.

4. Legislation applying to regulated activities

Law 24/2013 establishes that distribution and transmission are classified as regulated activities that are not subject to the free competition and market regime.

Royal Decree-Law 9/2013 fixes the transitory methodology that will govern the transmission and distribution activities until the new royal decrees related to transmission and distribution are approved. It established that, for the revenue of these activities, an "efficient and well-run company" will be considered applying uniform criteria throughout the Spanish territory. Further it established that these economic regimes allow adequate revenue of a low-risk activity. The methodology used to calculate the revenue for the distribution activity defines a "regulatory assets base" for the activity, that evolves upwards according to the investments made and downwards according to the related depreciation, in order to fix its revenue. In the application of these principles it established a rate of return on assets linked to government bonds plus a spread.

Subsequently, Law 24/2013, published on 27 December 2013, introduced the following:

- Introduction of the "*efficient and well-run company*" concept, considering these activities as low risk.

- The regulatory periods extend to six years.

- For regulatory purposes, the accrual and collection of the remuneration generated by the installations that entered into operation in the year n starts in the year n+2.

- The assets in operation not fully depreciated will receive an investment remuneration considering their net value for the financial remuneration. The financial remuneration rate will be based on ten year government bonds plus an appropriate spread for a low risk activity.

On 30 December 2013 two royal decrees regulating the new remuneration methodology of the transmission (Royal Decree 1047/2013) and distribution (Royal Decree 1048/2013) activities were published, following the regulatory and tax measures that started in the second half of 2013.

The methodology set out in Royal Decree 1048/2013 is based on new standard investment and operation costs. The aim is to reduce costs by introducing efficiency mechanisms and limitations concerning the annual investment volume. The recalculation of the base remuneration will be carried out during its first year of implementation, which includes the initial regulatory asset of the companies. Investment limits are also established (sector's maximum 0.13 per cent. of gross domestic product). The financial remuneration rate of the asset embodies the principles established in Law 24/2013, referenced to ten year government bonds plus an appropriate spread for a low risk activity.

Royal Decree 1048/2013 includes changes in the existing incentives; in quality (it may fluctuate between +2 per cent. and -3 per cent. of the company's remuneration) and losses (it may fluctuate between +1 per cent. and -2 per cent.). A new incentive regarding fight against fraud has been created, which may reach 1.5 per cent of the company's remuneration. For the application of the new remuneration model contained in Royal Decree 1048/2013, its regulatory development must be published; until then, as established in Royal Decree 1048/2013, the remuneration scheme of Royal Decree-Law 9/2013 will be maintained.

The remuneration system culminates with orders IET/2659/2015 for electricity transmission and IET/2660/2015 for electicity distribution, published on 12 December 2015, which determine the type installations and unit values to consider when calculating the remuneration for 2016 and following.

5. Tariffs or access tolls

Access tariffs are uniform across the country and are collected by the distributors, which act as the collection agents of the electricity system.

Royal Decree-Law 14/2010, of 23 December 2010, extended the application of access tolls to electricity producers of both the ordinary and the special regime, and established that the producers would be regulated taking into consideration the energy fed into the grid. In addition, prior to further tolls being implemented, Royal Decree-Law 14/2010 established that an access toll of Euro 0.5 per MWh fed into the grid will be applied to producers that are connected to the grid.

Subsequently, Royal Decree 1544/2011, of 31 October 2011 implemented the aforementioned regulation of access tolls for electricity producers.

On 1 February 2014, the ministry published Order IET/107/2014, of 31 January 2014, which revised the electric power access tariffs for 2014 and included two main aspects: firstly, it changed the weighting of the fixed part of the access tariffs (paid on the basis of the contracted capacity), and secondly, the tariffs were increased to cover the growth of the regulated costs.

Law 32/2014, of 22 December 2014, on metrology, modifies Law 24/2013, clarifying that the legal authority to establish the structure and conditions applicable to the access tariffs for transmission and distribution networks corresponds to the government.

Finally, Order IET/2444/2014 continued access tolls established in 2014, and the pricing structure of power and energy defined in 2014 and Order IET/2735/2015 establishes the access tolls for 2016.

6. Progressive liberalisation of electricity supply and introduction of retailing activity

The supply of electric power is completely deregulated and all consumers must contract their supply of electricity with a trader. From 1 July 2009, those consumers who fulfil certain criteria have been able to opt to contract electricity with a 'Last Resort' Trader (**CUR**), which from July 2014 became a Reference Trader (**COR**), with the Last Resort Rate (**TUR**), now the Voluntary Price for the Small Consumer (**PVPC**). TUR has been retained for vulnerable consumers and those who do not fulfil the requirements for the PVPC and who temporarily do not have a current contract with a free market trader.

Law 3/2014, of 27 March 2014, obliges CORs to offer contracts in which the price of electric power is fixed for a specific period for consumers with a right to the PVPC.

Royal Decree 216/2014, of 28 March 2014, established the methodology for calculating the PVPC and their legal regimen for contracting. It determines the structure of the PVPC that will be applicable to low voltage consumers with a contracted capacity up to 10 kW. Similarly, it determines the procedure for calculating the production cost of electric power on the basis of the hourly price in the daily market during the billing period. In addition, as established by Law 3/2014, it provides the option for consumers to contracting an electricity price fixed for a year with the reference trader.

This legislation provides the Spanish electricity sector with three forms in which traders can supply power to consumers:

- Reference supply:
    - PVPC: the method that has applied by default from 1 July 2014 if the consumer was subject to the previous TUR.
    - Annual fixed price in a regulated market offered by the reference trader.
- Contracting in the deregulated market with a trader.

- Last Resort Supply: a form of supply applicable to vulnerable consumers and those who do not fulfil the requirements for the PVPC and temporarily do not have a current contract with a free market trader.

The Resolution of 2 June 2015 of the State Secretariat for Energy, approved six procedures necessary for billing hourly to those consumers covered by the PVPC. This resolution establishes a period of adaptation of IT systems until 1 October 2015. From this date onwards, all consumers having an hourly meter should be billed according to the hourly consumption and price.

On 6 February 2016, the Supreme Court issued a judgment (dated on 3 November 2015) that cancels the commercial fix margin used to stablish the PVPC, which is the Reference Trader's remuneration. The Supreme Court overturns the current value of 4 €/kW/year with effect from 1 April 2014 and orders the Government to set a new value after stablishing a new methodology. Until then, the current value will be used for billing as a temporary value, as it is set out in the Order IET / 2735/2015 electric tolls for 2016.

7. Price formation and tariff structure

Law 24/2013 regulates the aspects relating to the PVPCs, which are defined as the maximum prices that the suppliers that assume the reference supply obligations will be able to charge.

They will be calculated as the sum of the following items:

- the production cost of electricity, based on market mechanisms, taking account of the average price set in the production market during the billing period;

- the corresponding access tolls and fees; and

- the corresponding supply costs.

8. Social Tariff

Royal Decree-Law 9/2013 sets out the social tariff for consumers with certain social, consumption and purchase power characteristics supplied at the TUR at their normal residence, and the financing of the social tariff costs. This tariff is calculated as 75 per cent. of the PVPC. Until the social and economic indicators are developed for application, the social tariff will apply to individuals in their normal residence supplied under the last resort scheme with contracted capacity of less than 3 kW, to large families or families whose members are all unemployed and to certain pensioners 60 years old or older receiving minimum pensions.

Such costs shall be borne by the parent company of vertically integrated companies. The allocation of the social tariff costs among such companies will be made according to the number of supplies connected to the distribution network and the number of customers of the retail business of the group.

Royal Decree 968/2014, of 21 November 2014, developed the methodology for fixing the percentage shares of the amounts to be financed with regard to the social tariff. These percentages will be calculated annually by the CNMC for each business group, as the relation between (i) the sum of the annual averages of the number of feeds connected to the distribution networks of the distributors and of the number of customers of the distributors in which the group participates, and (ii) the sum of all the annual average values of feeds and customers of all the business groups that should be considered for the effects of this sharing.

On 20 October 2015, the ministry published Order IET/2182/2015, of 15 October, which set the percentage shares of the amounts to be financed with regard to the social tariff for 2015. According to this order, Iberdrola should finance 38.25 per cent.

9. Load Manager

Royal Decree-Law 6/2010 introduced the load manager as another agent in the system.

Royal Decree 647/2011, which was approved in May 2011, regulates the functions of load managers, defined as "*companies that, as consumers, are authorised to resell electricity for power recharging services. Load managers are the only subjects with character wholesale customer under the terms provided for the applicable Community regulations.*" Royal Decree 647/2011 sets forth the requirements and obligations of load managers. It also created a new super off-peak tariff applicable to contracts of up to 15 kW, thereby creating a third hour period (from 1 a.m. to 7 a.m.) aimed at encouraging the charging of electric vehicles in this period.

10. Emission allowances

Regarding environment regulations, the issue of CO2 emissions allowances is critical. This concerns the obligation placed on industry and electricity companies by Directive 2003/87/CE to deliver an emission allowance for each ton of CO2 emitted by a plant, and the cap is reduced over time so that total emissions fall. In 2020, emissions from sectors covered by the EU ETS will be 21 per cent. lower than in 2005.

In 2009, within the European Union's Green Package for energy and climate change, Directive 29/2009 was approved, introducing changes and extending the European Union emissions trading system beyond 2012. Phase 3 (2013-20), significantly different from previous phases, is based on rules which are far more harmonised than before. The main changes in the Directive were: the default method of allocating allowances is auctioning, not free allocation, although transitional free allocation is envisaged in some cases; extension of the periods of compliance to be followed by consecutive periods in which the amount of rights is determined on an European Union-wide scale; it also provides that allowances can be carried over one period to the next (called "banking"). As a result of the new rules, since 2013, Iberdrola has no longer had the right to receive any free allocation.

The auctioning of allowances is governed by the EU ETS Auctioning Regulation. This covers the timing, administration and other aspects of auctioning to ensure it is conducted in an open, transparent, harmonised and non-discriminatory manner. Two auction platforms are in place: European Energy Exchange (**EEX**) (common platform for the large majority of countries participating in the EU ETS) and Futures Europe (**ICE**) (acts as the United Kingdom's platform). The Member States' shares in the auctioning volume in 2013 to 2020 are distributed as follows: (i) 80 per cent. on the basis of their share of verified emissions in 2005 or the average of the 2005-2007 period, (ii) 10 per cent. are allocated to the least wealthy EU member states as an additional source of revenue to help them invest in reducing the carbon intensity of their economies and adapt to climate change, and (iii) the remaining 2 per cent. is given as a 'Kyoto bonus' to nine EU Member States, which by 2005 had reduced their greenhouse gas emissions by at least 20 per cent. of levels in their Kyoto Protocol base year.

A surplus of emission allowances has built up in the ETS since 2009, largely due to the economic crisis (which has reduced emissions more than anticipated) and high imports of international credits. This has led to lower carbon prices and thus a weaker incentive to reduce emissions. The European Commission is addressing this through short- and long-term measures. As a short-term measure the Commission postponed in February 2014 the auctioning of 900 million allowances until 2019-2020 (**backloading**).

As a long-term solution, changes will be introduced to reform the ETS by establishing a MSR as of 2018, operating from 1 January 2019. The reserve will address the current surplus of allowances and improve the system's resilience to major shocks by adjusting the supply of allowances to be auctioned. It will operate entirely according to pre-defined rules. The 'backloading' was also

amended by MSR Decision, passed in October 2015: backloaded allowances will not return to the market, instead they will be introduced in MSR.

11. Revenue shortfall

Electricity Industry Law 54/1997, of 27 November 1997, introduced the liberalisation of electricity generation and retailing activities. The difference between the access tariff revenue established by the government and real costs related to these tariffs resulted in a revenue shortfall which led to problems and modifications in the functioning of the system.

To fund this shortfall, which is deferred through the recognition of long-term collection rights recovered by the annuities incorporated in annual fees, a series of measures have been adopted.

The first measure was Royal Decree-Law 6/2009, of 30 April 2009, that set limits to the increase of the deficit and defined a framework for the gradual sufficiency of the access tolls. It also addressed the mechanism for funding the tariff deficit through a securitisation fund set up for this purpose (electricity deficit redeeming fund (**FADE**)).

As measures adopted since 2009 proved to be insufficient throughout 2013, the government carried out a process of regulatory and tax reform for the electricity sector. As a step prior to this reform, Law 15/2012 established new tax measures and Royal Decree-Law 9/2013, was approved, adopting urgent measures to guarantee the financial stability of the electric system methodology for the calculation of the remuneration of the transmission and distribution activities, special regime and capacity payments, among other measures.

Finally, Law 24/2013 is governed by the principle of economic and financial sustainability of the electricity system, meaning that any regulatory measure which causes an increase in costs or a reduction in income for the electricity system should incorporate an equivalent reduction of other cost items or an equivalent increase in income that ensures the equilibrium of the system. Thus, the possibility of new deficits accumulating, as have occurred in the past, is ruled out.

This principle is reinforced with the obligation to automatically review the tolls and fees if the temporary imbalances between revenues and costs of the electricity system exceed the following limits from 2014 onwards:

- 2 per cent of the income estimated for the system in a given year.

- The debt accumulated due to imbalances in preceding periods may not exceed 5 per cent of the income estimated for the system in a given year.

The part of the imbalance that, without exceeding such limits, is not compensated by increases in tolls and fees will be financed by the parties to the settlement system in proportion to the remuneration that corresponds to them for their activities.

The amounts thus contributed will be returned in the corresponding settlements during the following five years together with an interest rate equivalent to the market rate.

In contrast to the previous system, these imbalances will not be financed exclusively by large companies and the collection rights corresponding to income deficits may not be assigned to the Securitisation Fund of the Electricity System Debt after 1 January 2013.

With regard to the excess income that could arise, it will be used to compensate imbalances from previous years and, as long as there are debts pending from previous years, the access tolls and fees may not be revised downward.

Royal Decree 680/2014, of 1 August 2014, regulates the procedure of budgeting, recognition, settlement and control of the surcharges on the production of electric power in the isolated electricity systems of the non-peninsular territories charged to the central state budget, thus developing the provisions of Law 24/2013, which established that from 1 January 2014, 50 per cent of these surcharges would be financed against the central state budget.

At the end all these measures have enabled the final statements of 2014 to be closed with a surplus of €550.3 million. This surplus will not be used as an income in the regulated settlement of the current financial year.

12. Self-consumption

Self-consumption is regulated for the first time in the Law 24/2013 and defined as the electric energy provided by generation installations associated with a consumer. Self-consumers must pay the same access tariff for the consumed energy as other customers. In addition, a mandatory register for self-consumption installations is created.

Later, Royal Decree - Law 9/2015 of 10 July modified Law 24/2013 to establish the possibility of setting reductions in tolls, fees and costs for certain categories of consumers for which the maximum contracted power consumption and generation installed shall not exceed 10 kW. This measure is exceptionally and it will be implemented as long as the safety and economic and financial sustainability of the system is ensured.

Finally, Royal Decree 900/2015 of 10 October regulated the administrative, technical and financial conditions of the self-consumption modalities. It differentiated between two types of self-consumption:

1. Supply with self-consumption: a consumer in a single electricity supply point or installation, with an internal network of one or more installations to generate electricity for self-consumption. In this case, the consumer is considered a single subject. The contracted power shall not exceed 100 kW and discharges of energy to the grid do not receive monetary compensation.

2. Production with self-consumption: a consumer in an electricity supply point or installation associated with one or several production facilities duly registered in the administrative record of energy production facilities. In this case there are two subjects - the consumer and the producer.

Regarding the economic regime, and until charges associated with system costs are approved, the self-consumer must pay a fixed charge and a variable charge applicable to the self-consumed energy. However, those consumers who fall into the supply with self-consumption modality and have contracted power less than or equal to 10 kW will be exempt from the temporary charge for the self-consumed energy, from the insulated electrical systems (Canary islands, Ceuta, Melilla, Ibiza and Formentera), and from cogeneration until 31 December 2019. Self-consumers also pay network tolls for the use of the network, like other consumers.

13. Interruptibility

The interruptibility service for a consumer consists in the reduction of its contracted capacity in response to a reduction order from the system operator. This order will be given taking account of the needs that arise in the operation of the electricity system, according to criteria of security and lowest cost.

The system operator will request the execution of the capacity reduction option, following economic and technical criteria:

- **Economic criteria:** In situations where the application of the service has a lower cost than that of the adjustment services of the system.

- **Technical criteria:** As a rapid response mechanism in emergency situations in the operation of the system.

To execute the option, the system operator will send a power reduction order to the service providers who will reduce their active power demanded until the committed residual power values are fulfilled.

The allocation of the interruptibility service will be carried out through an auction procedure managed by the system operator, as established in Order IET/2013/2013, therefore guaranteeing the effective provision of the service and its execution at the lowest cost for the electricity system.

The Resolution of 10 October 2014 of the State Secretariat for Energy, approves the characteristics of the competitive auction procedure for the allocation of the interruptibility demand management service for the 2015 electricity season (applicable from 1 January 2015 to 31 December 2015). Among others aspects, this resolution defines the maximum amounts to be auctioned for each type of product, the starting price, the period of delivery of the interruptible power and the date of each auction for the allocation of the interruptibility demand management service for the season (the auctions took place from 17 November 2014 to 21 November 2014). Subsequently, an extraordinary auction, approved by means of the Resolution of 17 December 2014, was carried out.

The Resolution of 9 July 2015 of the State Secretariat for Energy, approves the calendar of the competitive auction for the allocation of the interruptibility demand management service for the 2016 electricity season. The auction took place between 3 August and 4 September 2015.

14. Energy efficiency

Energy efficiency is an essential aspect of the European 2020 strategy for sustainable growth and one of the most effective forms of strengthening the security of energy supply and reducing emissions of greenhouse gases and other pollutants. In this sense, the European Union has set itself the target of achieving a 20 per cent improvement in energy efficiency by 2020.

Law 18/2014, of 15 October 2014, approving measures for growth, competitiveness and efficiency, contains a set of mechanisms designed to achieve the energy saving targets established in the Energy Efficiency Directive. To this end, it created the National Energy Efficiency Fund, managed by the Institute for the Diversification and Saving of Energy (*Instituto para la Diversificación y Ahorro de la Energía*) and financed by an annual contribution from all suppliers of gas and electricity, wholesalers of oil products and of liquid petroleum gases, according to their sales. Order IET/289/2015, of 20 February 2015, established the contribution obligations for 2015.

Law 8/2015, of 21 May 2015, modified Law 18/2014 and established that the obliged entities must make an annual contribution from 2016 onwards to the National Energy Efficiency Fund in four instalments: on 31 March, 30 June, 30 September and 31 December of each year. In addition, in order to establish the annual contribution for each obliged entity, positive or negative adjustments can be made, resulting from data provided by the obliged entities, such as sales and other variables, and data set out by the relevant ministerial order of the previous year.

Finally, Order IET/359/2016 of 17 March 2016 established the contribution obligations for 2016.

Industry regulation and functioning of the gas system in Spain

The natural gas sector in Spain has undergone significant changes in its structure and operation in the last years, from a monopoly to a fully open market, driven mainly by the deregulation measures in European Directives (2009/73/EC is currently in force) aimed at opening up markets and creating a single European gas market.

These liberalised principles have been incorporated and developed in Spanish law through the Hydrocarbon Industry Law, which began the deregulation process and, more recently, through the Law 12/2007 and the Royal Decree-Law 13/2012 which completed it.

The Hydrocarbon Industry Law laid the foundations for the new gas system, particularly with regard to the separation of activities (regulated and deregulated), the introduction of third-party access to the regulated network, the abolition of the former concessions for piped gas supply and their conversion into regulated administrative permits, and the establishment of a timetable for progressive market deregulation.

In line with these principles, the gas system has been structured around two types of activities: regulated activities (regasification, basic storage, transmission and distribution) and deregulated activities (trading and supply).

The Hydrocarbon Industry Law provided for the legal separation of deregulated and regulated activities and the segregation for accounting purposes of the various regulated activities. In addition, with the publication of Law 12/2007, Spain moved a step closer to achieving functional separation between network activities and deregulated activities and between network activities and technical system management. In 2012, Royal Decree-Law 13/2012 was approved, transposing Directive 2009/73/EC, and established further measures of separation in management of the transmission network.

Although the Hydrocarbon Industry Law established the general principles underpinning the new Spanish gas system, the sector's deregulation did not come into practice until 2001, following publication of Royal Decree-Law 6/2000, on urgent measures to intensify competition in the goods and services markets, and Royal Decree 949/2001, regulating third party access to gas installations and establishing an integrated economic system for the natural gas sector.

The first of these decrees enacted certain elements of the Hydrocarbon Industry Law with the aim of fostering measures that would facilitate the elimination of entry barriers for new supply companies. In particular, it created the technical system manager (ENAGAS, S.A.), provided for a 25 per cent gas release under the contract for natural gas brought from Algeria through the Maghreb pipeline, and brought forward the timetable for deregulation.

The second, Royal Decree 949/2001, established firstly the specific terms and conditions for third-party network access and, secondly, a remuneration system for regulated activities and a cost-based system of tariffs, tolls and fees structured according to pressure levels and consumption bands.

The remuneration assigned to each company as well as the tariffs, tolls and fees are updated periodically by ministerial orders and resolutions.

The economic system also established a settlement procedure that would allow for redistribution of revenues collected in the form of tariffs, tolls and fees between the various regulated activities in accordance with the remuneration method established. The body responsible for effecting this redistribution is the Ministry of Industry, Energy and Tourism.

Other issues related to the regulation of the transmission, distribution and supply businesses, the administrative authorisation procedures for natural gas facilities and the regulation of certain aspects of the supply business are dealt with in Royal Decree 1434/2002.

As for the technical operation of the system, the operating regulations are established in Order ITC 3126/2005 enacting the gas system technical management rules. Inter alia, these regulations established that each operator is individually responsible for maintaining its liquidity and enacts specific protocols for the conduct of the technical system manager in exceptional operating circumstances.

