BASE PROSPECTUS

MADRILEÑA RED DE GAS FINANCE B.V.

(incorporated with limited liability under the laws of the Netherlands)

EUR2,000,000,000
Euro Medium Term Note Programme

unconditionally and irrevocably guaranteed by

Madrileña Red de Gas, S.A.U.

(incorporated with limited liability under the laws of the Kingdom of Spain)

Under the Euro Medium Term Note Programme (the "**Programme**"), Madrileña Red de Gas Finance B.V. (the "**Issuer**"), subject to compliance with all relevant laws, regulations and directives, may from time to time issue notes (the "**Notes**") unconditionally and irrevocably guaranteed (the "**Guarantee of the Notes**") by Madrileña Red de Gas, S.A.U. ("**MRG**" or the "**Guarantor**", which expressions shall include, where relevant, references to Madrileña Red de Gas II, S.A.U. ("**MRG II**", formerly a wholly-owned subsidiary of Madrileña Red de Gas, S.A.U. prior to its merger with Madrileña Red de Gas, S.A.U. on 29 November 2013). The aggregate nominal amount of Notes outstanding will not at any time exceed EUR2,000,000,000 (or the equivalent in other currencies).

This Base Prospectus is a base prospectus for the purposes of Article 5.4 of the Prospectus Directive (as defined below) and has been approved by the Luxembourg *Commission de Surveillance du Secteur Financier* (the "**CSSF**"), which is the Luxembourg competent authority for the purpose of the Prospectus Directive (and relevant implementing measures in Luxembourg, as a base prospectus issued in compliance with the Prospectus Directive and relevant implementing measures in Luxembourg, for the purpose of giving information with regard to the issue of the Notes issued under the Programme described in this Base Prospectus during the period of twelve months after the date hereof. 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 Issuer in accordance with Article 7(7) of the Luxembourg Prospectus Act 2005, as amended. Applications have been made for such Notes to be admitted during the period of twelve months after the date hereof to listing on the official list and to trading on the regulated market of the Luxembourg Stock Exchange. The Programme also permits Notes to be issued on the basis that they will not be admitted to listing, trading and/or quotation by any competent authority, stock exchange and/or quotation system or to be admitted to listing, trading and/or quotation by such other or further competent authorities, stock exchanges and/or quotation systems as may be agreed with the Issuer.

Each Tranche of Notes in bearer form ("**Bearer Notes**") will initially be in the form of either a temporary global note in bearer form (the "**Temporary Global Note**") or a permanent global note in bearer form (the "**Permanent Global Note**") in each case as specified in the relevant Final Terms. Each Temporary Global Note or, as the case may be, Permanent Global Note (each a "**Global Note**") which is not intended to be issued in new global note ("**NGN**") form, as specified in the relevant Final Terms, will be deposited on or around the issue date of the relevant Tranche of the Notes with a depositary or a common depositary for Euroclear Bank S.A./N.V. as operator of the Euroclear System ("**Euroclear**") and/or Clearstream Banking, société anonyme, Luxembourg ("**Clearstream, Luxembourg**") and/or any other relevant clearing system and each Global Note which is intended to be issued in NGN form, as specified in the relevant Final Terms, will be deposited on or around the issue date of the relevant Tranche of the Notes with a common safekeeper for Euroclear and/or Clearstream, Luxembourg. Each Tranche of Notes in registered form ("**Registered Notes**") will initially be represented by a global registered note (the "**Global Registered Notes**") and will either be: (a) in the case of a Note which is not to be held under the new safekeeping structure ("**New Safekeeping Structure**" or "**NSS**"), registered in the name of a common depositary (or its nominee) for Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system and the relevant Global Registered Note will be deposited on or about the issue date with the common depositary; or (b) in the case of a Note to be held under the New Safekeeping Structure, be registered in the name of a common safekeeper (or its nominee) for Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system and the relevant Global Registered Note will be deposited on or about the issue date with the common safekeeper for Euroclear and/or Clearstream, Luxembourg.

The Notes are, on issue, expected to be rated BBB by Fitch Ratings Limited and BBB by Standard & Poor's Credit Market Services Europe Limited. Both Fitch Ratings Limited and Standard & Poor's Credit Market Services Europe Limited are established in the EEA and registered under Regulation (EU) No 1060/2009, as amended (the "**CRA Regulation**"). Both Fitch Ratings Limited and Standard & Poor's Credit Market Services Europe Limited appear on the latest update of the list of registered credit rating agencies (as of 28 February 2017) on the ESMA website http://www.esma.europa.eu.