Despite the sector's progressive deregulation, prevailing regulations uphold the state's obligation to ensure the safety and continuity of supply. To this end, Royal Decree 1766/2007 stipulates that direct market suppliers and consumers must maintain minimum security stocks equivalent to 20 days' consumption. In

addition, it limits the maximum percentage of gas supplies that may be sourced from a single country to 50 per cent.

The state also maintains responsibility for obligatory planning work for certain infrastructures (for example, gas pipelines forming the core transmission network, the secondary transmission network, determining the total liquid natural gas regasification capacity necessary to supply the system and core natural gas storage facilities). For all other infrastructures, the state's planning work is indicative only. In 2012, Royal Decree-Law 13/2012 enacted a series of measures to halt the construction of new infrastructure in a context of falling demand for gas.

As mentioned above, in Spain the deregulation process was completed with Law 12/2007 transposing Directive 2003/55/EC. The two key changes enacted by this law were the elimination of regulated supply and the functional separation between network activities and deregulated activities.

In the Spanish gas system, the market deregulation process was completed on 1 July 2008 with the elimination of regulated supply for customers and the creation of last-resort supply. Currently, low-pressure customers with annual consumption of less than 50,000 kWh who do not choose another supply option shall be supplied by a last-resort supplier at a price calculated automatically. This additional rate is called the last resort tariff.

Law 18/2014, on measures for growth, competitiveness and efficiency, previously Royal Decree-Law 8/2014, established the principle of economic and financial sustainability for the gas system. This principle is reinforced with the obligation to automatically review tolls and fees if the annual imbalance between revenues and costs of the gas system exceeds the following limits:

- 10 per cent. of the income receivable for the year; or

- 15 per cent. of the sum of the annual imbalance plus annual payments recognised and pending amortisation.

The part of the imbalance that, without exceeding the above limits, is not compensated by the increase in tolls and fees, will be financed by the parties to the settlement system in proportion to their remuneration. The amounts contributed will be returned in the following five years and will earn an interest rate equivalent to the market rate.

The deficit accumulated as at 31 December 2014 will be financed by the owners of the installations during a period of 15 years.

On the other hand, the remuneration of the regulated activities will be based on the costs necessary for an efficient and well-managed company to carry out the relevant activity, following the principle of performing the relevant activity at the lowest cost for the gas system. In addition, the remuneration of regulated activities will be on the basis of six-year regulatory periods. The first regulatory period ends on 31 December 2020. Every three years adjustments may be made to the remuneration parameters within the gas system in the event that there are significant changes in revenues or costs.

The remuneration system for distribution is based on the remuneration of the previous year, adjusted for changes in productivity and new customers.

The remuneration system for transmission, storage facilities and regasification is based on the net value of the associated assets. In addition, the associated operating and maintenance costs and premiums for continuity of service are also factored in to calculate the remuneration system.

The Hydrocarbon Industry Law has been modified by Law 8/2015, 21 May 2015.

The main aspects introduced by Law 8/2015 regarding the gas system are:

- The creation of an organised wholesale gas market.

- The designation of the operator of the regulated gas market.

- Some measures relating to minimum security stock levels are adopted.

- CORES (*Corporación de Reservas Estratégicas de Productos Petrolíferos*) is enabled to constitute, maintain or manage natural gas and liquefied natural gas strategic stocks.

- With respect to the Efficiency Fund (*Fondo Nacional de Eficiencia Energética*) the law permits the refund of contributions when necessary (in case of mistake, for example).

- A new fiscal regime is established, benefiting the landowners and regions (*Comunidades Autónomas*) where the activities of exploration and production with conventional and non-conventional (including fracking) techniques are developed.

- Inspections may be carried out by any natural gas installation company (not only distribution companies).

Finally, Royal Decrete 984/2015 of 30 October 2015 regulated the organised wholesale gas market and the third party access to the facilities of the natural gas system. This market will initially include the negotiation of short-term standardised products by an electronic platform managed by the Market Operator (OMEL MIBGAS-). In addition, this market will centralise the hiring capacity through an electronic platform managed by the Technical System Operator (ENAGAS), with standardised products and auction procedures.

INDUSTRY REGULATION IN THE UNITED KINGDOM

The principal laws that govern Scottish Power Ltd.'s (**ScottishPower**) activities are the Electricity Act 1989 (**Electricity Act**) and the Gas Act 1986 (**Gas Act**), as substantially amended and supplemented by numerous subsequent enactments, including the Gas Act 1995, the Utilities Act 2000, the Energy Act 2004, the Energy Act 2008, the Energy Act 2010, the Energy Act 2011, the Energy Act 2013 and various EU directives. These specific energy laws are supplemented by UK and EU legislation relating to competition and consumer protection.

1. <u>The Regulatory Authorities</u>

The principal regulatory authority for utilities is the Gas and Electricity Markets Authority (**GEMA**), comprising a chairman and other members appointed by the Secretary of State for Energy and Climate Change. GEMA is supported by the Office of Gas and Electricity Markets (**OFGEM**). The main instrument of regulation used by GEMA is the licencing regime which in most cases requires the various aspects of the energy industry to be carried out under a licence to which standard conditions apply. In addition, there are a number of statutory obligations, known as relevant requirements, which are enforced by GEMA as if they were licence conditions.

GEMA's principal objective is to promote the interests of present and future consumers and promote effective competition. Under the Energy Act 2010, the interests of such consumers must be taken as a whole, including their interests in the reduction of greenhouse gases and in the security of the supply of gas and electricity to them.

In furthering this objective GEMA must ensure that all reasonable demands for electricity and gas are met, ensure that licence holders are able to finance the activities they are obliged to undertake, and contribute to the achievement of sustainable development. Further provision concerning the duties of GEMA has been made by the Energy Act 2013, but the provisions in question are yet to be implemented.

GEMA's functions include the granting of licences (and their revocation in certain limited circumstances), the making of changes to licence conditions (including the operation of price controls for the monopoly

network functions), the review of industry code modifications, operating schemes for promoting renewable electricity and energy efficiency, and the enforcement of the industry's obligations.

GEMA has the power to impose monetary penalties for past and ongoing breaches of licence conditions and relevant requirements and it can order that redress is provided to consumers. Fines and redress orders for a particular breach can in aggregate be up to 10 per cent of the licensee's applicable turnover.

The principal Regulatory Authority for competition matters is the Competition and Markets Authority (**CMA**). They can undertake general market investigations and, working concurrently with GEMA, can investigate potential breaches of competition law in the utility field. Consumer protection matters are enforced by the CMA, OFGEM and Local Authority Trading Standards departments.

Licences

Companies within the ScottishPower group hold licences for various functions including:

- the supply of electricity;
- the generation of electricity;
- the distribution of electricity in the South Scotland area, in the Merseyside and North of Wales area;
- the supply of gas;
- the shipping of gas (that is, arranging for the insertion, the transmission, and the removal of it from the public network); and
- the transportation of gas to certain specific sites (such as proposed new gas fired power stations).

The third package of European Union Directives on electricity (2009/72/EC) established additional restrictions to the ownership of transmission companies. On 19 June 2012, Scottish Power Transmission Limited (**SPTL**) was certified by OFGEM, in accordance with the Directive's Article 9 (9), with the European Commission approval, on the basis that SPTL's arrangements guarantee more efficient independence than the ITO provisions under the Directive's Chapter V. As a result, the provisions relating ownership separation do not apply to SPTL.

The conditions of licences regulate such matters as:

- for network licences: the quality of service and the charges that can be made.
- for supply to domestic consumers: consumer protection provisions including rules on standards of conduct, simpler tariffs, provision of information, debt and disconnection, cost reflective pricing, in relation to payment methods, information supply to customers and on fair trading.
- for most types of licence: rules requiring adherence to industry codes that set down the detailed technical rules for operating the industry, and providing for OFGEM to determine whether proposed changes to the codes should go ahead.

The Gas Act 1995 and Utilities Act 2000 introduced standard licence conditions to ensure that all holders of a particular licence type are subject to the same conditions. Under the Electricity and Gas (Internal Markets) Regulations 2011, modifications of individual or standard licencing terms no longer require the holders' consent. However, affected licence holders and other parties can appeal to the CMA on both procedural and substantial grounds, except where legislation allows the Secretary of State to modify licence conditions for certain specified purposes (typically the delivery of industry-wide reforms). In most cases, these powers are time limited. Changes to licence conditions can also be made without the right of appeal in pursuance of a European Union obligation, using powers in the European Communities Act 1972.

When OFGEM makes a decision on modifying an industry code which runs contrary to the views of the relevant industry governance body, the decision can, with certain exceptions, be appealed to the CMA.

2. Competition Legislation

GEMA also has concurrent powers with the CMA to apply the Competition Act 1998, the Fair Trading Act 1973 and the Enterprise Act 2002 to the energy sector in Great Britain. Accordingly, GEMA can levy fines of up to 10 per cent of turnover for breaches of the prohibitions of anticompetitive agreements or the abuse of a dominant position.

Under the Enterprise Act, GEMA and the CMA have powers to initiate a market investigation where it appears that competition has been prevented, restricted or distorted by any feature of a market, so far as it relates to commercial activities connected with the generation, transmission and supply of gas and electricity (and where it would not be appropriate to operate by the provisions of the Competition Act 1998 or using any other powers). Such investigations assess whether aspects of a market restrict, distort or prevent competition. If the CMA finds such adverse effects on competition (**AECs**) it is required to take proportionate steps to remedy them. The CMA's powers are extensive and can range from changes to licences to forced divestments, if they are justified by the evidence and findings.

CMA market investigation into energy

A market investigation was initiated on 26 June 2014 by GEMA making a reference to the CMA. The investigation is into the operation of retail gas and electricity markets for domestic and small business consumers, and the wholesale markets that support such supply. On 7 July 2015, the CMA published its provisional findings and a "remedies notice" containing suggested remedies. The provisional findings concluded that competition in the wholesale gas and electricity markets works well and that the presence of vertically integrated firms does not have a detrimental impact on competition. No strong case was found for returning to the old "pool" system for the wholesale electricity market.

However a number of Adverse Effect on Competence were identified in the retail market, some due to over-regulation, but mainly focussed on the possibility that people on standard variable tariffs may be losing out through lack of engagement in the market. The CMA has put forward a number of remedies for consideration. Most are focussed on increasing competition in this segment, but they have also suggested (while recognising the difficulties) a transitional safeguard regulated tariff to apply while other changes take effect. This would be set above the "efficient" level of pricing, with the aim of mitigating the damage to competition that might otherwise arise. The CMA has also made a number of wider proposals including zonal charging for transmission losses, tighter control of non-competitive low carbon contracts, changes to industry code governance, and reforms to regulatory policy including GEMA's duties.

On 17 March 2016, the CMA published its second Provisional Decision on Remedies. This dropped the general proposal for price controls on standard variable tariffs but did propose a price control on prepayment meters. Other features included a database remedy to enable rivals to market to customers who had been on standard variable tariff for three years and a proposal to allow people with complex meters to access single rate tariffs. The package also included the expected proposals to improve transparency in microbusiness sales, improve the responsiveness of the industry code modification process, reduce regulatory tariff restrictions, strengthen OFGEM's competition duties and introduce zonal losses charges.

Following an extension, the investigation must be complete by 25 June 2016.

EU Regulation on Energy Market Integrity and Transparency (REMIT)

GEMA also enforces REMIT in the United Kingdom. It has the power to levy unlimited fines for breaches and since 13 April 2015 can initiate criminal prosecutions for breach of the market manipulation element of REMIT against companies and the individual employees involved. In the case of individuals, the penalty can include imprisonment for up to two years.

Price controls

Prices for the sale of electricity and gas by utilities to final consumers are not currently controlled in the United Kingdom. Subject to the CMA outcome, there is no controlled tariff for certain categories of consumer, although all the major suppliers must offer special discounts for certain disadvantaged customers under the Warm Homes Discount programme. The total cost of discounts of the Warm Home Discount programme for ScottishPower in 2014-2015 was 6 pounds sterling per customer account (counting gas and electricity separately) and, like any other cost, suppliers are free to pass on the cost to their tariffs. OFGEM has implemented licence modifications requiring any price variation by payment method to be cost reflective.

In 2014 and 2015, suppliers must pay 12 pounds sterling to each person who is a domestic electricity customer on a specified date in each year, and the United Kingdom government in turn repays that sum from taxpayer funds to the suppliers upon production of suitable evidence. This arrangement effectively takes the cost, but not the administration, of the Warm Home Discount programme on to the public purse in those two years. This requirement expires after 2015.

Similarly, there are currently no controls other than those established in the Competition Act 1998 and the Transmission Constraint Licence Condition (**TCLC**), on prices charged to commercial customers or on other prices in the wholesale electricity and gas markets.

TCLC prohibits electricity generators from making excessive profits resulting from balancing actions. OFGEM has published guidelines on the interpretation and application of the TCLC. Enforcement decisions under the framework of the TCLC are subject to review by the Competition Appeal Tribunal, rather than the review by the courts applicable to other GEMA enforcement decisions. The condition expires five years after its enactment, having been implemented on 29 October 2012, and is renewable for another two years.

OFGEM has implemented electricity market liquidity obligations for large integrated supply and generation businesses, including ScottishPower. These include obligations to facilitate trading with smaller companies and also an obligation to market make in a number of wholesale products during two specified “windows” in each business day. Although the prices of bids and offers are not regulated, the licence condition limits the spread between them. There are rules designed to give some protection to obligated licensees in fast or volatile markets. To date, no material costs have arisen from this obligation.

Following the Retail Market Review, OFGEM has implemented limits on the products that can be sold in the domestic energy market. These include restrictions on the number and composition of tariffs (with a maximum of four basic tariffs plus variations according to parameters such as form of payment, meter type and region). The CMA has proposed removing these restrictions. There are also information requirements and requirements for notifying customers of lower tariffs. OFGEM has also implemented rules of conduct for customer treatment covering all aspects of the supplier-client relationship.

The networks are considered to be a natural monopoly. Their prices have therefore been controlled and this is now achieved through the new RIIO framework (Revenue = Incentives + Innovation + Outputs). This involves setting a revenue profile for an eight year period (with a limited revision after four years) based on the regulator’s assessment of the costs of an efficient network operator and the likely capital programme (aided by a business plan submitted by the company) in order to calculate the revenue needed to meet a target return on investments. The formula uses a market index for setting the debt cost, and phases in (for electricity) an asset depreciation period of 45 years, replacing the 20 year period used previously. Various incentives have been added to the formula which also takes account of inflation in order to calculate the permissible revenues for the network.

Under the RIIO framework, there is a greater emphasis on outputs and innovation, as well as on the role that network companies can play in developing a sustainable energy sector.

In the transmission business, SPTL’s new RIIOT1 framework became effective from April 2013. In distribution, the new RIIO controls for the ScottishPower network in the south of Scotland and in the

Manweb area were accepted on 3 March 2015 by ScottishPower Energy Networks and came into force on 1 April 2015. An appeal made to the CMA by British Gas Trading Ltd, alleging that the controls are too generous, was determined by the CMA on 29 September 2015, rejecting most of the British Gas appeal, but a small adjustment was allowed, which affected the prices set for 2016/17 and later years. The net effect on ScottishPower's distribution licensees is a revenue reduction of GBP 19 million over the 8 year RIIO ED1 period. The parallel appeal by NPG had no impact on the ScottishPower licensees.

OFGEM has brought forward proposals for competitively tendering the construction of large, new and separable transmission projects. This may lead to a few transmission developments being taken forward by others.

3. Other issues

Other key elements of the regulatory regime in the United Kingdom include:

The Renewables Obligation (RO)

The United Kingdom government intends to source 30 per cent. of electricity from renewable sources by 2020. To this end, the RO Orders (which apply separately to different parts of the United Kingdom within a unified scheme) place obligations on suppliers of electricity to source an increasing proportion of their electricity from renewable sources (based on the expected level of renewable energy production in each year plus a 10 per cent. spread in order to prevent certificate prices from falling sharply). Suppliers meet their obligations by presenting sufficient Renewables Obligation Certificates (**ROCs**) or by paying an equivalent amount into a fund.

The proceeds of the fund are paid back to those suppliers that have presented ROCs in proportion to the number of ROCs presented. Since April 2009, the RO has been banded so that differing technologies receive different levels of support depending on the expected costs. The revision of this framework concluded in 2012 and, as a result, projects starting after 1 April 2013 (or later for some technologies) will receive revised levels of support.

The RO will close for new projects no later than 31 March 2017; its replacement is a new aid scheme of Contracts for Differences (**CFDs**) which are part of the Electricity Market Reform (**EMR**). For solar photovoltaic generation plants above 5 MW, the RO closed in April 2015. The Government has also proposed to close the RO in April 2016 for onshore wind and solar photovoltaic plants at 5MW or below, in both cases subject to grace periods. The RO will remain in place for facilities entering the scheme before the relevant closure date; payments will continue until 31 March 2027 for projects that started generation before 1 April 2009 and for 20 years after entry into the RO for later projects. The Energy Act 2013 envisages changing the RO in due course to payment of a premium on substantially similar terms.

Electricity Market Reform (EMR)

The United Kingdom government's EMR programme was substantially implemented during 2014. The principal elements are:

- a new incentive scheme, based on CFDs to support low carbon generation; and
- a capacity mechanism to support security of supply (market-wide auction mechanism).

The CFD allocations will take place within the constraints of a budget for low carbon support measures known as the Levy Control Framework (**LCF**). An initial tranche of contracts were approved during 2014 by the United Kingdom government as part of a transitional "Final Investment Decision Enabling Process". The first allocation round took place on 4 February 2015 in two "pots"; one for established technologies (mainly onshore wind and solar) and a second one for less established technologies (mainly offshore wind). ScottishPower's 714 MW East Anglia ONE offshore Wind Farm achieved a contract in the auction at a price of GBP 119/MWh.

In its Budget on 16 March 2016, the Government announced that there would be three CFD rounds of contracts for offshore wind farms by May 2020, with a total subsidy budget of up to £730m a year. The first CFD auction round, with a budget of £290 m, is likely to take place late in 2016 and will be capped at £105/MWh. The aim would be to bring the price down to £85/MWh for plants commissioning in 2026. The Budget also confirmed continuation of the £18/tonne freeze in the carbon floor price tax into 2020/21, though this figure would be indexed to the RPI for that year.

Annual capacity mechanism auctions took place in December 2014 and 2015, for capacity delivery in winter 2018 and 2019/20 respectively. The auctions cleared at prices of GBP 19.40 and GBP 18.00 per kW/year.

On 1 March 2016, DECC announced a consultation on proposals to reform the capacity market by strengthening the penalties for non-delivery of promised plant and increasing the volume procured. The Government also announced that there would be further consideration of the air quality aspects of embedded diesel generation. DECC also announced that Ofgem was looking in parallel at the cost reflectivity of some of the benefits for embedded generation, which may be distorting the outcomes of the capacity auctions.

Revised figures for spending under the LCF were published on 25 November 2015 alongside the Autumn Statement. These indicated that the available funds to the end of the decade were projected to be overspent. While the announcements on early closure of the Renewables Obligation and other measures can be expected to limit costs, the Government has not at this stage come forward with revised projections that take these policy changes into account. On 16 March 2016 new calculations were presented for the existing LCF, showing a c. £0.3 billion reduction in the projected overspend in 2020/21 to £1.1bn. This is within the £1.5bn permitted headroom.

EU-ETS and United Kingdom Carbon Price Support

As in all EU Member States, generators in the United Kingdom participate in the EU-ETS. Since 2013, the government is required to auction all allocations to the power sector. The Climate Change Act 2008 set out a trajectory towards reducing CO2 emissions from 1990 levels by at least 80 per cent. by 2050, with interim reduction targets. The Carbon Price Support mechanism is a United Kingdom tax imposed on fossil fuels used for electricity generation at differential rates which simulate a charge on the CO2 emissions. It was intended to smooth the path of carbon prices in the United Kingdom power sector in the event of instability in the EU-ETS, by topping up the EU-ETS price to a pre-set trajectory. In practice, the EU-ETS price is much lower than expected and in order to mitigate the impact on electricity prices, the United Kingdom government has capped the Carbon Price Support tax at 18 GBP/tonne CO2 until at least 2020.

Climate Change Levy (CCL) exemption

As announced in Summer Budget 2015 the exemption for renewable electricity from the Climate Change Levy (a tax on non-domestic electricity users) ended on 1 August 2015. This has removed a small additional revenue stream for renewable generators though its value was expected to decline in any event around 2020.

The Energy Companies Obligation (ECO)

Energy suppliers who supply over 250,000 domestic customers are required to achieve energy efficiency improvements among their customers. As with any other cost, the costs of making those improvements can be factored by suppliers into tariffs, subject to the need to remain competitive in the market. ECO ran from 1 January 2013 to 31 March 2015. A separate phase runs from 1 April 2015 to 31 March 2017. The Government has said that from April 2017, ECO will be replaced by a cheaper scheme costing c. GBP 640 million a year. Details are yet to be announced.

Coal closure

In November 2015, Secretary of State Amber Rudd announced plans to consult on requirements for all coal power stations without CCS to close by 2025. The detail of any proposed measures here is not yet available, but the impact on ScottishPower is assessed to be limited, given the planned closure of Longannet.

Pollution Control:

The Integrated Pollution Prevention and Control (**IPPC**), the Large Combustion Plant Directive (**LCPD**) and the Industrial Emissions Directive (**IED**) cover the regulatory regime for controlling the pollution from certain industrial activities, including thermal combustion generation, and impose limits on various categories of emissions. In particular, the LCPD limits the emission of sulphur dioxide, oxides of nitrogen and particles from power stations, whereby operators of such plant had the option of meeting those requirements or accepting a limited hours derogation prior to closure by the end of 2015. The IED puts in place a similar regime for 2016 and beyond, with more stringent standards. The IED is transposed into United Kingdom law through the Pollution Prevention and Control (Scotland) Regulations 2012 and amendments to the Environmental Permitting (England and Wales) Regulations 2010. These controls are enforced by the Environment Agency or, in Scotland, the Scottish Environmental Protection Agency.

INDUSTRY REGULATION IN THE USA

1. Electricity and natural gas distribution

Some of the most important specific regulatory processes that affect AVANGRID Networks, Inc. (**AVANGRID Networks**) include the Maine distribution tariff stipulation, the Maine transmission Federal Energy Regulatory Commission (**FERC**) Return on Equity (**ROE**) case, Reforming Energy Vision (**REV**) of New York.

The revenues of AVANGRID Networks are essentially regulated, being based on tariffs established in accordance with administrative procedures set by the various regulatory bodies. The tariffs applied to regulated activities in the United States are approved by the regulatory commissions of the different states and are based on the cost of providing service. The revenues of each regulated utility are set to be sufficient to cover all its operating costs, including energy costs, finance costs and the costs of equity, the last of which reflect the company's capital ratio and the reasonable return on equity.

Energy costs that are set on the New York and New England wholesale markets are passed on to consumers. The difference between energy costs that are budgeted for and those that are actually incurred by the utilities is offset by applying compensation procedures that result in either immediate or deferred tariff adjustments. These procedures apply to other costs, which are in most cases exceptional (effects of extreme weather conditions, environmental factors, regulatory and accounting changes, treatment of vulnerable customers, etc.) that are offset in the tariff process. Any delivery profit from New York that means a service company exceeds its profitability objectives (usually due to a better than expected cost efficiency), is shared among the service company and its clients; resulting in a decrease in the future tariff.

Each of the eight supply companies in AVANGRID Networks, must comply with regulatory procedures that differ in form but in all cases conform to the basic framework outlined above. As a general rule, tariff reviews cover various years (three in New York) and provide for reasonable returns on equity, protection and automatic adjustments for exceptional costs incurred and efficiency incentives.

1.1 Maine

Central Maine Power (CMP) Distribution rate stipulation

On 1 May 2013, CMP submitted its required distribution rate request to the Maine Public Utilities Commission (**PUC**). After a 14-month review process, on 3 July 2014, CMP filed a rate stipulation agreement on the majority of the financial matters with the PUC. The stipulation agreement was approved by the PUC on 25 August 2014. The stipulation agreement also noted that certain tariff design matters would be litigated, which was ruled on by the PUC on 14 October 2014.

The tariff stipulation agreement provided for an annual CMP distribution tariff increase of 10.7 per cent. (USD 24.3 millions). The rate increase was based on a 9.45 per cent ROE and 50 per cent. equity capital. CMP was authorised to implement a revenue decoupling mechanism (**RDM**) which protects CMP from variations in sales due to energy efficiency and weather. CMP also adjusted its storm costs recovery mechanism whereby it is allowed to collect in tariffs a storm allowance and to defer actual storm costs when such storm events exceed USD 3.5 million. CMP and customers share on a 50/50 basis the storm costs that exceed a certain balance, with CMP's exposure limited to USD 3.0 million annually. Storm costs and RDM adjustments are reconciled annually and tariff rates are adjusted accordingly to recover or return adjustment balances.

CMP's distribution stipulation provided for a separate regulatory filing for a new customer billing system replacement. In accordance with the stipulation agreement, a new billing system is needed and CMP made its filing on 27 February 2015 and is requesting a separate rate recovery mechanism. On 20 October 2015, the PUC issued an order approving a stipulation agreement authorizing CMP to proceed with the customer billing system investment. The approved stipulation allows CMP to recover the system costs effective with its implementation, currently expected in mid-2017.

The tariff stipulation does not have a pre-determined tariff term; CMP has the option to file for new distribution tariffs at its own discretion.

The tariff stipulation does not contain service quality targets or penalties. The rate stipulation also does not contain any earning sharing requirements.

Transmission – FERC ROE proceeding

CMP's transmission tariffs are determined by a tariff regulated by the FERC and administered by Independent System Operator New England (**ISO-NE**). Transmission rates are set annually pursuant to a FERC authorised formula that allows for recovery of direct and allocated transmission operating and maintenance expenses, as well as the return on assets invested. Prior to October 16, 2014, the FERC provided a base ROE of 11.14 per cent and additional ROE incentives applicable to assets based upon vintage, voltage and other factors.

- Complaint I: In September 2011 the Massachusetts Attorney general filed a complaint with the FERC saying that the New England transmission ROE was too high and should be lowered by 1.94 per cent., to a value of 9.2 per cent. On 16 October 2014, the FERC issued an order in the ROE case which concluded:
    - The "base" ROE was set at 10.57 per cent. effective since 16 October 2014.
    - There is a ROE cap on total ROE (base ROE plus incentive ROEs) of 11.74 per cent., also effective since 16 October 2014.
    - FERC changed its dscounted cash flow approach from a single-step to a two-step. FERC determined that the long-term growth rate used in the two-step discounted cash flow analysis should be the gross domestic product deflator estimated at 4.39 per cent. This aspect of their decision results from the "paper hearing" that FERC initiated in its June 2014 decision.
    - During 2014 and 2015, CMP provided refunds for the period from October 2011 to December 2012 with a base ROE of 10.57 per cent. and an ROE cap of 11.74 per cent.
- Complaint II – Filed on 27 December 2012. On 19 June 2014 the FERC issued an order setting this case for settlement and hearing, and set the refund effective date as of 27 December 2012.
    - The parties entered settlement negotiations which ended in late October 2014 when the parties were unable to reach agreement.
    - Hearings before a FERC administrative law judge took place between 25 June 2015 and 2 July 2015.
- Complaint III – Filed in August 2014, reiterates the same position as in Complaint II. FERC consolidated Complaints II and III. See Complaint II for information.

CMP reserved for refunds in 2013 and 2014. The 2013 reserve was USD 6.6 million associated with Complaint I. In 2014, CMP recorded an additional reserve of USD 29.9 million associated with Complaints I, II, and III.

On March 22 a FERC administrative law judge issued an initial decision on the New England ROE finding that the existing base ROE for each of the periods at issue was unjust and unreasonable but that "anomalous capital market conditions" were at play that warranted a higher base ROE than proposed by complainants. The administrative law judge recommended a base ROE of 9.59 per cent. with a maximum ROE of no more than 10.42 per cent. for the second, December 2012 complaint. For the 2014 complaint, he recommended a base ROE of 10.90 per cent. with an incentive cap of 12.19 per cent. The decision is subject to commission approval, which could happen by the end of 2016/early 2017.

1.2 New York

New York State Electric & Gas Corporation (NYSEG) and Rochester Gas and Electric Corporation (RG&E) Tariff Plans:

- On 16 September 2010, the New York Public Service Commission (**NYPSC**) approved a new tariff plan for electric and natural gas service provided by the companies effective between 26 August 2010 and 31 December 2013. The tariff plans contained continuation provisions beyond 2013 if NYSEG and RG&E did not request new tariffs to come into effect, in which case the then current base tariffs would stay in place.

- The revenue requirements were based on a 10 per cent. allowed ROE applied to an equity ratio of 48 per cent. If annual earnings exceed the allowed return, a tiered Earnings Sharing Mechanism (**ESM**) would capture a portion of the excess for the benefit of customers. The ESM is subject to specified downward adjustments if the companies fail to meet certain reliability and customer service measures. Key components of the tariff plan include electric reliability performance mechanisms, natural gas safety performance measures, customer service quality metrics and targets, and electric distribution vegetation management programmes that established threshold performance targets. There will be downward revenue adjustments if the companies fail to meet the targets. The companies met all of the service quality targets through 2014 but missed a customer service metric in 2015 due to severe weather in February 2015.

- The 2010 rate plans established RDMs intended to remove company disincentives to promote increased energy efficiency. Under the RDM, electric revenues are based on revenue per customer class rather than billed revenue, while natural gas revenues are based on revenue per customer. Any shortfalls (excesses) between billed revenues and allowed revenues will be accrued for future recovery (refund).

2015 NY Rate Filings

On 20 May 2015, NYSEG and RG&E filed electric and gas rate cases with the NYPSC. The companies are requesting rate increases for NYSEG electric, NYSEG gas and RG&E gas. RG&E electric is proposing a rate decrease.

NYSEG electric is requesting USD 126 million (7 per cent. overall) in additional annual delivery revenue to recover prior storm costs, move to a full cycle vegetation management trim programme in line with best industry practice, and earn an adequate return on its investment. RG&E electric is proposing a USD 10 million rate decrease (1 per cent. overall) reflecting the return to customers of monies collected during its 2010 rate plan associated with management efficiencies and costs lower than set levels. NYSEG gas and RG&E gas are requesting additional revenues of USD 38 million (8 per cent. overall) and USD 20 million (5 per cent. overall), respectively.

The companies are requesting a 10.06 per cent. return on equity and a 50 per cent. equity ratio. The rate filings are for one year but the companies have indicated their interest in pursuing a multi-year settlement.

The NYPSC staff and other parties filed testimony in September 2016 opposing the rate increase requests. The NYPSC staff proposed a delivery increase of USD 11.8 million for NYSEG electric and delivery rate decreases for RG&E electic of USD 23.4 million, delivery decrease of USD 2.8 million for NYSEG gas and a delivery decrease of USD 2.9 million for RG&E gas. The NYPSC staff proposed an 8.7 per cent. ROE and a 48 per cent. equity ratio. NYPSC staff also proposed to offset the NYSEG electric storm deferral balance of USD 262 million with excess depreciation reserve amounts which NYPSC staff claims is USD 665 million at NYSEG electric and USD 129 million at RG&E electric. The NYPSC staff stated it was open to discussing a multi-year rate plan for the companies.

Other parties including the Division of Consumer Protection, Utility Intervention Unit, the New York State Office of General Services, Multiple Intervenors, Nucor Steel Auburn, Inc., Pace Energy and Climate

Center, WalMart Stores, Upstate New York Laborers' District Council, Greenidge Generation, LLC and International Brotherhood of Electical Workers, Local Union 10 also filed direct and responsive testimony opposing certain aspects of the companies rate requests.

In October 2015, the companies filed rebuttal testimony opposing the NYPSC staff adjustments including their proposal to offset deferred storm costs with excess depreciation reserve values. The companies also updated their rate request values to USD 166 million for the two electric businesses and USD 59 million for the two gas businesses.

By notice in October 2015, the parties agreed to commence settlement negotiations. The companies agreed to extend the suspension period through August 2016 in order for settlement discussions to take place. The companies suspension agreement was subject to a make-whole provision. Settlement negotiations have occurred since October and have continued into February 2016.

On 19 February 2016, NYSEG and RG&E submitted to the NYPSC its three year settlement agreement, known as a "Joint Proposal," addressing its electric and gas rate plan. Public statement hearings are ongoing. NYPSC Commissioners are expected to deliberate on the plan on 19 May 2016 and the plan is set to become effective on 1 May 2016 (new tariffs 1 June 2016).

***Reforming the Energy Vision**:*

- April 2014, the NYPSC commenced a proceeding titled REV, which is an initiative to reform New York State's energy industry and regulatory practices. REV has followed several simultaneous paths, including a formal Track 1 dealing with market design and platform technology and Track 2 dealing with regulatory reform. REV's objectives include the promotion of more efficient use of energy, increased utilisation of renewable energy resources such as wind and solar in support of New York State's renewable energy goals, and wider deployment of "distributed" energy resources, such as micro grids, on-site power supplies, and storage.

- Track 1 of the REV initiative involves the examination of the role that distribution utilities will have in the enablement of market-based deployment of distributed energy resources to promote load management, system efficiency, and peak load reductions. NYSEG and RG&E are participating in all aspects of the REV initiative with other New York utilities as well as providing their unique prospective. NYPSC staff has conducted public statement hearings across New York State regarding REV.

- Various other REV-related proceedings have also been initiated by the NYPSC, each of which is following its own schedule. These proceedings include the clean energy fund, demand response tariffs, community choice aggregation, large scale renewables, and community distributed generation.

- Track 2 of the REV initiative is also underway, and through a NYPSC staff whitepaper review process, is examining potential changes in current regulatory, tariff, market design and incentive structures which could better align utility interests with achieving New York State and NYPSC policy objectives. New York utilities will also be addressing related regulatory issues in their individual rate cases.

- The process to develop the clean energy standard, that seeks to achieve a 50 per cent. clean energy by 2030, is currently in progress.

Ginna reliability support service agreement

- R.E. Ginna Nuclear Power Plant, LLC (**GNPP**), which is a subsidiary of Constellation Energy Nuclear Group, LLC (**CENG**), owns and operates the R.E. Ginna Nuclear Power Plant (**Ginna Facility**), a 581 MW single-unit pressurised water reactor located in Ontario, New York. In May 2014, the New York Independent System Operator (**NYISO**) produced a reliability study, confirming that the Ginna Facility needs to remain in operation to avoid bulk transmission and non-bulk local distribution system reliability violations in 2015 and 2018.

- On 11 July 2014, GNPP filed a petition requesting that the NYPSC initiate a proceeding to examine a proposal for the continued operation of the Ginna Facility. GNPP asserted that "[i]n the two preceding calendar years (i.e., 2012 and 2013), it had sustained cumulative losses at the Facility of nearly USD 100 million (including the allocation of CENG corporate overhead)" and that "CENG has not been compensated for any operational risk or an appropriate return on its investment over this period." Based on the results of the 2014 reliability study, GNPP requested that: 1) the NYPSC determine that the continued operation of the Ginna Facility is required to preserve system reliability; and 2) the NYPSC issue an order directing RG&E to negotiate and file a Reliability Support Services Agreement (**RSSA**) for the continued operation of the Ginna Facility.

- In the November 2014, the NYPSC ruled that GNPP had demonstrated that the Ginna Facility is required to maintain system reliability and that its actions with respect to meeting the relevant retirement notice requirements were satisfactory. The NYPSC also accepted the findings of the 2014 reliability study and stated that it established "the reliability need for continued operation of the Ginna Facility that is the essential prerequisite to negotiating an RSSA." As such, the NYPSC ordered RG&E and GNPP to negotiate an RSSA.

- On 13 February 2015, RG&E submitted to the NYPSC an executed RSSA between RG&E and GNPP. RG&E requested that the NYPSC: 1) accept the RSSA, and 2) approve cost recovery by RG&E from its customers of all amounts payable to GNPP under the RSSA utilising the cost recovery surcharge mechanism.

- On 21 October 2015, RG&E, GNPP, New York Department of Public Service, Utility Intervention Unit and Multiple Intervenors filed a joint proposal with the NYPSC for approval of the RSSA, as modified (the **Joint Proposal**). The Joint Proposal provides a term of the RSSA from 1 April 2015 through 31 March 2017. RG&E shall make monthly payments to GNPP in the amount of USD 15.42 million RG&E will be entitled to seventy percent (70 per cent.) of revenues from GNPP's sales into the NYISO energy and capacity markets, while GNPP will be entitled to thirty percent (30 per cent.) of such revenues. The signatory parties recommend that the Commission authorise RG&E to implement a rate surcharge (the **rate surcharge** or **RSSA surcharge**) effective 1 January 2016 to recover amounts paid to GNPP pursuant to the RSSA. RG&E's payment obligation to GNPP shall not begin until the rate surcharge is in effect and FERC has issued an order authorizing the FERC settlement agreement in the settlement docket. RG&E will use deferred rate credit amounts (regulatory liabilities) to offset the full amount of the deferred collection amount (including carrying costs), plus credit amounts to offset all RSSA costs that exceed USD 2.25 million per month, not to exceed a total use of credits in the amount of USD 110 million, applicable through 30 June 2017. To the extent that the available credits are insufficient to satisfy the final payment from RG&E to GNPP then the RSSA surcharge may continue past 31 March 2017 to recover up to USD 2.25 million per month until the final payment has been recovered by RG&E from ratepayers. The commission has not ruled on the settlement agreement and the companies expect a ruling in the second quarter 2016.

- On 9 March 2016, FERC conditionally approved the settlement agreement to keep GNPP nuclear plant operating through March 2017, protecting the New York power grid from reliability challenges that would arise if the plant were to retire for economic reasons. The commission ruled that the reliability support services agreement between the GNPP and RG&E approved 23 February 2015 by the NYPSC was just and reasonable.

NY Transco

- Affiliates of National Grid, Central Hudson and NYSEG/RG&E, along with an affiliate of Con Edison and Orange and Rockland Utilities, are part of a new organisation, New York Transco LLC (**NY Transco)**. NY Transco is focused on developing electric transmission to meet future electricity needs of all New Yorkers and will develop and New York transmission projects upon receipt of all necessary regulatory approvals.

- NY Transco members are requesting regulatory approval for a group of transmission projects expected to cost USD 1,700 million, with NYSEG / RG&E allocated an equity contribution of USD 183 million over the period 2015 through 2018. Additional projects may be developed in the future. Equity investments will be expressly contingent on receiving necessary regulatory approvals and acceptable economic returns. The investment will be made through an Iberdrola USA Networks affiliate, Iberdrola USA Networks NY Transco, constituted on 3 November 2014.

- NY Transco filed with FERC in early December 2014. The filing requests a formula base ROE of 10.6 per cent., plus 150 basis points ROE incentives. The filing also requests recognition of construction work in process, abandoned plant, regulatory asset for pre-commercial costs and 60 per cent. leverage for five years. Various parties, including the NYPSC, have protested the filing at FERC. NY Transco anticipates a FERC decision in 2015.

- On 2 April 2015, the commission issued an order granting, *inter alia*, applicants' request for a 50 basis point adder for NY Transco's membership in the NYISO regional transmission organization (**RTO**), subject to the adder being capped within the zone of reasonableness after a determination of where within that zone its base level ROE should be set. The commission also set the formula rate and base ROE issue for hearing and settlement judge procedures. In addition, the commission rejected the applicants' cost allocation method for the Transmission Owner Transmission Solutions (**TOTS**) Projects because it would allocate costs to the Long Island Power Authority (**LIPA**) and the New York Power Authority (**NYPA**) that they did not voluntarily agree to pay.

- Following several months of negotiations, on 5 November 2015, applicants, on behalf of the settling parties, filed the settlement with the commission, which reflects the agreement of the settling parties to resolve all outstanding issues associated with the TOTS Projects, including issues related to the TOTS Projects that were set for hearing and issues pending on rehearing before the commission in Docket No. ER15-572-000. The settling parties agreed that the FERC Docket No. ER15-572-000 shall remain open but held in abeyance with respect to the applicants' AC Projects, as they may be modified during the NYPSC/NYISO selection process. Within 30 days after the NYISO's viability and sufficiency assessment, the settling parties will agree in good faith on a date not more than three (3) months later to resume settlement negotiations in Docket No. ER15-572-000 to resolve the rates, terms, and conditions to be approved by the commission for the applicants' AC Projects. On or after that date, the applicants will file a new Section 205 filing to address the cost allocation methodology to be applied to the AC Projects. On 5 November 2015, NY Transco filed an offer of partial settlement with the parties. The settlement addressed the financial terms which were components of NY Transco's revenue requirement for the proposed TOTS Projects including: (i) a base ROE of 9.5%, (ii) a 50 basis point ROE addition, (iii) a capital structure equity ratio up to 53.0%, and (iv) cost allocation under the NYISO open access transmission tariff (**OATT**) for the TOTS Projects. The Settlement resolved all issues requested for rehearing in Docket No. ER15-572-000 with respect to the TOTS Projects. The projects to be developed by NY Transco that were proposed in the New York Commission's Alternating Current Transmission proceedings were not subject to the terms of this settlement. The partial settlement was approved through a letter order by the FERC on 17 March 2016.

- The Fraser to Coopers Corners Project (one of the TOTS Projects being developed by NYSEG) was transferred from NYSEG to NY Transco on 24 May 2016. On 1 June 2016, NYSEG officially released the series capacitor bank to the NYISO for operational control achieving a 1 June 2016 in-service date. Also, 1 June 2016 marked the beginning of NYISO billing of NY Transco revenue requirement for the three TOTS Projects (Fraser to Coopers Corners, Staten Island Unbottling, and Ramapo Rock Tavern).

2. Electricity generation from renewable energy resources

In the United States, numerous state governments and the federal government have adopted measures and implemented numerous regulations designed to foster the development of electricity production from renewable resources. State programmes have generally come in the form of: 1) Renewable Portfolio Standards (**RPSs**) that usually require utilities to generate or purchase a minimum amount of renewable

electricity; and 2) tax incentives. To date, the federal government has primarily supported renewable energy development through tax credits for production and investment as well as accelerated tax depreciation.

Twenty-nine states and the District of Columbia have adopted mandatory RPS requirements, which vary across the states but will generally range from 15-33 per cent of the generation by 2025. The requirements are typically implemented through a system of tradable renewable energy certificates that verify that a kWh of electricity has been generated from a renewable resource. Several state legislatures have debated whether to repeal or roll back significantly their RPS requirements. In 2014 Ohio enacted legislation to freeze its RPS programme until 2017. In 2015 Kansas replaced its mandatory RPS with a 20 per cent voluntary standard as part of a compromise that retained existing property tax exemptions. In contrast, California in 2015 enacted legislation to increase the state RPS to 50 per cent and Oregon, in 2016, approved legislation raising Oregon's RPS to 50 per cent. by 2040 and requiring elimination of virtually all coal generation from utilities' portfolios by 2030. Most states also offer a variety of tax incentives to promote investment in renewable energy resources. For instance, Washington and Colorado, among other states, exempt the sale and use of renewable energy equipment from taxation, which reduces development costs substantially. Several states reduce property tax requirements on renewable generation facilities through enterprise zones or similar designations, while Minnesota has substituted a property tax in lieu of fix production tax. Other states, such as Texas, boost the construction of electrical infrastructure (**Competitive Renewable Energy Zones**) to ease the transportation of renewable electricity towards load points.

In 1992 the US Congress enacted legislation that established a production tax credit (**PTC**) of 15 USD/MWh (adjusted for inflation) for the production of electricity from wind power facilities for the first ten years of a project's operation. This programme has been renewed on several occasions and has been expanded to include the production of electricity from several other renewable resources, including biomass, geothermal, solid urban wastes and hydroelectric power. In 2005 Congress established a 30 per cent. investment tax credit (**ITC**) for solar power projects. The PTC, which is currently valued at 23 USD/MWh, was extended and phased out by Congress on 18 December 2015. Developers that start construction on a wind project before 2017 will qualify for the full credit, while those starting construction between 2017 and 2019 will qualify for a reduced-value credit. These qualifying facilities may also elect to take a 30 per cent. ITC rather than the PTC. Solar ITC was also extended and phased out by Congress on 18 December. Developers that start construction on a solar project before 2020 will qualify for a 30 per cent. ITC. Projects for which construction begins after 2019 are eligible for a lower ITC. The purposes of the PTC and ITC are to make electricity production from renewable resources more competitive relative to fossil fuel and nuclear power facilities.

In addition to the PTC and ITC, renewable energy facilities are eligible for accelerated five-year tax depreciation on their investments. This programme is known as the modified accelerated cost recovery system. As a result of legislation enacted in 2008, 2009, 2013 and 2014, many facilities placed in service between 2008 and 2014 qualified for bonus depreciation which allowed a 50 per cent depreciation deduction in the year a facility was placed in service. In December Congress enacted legislation to extend and phase out bonus depreciation. Companies can, throughout 2017, deduct 50 per cent. of certain capital investments during the year the investment is made. If the investment occurs in 2018, companies can deduct 40 per cent. and if it occurs in 2019 only 30 per cent. of deduction is allowed.

The Treasury Department is expected to soon release guidance detailing how it will determine eligibility for the tax credits for renewable energy projects.

With respect to interstate transmission networks, the FERC has adopted a series of requirements on transmission operators to improve access and reduce costs for variable generation like wind and solar power. FERC Order 764 is driving changes in scheduling practices and other activities that will increase forecasting accuracy and reduce needed reserves, resulting in lower technology integration costs.

The Environmental Protection Agency (**EPA**) on 3 August 2015 released final versions of two regulation aimed at reducing electric sector CO2 emissions. The first regulation (pursuant to Section 111 (d) of the Clean Air Act) requires either states, or (where a state fails to comply) fossil fuel electric generators, to reduce existing emissions. EPA estimates the rule will reduce U.S. CO2 emissions by 32 per cent. from 2005

levels. The second regulation (pursuant to Section 111(d) of the Clean Air Act) imposes specific CO2 emissions limits on new and substantially modified fossil electric generating facilities. Both rules are expected to increase the demand for both renewable electric generation and additional transmission capacity.

The U.S. Court of Appeals for the D.C. Circuit on 21 January 2016 rejected a request by certain states, coal companies and utilities to halt implementation of the EPA's regulation pending the completion of litigation, but on 9 February the Supreme Court reversed the lower court's decision and granted the stay which will remain in effect while the court addresses the merits of the litigation. The DC Circuit Court has received briefs from multiple parties and is scheduled to hear the case beginning 2 June.

INDUSTRY REGULATION IN MEXICO

The Mexican electric regulatory framework is currently under a deep transformation, due to the energy reform that began at the end of 2013 with the amendment of the Mexican Constitution, continued with the issuance of a set of new laws and rulings for hydrocarbons and electricity and is now at the level of regulatory provisions being issued thus transforming the energy sector as a whole. Although the energy reform is aimed mainly at the hydrocarbons sector, it will also offer new business opportunities in the generation, transmission, distribution and management of electricity infrastructure. This transformation has the purpose of opening up the energy sector to private investment in the activities that were previously reserved to the government.

Activities like petroleum treatment and refinement; natural gas processing; exporting and importing hydrocarbons and petroleum products; the transport, storage, distribution, compression, liquefaction, decompression, re-gasification, marketing and sale to the public of natural gas, hydrocarbons, petroleum products and petrochemicals, along with the management of integrated systems are now open to private investment, and governed by the Hydrocarbons Law (*Ley de Hidrocarburos*).

As a consequence of this constitutional reform, nine laws were enacted during 2014 and 25 regulations were either created or reformed. Concurrently with the COP 21 in Paris, the Mexican Congress and Senate passed the Energy Transition Law (*Ley de Transición Energetica*) (**LTE**), which creates binding obligations for clean energy generation and emission reductions targets for the future, which brings a strong legal framework to the development of clean energy projects in Mexico.

On 30 March 2016, the Energy Regulatory Commission (**CRE**) published in the Mexican Official Gazette (**DOF**) Resolution RES/174/2016, establishing the general administrative provisions for the functioning of the system of management of clean energy certificates and fulfilment of obligations. The flexibility mechanism already announced in the Energy Transition Law is established, stipulating that obliged participants may defer settlement of up to 50 per cent. for up to two years when there is not enough of a market for clean energy certificates. The deadline for enrolling in the obliged participants system, CRE's application where all obliged participants should be registered, will be 30 November 2017. The obligation for a clean energy certificate (**CEC**) is 5 per cent. consumption for 2018, and 5.8 per cent. for 2019.

Through transitory provisions, the previous regulatory framework will continue being applicable to Iberdrola's existing businesses and facilities, which provides stability and legal certainty in the Mexican regulatory context.

1. The Electric Reform

The Mexican Constitution, as amended in December 2013, states that planning and control of the national electricity grid is performed by the Mexican government, and that the transmission and distribution of electricity (**T&D**) is a public service subject to governmental authority, regulatory control and open access. Power generation - except nuclear - and power commercialisation are now wholly open to private investment.

Regarding the T&D, the Mexican government may grant contracts to private companies to perform services, including owning and operating infrastructure under the terms established by the Law.

The Electricity Industry Law (*Ley de la Industria Eléctrica*) (**LIE)** regulates activities in the electricity sector in Mexico. According to the LIE, the private companies can now generate and sell electricity under an organised wholesale electric market, and also invest in T&D infrastructure, under specific public – private associations and other legal structures described therein.

2. Energy Secretariat

As part of the energy reform, the Energy Secretariat (**SENER**), has been empowered to coordinate the centralised planning and coordination of the energy policy, both for hydrocarbon and electric subsectors. SENER is also in charge of guaranteeing the implementation of the laws derived from the reform including the LTE issued recently for the transition to clean energy and emission reduction.

During the first half of 2015, SENER issued the mandatory requirement of CEC for year 2018, with a target of 5 per cent. of the total consumption. During the second half of 2015, SENER published the wholesale electricity market (*Mercado Eléctrico Mayorista*, **MEM**) guidelines and called for the first long term auction for CECs, capacity and energy, to be completed by the first half of 2016.

Regarding the coordination and planning of the national electric grid, SENER issued the National Electric Grid Development Programme (**PRODESEN**).

3. Regulatory Commissions

As part of the energy reform in Mexico, the country enacted the new Regulatory Bodies Law in August 2014 that established that the regulatory bodies in charge of coordinating activities in the energy field are the National Hydrocarbons Commission (**CNH**) and the CRE.

With this law, the CRE and the CNH are granted the most power and authority as regulatory bodies in the energy sector. They have their own legal status, as well as budgetary, technical and governance autonomy. Both commissions have a similar governance authority of seven commissioners and an executive secretary.

The CNH and the CRE hold substantial power and authority over the hydrocarbons and electricity industry regulation.

CRE has existed since 1995 as a public body with power and authority to grant permits and publish administrative provisions in the fields of electricity, gas transport and some regulated tariffs for natural gas and liquefied petroleum gas.

As a result of the energy reform, CRE powers were increased significantly to transportation and commercialisation of hydrocarbon and derivatives, such as gasoline, crude oil, diesel fuel oil, etc.

Regarding the electricity sector, CRE regulates the issuance of future changes to the MEM, defines the terms and conditions of auctions and bidding processes, supervises the MEM operation, rules the transactions between generators and energy providers, authorises the contract and auction models, regulates reliability, capacity requirements and operational costs, determines the regulated tariffs and contract models for services involving transmission, distribution and basic supply of electricity, authorises models proposed by National Agency for Energy Control (**CENACE**) related to technical specifications for connecting power stations and users, intelligent networks, etc. Other roles of CRE include permitting, market participant and CECs registry, resolution of controversies, and enforcing fines related to non-compliance of market participants.

Regarding the hydrocarbon sector, the CRE regulates and promotes the development of transportation, storage, distribution, compression, liquefaction and regasification activities. It must also supply the public with fuel, natural gas, liquefied petroleum gas, oil wells, petrochemicals as well as transport by pipelines, storage, distribution and supply of renewable energies to the public.

The CNH has the fundamental objective of regulating and supervising the exploration and extraction of hydrocarbons. It is responsible for technical administration as well as the promotion, tendering and undersigning of contracts for this activity.

4. The Mexican System and CENACE

Mexico has created the CENACE as a decentralised public body with authority to perform the operational control of the national electricity grid and the electric market. CENACE has full autonomy and acts under the authority of SENER and CRE, in order to control the participation of generators and suppliers in the market, acquire and provide electricity and capacity on a competitive basis, summon and manage the auctions of capacity, energy and CECs and issue interconnection and metering criteria.

CENACE guarantees open access to the transport and distribution facilities to all market participants, public and private.

CENACE also operates and oversees the preparation of proposals for planning and expansion of the entire national electricity grid through PRODESEN, which is then approved and issued by SENER.

During the first half of 2015, CENACE received from CFE all the relevant assets related to its roles, issued its internal organisational by-laws, delivered the draft of the PRODESEN to SENER and issued the first version of interconnection criteria.

During the second half of 2015, CENACE issued the bidding package for the first long term auction for capacity, CECs and energy.

5. Long-term auctions

On 30 March 2016, the first long-term auction was awarded, covering approximately 85 per cent. of the clean energy needs and CECs of the basic services supplier (currently CFE). Awardees included 18 bids corresponding to 11 companies. In this first auction, capacity needs were not covered and will be accumulated for the next auction.

6. CFE's law

Through the enactment of the CFE law in August 2014, the CFE has changed from being a state-owned production company (*empresa paraestatal*) to being a productive company, owned exclusively by the Mexican federal government (*empresa productiva del estado*). The new CFE has budgetary and governance autonomy from the government, with a board of directors formed by members of the incumbent secretariats (SENER, Hacienda, etc.) and independent board members. Its organisation, administration, operation, control, evaluation and accountability is detailed in CFE's law, as well as the compensations, acquisitions, leases, services works, goods, responsibilities, state dividends, budget, debt and a special regime for its subsidiaries and affiliated production companies.

On 11 January 2016, the SENER published the terms for the strict legal separation that establishes what the CFE must comply with to engage in the generation, transportation, distribution, sales and supply of primary inputs in the DOF. On 28 January, the CRE granted the CFE permission to provide the basic supply service. Subsequently, on 29 March the CFE published in the DOF the resolutions establishing the creation of subsidiary production companies (*Empresas Productivas Subsidiarias*, **EPS**) for generation, the supply of basic services, transportation and distribution. One of the generation companies created will have the rights of administration of contracts corresponding to the 29 plants owned by independent energy producers with installed capacity of 12,952 MW. All the EPS shall commence operations by no later than 28 June 2016 unless the SENER decides on a different date.

7. Transmission and distribution

As per the LIE, the government will continue performing the T&D activities for electricity as a strategic regulated public service through state-owned production companies (**EPE**) or their subsidiaries. CFE's legal separation will allow it to create these entities as regulated open access companies. The LIE provides opportunity for T&D activities and related services to be subcontracted with private companies through public-private agreements, so that financing, installation, maintenance, management, operation, expansion, rehabilitation, surveillance and preservation of the required infrastructure can be performed as services provided to the T&D regulated companies.

8. Generation and Supply

The LIE provides that generation and supply can be performed by any private or public entities subject to the compliance of permitting and market rules. Generation plants 0.5 MW or larger require a permit from the CRE.

The LIE provides that electric supply requires a permit and can be either basic supply (less than 1 MW commencing August 2016) at regulated tariffs or qualified supply through the wholesale electricity market at liberalised conditions for consumer with a demand of 1 MW or more.

From time to time SENER may revise and reduce the threshold of 1 MW for the possibility of qualifying consumers for the liberalised conditions. However, becoming a qualified consumer is optional and only mandatory for new costumers.

9. Geothermal energy

The Geothermal Energy Law and its corresponding ruling regulate the exploration and use of underground geothermal resources to generate electricity. The private sector can participate through auctions to obtain exploitation rights of geothermal resources. The Water Law was also amended in order to provide special status to the "geothermal water" compatibly with the Geothermal Energy Law.

10. Wholesale electricity market

The LIE envisions the creation of the wholesale electricity market (**MEM**) where generators and suppliers can interact to buy and sale the energy, capacity, ancillary services, CECs and financial transmission rights according to market rules. CENACE will operate this market and control the national electricity grid.

The MEM is based on nodal marginal prices, next day and real time markets, at cost based pricing mechanisms from the generators. CENACE will determine the transaction prices based on the bids and offers it receives within the market.

On 27 January 2016, the short-term energy market for the Baja California interconnected system came into effect, followed by the national interconnected system two days later. For its part, the Baja California interconnected system did not begin to operate as the advance day market until 22 March.

11. National content

The LIE will not demand a minimum percentage of national content. However, it points out that SENER will establish the minimum percentages and other conditions for national content in terms of contracts it generates. The Mexican treasury secretary will establish the criteria to measure the level of domestic content in the electricity sector.

12. Surface use and occupancy

The LIE provides that T&D, being for public service, must be treated as strategic activities in terms of rights of way. This allows greater access to the facilities and rights of way to the national electricity grid. The CRE will issue provisions that will secure access to the power lines and fair compensation to the land owners.

13. Legacy contracts and permits

All the permits and contracts granted and executed under the repealed Public Power Service Law (**LSPEE**) will remain under the same terms and conditions, and can be amended as provided there. Once the MEM starts operating, the holders of these legacy contracts - self supply and independent power producers (**IPP**) will have the alternative to migrate partially or completely to the new LIE, provided that the existing IPP will remain in effect to the end of their contractual term prior to the migration and that Legacy Connection Contracts (**CIL**) of the self-supply projects will not be renewed upon their termination.

Permit requests for self-supply, co-generation, small-scale production, imports or exports made before August 2014 will be resolved under the LSPEE terms and conditions, provided that their facilities start operating before 31 December 2019.

14. Electricity tariffs

Commencing 2016, the CRE will assume the responsibility of issuing the regulated electricity tariffs (transport, distribution, basic supply and last reserve supply). Tariffs will be based on the recovery of generation costs, capacity, connection services, transport and distribution costs, clean energy certificates and other recoverable costs and collection targets. It is expected that these tariffs will use the same or similar formulas as the previous regime during a transitory period from 2016 to 2018. The adjustments starting in 2016 will be based primarily on the legal separation of CFE entities and the contracts for basic supply based on regulated profitability of CFE subsidiaries. As the main mechanism to promote the reduction of non-technical losses arising from customer's fraud, CRE will impose collection targets on the distribution companies.

15. Natural Gas Transportation System

As part of the energy reform, the former owner of the Natural Gas Transportation System (**PEMEX**) has been split in the following subsidiaries: PEMEX exploration and production, PEMEX industrial transformation, PEMEX perforation, PEMEX logistics, PEMEX co-generation and services, PEMEX fertilisers and PEMEX ethylene, as provided under the PEMEX Law enacted in August 2014.

This law transformed PEMEX into a state-owned production company which performs business activities and aims to profitability goals.

Concurrently with this transformation, the natural gas transportation system has been transferred from PEMEX to the National Operator of the Natural Gas Pipeline Grid (**CENAGAS**) in order to promote an open market for transportation, distribution and commercialisation of the gas. According to the principle of asymmetrical regulation, PEMEX cannot integrate transportation and commercialisation of gas under the same company anymore.

CENAGAS has issued the 5 year strategic natural gas development programme. As part of this programme, and in order to promote the reduction of fuel oil consumption, CFE has called for several bidding processes to contract natural gas transportation service from pipelines to be owned by private companies. It is expected that the vast majority of these pipelines will be operational by 2018, thus increasing the natural gas fired power generation, and reducing CO2 emissions from the fuel oil based generation. Simultaneously, the government is promoting multiple gas pipelines intended to expand the existing gas transportation system through CENAGAS.

The natural gas transport and storage systems incorporated into the new integrated tariff scheme must meet the criteria of forming part of an interconnected system, thus providing benefits, improving the safety, continuity, redundancy levels and efficiency of integrated systems.

The legacy transportation permits for self-supply and the long term natural gas supply contracts with Pemex required by the electric plants will remain in effect and will not be adversely affected by these changes in the regulatory framework.

INDUSTRY REGULATION IN BRAZIL

Tarifary Events

Electricity distribution activity carried out by joint ventures, such as Companhia de Eletricidade do Estado da Bahía, S.A. (**Coelba**), Companhia Energética do Río Grande do Norte, S.A. (**Cosern**), Companhia Energética de Pernambuco, S.A (**Celpe**) and Elektro Electricidade e Servicos, S.A. (**Elektro**), which operate in Sao Paulo and Mato Grosso do Sul, is subjected to federal regulation in Brazil.

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.

Tariffs are updated annually by the Brazilian National Energy Agency (**ANEEL**), through the annual adjustment process that considers inflation, an ex-ante efficiency factor and variations on non-manageable costs components, such as energy purchase costs and transmission tolls.

Tariffs have two components:

- **Component A:** corresponding to energy purchases, power transmission services contracts and to other costs that are out of a distributor company administration and passed through to the end tariff.

- **Component B:** determined as the sum of (i) the return on the non-depreciated regulatory remuneration base (regulatory WACC (as defined below) applied to the replacement cost of non depreciated distribution installations and other assets), (ii) the return on capital (a depreciation index applied to the gross asset base) and (iii) the operation and maintenance expenses, and the expense for the uncollectible turnover (the regulator defines late payment rates depending on the kind of grant). This last subcomponent is calculated through a benchmarking model which compares all power distributors in the country and determinates efficient cost levels.

In June of 2014, ANEEL opened the first debate on the fourth cycle of tariff review in a public hearing, discussing proposals to change the methodology used to calculate operating costs, cost of capital (**WACC**), regulatory asset base (**RAB**), along with uncollectable revenues and distribution losses.

In May 2015, methodologies dealing with fourth tariff review cycle were approved and applied to Elektro in its tariff review in August 2015. The main points, in summary, are:

- **WACC:** Approved regulatory WACC for fourth cycle is 8.09 per cent. real after taxes. This is higher than third cycle's 7.5 per cent.

- **Operating expense (OPEX):** The OPEX to be used in the first year of the cycle was confirmed and represents a positive margin to efficient companies.

- **Non-technical losses:** In the case of efficient companies, the target will be defined by the historical average instead of the historical minimum.

- **Uncollectable revenues:** benchmarking approach defines the uncollectable, wherein it is used the bad debt database of 49-60 months. Pass through of uncollectable revenues related to sector fees and tariff flags revenues. The result represented an improvement from what was proposed.

- **Third-party assets (special obligations):** inclusion of a fee to operate third-party assets. This is an important improvement compared with previous cycles.

- **X Factor:** The approved Xp for the sector is 1.53 per cent. (versus 1.91 per cent. from ANEEL's first proposal).

- **RAB and Non-Electrical Assets**: The new methodology for RAB was not applied in Elektro's review but will be applied to Neoenergia S.A.'s distribution companies. According to the new methodology,

the values of assets' additional costs (**CA**) (mainly labor) and minor components (**COM**) are now given by a reference price database. Also, non-electrical assets' methodology had a data update and it is expected to better reflect companies' costs.

On 25 August 2015, ANEEL approved Elektro's fourth tariff review, which raised its tariffs by 4.2 per cent. on average (0.68 per cent. for residential clients and 9.32 per cent. for industrial clients). Some of the main points of the fourth cycle are: (1) RAB recognizing all investments, (2) a higher remuneration rate (increasing from 7.50 per cent. to 8.09 per cent., after taxes), (3) positive OPEX margins, (4) third party assets' remuneration, and (5) a smaller X-factor.

The aim of the annual review is to ensure that Component A's costs are passed on to consumers and that Component B's costs perform in line with inflation and with the pre-determined efficiency factor. An annual tracking account mechanism is used to register Component A's unbalances, which should be passed through to tariffs in the following tariff process.

Also regarding distribution system operators (**DSOs**) financial exposure due to a rise in costs in early 2015, an extraordinary tariff review occurred in order to preserve financial and economical balance.

Energy Purchase

For the business of power generation, the review of the sector model introduced in 2004 brought new guidelines for planning responsibilities and expansion generation fleet, significantly reducing risk of further rationing. This expansion is being pursued via public tendering of generation projects in which the successful bidder is the supplier that offers the lowest price in Brazilian Reals per MWh generated, in exchange the successful bidder is awarded a concession or permit of 20 to 35 years (depending on the technology) to operate a power station under a Power Purchase Agreement (**PPA**) at a price that is an outcome of the tender.

Since 2013, Brazil has undergone some important structural changes in electricity regulation.

In Law 12.783 (the former Provisional Act 579) of 11 January 2013, the federal government made official a decrease in electricity tariffs (which led to an extraordinary tariff revision applied on 24 January 2013) and established standards for the renewal of concessions for generation, transmission and distribution expiring between 2015 and 2017. This law allowed power companies to extend their concessions by early renewal of their contracts under specific conditions. As a result of these new rules some generators decided not to renew their concessions. The energy from generators that decided to renew concessions was allocated to DSOs through quotas, which, however, were not sufficient to meet market needs. Additionally, some PPAs from new energy auctions were suspended or postponed due to delay of construction schedules or revocation by ANEEL.

Thus, mismatches between energy requirements (load) and resources (PPAs) led DSOs to purchase energy in the spot market, raising their costs and significantly affecting their cash flow. In addition, hydrologic conditions have been unfavourable since the final quarter of 2012, with low reservoir levels together with poor performance of rainfalls and inflows, which increased substantially the spot price and thermoelectric generation. The corollary was a significant increase in energy costs, which temporarily impacted earnings of distributors.

Part of this rise in costs was compensated for using funds managed by government through an Energy Development Account (**CDE**) and by means of loans underwritten by various financial institutions, centralised in the Account for Regulated Environment (**Conta ACR**). These resources were approximately BRL 10 billion to cover non-recurring expenses incurred in 2013 and BRL 18.8 billion to cover those during 2014. The remaining part of non-recurring costs, which wasn't covered by these funds, was passed through to consumers in the annual adjustment of the tariffs.

These financial resources helped to minimise distributors' liquidity problems in 2013 and 2014, but according to International Financial Reporting Standards (**IFRS**), DSOs were not allowed to recognise regulatory assets and liabilities on their balance sheets. ANEEL therefore opened Public Hearing 61/2014 to

discuss whether distributors' concession agreements should be amended allowing the compensation of regulatory assets and liabilities at the end of the concession period, in order to allow for recognition in the distributors' financial statements. This amendment was signed by distributors in November 2014, and these assets and liabilities are presently recognised according to IFRS.

During Public Hearing 64/2014, ANEEL discussed quotas allocation criteria, regarding the energy from generators whose concessions had expired. Federal Decree 7805/2012 established the allocation of new energy quotas in conformity with the size of the market (except the allocation that happened in 2013, which didn't follow this guideline in order to achieve equal tariff reductions between DSOs). As a result, ANEEL approved an allocation criterion that favours exposure to the spot market in 2015 but that follows the proportion of market size in the following years.

In 2015, minimum and maximum limits for spot prices were changed, after discussion within Public Hearing 54/2014. These values went from BRL 15.62 and BRL 822.83 per MWh in 2014 to BRL 30.26 and BRL 388.48 per MWh respectively. This change allowed a significant reduction in the exposure of DSOs' cash flows.

On 15 May 2015, the Ministry of Mines and Energy (**MME**) instructed ANEEL to promote an auction to bid on 29 hydroelectric concessions located in the states of Goiás, Paraná, São Paulo, Minas Gerais e Santa Catarina. Provisional Measure nº 688 was published in August. It established an amount the successful bidder of each set of power plants must pay to the government, although the government would reimburse portions of such grant through the successful bidder's Annual Revenue Generation (**RAG**).

The auction was held on 25 November. China Three Gorges was the most successful bidder in terms of quantity, acquiring the Jupiá and Ilha Solteira plants. The auction had an average discount of 0.32 per cent. and the average price was BRL 125MW/h, without additional costs and fees. This average price has not been adjusted for the eventual return of the grant in the RAG. The government received a total of BRL 17 billion through the abovementioned grants.

After great tensions related to the lack of rainfall in 2014 and early 2015 which also raised the imminent possibility of rationing, storage reservoirs, especially those in the southeast and the midwest, were able to recover and close the month of November at 27.55 per cent. of capacity. This was higher than the recorded percentage for the same period in 2014. At the end of 2015, the storage reservoirs in Southeast and Midwest were 29.4 per cent. of capacity.

Despite increase in rainfall, economic slowdown observed for three consecutive quarters had a significant negative effects on the distribution market. Negative growth in the Brazilian GDP is expected in 2016. Therefore, it is expected that the decline in the energy sector's market will continue, especially so if there is a drop in industrial demand.

This may result in over-contracting (above 105 per cent.) for the distributors over the next year, as all energy contracts for 2016 were already agreed by December 2013. These were based on projections that materially differ from the actual situation. Therefore, despite the Company's efforts to mitigate them, events and factors outside the Company's control, such as quotas and migration of customers, combined with unfavourable market conditions, have resulted in over-contracting. Negotiations are currently underway between DSOs, MME and ANEEL to counteract the unmanageable effects and neutralise the risks.

At the end of March 2016, ANEEL passed Resolution 706/2016. Whilst this resolution recognises that distributors have involuntary exposure to these difficulties due to the allocation of electricity "quotas" from generating plants that extended their concession pursuant to Law 12.783/2013, it considers this does not generate any loss for the distributors as they can pass the cost on to customers.

Other Regulatory Changes

On 29 December 2014, by virtue of Resolution 4947/2014, the introduction of the system of tariff flags was approved to enter into effect starting in January 2015. The procedure provides for short-term adjustments to

be made to tariffs through the use of triggering indicators in the energy cost component in final tariffs. Tariff flags are determined on a monthly basis and their purpose is to mitigate the exposure of distributors' cash flows to high energy prices by reducing the difference between the price paid for energy by distributors and the price paid by consumers to distributors through tariff.

In January 2016, ANEEL reviewed tariff category amounts for 2016 and the time when each one should be activated. ANEEL also divided the red category into two levels to better reflect different generation scenarios. Currently, the tariff categories are as follows:

- Green category: It is activated when the variable cost per unit (**VCU**) of the last coal-fired plant dispatched is less than 211.28 R$/MWh. It does not entail any additional cost for the customer.

- Yellow category: It is activated when the VCU of the last coal-fired plant dispatched is greater than 211.28 R$/MWh and less than 422.56 R$/MWh. It implies a surcharge of 15 R$/MWh for the customer.

- Red 1 category: It is activated when the VCU of the last coal-fired plant dispatched ranges from 422.56 R$/MWh to 610.00 R$/MWh. This implies a surcharge of 30 R$ /MWh for the customer.

- Red 2 category: It is activated when the VCU of the last coal-fired plant dispatched is greater than 610.00 R$/MWh. It implies a surcharge of 45 R$/ MWh for the customer.

Due to the improved water situation in the country and the corresponding lifting of energy security measures in the recent months, it has been possible to dispatch from fewer coal-fired plants than necessary previously. This has enabled a progression from the red category in February 2016 to the yellow category in March and finally to green in April.

In order to equalise the impact of high energy costs for all DSOs in 2015, revenues due to tariff flags have been shared among DSOs. Decree 8401/2015 created an account for centralising resources from tariff flags and commanded that monthly ANEEL must calculate the required amount to be transferred among DSOs, through this account. By Resolution 689/2015, ANEEL approved a new regulation to deal with flags resources' surplus. In the case when revenues are higher than costs, surplus is kept by distributors and then returned to customers as lower tariffs in next tariffary event.

Resolution 687/2015 introduced changes in Resolution 482/2012, which regulates micro and mini distributed generation (**DG**). It defines micro and mini DG as a renewable or combined cycle power plant, limiting micro DG to 75 kW, and mini DG to 3 MW for hydraulic generation, and 5 MW for renewables. By this resolution, virtual energy compensation is now allowed between different consumption points. The amount of compensation depends on the distance between generation and consumption points. It also introduced the concept of "shared" energy contracts that allow consumers to form groups. These groups are able to invest in a distributed generation plant and define the way this energy will be shared among its members.

On 27 August 2015, a public hearing was opened to set the Brazilian Large Industrial Energy Consumers and Free Consumers Association's (**ABRACE**) associates' tariffs. According to CDE (*Conta de Desenvolvimento energético*), the amount to be charged is calculated proportionally to the level of consumption of all consumers, meaning that the largest consumers pay more. ABRACE disagreed with CDE's calculation method and won an injunction that allowed it not to pay a part of the charge. The impacts were retroactive to the injunction date, which was 3 July 2015. However, ANEEL is trying to appeal the judicial decision. Whilst Brazilian Electricity Distributors (**ABRADEE**) has filed an injunction to protect DSOs from any effects, there is still no judicial decision, and therefore ABRACE's injunction still applies. On 24 September; the results of the public hearing were discussed at ANEEL's board meeting. The board decided to publish a new tariff for ABRACE's associates, as per the injunction. The result of the aforementioned public hearing will not have a material impact on Elektro's results, but can result in temporary cash flow fluctuation.

In 2015, several DSOs renewed concession contracts. At the end of May 2016, the senate will have to approve or reject a provisional act that includes special conditions for Centrais Elétricas Brasileiras S.A. (**Eletrobrás**) concessions in the North region. ANEEL discussed this topic in a public hearing and drafted a new contract. The DSOs accomplished the following criteria:

I - Efficiency of quality of service;

II - Efficiency of economic and financial management;

III - Operating and economic rationality; and

IV - Reasonable and affordable prices.

Non-compliance with annual targets may result in capital contribution obligations for the controlling shareholders of the relevant DSO. Should a DSO fail to reach the annual targets for two consecutive years in a five-year period, the relevant concession may be terminated. The concession will be auctioned if a current concessionaire does not agree with the new conditions.

In 2015, a public hearing regarding the transfer of sub-transmission assets was opened. In this hearing, the aim was to collect subsidies from agents according to ANEEL's proposal. The review was intended to last until the end of the first half of 2016. However, many of the agents involved disagreed with ANEEL's proposal and transmission agents continue to resist the transfer. As a result, the regulatory agency suspended it to improve the proposal for debate. It was reopened on 26 April 2016. ANEEL analysed the contributions made in the 1st phase of the public hearing, and introduced a new technical proposal. Some of the changes were: (i) an update of the compensation for a transmission's non-amortised assets, (ii) determination of what assets are more suitable to be transferred, and (iii) transfer must be linked to the distributor's tariff revision process, in order to properly incorporate costs and investments.

With regard to structuring projects, the consortium responsible for the UHE Jirau plant, Energia Sustentável do Brasil S.A. (**ESBR**), is immersed in legal proceedings with ANEEL and ABRADEE for the delay in the project. This delay was caused by, among other reasons, workers' strike and conflicts on construction sites. In April 2015, ANEEL ruled that ESBR would only be excused for a 52 day delay, despite ESBR's request to excuse 535 days. A court decision in May 2015 excluded ESBR's responsibility, exempting the ESBR from penalty and granting an excused delay of 535 days.

Due to the amendment to the UHE Jirau plant's contract, there is more than one schedule for the completion of the construction of the hydroplant, making any interpretation of legal decisions more complex.

In September, ANEEL filed an application for the suspension of the effects of the court ruling. ABRADEE filed for a writ of mandamus to be enforced, pleading the invalidity of the UHE Jirau plant's sentence due to the absence of the distributors, PPAs' signatories and parties directly interested in the demarcation in the proceedings, since the exemption of responsibility can expose them to the spot market. At the end of the month, ABRADEE obtained an injunction to the court decision to protect distributors from the financial effects.

ABRADEE's injunction was nullified in late November 2015, leaving distributors owing a debt of BRL 3.7 billion to ESBR. On 1 December another legal decision was issued. However, *Cámara de Comercialização de Energia Elétrica* (**CCEE**) and ABRADEE have divergent approaches, the first one considering that the UHE Jirau plant has credit and the second one considering that the UHE Jirau plant has a debt. ABRADEE has already addressed ANEEL to assist in the interpretation of the decision.

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 2015 and 2014 the Iberdrola Group's average workforce totalled 27,169 and 28,021 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 Base Prospectus, 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) and the United States of America (Avangrid, Inc., a NYSE-listed company).
Mr. Íñigo Víctor de Oriol Ibarra[(3)(4)]	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. Inés Macho Stadler[(1) (4)]	Member	Bilbao, Plaza Euskadi 5	07.06.2006	08.04.2016	External Independent	Professor of Economics in the Economics and Economic History Department of Universidad Autónoma de Barcelona.
Mr. Braulio Medel Cámara[(5)]	Member	Bilbao, Plaza Euskadi 5	07.06.2006	08.04.2016	External Independent	Executive chair of Unicaja Banco, S.A. and chair of Fundación Bancaria Unicaja

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
Ms. Samantha Barber[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. Santiago Martínez Lage[4]	Member	Bilbao, Plaza Euskadi 5	26.03.2010	27.03.2015	External Independent	Chair of the law firm Martínez Lage, Allendesalazar & Brokelmann
Mr. José Luis San Pedro Guerenabarrena[1]	Member and Chief Operating Officer	Bilbao, Plaza Euskadi 5	24.04.2012	27.03.2015	Other external	Chair of the Board of Directors of Iberdrola España, 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	28.03.2014	External Independent	Independent director and chair of the Audit Committee of Grupo Financiero Scotiabank Inverlat, and a 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

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 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 the Center for American Progress.
Mr. Manuel Moreu Munaiz[1] [5]	Member	Bilbao, Plaza Euskadi 5	17.02.2015	27.03.2015	Other external	Chairman of Seaplace, S.L. and the Engineering Institute of Spain, sole director of H.I. de Iberia Ingeniería y Proyectos S.L. and Howard Ingeniería y Desarrollo S.L.
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

(1) Executive Committee.
(2) Audit and Risk Supervision Committee.
(3) Appointments Committee.
(4) Remuneration Committee
(5) Corporate Social Responsibility Committee

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 IAGC D.6 of the Annual Corporate Governance Report 2015. These rules, and notably the Restated Procedures for Conflicts of Interest and Related-Party Transactions, provide that Directors who become involved in a conflict of interest (i) shall give written notice thereof to the Chairman or 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.

Iberdrola's Annual Corporate Governance Report 2015 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.es) does not form part of this Base Prospectus.

Management Structure

The persons responsible for the day-to-day management of Iberdrola and their functions are as follows:

Function	Management
Chairman & Chief Executive Officer (CEO):	Mr. José Ignacio Sánchez Galán
Group Chief Operating Officer:	Mr. Francisco Martínez Córcoles
Secretary of the Board of Directors	Mr. Julián Martínez-Simancas Sánchez(1)
Chief Financial and Resources Officer:	Mr. José Sainz Armada
Director of Administration and Control:	Mr. Juan Carlos Rebollo Liceaga
Director of Legal Services:	Mr. Santiago Martínez Garrido
Director of Corporate Development:	Mr. Pedro Azagra Blazquez
Director of Internal Audit:	Mr. Luis Javier Aranaz Zuza(2)

(1) Reporting to the Board of Directors.
(2) Functionally controlled by 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 Notes are the Dealership Agreement, the Agency Agreement and the Deed of Guarantee.

SUBSCRIPTION AND SALE

Subject to the terms and conditions contained in an amended and restated dealership agreement dated 22 June 2016 (as amended or supplemented from time to time, the **Dealership Agreement**) between the Issuers, the Guarantor, the Arranger and the Permanent Dealers, the Notes will be offered on a continuous basis by the relevant Issuer, to the Permanent Dealers. However, the Issuers have reserved the right to sell Notes directly on their own behalf to Dealers which are not Permanent Dealers. The Notes may be resold at prevailing market prices, or at prices related thereto, at the time of such resale, as determined by the relevant Dealer. The Notes may also be sold by the relevant Issuer through the Dealers, acting as agents of such Issuer. The Dealership Agreement also provides for Notes to be issued in syndicated Tranches which are jointly and severally underwritten by two or more Dealers.

The relevant Issuer failing whom, the Guarantor, has agreed to indemnify the Dealers against certain liabilities in connection with the offer and sale of the Notes. The Dealership Agreement may be terminated in relation to all the Dealers or any of them by the relevant Issuer or, in relation to itself and the relevant Issuer only, by any Dealer, at any time on giving not less than ten business days' notice.

United States of America

Regulation S Category 2, TEFRA D (as defined below), unless TEFRA C (as defined below) is specified as applicable in the relevant Final Terms. Rule 144A eligible if so specified in the relevant Final Terms.

The Notes and the Guarantee have not been and will not be registered under the U.S. Securities Act of 1933 (as amended) (the **Securities Act**) and may not be offered or sold within the United States or to, or for the account or benefit or, 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.

Notes in bearer form 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 U.S. person, except in certain transactions permitted by U.S. Treasury regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code and Treasury regulations promulgated thereunder. The applicable Final Terms will identify whether the provisions of U.S. Treasury regulation section 1.163-5(c)(2)(i)(C) (or substantially identical successor U.S. Treasury regulation section including, without limitation, substantially identical regulations issued in accordance with U.S. Internal Revenue Service Notice 2012-20 or otherwise in connection with the U.S. Hiring Incentives to Restore Employment Act of 2010) (**TEFRA C**), the provisions of U.S. Treasury regulation section 1.163-5(c)(2)(i)(D) (or substantially identical successor U.S. Treasury regulation section including, without limitation, substantially identical regulations issued in accordance with U.S. Internal Revenue Service Notice 2012-20 or otherwise in connection with the U.S. Hiring Incentives to Restore Employment Act of 2010) (**TEFRA D**), or neither the provisions of TEFRA C nor TEFRA D (**TEFRA not applicable**) will apply to the issuance of Notes.

Each Permanent Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that except as permitted by the Dealership Agreement, it will not offer, sell or deliver the Notes of any identifiable Tranche, (a) as part of their distribution at any time (b) otherwise until 40 days after completion of the distribution of such Tranche as determined, and certified to the relevant Issuer, or the Fiscal Agent by such Dealer or, in the case of Notes issued on a syndicated basis, the Lead Manager, except in accordance with Rule 903 of Regulation S under the Securities Act or, as provided below, in accordance with Rule 144A thereunder, 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 Notes a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of U.S. persons.

In addition, until 40 days after the commencement of the offering, an offer or sale of Notes within the United States by any Dealer (whether or not participating in the offering) may violate the registration requirement of

the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A under the Securities Act (if available).

Such Dealers as may be specified in the relevant Final Terms may offer and sell Notes in accordance with Rule 144A under the Securities Act (**144A Resale**) subject to compliance with all applicable United States selling restrictions.

In connection with any such 144A Resale, each relevant Dealer will be required to represent and agree that (a) neither it nor any person acting on its behalf has made or will make offers or sales of Notes by any form of general solicitation or general advertising (as those terms are used in Rule 502(c) under the Securities Act) and (b) if required by law, it will deliver to each qualified institutional buyer purchasing a Note or Notes from it a Base Prospectus.

Each Series of Notes may also be subject to such further United States selling restrictions as the relevant Issuer and the relevant Dealer may agree and as indicated in the relevant Final Terms.

Public Offer Selling Restriction under the Prospectus Directive

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a **Relevant Member State**), each Permanent Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the **Relevant Implementation Date**) it has not made and will not make an offer of Notes which are the subject of the offering contemplated by the Base Prospectus as completed by the Final Terms in relation thereto to the public in that Relevant Member State, except that it may, with effect from and including the Relevant Implementation Date, make an offer of such Notes to the public in that Relevant Member State:

(a) at any time to any legal entity which is a qualified investor as defined in the Prospectus Directive;

(b) at any time to fewer than 150 natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the relevant Issuer for any such offer; or

(c) at any time in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Notes referred to in (a) to (c) above shall require the relevant Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression an "offer of Notes to the public" in relation to any Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression **Prospectus Directive** means Directive 2003/71/EC (as amended, including by Directive 2010/73/EC) and includes any relevant implementing measure in the Relevant Member State.

United Kingdom

Each Permanent Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

(a) in relation to any Notes which have a maturity of less than one year, (i) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business and (ii) it has not offered or sold and will not offer or sell any

Notes other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or as agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the Notes would otherwise constitute a contravention of Section 19 of the Financial Services and Markets Act 2000 (the **FSMA**) by the relevant Issuer;

(b) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuers or the Guarantor; and

(c) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

The Netherlands

Each Permanent Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that Zero Coupon Notes (as defined below) in definitive form issued by Iberdrola International may only be transferred and accepted, directly or indirectly, within, from or into The Netherlands through the mediation of the relevant Issuer or a member of Euronext Amsterdam N.V. in accordance with the Dutch Savings Certificates Act (*Wet inzake spaarbewijzen*) of 21 May 1985 (as amended). No such mediation is required: (i) in respect of the transfer and acceptance of rights representing an interest in a Zero Coupon Note in global form, or (ii) in respect of the initial issue of Zero Coupon Notes in definitive form to the first holders thereof or (iii) in respect of the transfer and acceptance of Zero Coupon Notes in definitive form between individuals not acting in the conduct of a business or profession, or (iv) in respect of the transfer and acceptance of such Zero Coupon Notes within, from or into The Netherlands if all Zero Coupon Notes (either in definitive form or as rights representing an interest in a Zero Coupon Note in global form) of any particular Series are issued outside The Netherlands and are not distributed into The Netherlands in the course of initial distribution or immediately thereafter. As used herein "Zero Coupon Notes" are Notes that are in bearer form and that constitute a claim for a fixed sum against the relevant Issuer and on which interest does not become due during their tenor or on which no interest is due whatsoever.

Each Permanent Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it will not make an offer of Notes which are outside the scope of the approval of this Base Prospectus as contemplated by the Final Terms relating thereto, to the public in the Netherlands in reliance on Article 3(2) of the Prospectus Directive (as defined above under "Public Offer Selling Restriction under the Prospectus Directive" above) unless (i) such offer is made exclusively to persons or entities which are qualified investors as defined in the Dutch Financial Supervision Act or (ii) standard exemption wording and logo are disclosed as required by Section 5:20(5) of the Dutch Financial Supervision Act, provided that no such offer of Notes shall require the relevant Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

Spain

Neither the Notes nor this Base Prospectus have been approved or registered in the administrative registries of the Spanish Securities Markets Commission (*Comisión Nacional del Mercado de Valores*). Accordingly, the Notes may not be offered, sold or re-sold in Spain except in circumstances which do not constitute a public offering of securities in Spain within the meaning of Article 35 of Royal Legislative Decree 4/2015, of October 23, approving the recast text of the Spanish Securities Market Law (*Real Decreto Legislativo 4/2015, de 23 de octubre, por el que se aprueba el texto refundido de la Ley del Mercado de Valores*) as amended and restated and Royal Decree 1310/2005 of 4 November on admission to listing of securities on organised secondary markets and public offers of securities and the prospectus required in connection

therewith (*Real Decreto 1310/2005 de 4 de noviembre, por el que se desarrolla parcialmente la Ley del Mercado de Valores, en material de admissión a negociación de valores en mercados secundarios oficiales, de ofertas públicas de venta o suscripción y del folleto exigible a tales efectos) as amended and restated* and supplemental rules enacted thereunder or in substitution thereof from time to time.

Japan

The Notes have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No.25 of 1948, as amended: the **FIEA**). Each Permanent Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it will not offer or sell any Notes, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (as defined under Items 5, Paragraph 1, Article 6 of the Foreign Exchange and Foreign Trade Act (Act No. 228 of 1949, as amended) or to others for reoffering or resale, directly or indirectly in Japan or to, or for the benefit of, any resident of Japan except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the FIEA and other applicable laws, regulations and ministerial guidelines of Japan.

General

No action has been taken in any jurisdiction that would permit a public offering of any of the Notes or possession or distribution of the Base Prospectus or any other offering material or any Final Terms in any country or jurisdiction where action for that purpose is required.

Each Dealer has agreed, and each further Dealer appointed under the Programme will be required to agree, that, notwithstanding the specific selling restrictions set out herein, it will comply with all applicable securities laws, regulations and directives in each jurisdiction in which it purchases, offers, sells or delivers Notes or has in its possession or distributes the Base Prospectus, any other offering material, in all cases at its own expense.

Each Dealer has undertaken, and each further Dealer appointed under the Programme will be required to undertake, that it will obtain any consent, approval or permission required by it for the subscription, offer or sale by it of any Notes or possession or distribution by it of the Base Prospectus or any other offering material under the applicable laws and regulations in force in any jurisdiction to which it is subject or in or from which it makes any subscription offer or sale.

FORM OF FINAL TERMS

Final Terms dated [●]

[**Iberdrola International B.V.**
(incorporated with limited liability in The Netherlands and having its corporate seat in Amsterdam)]
/[**Iberdrola Finanzas, S.A.U.**
(*incorporated with limited liability in the Kingdom of Spain*)]

Issue of

[Aggregate Nominal Amount of Tranche] [Title of Notes]
[*Indicate in title if the Notes are green bonds, i.e. if issued to finance Eligible Green Projects*]

Guaranteed by
Iberdrola, S.A.

Under the EUR 20,000,000,000
Euro Medium Term Note Programme

PART A – CONTRACTUAL TERMS

Terms used herein shall be deemed to be defined as such for the purposes of the Terms and Conditions of Notes issued by [Iberdrola International B.V.]/[Iberdrola Finanzas, S.A.U.] set forth in the Base Prospectus dated 22 June 2016 [and the supplement to the Base Prospectus dated [●] [and [●]] which [together] constitute a base prospectus for the purposes of the Prospectus Directive (the **Base Prospectus**). This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with such Base Prospectus [as so supplemented]. Full information on the Issuer, the Guarantor and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Base Prospectus. The Base Prospectus and the Final Terms have been published on the website of the Luxembourg Stock Exchange at www.bourse.lu. and are available for viewing at [address] [and] [website] and copies may be obtained from [address].

The following alternative language applies if the first tranche of an issue which is being increased was issued under a Base Prospectus with an earlier date. N.B. when using a post – 1 July 2012 approved Base Prospectus to tap a previous issue under a pre – 1 July 2012 approved Base Prospectus, the final terms in the post – 1 July 2012 Base Prospectus will take a different form due to the more restrictive approach to final terms. The Conditions of the original issue being tapped should be reviewed to ensure that they would not require the final terms documenting the further issue to include information which is no longer permitted in final terms. Where the final terms documenting the further issue would need to include such information, it will not be possible to tap using final terms and a drawdown prospectus (incorporating the original Conditions and final terms) will instead need to be prepared.

Terms used herein shall be deemed to be defined as such for the purposes of the Terms and Conditions (the **Conditions**) of Notes issued by [Iberdrola International B.V.]/[Iberdrola Finanzas, S.A.U.] set forth in the Base Prospectus dated [14 June 2012/12 June 2013/25 June 2014/26 June 2015] which are incorporated by reference in the Base Prospectus dated 26 June 2015. This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with the Base Prospectus dated 22 June 2016 [and the supplement to the Base Prospectus dated [●]], which [together] constitute[s] a base prospectus for the purposes of the Prospectus Directive (the **Base Prospectus**), save in respect of the Conditions which are extracted from the Base Prospectus dated [14 June 2012/12 June 2013/25 June 2014/26 June 2015] and incorporated by reference into the Base Prospectus dated 22 June 2016. Full information on the Issuer, the Guarantor and the offer of the Notes is only available on the basis of the combination of these Final Terms and each Base Prospectus dated [14 June 2012/12 June 2013/25

June 2014/26 June 2015] and 22 June 2016 [and the supplement to the Base Prospectus dated [●]]. The Base Prospectus and the Final Terms have been published on the website of the Luxembourg Stock Exchange at www.bourse.lu and are available for viewing at [address] [and] [website] and copies may be obtained from [address].

(*Include whichever of the following apply or specify as "Not Applicable" (N/A). Note that numbering should remain as set out below, even if "Not Applicable" is indicated for individual paragraphs or sub-paragraphs (in which case the sub-paragraphs of the paragraphs which are not applicable may be deleted). Italics denote guidance for completing Final Terms.)*

(*When completing final terms or adding any other final terms or information consideration should be given as to whether such terms or information constitute "significant new factors" and consequently trigger the need for a supplement to the Base Prospectus under Article 16 of the Prospectus Directive.)*

1.	(i)	[Series Number:	[ ]]
	(ii)	[Tranche Number:	[ ]]
	(iii)	Date on which the Notes will be consolidated and form a single Series:	The Notes will be consolidated, form a single series and be interchangeable for trading purposes with the existing notes with Series number [●] on [the Issue Date/exchange of the Temporary Global Note for interests in the Permanent Global Note, as referred to in paragraph [●] below, which is expected to occur on or about [*date*]][Not Applicable]
2.	Specified Currency or Currencies:		[ ]
3.	Aggregate Nominal Amount admitted to trading:		[ ]
	(i)	[Series:	[ ]]
	(ii)	[Tranche:	[ ]]
4.	Issue Price:		[ ] per cent. of the Aggregate Nominal Amount [plus [●] corresponding to the accrued interest for the period commencing on and including [●] to, but excluding, the Issue Date].
5.	(i)	Specified Denominations:	[●]
	(ii)	Calculation Amount:	[●]
6.	(i)	Issue Date:	[ ]
	(ii)	[Interest Commencement Date:	[●]/[Issue Date]/[Not Applicable]
7.	Maturity Date:		[*Specify date or for Floating rate notes* – Interest Payment Date falling in or nearest to [specify month and year]] [(*NB: The Maturity Date [should not be/may need to be not] less than one year after the Issue Date*)]

8.	Interest Basis:	[[●] per cent. Fixed Rate] (see item 12 below) [[●] Month [LIBOR/EURIBOR] +/- [●] per cent. Floating Rate] (see item 13 below) [Zero Coupon] (see item 14 below) (see paragraph [12]/[13]/[14] below)
9.	Change of Interest Basis:	[For the period from (and including) the Interest Commencement Date, up to (but excluding) [date] paragraph [12/13] applies and for the period from (and including) [date], up to (and including) the Maturity Date, paragraph [12/13] applies] [Not Applicable]
10.	Put/Call Options:	[Put Option] [Change of Control Put Option] [Issuer Call] [Residual Maturity Call Option] [Substantial Purchase Event] [(see paragraph [15]/[16]/[17]/[18]/[19] below] [Not Applicable]
11.	[[Date [Board] approval for issuance of Notes [and Guarantee] obtained:	[ ] [and [ ], respectively]]] (N.B. Only relevant where Board (or similar) authorisation is required for the particular tranche of Notes or related Guarantee)]

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

12.	**Fixed Rate Note Provisions**		[Applicable/Not Applicable] *(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
	(i)	Rate[(s)] of Interest:	[ ] per cent. per annum payable in arrear on each Interest Payment Date
	(ii)	Interest Payment Date(s):	[ ] in each year up to and including the Maturity Date.
	(iii)	Fixed Coupon Amount[(s)]:	[ ] per Calculation Amount
	(iv)	Broken Amount(s): *(Applicable to Notes in definitive form)*	[[ ] per Calculation Amount, payable on the Interest Payment Date falling [in/on] [ ]][Not Applicable]

	(v)	Day Count Fraction:	[Actual/Actual]/[Actual/ActualISDA]/[Actual/365 (Fixed)]/[Actual/360]/[30/360]/[30E/360][30E/360(ISDA)]/[Actual/Actual(ICMA)]
	(vi)	Determination Dates:	[ ] in each year][Not Applicable] (only relevant where Day Count Fraction is Actual (Actual (ICMA). In such a case, *insert regular payment dates, ignoring issue date or maturity date in the case of a long or short first or last coupon. N.B. only relevant where Day Count Fraction is Actual/Actual ([ICMA])*]
13.	**Floating Rate Note Provisions**		[Applicable/Not Applicable] *(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
	(i)	Interest Period(s):	[[●] [, subject to adjustment in accordance with the Business Day Convention set out in (iv) below/, not subject to any adjustment[, as the Business Day Convention in (iv) below is specified to be Not Applicable]]]
	(ii)	Specified Interest Payment Dates:	[[●] in each year[, subject to adjustment in accordance with the Business Day Convention set out in (iv) below/, not subject to any adjustment[, as the Business Day Convention in (iv) below is specified to be Not Applicable]]]
	(iii)	Interest Period Date:	[[●] in each year[, subject to adjustment in accordance with the Business Day Convention set out in (iv) below/, not subject to any adjustment[, as the Business Day Convention in (iv) below is specified to be Not Applicable]]][Not Applicable] *(Not applicable unless different from Interest Payment Date)*
	(iv)	Business Day Convention:	[Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention][Not Applicable]
	(v)	Business Centre(s):	[ ] [Not Applicable]
	(vi)	Manner in which the Rate(s) of Interest is/are to be determined:	[Screen Rate Determination]/[ISDA Determination]
	(vii)	Party responsible for calculating the Rate of Interest and Interest Amount (if not the Fiscal Agent)	[ ]
	(viii)	Screen Rate Determination:	
		– Reference Rate:	[●] Month [LIBOR/EURIBOR]

	– Reference Banks	[ ]
	– Interest Determination Date(s):	[ ]
	– Relevant Screen Page:	[ ]
(ix)	ISDA Determination:	
	– Floating Rate Option:	[ ]
	– Designated Maturity:	[ ]
	– Reset Date:	[ ] (In the case of a LIBOR or EURIBOR based option, the first day of the Interest Period)
(x)	Linear Interpolation:	[Applicable – the Rate of interest for the [long/short] [first/last] Interest Period shall be calculated using Linear Interpolation (*specify for each short or long interest period*)/Not Applicable]
(xi)	Margin(s):	[+/-] [●] per cent. per annum
(xii)	Minimum Rate of Interest:	[ ] per cent. per annum
(xiii)	Maximum Rate of Interest:	[ ] per cent. per annum
(xiv)	Day Count Fraction:	[ ] [Actual/Actual]/[Actual/Actual-ISDA]/[Actual/365(Fixed)]/[Actual/360]/[30/360]/[30E/360]/[30E/360(ISDA)][Actual/Actual(ICMA)]
14.	**Zero Coupon Note Provisions**	[Applicable/Not Applicable] *(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
(i)	Amortisation Yield:	[ ] per cent. per annum

PROVISIONS RELATING TO REDEMPTION

15.	**Call Option**	[Applicable/Not Applicable] *(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
(i)	Optional Redemption Date(s):	[ ]
(ii)	Optional Redemption Amount(s) of each Note:	[[ ] per Calculation Amount][Make-Whole Amount]
(iii)	Make-whole Amount:	[Applicable/Not Applicable] (*If not applicable, delete the remaining sub-paragraphs of this paragraph*)

	(a)	Reference Note:	[[●]/Not Applicable] (*If not applicable, delete the remaining sub-paragraphs of this paragraph*)
		Redemption Margin:	[●]
		Financial Adviser:	[●]
		Quotation Time:	[●]
	(b)	Discount Rate:	[[●]/Not Applicable]
	(c)	Make-whole Exemption Period:	[Not Applicable]/[From (and including) [●] to (but excluding) [●]/the Maturity Date]]
(iv)	If redeemable in part:		
	(a)	Minimum Redemption Amount:	[ ]
	(b)	Maximum Redemption Amount	[ ]
(v)	Notice periods:		Minimum period: [ ] days Maximum period: [ ] days *(N.B. When setting notice periods, the Issuer is advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems (which require a minimum of 5 clearing system business days' notice for a call) and custodians, as well as any other notice requirements which may apply, for example, as between the Issuer and the Agent.)*
16.	**Put Option**		[Applicable/Not Applicable] *(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
(i)	Optional Redemption Date(s):		[ ]
(ii)	Optional Redemption Amount(s) of each Note:		[●] per Calculation Amount
(iii)	Notice period:		Minimum period: [ ] days Maximum period: [ ] days *(N.B. When setting notice periods, the Issuer is advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems (which require a minimum of 15 clearing system business days' notice for a put) and custodians, as well as any other notice requirements which may*

			apply, for example, as between the Issuer and the Agent [or Trustee])
17.	**Change of Control Put:**		[Applicable/Not Applicable] (*If not applicable, delete the remaining subparagraphs of this paragraph*)
	(i)	Optional Redemption Amount:	[[ ] per Calculation Amount
	(ii)	Notice periods:	Minimum period: [ ] days Maximum period: [ ] days (*N.B. When setting notice periods, the Issuer is advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems* (*which require a minimum of 15 clearing system business days' notice for a put*) *and custodians, as well as any other notice requirements which may apply, for example, as between the Issuer and the Agent*)]
18.	**Residual Maturity Call Option**		[Applicable/Not Applicable]
19.	**Substantial Purchase Event**		[Applicable/Not Applicable]
20.	**Final Redemption Amount**		[[ ] per Calculation Amount]
21.	**Early Redemption Amount**		
	Early Redemption Amount(s) payable on redemption for taxation reasons or on Event of Default and/or the method of calculating the same (if required or if different from that set out in Condition 6):		[ ] per Calculation Amount (*N.B. If the Final Redemption Amount is 100 per cent. of the nominal value (i.e. par), the Early Redemption Amount is likely to be par (but consider). If, however, the Final Redemption Amount is other than 100 per cent. of the nominal value, consideration should be given as to what the Early Redemption Amount should be.*)

GENERAL PROVISIONS APPLICABLE TO THE NOTES

22.	(a)	Form of Notes:	Bearer Notes: [Temporary Global Note exchangeable for a Permanent Global Note exchangeable for Definitive Notes in the limited circumstances specified in the Permanent Global Note.] [Temporary Global Note exchangeable for Definitive Notes] [Permanent Global Note exchangeable for Definitive Notes in the limited circumstances specified in the Permanent Global Note.] [Permanent Global Note exchangeable for

		Registered Notes in the circumstances specified in the Permanent Global Note.] [Bearer Notes may not be physically delivered in Belgium, except to a clearing system, a depositary or other institution for the purpose of their immobilisation in accordance with article 4 of the Belgian Law of 14 December 2005.] (*Include for Bearer Notes that are to be offered in Belgium*) Registered Notes: [Regulation S Global Note (U.S.$/€ [●] nominal amount) registered in the name of a nominee for [DTC/a common depositary for Euroclear and Clearstream, Luxembourg/a common safekeeper for Euroclear and Clearstream, Luxembourg (that is, held under the NSS)]] [Rule 144A Global Note (U.S.$ [●] nominal amount) registered in the name of a nominee for [DTC/a common depositary for Euroclear and Clearstream, Luxembourg/a common safekeeper for Euroclear and Clearstream, Luxembourg (that is, held under the NSS)]]
	(b) New Global Note:	[Yes] [No] [*only applicable to Bearer Notes*]
23.	Financial Centre(s) or other special provisions relating to Payment Dates:	[●] [Not Applicable] *(Note that this paragraph relates to the date and place of payment, and not the end dates of interest periods for the purposes of calculating the amount of interest, to which sub-paragraphs 12(ii))*
24.	Talons for future Coupons to be attached to Definitive Notes:	[Yes, as the Notes have more than 27 coupon payments, Talons may be required if, on exchange into definitive form, more than 27 coupon payments are still to be made/No]
25.	Consolidation provisions:	[Not Applicable/The provisions in Condition 13 apply]

THIRD PARTY INFORMATION

[●] has been extracted from [●]. Each of the Issuer and the Guarantor confirm that such information has been accurately reproduced and that, so far as it is aware, and is able to ascertain from information published by [●], no facts have been omitted which would render the reproduced information inaccurate or misleading.]

Signed on behalf of the Issuer:

Signed on behalf of the Guarantor:

By: .... By: ....

Duly authorised Duly authorised

PART B – OTHER INFORMATION

1. LISTING AND ADMISSION TO TRADING

(i)	Listing:	[Luxembourg]
(ii)	Admission to trading:	[Application has been made for the Notes to be admitted to trading on [the regulated market of the Luxembourg Stock Exchange][*other relevant regulated market*] with effect from [●].] [Application is expected to be made for the Notes to be admitted to trading on [*relevant regulated market*] [Not Applicable.] (*Where documenting a fungible issue, indicate that the original Notes are already admitted to trading.*)
(iii)	Estimate of total expenses related to admission to trading:	[●]

2. RATINGS

Ratings:	[The Notes to be issued [[have been]/[are expected to be]] rated]/[The following ratings reflect ratings assigned to Notes of this type issued under the Programme generally]: [insert details]] by [insert the legal name of the relevant credit rating agency entity(ies) and associated defined terms]. *(The above disclosure should reflect the rating allocated to Notes of the type being issued under the Programme generally or, where the issue has been specifically rated, that rating.)* [*Insert the legal name of the relevant credit rating agency entity*] is established in the European Union and is registered under Regulation (EC) No. 1060/2009 (as amended). [As such [*insert the legal name of the relevant credit rating agency entity*] is included in the list of credit ratings agencies published by the European Securities and Markets Authority on its website in accordance with such Regulation.] [[*Insert the legal name of the relevant non-EU credit rating agency entity*] is not established in the European Union and is not registered in accordance with Regulation (EC) No. 1060/2009 (as amended),. [[*Insert the legal name of the*

relevant non-EU credit rating agency entity] is therefore not included in the list of credit rating agencies published by the European Securities and Markets Authority on its website in accordance with such Regulation]

[[*Insert the legal name of the relevant non-EU credit rating agency entity*] is not established in the European Union and has not applied for registration under Regulation (EC) No. 1060/2009 (as amended) (the **CRA Regulation**). However, the application for registration under the CRA Regulation of [*insert the legal name of the relevant EU credit rating agency entity that applied for registration*], which is established in the European Union, and is registered under the CRA Regulation [(and, as such is included in the list of credit rating agencies published by the European Securities and Markets Authority on its website in accordance with such Regulation)], disclosed the intention to endorse credit ratings of [*insert the legal name of the relevant non-EU credit rating agency*]. While notification of the corresponding final endorsement decision has not yet been provided by the relevant competent authority, the European Securities and Markets Authority has indicated that ratings issued in third countries may continue to be used in the EU by relevant market participants for a transitional period ending on 30 April 2012.]

[[*Insert the legal name of the relevant non-EU credit rating agency entity*] is not established in the European Union and has not applied for registration under Regulation (EC) No. 1060/2009 (as amended) (the **CRA Regulation**). The ratings [[have been]/[are expected to be]] endorsed by [*insert the legal name of the relevant EU-registered credit rating agency entity*] in accordance with the CRA Regulation. [*Insert the legal name of the relevant EU-registered credit rating agency entity*] is established in the European Union and registered under the CRA Regulation. [As such [*insert the legal name of the relevant EU credit rating agency entity*] is included in the list of credit rating agencies published by the European Securities and Markets Authority on its website in accordance with the CRA Regulation.]]

[[*Insert the legal name of the relevant non-EU credit rating agency entity*] is not established in the European Union and has not applied for registration under Regulation (EC) No. 1060/2009 (as amended) (the **CRA Regulation**), but it

[is]/[has applied to be]certified in accordance with the CRA Regulation[[[EITHER:] and it is included in the list of credit rating agencies published by the European Securities and Markets Authority on its website in accordance with the CRA Regulation] [[OR:] although notification of the corresponding certification decision has not yet been provided by the relevant competent authority and [*insert the legal name of the relevant non-EU credit rating agency entity*] is not included in the list of credit rating agencies published by the European Securities and Markets Authority on its website in accordance with the CRA Regulation].]

[[*Insert legal name of the relevant credit rating agency*] is established in the European Union and has applied for registration under Regulation (EC) No. 1060/2009 (as amended), although notification of the corresponding registration decision has not yet been provided by the relevant competent authority [and [*insert the legal name of the relevant credit rating agency*] is not included in the list of credit rating agencies published by the European Securities and Markets Authority on its website in accordance with such Regulation.]]

[[*Insert the legal name of the relevant non-EU credit rating agency entity*] is not established in the European Union and has not applied for registration under Regulation (EC) No. 1060/2009 (as amended) (the **CRA Regulation**). However, the application for registration under the CRA Regulation of [*insert the legal name of the relevant EU credit rating agency entity that applied for registration*], which is established in the European Union, disclosed the intention to endorse credit ratings of [*insert the legal name of the relevant non-EU credit rating agency entity*][, although notification of the corresponding registration decision has not yet been provided by the relevant competent authority and [*insert the legal name of the relevant EU credit rating agency entity*] is not included in the list of credit rating agencies published by the European Securities and Markets Authority on its website in accordance with the CRA Regulation].]

3. INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE ISSUE

[So far as the Issuer is aware, no person involved in the offer of the Notes has an interest material to the offer.] The [Managers/Dealers] and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform other services for, the Issuer [and the Guarantor] and [its/their] affiliates in the ordinary course of business – *Amend as appropriate if there are other interests*]

4. FIXED RATE NOTES ONLY – YIELD

Indication of yield:	[●]

5. OPERATIONAL INFORMATION

ISIN Code:	[ ]
Common Code:	[ ]
Any clearing system(s) other than Euroclear and Clearstream Luxembourg and the relevant identification number(s):	[Not Applicable/*give name(s) and number(s) [and address(es)]*]
Names and addresses of additional Paying Agent(s) (if any):	[ ]
Intended to be held in a manner which would allow Eurosystem eligibility:	[Yes. Note that the designation "yes" simply means that the Notes are intended upon issue to be deposited with one of the International Central Securities Depositaries (ICSDs), being Euroclear and Clearstream, Luxembourg as common safekeeper, [and registered in the name of a nominee of one of the ICSDs acting as common safekeeper, that is, held under the NSS,] [*include this text for registered notes which are to be held under the NSS*] and does not necessarily mean that the Notes will be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem either upon issue or at any or all times during their life. Such recognition will depend upon the ECB being satisfied that Eurosystem eligibility criteria have been met. [No. Whilst the designation is specified as "no" at the date of these Final Terms, should the Eurosystem eligibility criteria be amended in the future such that the Notes are capable of meeting them the Notes may then be deposited with one of the ICSDs as common safekeeper [and registered in the name of a nominee of one of the ICSDs acting as common safekeeper][*include this text for registered notes*]. Note that this does not necessarily mean that the Notes will then be recognised as eligible collateral for Eurosystem monetary policy and intra day credit operations by the Eurosystem at any time during their life. Such recognition will depend upon the ECB being

satisfied that Eurosystem eligibility criteria have been met.]]

6. DISTRIBUTION

(a)	Method of distribution:	[Syndicated/Non-syndicated]
(b)	If syndicated, names of Managers:	[Not Applicable/give names] (*If the Notes are derivative securities to which Annex XII of the Prospectus Directive Regulation applies, include names of entities agreeing to underwrite the issue on a firm commitment basis and names of the entities agreeing to place the issue without a firm commitment or on a "best efforts" basis if such entities are not the same as the Managers.*)
(c)	Date of [Subscription] Agreement:	[ ]
(d)	Stabilisation Manager(s) (if any):	[Not Applicable/*give name*]
(e)	If non-syndicated, name of relevant Dealer:	[Not Applicable/*give name*]
(f)	U.S. Selling Restrictions:	[Reg. S Compliance Category [1/2/3]; TEFRA D/TEFRA C/TEFRA not applicable]]

TAXATION

The following is a general description of certain tax considerations relating to the Notes. It does not purport to be a complete analysis of all tax considerations relating to the Notes. Prospective purchasers of Notes should consult their own tax advisers as to the consequences under the tax laws of the country of which they are resident for tax purposes and the tax laws of The Netherlands and Spain of acquiring, holding and disposing of Notes and receiving any payments under the Notes. This summary is based upon the law as in effect on the date of this Base Prospectus and is subject to any change in law that may take effect after such date.

Taxation in Luxembourg

The following information is of a general nature only and is based on the laws presently in force in Luxembourg, though it is not intended to be, nor should it be construed to be, legal or tax advice. The information contained within this section is limited to Luxembourg withholding tax issues and prospective investors in the Notes should therefore consult their own professional advisers as to the effects of state, local or foreign laws, including Luxembourg tax law, to which they may be subject.

Please be aware that the residence concept used under the respective headings below applies for Luxembourg income tax assessment purposes only. Any reference in the present section to a withholding tax or a tax of a similar nature, or to any other concepts, refers to Luxembourg tax law and/or concepts only.

This overview assumes that each transaction with respect to Notes is at arm's length.

1. Withholding Tax and Self-applied Tax

Under Luxembourg tax law currently in effect, and subject to the exception below, there is no withholding tax for Luxembourg residents on payments of principal or interest, nor on accrued but unpaid interest, in respect of the Notes, nor is there any Luxembourg withholding tax payable on payments received upon redemption, repurchase or exchange of the Notes.

According to the Law of 23 December 2005, as amended, interest payments on the Notes paid by a Luxembourg paying agent will be subject to a withholding tax of 10 per cent. (the **10 per cent. withholding tax**) if such payments are made to or for the immediate benefit of individuals resident in Luxembourg. Responsibility for withholding such tax will be assumed by the Luxembourg paying agent.

In the event that interest is paid to a Luxembourg resident individual (or to a residual entity securing the payment for the benefit of such individual) by a paying agent established outside Luxembourg in a Member State of the EU or the EEA or in certain dependent or associated territories of EU Member States, the Luxembourg individual resident taxpayer may opt to self-declare and pay a 10 per cent. tax in accordance with the Law of 23 December 2005, as amended (the **10 per cent. tax**).

The 10 per cent. withholding tax and the 10 per cent. tax represent a final tax liability for the Luxembourg individual resident taxpayers provided that, the payment is received in the course of the management of private wealth.

2. FATCA

The Noteholders may be impacted by the FATCA provisions and/or the Luxembourg intergovernmental agreement entered into by Luxembourg and the United States on 28 March 2014 as implemented into Luxembourg law by a law of 24 July 2015. FATCA compliance may require the Issuer, an entity acting on behalf of the Issuer or a financial institution, to identify and disclose the US holders of the Notes. Non-compliance with FATCA may entail a 30 per cent. US withholding tax on US source income and other penalties.

Taxation in the Netherlands

The following summary outlines the principal Netherlands tax consequences of the acquisition, holding, settlement, redemption and disposal of the Notes, but does not purport to be a comprehensive description of all Netherlands tax considerations in relation thereto. For purposes of Netherlands tax law, a holder of Notes may include an individual or entity who does not have the legal title of these Notes, but to whom nevertheless the Notes or the income thereof is attributed based on specific statutory provisions or on the basis of such individual or entity having an interest in the Notes or the income thereof. This summary is intended as general information only and each prospective investor should consult a professional tax adviser with respect to the tax consequences of an investment in the Notes.

This summary is based on tax legislation, published case law, treaties, regulations and published policy, in each case as in force as of the date of this Base Prospectus, and does not take into account any developments or amendments thereof after that date whether or not such developments or amendments have retroactive effect.

Where this summary refers to the Netherlands, such reference is restricted to the part of the Kingdom of the Netherlands that is situated in Europe and the legislation applicable in that part of the Kingdom. Where in this summary English terms and expressions are used to refer to Netherlands concepts, the meaning to be attributed to such terms and expressions shall be the meaning to be attributed to the equivalent Netherlands concepts under Netherlands tax law.

Regardless of whether or not a holder of Notes is, or is deemed to be, a resident of the Netherlands, with the exception of the section on withholding tax below, this summary does not address the Netherlands tax consequences for:

(a) investment institutions (*fiscale beleggingsinstellingen*);

(b) pension funds, exempt investment institutions (*vrijgestelde beleggingsinstellingen*) or other entities that are exempt from Netherlands corporate income tax;

(c) holders of Notes holding a substantial interest (*aanmerkelijk belang*) or deemed substantial interest (*fictief aanmerkelijk belang*) in Iberdrola International and holders of Notes of whom a certain related person holds a substantial interest in Iberdrola International. Generally speaking, a substantial interest in Iberdrola International arises if a person, alone or, where such person is an individual, together with his or her partner (statutory defined term), directly or indirectly, holds or is deemed to hold (i) an interest of 5 per cent. or more of the total issued capital of Iberdrola International or of 5 per cent. or more of the issued capital of a certain class of shares of Iberdrola International, (ii) rights to acquire, directly or indirectly, such interest or (iii) certain profit sharing rights in Iberdrola International;

(d) persons to whom the Notes and the income from the Notes are attributed based on the separated private assets (*afgezonderd particulier vermogen*) provisions of the Netherlands Income Tax Act 2001 (*Wet inkomstenbelasting 2001*) and the Netherlands Gift and Inheritance Tax Act (*Successiewet 1956*);

(e) entities which are a resident of Aruba, Curaçao or Sint Maarten that have an enterprise which is carried on through a permanent establishment or a permanent representative on Bonaire, Sint Eustatius or Saba, to which permanent establishment or permanent representative the Notes are attributable; and

(f) individuals for whom Notes or the income there from are attributable to employment activities which are taxed as employment income in the Netherlands.

1. Withholding Tax

All payments made by Iberdrola International under the Notes may be made free of withholding or deduction for any taxes of whatsoever nature imposed, levied, withheld or assessed by the Netherlands or any political subdivision or taxing authority thereof or therein, provided that (i) the Notes have a maturity – legally and *de facto* - of less than 50 years and (ii) the Notes will not represent, be linked (to the performance of) or be convertible (in part or in whole) into (rights to purchase) (a) shares; (b) profit certificates (*winstbewijzen*); and/or (c) debt instruments having a maturity - legally or *de facto* - of more than 50 years, in each case issued by Iberdrola International or any other entity related to such Issuer.

2. Corporate and Individual Income Tax

2.1 Residents of the Netherlands

If a holder of Notes is a resident or deemed to be a resident of the Netherlands for Netherlands tax purposes and is fully subject to Netherlands corporate income tax or is only subject to Netherlands corporate income tax in respect of an enterprise that is, in whole or in part, carried on through a permanent establishment or a permanent representative in the Netherlands, Bonaire, Saint Eustatius or Saba, and to which enterprise or part of an enterprise, as the case may be, Notes are attributable, income derived from the Notes and gains realised upon the redemption, settlement or disposal of the Notes are generally taxable in the Netherlands (at up to a maximum rate of 25 per cent.).

If an individual is a resident or deemed to be a resident of the Netherlands for Netherlands tax purposes, income derived from the Notes and gains realised upon the redemption, settlement or disposal of the Notes are taxable at progressive rates (at up to a maximum rate of 52 per cent.) under the Netherlands Income Tax Act 2001 (*Wet inkomstenbelasting 2001*), if:

(a) the individual is an entrepreneur (*ondernemer*) and has an enterprise to which the Notes are attributable or the individual has, other than as a shareholder, a co-entitlement to the net worth of an enterprise (*medegerechtigde*), to which enterprise the Notes are attributable; or

(b) such income or gains qualify as income from miscellaneous activities (*resultaat uit overige werkzaamheden*), which include the performance of activities with respect to the Notes that exceed regular, active portfolio management (*normaal, actief vermogensbeheer*) or if such income and gains are derived from the holding, whether directly or indirectly, of (a combination of) shares, debt claims or other rights (together, a *lucratief belang*) that the holder thereof has acquired under such circumstances that such income and gains are intended to be remuneration for work or services performed by such holder (or a related person), whether within or outside an employment relation, where such lucrative interest provides the holder thereof, economically speaking, with certain benefits that have a relation to the relevant work or services.

If neither condition (i) nor condition (ii) applies, an individual who is a resident or deemed to be a resident of the Netherlands for Netherlands tax purposes and holds Notes, must determine taxable income with regard to the Notes on the basis of a deemed return on income from savings and investments (*sparen en beleggen*), rather than on the basis of income actually received or gains actually realised. This deemed return on income from savings and investments has been fixed at a rate of 4 per cent. of the individual's yield basis (*rendementsgrondslag*) at the beginning of the calendar year, insofar as the individual's yield basis exceeds a certain threshold (*heffingvrijvermorgen*). The individual's yield basis is determined as the fair market value of certain qualifying assets held by the individual less the fair market value of certain qualifying liabilities on 1 January. The fair market value of the Notes will be included as an asset in the individual's yield basis. The 4 per cent. deemed return on income from savings and investments is taxed at a rate of 30 per cent.

2.2 Non-residents of the Netherlands

If a person is not a resident nor is deemed to be a resident of the Netherlands for Netherlands tax purposes, such person is not liable for Netherlands income tax in respect of income derived from the Notes and gains realised upon the settlement, redemption or disposal of the Notes, unless:

(a) the person is not an individual and such person (1) has an enterprise that is, in whole or in part, carried on through a permanent establishment or a permanent representative in the Netherlands, a Netherlands enterprise (*Nederlandse onderneming*) to which the Notes are attributable, or (2) is (other than by way of securities) entitled to a share in the profits of an enterprise or a co-entitlement to the net worth of an enterprise, which is effectively managed in the Netherlands and to which enterprise the Notes are attributable. This income is subject to Netherlands corporate income tax at up to a maximum rate of 25 per cent.

(b) the person is an individual and such person (1) has a Netherlands enterprise or an interest in a Netherlands enterprise to which the Notes are attributable, or (2) realises income or gains with respect to the Notes that qualify as income from miscellaneous activities in the Netherlands, which activities include the performance of activities in the Netherlands with respect to the Notes which exceed regular, active portfolio management, or (3) is (other than by way of securities) entitled to a share in the profits of an enterprise which is effectively managed in the Netherlands and to which enterprise the Notes are attributable.

Income derived from the Notes as specified under (1) and (2) is subject to individual income tax at up to a maximum rate of 52 per cent. Income derived from a share in the profits as specified under (3) that is not already included under (1) or (2) will be taxed on the basis of a deemed return on income from savings and investments (as described above under "*—Residents of the Netherlands*"). The fair market value of the share in the profits of the enterprise (which includes the Notes) will be part of the individual's Netherlands yield basis.

3. Gift and Inheritance Tax

3.1 Residents of the Netherlands

Generally, gift and inheritance tax will be due in the Netherlands in respect of the acquisition of the Notes by way of a gift by, or on behalf of, or on the death of, a holder who is a resident or deemed to be a resident of the Netherlands for the purposes of Netherlands gift and inheritance tax at the time of the gift or his or her death. A gift made under a condition precedent is deemed to be a made at the time the condition precedent is fulfilled and is subject to Netherlands gift and inheritance tax if the donor is, or is deemed to be a resident of the Netherlands at that time. If the condition precedent is fulfilled after the death of the donor, the gift is deemed to be made upon the death of the donor

A holder of Netherlands nationality is deemed to be a resident of the Netherlands for the purposes of the Netherlands gift and inheritance tax if he or she has been resident in the Netherlands and dies or makes a gift within ten years after leaving the Netherlands. A holder of any other nationality is deemed to be a resident of the Netherlands for the purposes of the Netherlands gift tax if he or she has been resident in the Netherlands and makes a gift within a twelve months period after leaving the Netherlands. The same twelve-month rule may apply to entities that have transferred their seat of residence out of the Netherlands.

3.2 Non-residents of the Netherlands

No gift or inheritance taxes will arise in the Netherlands in respect of the acquisition of the Notes by way of a gift by, or as a result of, the death of a holder who is neither a resident nor deemed to be a resident of the Netherlands for the purposes of Netherlands gift and inheritance tax, unless in the case of a gift of the Notes by, or on behalf of, a holder who at the date of the gift was neither a

resident nor deemed to be a resident of the Netherlands, such holder dies within 180 days after the date of the gift, and at the time of his or her death is a resident or deemed to be a resident of the Netherlands. A gift made under a condition precedent is deemed to be a made at the time the condition precedent is fulfilled. If the condition precedent is fulfilled after the death of the donor, the gift is deemed to be made upon the death of the donor.

4. Value Added Tax

In general, no value added tax will arise in respect of payments in consideration for the issue of the Notes or in respect of a cash payment made under the Notes, or in respect of a transfer of Notes.

5. Other Taxes and Duties

No registration tax, customs duty, transfer tax, stamp duty or any other similar documentary tax or duty, will be payable in the Netherlands by a holder in respect of or in connection with the subscription, issue, placement, allotment, delivery or transfer of the Notes.

Taxation in Spain

Payments made by Iberdrola Finanzas, S.A.U.

The following is a general description of certain Spanish tax considerations. The information provided below does not purport to be a complete overview of tax law and practice currently applicable in the Kingdom of Spain and is subject to any changes in law and the interpretation and application thereof, which could be made with retroactive effect.

This taxation summary solely addresses the principal Spanish tax consequences of the acquisition, the ownership and disposal of Notes issued by the relevant Issuer after the date hereof held by a holder of Notes. It does not consider every aspect of taxation that may be relevant to a particular holder of Notes under special circumstances or who is subject to special treatment under applicable law or to the special tax regimes applicable in the Basque Country and Navarra (*Territorios Forales*). Where in this summary English terms and expressions are used to refer to Spanish concepts, the meaning to be attributed to such terms and expressions shall be the meaning to be attributed to the equivalent Spanish concepts under Spanish tax law. This summary assumes that each transaction with respect to the Notes is at arm's length.

This overview is based on the law as in effect on the date of this Base Prospectus and is subject to any change in law that may take effect after such date. References in this section to Noteholders include the beneficial owners of the Notes, where applicable.

Any prospective investors should consult their own tax advisers who can provide them with personalised advice based on their particular circumstances. Likewise, investors should consider the legislative changes which could occur in the future.

1. **Introduction**

This information has been prepared in accordance with the following Spanish tax legislation in force at the date of this document:

(i) of general application, Additional Provision One of Law 10/2014, of 26 June, on supervision and solvency of credit entities (**Law 10/2014**) as well as Foral decree 205/2008, of 22 December and Royal Decree 1065/2007 of 27 July (**Royal Decree 1065/2007**), as amended by Royal Decree 1145/2011 of 29 July;

(ii) for individuals resident for tax purposes in Spain which are subject to the Personal Income Tax (**PIT**), Law 35/2006 of 28 November, on the PIT and on the Partial Amendment of the Corporate

Income Tax Law, the Non-Residents Income Tax Law and the Net Wealth Tax Law, as amended by Law 26/2014 of 27 November, and Royal Decree 439/2007 of 30 March passing the IIT Regulations, as amended by Royal Decree 633/2015, of 10 July, along with law 19/1991 of 6 June, on Wealth Tax, along with Law 29/1987, of 18 December on the Inheritance and Gift Tax;

(iii) for legal entities resident for tax purposes in Spain which are subject to the Corporate Income Tax (**CIT**), Act 27/2014, of 27 November governing the CIT, and Royal Decree 634/2015, of 10 July passing the CIT Regulations; and

(iv) for individuals and entities who are not resident for tax purposes in Spain which are subject to the Non-Resident Income Tax (**NRIT**), Royal Legislative Decree 5/2004, of 5 March passing the Consolidated Text of the NRIT Law, and Royal Decree 1776/2004 of 30 July passing the NRIT Regulations, along with Law 29/1987, of 18 December on the Inheritance and Gift Tax.

Whatever the nature and residence of the Noteholder, the acquisition and transfer of Notes will be exempt from indirect taxes in Spain, i.e., exempt from Transfer Tax and Stamp Duty, in accordance with the Consolidated Text of such tax passed by Royal Legislative Decree 1/1993, of 24 September and exempt from Value Added Tax, in accordance with Law 37/1992, of 28 December regulating such tax.

2. Individuals with Tax Residency in Spain

2.1 Personal Income Tax (*Impuesto sobre la Renta de las Personas Físicas*)

Spanish individuals with tax residency in Spain are subject to PIT on a worldwide basis. Accordingly, income obtained from the Notes will be taxed in Spain when obtained by persons that are considered resident in Spain for tax purposes. The fact that a Spanish company pays interest or guarantee payments under a Note will not lead an individual or entity being considered tax-resident in Spain.

Both interest payments periodically received and income derived from the transfer, redemption or exchange of the Notes constitute a return on investment obtained from the transfer of a person's own capital to third parties in accordance with the provisions of Section 25 of the PIT Law, and therefore must be included in the investor's PIT savings taxable base pursuant to the provisions of the aforementioned law and taxed at a flat rate of 19 per cent. on the first €6,000, 21 per cent. for taxable income between €6,001 and €50,000, and 23 per cent. for taxable income exceeding €50,000.

As a general rule, both types of income are subject to a withholding tax on account at the rate of 19 per cent.

However, it should be noted that Foral Decree 205/2008 and Royal Decree 1065/2007 established certain procedures for the provision of information which are explained under section "*Taxation in Spain—Disclosure of Information in Connection with the Notes*" below and that, in particular, in the case of debt listed securities issued under Law 10/2014 and initially registered in a foreign clearing and settlement entity that is recognised under Spanish regulations or under those of another OECD member state, as the Notes issued by Iberdrola Finanzas:

(i) it would not be necessary to provide the relevant Issuer with the identity of the Noteholders who are individuals resident in Spain for tax purposes or to indicate the amount of income attributable to such individuals; and

(ii) interest paid to all Noteholders (whether tax resident in Spain or not) should be paid free of Spanish withholding tax provided that the information procedures are complied with.

Therefore, Iberdrola Finanzas understands that, according to Foral Decree 205/2008 and Royal Decree 1065/2007, it has no obligation to withhold any tax amount for interest paid on the Notes corresponding to Noteholders who are individuals with tax residency in Spain provided that the information procedures (which do not require identification of the Noteholders) are complied with.

Nevertheless, Spanish withholding tax at the applicable rate (currently 19 per cent.) may have to be deducted by other entities (such as depositaries or financial entities), provided that such entities are resident for tax purposes in Spain or have a permanent establishment in the Spanish territory.

The amounts withheld, if any, may be credited by the relevant investors against its final PIT liability.

However, regarding the interpretation of Foral Decree 205/2008 and Royal Decree 1065/2007 and the information procedures, please refer to sections "*Risk Factors—Risks Relating to Withholding Tax*" and "*Risk Factors—Application of Law 10/2014 to Notes issued by Iberdrola Finanzas Tax*" above.

2.2 Net Wealth Tax (*Impuesto sobre el Patrimonio*)

Net Wealth Tax may be levied in Spain on resident individuals, on a worldwide basis. Though for the years 2011 to 2016 the Spanish Central Government has repealed the 100% relief (*bonificación del 100%)*of this tax, the actual collection of this tax depends on the regulations of each Autonomous Community. Thus, investors should consult their tax advisers according to the particulars of their situation.

Individuals with tax residency in Spain are subject to Net Wealth Tax to the extent that their net worth exceeds €700,000. Therefore, they should take into account the value of the Notes which they hold as at 31 December each year, the applicable rates ranging between 0.2 per cent. and 2.5 per cent.

Furthermore, in accordance with article 66 of the Law 48/2015, of October 29, on Spanish General Budget for year 2016 (*Ley de Presupuestos Generales del Estado para el año 2016*), as from year 2017, the full relief (*bonificación del 100%*) on Spanish Wealth Tax would apply, and therefore from year 2017 Spanish individual Holders will be released from formal and filing obligations in relation to this Spanish Wealth Tax, unless the derogation of the exemptions is extended again.

2.3 Inheritance and Gift Tax (*Impuesto sobre Sucesiones y Donaciones*)

Individuals resident in Spain for tax purposes who acquire ownership or other rights over any Notes by inheritance, gift or legacy will be subject to the Spanish Inheritance and Gift Tax in accordance with the applicable Spanish regional and State rules. The applicable tax rates currently range between 7.65 per cent. and 81.6 per cent. depending on relevant factors.

3. **Legal Entities with Tax Residency in Spain**

3.1 Corporate Income Tax (*Impuesto sobre Sociedades*)

Legal entities with tax residency in Spain are subject to CIT on a worldwide basis.

Both interest periodically received and income deriving from the transfer, redemption or repayment of the Notes constitute a return on investments for tax purposes obtained from the transfer to third parties of own capital and must be included in the profit and taxable income of legal entities with tax residency in Spain for corporation tax purposes in accordance with the Corporation tax rules. The current general tax rate according to CIT Act is 25 per cent.

Pursuant to Section 61.s of Royal Decree 634/2015 approving the Spanish corporate income tax regulations (the **Corporate Tax Regulations**), there is no obligation to make a withholding on income obtained by taxpayers subject to Spanish CIT (which for the avoidance of doubt, include Spanish tax resident investment funds and Spanish tax resident pension funds) from financial assets traded on organised markets in OECD countries. However, in the case of Notes held by a Spanish resident entity and deposited with a Spanish resident entity acting as depositary or custodian, payments of interest and income deriving from the transfer may be subject to withholding tax at the current rate of 19 per cent. Such withholding may be made by the depositary or custodian if the Notes do not comply with the exemption requirements specified in the ruling issued by the Spanish Tax Authorities (*Dirección General de Tributos*) (the **DGT**) dated 27 July 2004 (that

is, placement of the Notes outside of Spain in another OECD country and admission to listing of the Notes on an organised market in an OECD country other than Spain). The amounts withheld, if any, may be credited by the relevant investors against its final CIT liability.

Notwithstanding the above, according to Foral Decree 205/2008 and Royal Decree 1065/2007, in the case of listed debt instruments issued under Law 10/2014 and initially registered in a foreign clearing and settlement entity that is recognised under Spanish regulations or under those of another OECD member state (such as the Notes issued by Iberdrola Finanzas), interest paid to investors should be paid free of Spanish withholding tax. The foregoing is subject to certain information procedures having been fulfilled. These procedures are described in "*Taxation in Spain—Disclosure of Information in Connection with the Notes*" below.

Therefore, Iberdrola Finanzas considers that, pursuant to Foral Decree 205/2008 and Royal Decree 1065/2007, it has no obligation to withhold any tax on interest paid on the Notes in respect of Noteholders who are Spanish Corporation Tax payers, provided that the information procedures are complied with.

However, regarding the interpretation of Foral Decree 205/2008 and Royal Decree 1065/2007 and the information procedures, please refer to sections "*Risk Factors—Risks Relating to Withholding Tax*" and "*Risk Factors—Application of Law 10/204 to Notes Issued by Iberdrola Finanzas*" above.

3.2 Net Wealth Tax (*Impuesto sobre el Patrimonio*)

Legal entities resident in Spain for tax purposes are not subject to Net Wealth Tax.

3.3 Inheritance and Gift Tax (*Impuesto sobre Sucesiones y Donaciones*)

Legal entities resident in Spain for tax purposes which acquire ownership or other rights over the Notes by inheritance, gift or legacy are not subject to the Spanish Inheritance and Gift Tax.

4. **Individuals and Legal Entities with no Tax Residency in Spain**

4.1 Non Resident Income Tax (*Impuesto sobre la Renta de no Residentes*)

(a) ***With permanent establishment in Spain***

Ownership of the Notes by investors who are not resident for tax purposes in Spain will not in itself create the existence of a permanent establishment in Spain.

If the Notes form part of the assets of a permanent establishment in Spain of a person or legal entity who is not resident in Spain for tax purposes, the tax rules applicable to income deriving from such Notes are, generally, the same as those previously set out for Spanish CIT taxpayers. See "*Taxation in Spain—Legal Entities with Tax Residency in Spain—Corporate Income Tax (Impuesto sobre Sociedades)*".

(b) ***With no permanent establishment in Spain***

Both interest payments periodically received and income deriving from the transfer, redemption or repayment of the Notes, obtained by individuals or legal entities who have no tax residency in Spain, being Non-Resident Income Tax taxpayers with no permanent establishment in Spain, are exempt from such Non-Resident Income Tax on the same terms laid down for income from Public Debt.

In order for such exemption to apply, it is necessary to comply with the information procedures, in the manner detailed under "*Taxation in Spain—Disclosure of Information in Connection with the Notes*" as set out in Article 55 of Foral Decree 205/2008 and Article 44 of Royal Decree 1065/2007.

4.2 Net Wealth Tax (*Impuesto sobre el Patrimonio*)

Individuals resident in a country with which Spain has entered into a double tax treaty in relation to Net Wealth Tax would generally not be subject to such tax. Otherwise, non-Spanish resident individuals whose properties and rights are located in Spain, or that can be exercised within the Spanish territory exceed €700,000 would be subject to Net Wealth Tax, the applicable rates ranging between 0.2 per cent. and 2.5 per cent.

Noteholders tax resident in a State of the European Union or of the European Economic Area may be entitled to apply the specific regulation of the autonomous community where their most valuable assets are located and which trigger this Spanish Net Wealth Tax due to the fact that they are located or are to be exercised within the Spanish territory.

Furthermore, in accordance with article 66 of the Law 48/2015, of October 29, on Spanish General Budget for year 2016 (*Ley de Presupuestos Generales del Estado para el año 2016*), as from year 2017, the full relief (*bonificación del 100%*) on Spanish Wealth Tax would apply, and therefore from year 2017 Spanish individual Holders will be released from formal and filing obligations in relation to this Spanish Wealth Tax, unless the derogation of the exemptions is extended again.

3.6 Inheritance and Gift Tax (*Impuesto sobre Sucesiones y Donaciones*)

Individuals who do not have tax residency in Spain who acquire ownership or other rights over the Notes by inheritance, gift or legacy will not be subject to Inheritance and Gift Tax in Spain if the country in which such individual resides has entered into a double tax treaty with Spain in relation to Inheritance and Gift Tax. In such case, the individual will be subject to the relevant double tax treaty. In the absence of such treaty between the individual's country of residence and Spain, the individual will be subject to Inheritance and Gift tax in accordance with the applicable regional and state legislation.

Generally, non-Spanish tax resident individuals are subject to Spanish Inheritance and Gift Tax according to the rules set forth in the state legislation. However, if the deceased or the donee are resident in an EU or European Economic Area member State, the applicable rules will be those corresponding to the relevant autonomous regions according to the law.

The tax rate, after applying all relevant factors, ranges between 7.65% and 81.6%.

Non-resident legal entities which acquire ownership or other rights over the Notes by inheritance, gift or legacy are not subject to Inheritance and Gift Tax. They will be subject to Non-Resident Income Tax. If the entity is resident in a country with which Spain has entered into a double tax treaty, the provisions of the treaty will apply. In general, tax treaties provide for the taxation of this type of income in the country of residence of the beneficiary.

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 relevant Issuer under the Notes 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. In this case, should Law 10/2014 be applicable (e.g., in the case of payments to be made by the Guarantor in respect of Notes issued by Iberdrola Finanzas in the form of Global

Notes), the Guarantor, in accordance with Law 10/2014, Foral Decree 205/2008 and Royal Decree 1065/2007, would not be obliged to withhold taxes in Spain on any interest paid under the Guarantee to the Noteholders, that (i) can be regarded as listed debt securities issued under Law 10/2014; and (ii) are initially registered at a foreign clearing and settlement entity that is recognised under Spanish regulations or under those of another OCDE member state, provided that the Fiscal Agent fulfils with the information procedures described in "*Taxation – Taxation in Spain – Disclosure of Information in connection with the Notes*" below.

On the contrary, payments made by the Guarantor if Law 10/2014 is not applicable to the Notes (e.g. in the case of payments to be made by the Guarantor in respect of Notes issued by (i) Iberdrola International or (ii) Iberdrola Finanzas while represented by Definitive Notes*)*, payment of interest made under the Guarantee to the Noteholders may be subject to Spanish withholding tax at the applicable rate (currently 19%) unless the recipient is either (a) resident for tax purposes in a Member State of the European Union, other than 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 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, (b) resident in a country which has entered into a Tax Treaty with Spain which provides for the exemption from withholding of interest paid under the Notes, 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, or (c) a Spanish Corporate Income Taxpayer, provided that the Notes have been admitted to trading on the Luxembourg Stock Exchange's regulated market and have been admitted to the Official List of the Luxembourg Stock Exchange, as initially envisaged. Tax treaties could reduce this hypothetical withholding taxation.

Obligation to inform the Spanish Tax Authorities of the Ownership of the Notes

With effects as from 1 January 2013, Law 7/2012, of 29 October, as implemented by Royal Decree 1558/2012, of 15 November, introduced annual reporting obligations applicable to Spanish residents (i.e. individuals, legal entities, permanent establishments in Spain of non-resident entities) in relation to certain foreign assets or rights.

Consequently, if the Notes are deposited with or placed in the custody of a non-Spanish entity, Noteholders resident in Spain will be obliged, if certain thresholds are met as described below, to declare before the Spanish Tax Authorities, between 1 January and 31 March every year, the ownership of the Notes held on 31 December of the immediately preceding year (e.g. to declare between 1 January 2016 and 31 March 2016 the Notes held on 31 December 2015).

This obligation would only need to be complied with if certain thresholds are met: specifically, if the only rights/assets held abroad are the Notes, this obligation would only apply if the value of the Notes together with other qualifying assets held on 31 December exceeds €50,000 (with the corresponding valuation to be made in accordance with Wealth Tax rules). If this threshold is met, a declaration would only be required in subsequent years if the value of the Notes together with other qualifying assets increases by more than €20,000 as against the declaration made previously. Similarly, cancellation or extinguishment of the ownership of the Notes before 31 December should be declared if such ownership was reported in previous declarations.

Taxation in Spain - Disclosure of Information in Connection with the Notes

Disclosure of Information in Connection with Interest Payments

In accordance with section 5 of Article 55 of Foral Decree 205/2008 and section 5 of Article 44 of Royal Decree 1065/2007 and provided that the Notes issued by Iberdrola Finanzas are initially registered for clearance and settlement in Euroclear and Clearstream Luxembourg, the Paying Agent designated by Iberdrola Finanzas would be obliged to provide Iberdrola Finanzas (or the Guarantor in relation to the

payments made under the Deed of Guarantee) with a declaration (the form of which is set out in the Agency Agreement), which should include the following information:

(i) description of the Notes (and date of payment of the interest income derived from such Notes);

(ii) total amount of interest derived from the Notes; and

(iii) total amount of interest allocated to each non-Spanish clearing and settlement entity involved.

According to section 6 of Article 44 of Royal Decree 1065/2007, the relevant declaration will have to be provided to Iberdrola Finanzas (or the Guarantor, as the case may be) on the business day immediately preceding each Interest Payment Date. If this requirement is complied with, Iberdrola Finanzas (or the Guarantor) will pay gross (without deduction of any withholding tax) all interest under the Notes to all Noteholders (irrespective of whether they are tax resident in Spain).

In the event that the Paying Agent designated by Iberdrola Finanzas were to fail to provide the information detailed above, according to section 7 of Article 55 of Foral Decree 205/2008 and section 7 of Article 44 of Royal Decree 1065/2007, Iberdrola Finanzas (or the Guarantor, as the case may be) or the Paying Agent acting on its behalf would be required to withhold tax from the relevant interest payments at the general withholding tax rate (currently, 19 per cent.). If on or before the 10th day of the month following the month in which the interest is payable, the Paying Agent designated by Iberdrola Finanzas were to submit such information, Iberdrola Finanzas (or the Guarantor) or the Paying Agent acting on its behalf would refund the total amount of taxes withheld.

Notwithstanding the foregoing, Iberdrola Finanzas has agreed that in the event that withholding tax were required by law, Iberdrola Finanzas, failing which the Guarantor, would pay such additional amounts as may be necessary such that a Noteholder would receive the same amount that he would have received in the absence of any such withholding or deduction, except as provided in "*Terms and Conditions of Notes. 8. Taxation*".

In the event that the current applicable procedures were to be modified, amended or supplemented by, amongst others, a Spanish law, regulation, interpretation or ruling of the Spanish Tax Authorities, Iberdrola Finanzas would inform the Noteholders of such information procedures and of their implications, as Iberdrola Finanzas (or the Guarantor, as the case may be) may be required to apply withholding tax on interest payments under the Notes if the Noteholders were not to comply with such information procedures.

The Guarantor is subject to the same reporting requirements in relation to listed Notes issued by Iberdrola International.

Disclosure of Noteholder Information in Connection with the Redemption or Repayment of Zero Coupon Notes

In accordance with Article 55 of Foral Decree 205/2008 and Article 44 of Royal Decree 1065/2007, in the case of Zero Coupon Notes with a maturity of 12 months or less, the information obligations established in Section 44 (see "*—Disclosure of Information in Connection with Interest Payments*" above) will have to be complied with upon the redemption or repayment of the Zero Coupon Notes.

If the Spanish tax authorities consider that such information obligations must also be complied with for Zero Coupon Notes with a longer term than 12 months, the relevant Issuer will, prior to the redemption or repayment of such Notes, adopt the necessary measures with the Clearing Systems in order to ensure its compliance with such information obligations as may be required by the Spanish tax authorities from time to time.

The Proposed Financial Transactions Tax (FTT)

On 14 February 2013, the European Commission published a proposal (the **Commission's Proposal**) for a Directive for a common FTT in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the **participating Member States**). The Commission's Proposal has very broad scope and could, if introduced, apply to certain dealings in the Notes (including secondary market transactions) in certain circumstances. The issuance and subscription of Notes 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 Notes where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, "established" in a participating Member State in a broad range of circumstances, including (a) by transacting with a person established in a participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a participating Member State.

A joint statement issued in May 2014 by ten of the eleven participating Member States indicated an intention to implement the FTT progressively, such that it would initially apply to shares and certain derivatives, with this initial implementation occurring by 1 January 2016. The FTT, as initially implemented on this basis, may not apply to dealings in the Notes.

Countries such as France and Italy have recently introduced their own taxes, while others of the group of eleven already had an FTT in place (Belgium and Greece).

On 8 December 2015, the Council of the European Union discussed the current state of play with regard to the proposal of a number of EU Member States to introduce the FTT. In the context of this discussion, ten of the original eleven Participating Member States issued a statement setting out areas where agreement had been reached as well as areas that were still open. Estonia, however, has indicated that it no longer supports the proposal.

The statement issued by the 10 remaining Member States supporting the FTT (Austria, Belgium, France, Germany, Greece, Italy, Portugal, Slovakia, Slovenia, Spain) (**FTT10**) sets out details of the features the tax should have. The statement indicates that a decision on the open issues should be made by end of June 2016.

The first part deals with shares and the second deals with derivatives, so it appears that there is agreement as to these being in scope. However, there is no mention of other financial instruments such as bonds. Consideration is being given to possibly initially limiting the scope of the tax to shares issued in the FTT10 Member States.

Notwithstanding the above, the FTT proposal remains subject to negotiation between the FTT10 Member States. It may therefore be altered prior to any implementation, the timing of which remains unclear. Prospective holders of the Notes are advised to seek their own professional advice in relation to the FTT.

GENERAL INFORMATION

1. Application has been made to the CSSF to approve this document as a base prospectus of the Issuers. Application has also been made to the Luxembourg Stock Exchange for Notes issued under the Programme to be admitted to trading on the Regulated Market of the Luxembourg Stock Exchange and to be listed on the official list of the Luxembourg Stock Exchange. The Luxembourg Stock Exchange's regulated market is a regulated market for the purposes of the Markets in Financial Instruments Directive (Directive 2004/39/EC). However, Notes may be issued pursuant to the Programme which will not be admitted to trading on the Regulated Market of the Luxembourg Stock Exchange nor listed on the official list of the Luxembourg Stock Exchange nor any other stock exchange or which will be listed on such stock exchange as the relevant Issuer, the Guarantor and the relevant Dealer(s) may agree.

2. The update of the Programme and the Issue of the Notes was authorised by a resolution of the board of managing directors of Iberdrola International on 13 May 2016 and by a resolution of the board of managing directors of Iberdrola Finanzas on 25 May 2016. The giving of the guarantee contained in the Deed of Guarantee was authorised by resolutions of the board of directors of the Guarantor passed on 22 June 2012, by a resolution of the shareholders' meeting of the Guarantor passed on 22 June 2012 and by a resolution of the executive committee of the board of directors of the Guarantor passed on 17 May 2016. The Issuers and the Guarantor have obtained or will obtain from time to time all necessary consents, approvals and authorisations in connection with the issue and performance of the Notes and the giving of the guarantee relating to them.

3. Each permanent Bearer Note and definitive Bearer Note having a maturity of more than one year, Receipt, Coupon and Talon 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 Internal Revenue Code".

4. None of the Issuers, 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 Issuers or the Guarantor are aware) in the 12 months preceding the date of this document which may have or have had in the recent past a significant effect on the financial position or profitability of the Issuers, the Guarantor or the Group.

5. Since 31 December 2015, there has been no material adverse change in the prospects of Iberdrola International nor, since 31 December 2015, has there been any significant change in the financial or trading position of Iberdrola International.

6. Since 31 December 2015, there has been no material adverse change in the prospects of Iberdrola Finanzas nor, since 31 December 2015, has there been any significant change in the financial or trading position of Iberdrola Finanzas.

7. Since 31 December 2015, there has been no material adverse change in the prospects of the Guarantor or the Group nor, since 31 March 2016, has there been any significant change in the financial or trading position of the Guarantor or the Group.

8. Notes will be accepted for clearance through the Euroclear and Clearstream, Luxembourg systems. The Common Code and the International Securities Identification Number (ISIN) for each Series of Notes will be set out in the relevant Final Terms. The address of Euroclear is 1 Boulevard du Roi Albert II, B-1210 Brussels, Belgium and the address of Clearstream, Luxembourg is 42 Avenue JF Kennedy, L-1855 Luxembourg. The address of any alternative clearing system will be specified in the applicable Final Terms.

9. The issue price and the amount of the relevant Notes will be determined, before filing of the relevant Final Terms of each Tranche, based on then prevailing market conditions.

10. In relation to any Tranche of Fixed Rate Notes, an indication of the yield in respect of such Notes will be specified in the applicable Final Terms. The yield is calculated at the Issue Date of the Notes on the basis of the relevant Issue Price. The yield indicated will be calculated as the yield to maturity as at the Issue Date of the Notes and will not be an indication of future yield.

11. For the period of 12 months following the date of this Base Prospectus, the following documents (with English translations, where appropriate) will be available, during usual business hours on any weekday (public holidays excepted), at the registered offices of the Issuers and the Guarantor and the office of the Fiscal Agent and the Registrar and each of the Paying Agents and Transfer Agents:

    (a) the Agency Agreement (which includes the form of the Global Notes, the definitive Bearer Notes, the Certificates in respect of Registered Notes, the Coupons, the Receipts and the Talons);

    (b) the Deed of Covenant;

    (c) the Deed of Guarantee;

    (d) the Issuer-ICSD Agreement;

    (e) the Articles of Association of Iberdrola International and the *Estatutos* of Iberdrola Finanzas and the Guarantor (with English translations, in each case);

    (f) the financial information incorporated by reference, being:

        (i) the auditors' report and audited consolidated annual financial statements of the Guarantor for the financial years ended 31 December 2015 and 2014;

        (ii) the unaudited consolidated interim financial statements of the Guarantor for the three months ended 31 March 2016;

        (iii) the independent auditor's report and audited non-consolidated annual financial statements of Iberdrola International for the financial years ended 31 December 2015 and 2014; and

        (iv) the independent auditor's report and audited non-consolidated annual financial statements of Iberdrola Finanzas for the financial years ended 31 December 2015 and 2014;

    (g) the most recent publicly available audited annual financial non-consolidated statements of the Issuers; the Issuers are not required to publish interim financial statements;

    (h) the most recent publicly available audited annual consolidated financial statements of the Guarantor; the most recent publicly available interim unaudited consolidated statements of the Guarantor; the Guarantor publishes unconsolidated and consolidated figures on a quarterly basis;

    (i) this Base Prospectus; and

    (j) any future prospectus supplements, further prospectuses, information memoranda and Final Terms (save that a Final Terms relating to a Note which is neither admitted to trading on a regulated market in the European Economic Area nor offered in the European Economic Area in circumstances where a prospectus is required to be published under the Prospectus Directive will only be available for inspection by a holder of such Note and such holder must produce evidence satisfactory to the relevant Issuer and the Paying Agent as to its

holding of Notes and identity) to this Base Prospectus and any other documents incorporated herein or therein by reference.

In addition, copies of this Base Prospectus, each Final Terms relating to Notes which were admitted to trading on the Luxembourg Stock Exchange's regulated market and each document incorporated by reference are available on the Luxembourg Stock Exchange's website (www.bourse.lu).

12. Ernst & Young, S.L. has audited the accounts of the Guarantor in accordance with IFRS for 2014 and 2015 without qualification.

13. Ernst & Young Accountants LLP has audited the accounts of Iberdrola International with generally accepted accounting principles in the Netherlands for both 2014 and 2015 without qualification.

14. Ernst & Young, S.L. has audited the accounts of Iberdrola Finanzas in accordance with IFRS for 2014 and 2015 without qualification.

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

16. The Issuers do not intend to provide any post-issuance information, except if required by any applicable laws and regulations.

17. Certain of the Dealers 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 Issuers and their affiliates in the ordinary course of business. In addition, in the ordinary course of their business activities, the Dealers 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 Issuers or Issuers' affiliates. Certain of the Dealers or their affiliates that have a lending relationship with the Issuers routinely hedge their credit exposure to the Issuers consistent with their customary risk management policies. Typically, such Dealers and their affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in securities, including potentially the Notes issued under the Programme. Any such short positions could adversely affect future trading prices of Notes issued under the Programme. The Dealers 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. In addition, potential conflicts of interest may arise between the Calculation Agent (if any) and Noteholders (including when a Dealer acts as a Calculation Agent), including with respect to certain determinations and judgements that such Calculation Agent may make pursuant to the Conditions that may influence amounts receivable by the Noteholders during the term of the Notes and upon their redemption.

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