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

Investing in Notes issued under the Programme involves certain risks. The principal risk factors that may affect the abilities of the Issuer and the Guarantor to fulfil their respective obligations under the Notes are discussed under "Risk Factors" below.

Joint Arrangers

BANCO BILBAO VIZCAYA ARGENTARIA, S.A. **CRÉDIT AGRICOLE CIB**

Dealers

BANCO BILBAO VIZCAYA ARGENTARIA, S.A. **CAIXABANK**
CITIGROUP **CRÉDIT AGRICOLE CIB**
MORGAN STANLEY

28 February 2017

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IMPORTANT NOTICES

Each of the Issuer and the Guarantor accepts responsibility for the information contained in this Base Prospectus and the Final Terms (as defined below) for each Tranche of Notes issued under the Programme and declares that, having taken all reasonable care to ensure that such is the case, the information contained in this Base Prospectus and the Final Terms for each Tranche of Notes issued under the Programme is, to the best of its knowledge, in accordance with the facts and contains no omission likely to affect its import.

Each Tranche (as defined herein) of Notes will be issued on the terms set out herein under "*Terms and Conditions of the Notes*" (the "**Conditions**") as completed by a document specific to such Tranche called final terms (the "**Final Terms**"). This Base Prospectus must be read and construed together with any supplements hereto and with any information incorporated by reference herein and, in relation to any Tranche of Notes which is the subject of Final Terms, must be read and construed together with the relevant Final Terms.

The Issuer and the Guarantor have confirmed to the Dealers named under "*Subscription and Sale*" below that this Base Prospectus contains all information which is (in the context of the Programme, the issue, offering and sale of the Notes and the Guarantee of the Notes) material (including all such information as is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profits and losses and rights attaching to the Notes and the Guarantee of the Notes); that such information is true and accurate in all material respects and is not misleading in any material respect in light of the circumstances then subsisting; that any opinions, predictions or intentions expressed herein are honestly held or made and are not misleading in any material respect in light of the circumstances under which they were made; that this Base Prospectus does not omit to state any material fact necessary to make such information, opinions, predictions or intentions (in the context of the Programme, the issue, offering and sale of the Notes and the Guarantee of the Notes) not misleading in any material respect; and that all reasonable enquiries have been made to verify the foregoing.

No person has been authorised to give any information or to make any representation not contained in or not consistent with this Base Prospectus or any other document entered into in relation to the Programme or any information supplied by the Issuer or the Guarantor or such other information as is in the public domain and, if given or made, such information or representation should not be relied upon as having been authorised by the Issuer, the Guarantor or any Dealer.

Except for the Issuer and the Guarantor, no other party has separately verified the information contained in this Base Prospectus. To the fullest extent permitted by law, neither the Dealers nor any of their respective affiliates have authorised the whole or any part of this Base Prospectus and none of them makes any representation or warranty, express or implied, or accepts any responsibility as to the accuracy or completeness of the information contained in this Base Prospectus or for any other statement, made or purported to be made by a Dealer or on its behalf in connection with the Issuer, the Guarantor, or the issue and offering of the Notes. Each Dealer accordingly disclaims all and any liability whether arising in tort or contract or otherwise (save as referred to above) which it might otherwise have in respect of this Base Prospectus or any such statement. Neither the delivery of this Base Prospectus or any Final Terms nor the offering, sale or delivery of any Note shall, in any circumstances, create any implication that the information contained in this Base Prospectus is true subsequent to the date hereof or the date upon which this Base Prospectus has been most recently amended or supplemented or that there has been no adverse change, or any event reasonably likely to involve any adverse change, in the prospects or financial or trading position of the Issuer or the Guarantor since the date thereof or, if later, the date upon which this Base Prospectus has been most recently amended or supplemented or that any other information supplied in connection with the Programme is correct at any time subsequent to the date on which it is supplied or, if different, the date indicated in the document containing the same. None of the Dealers undertakes to review the financial condition or affairs of the Issuer 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.

The distribution of this Base Prospectus and any Final Terms and the offering, sale and delivery of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Base Prospectus or any Final Terms comes are required by the Issuer, the Guarantor and the Dealers to inform themselves about and to observe any such restrictions. For a description of certain restrictions on offers, sales and deliveries of the Notes and on the distribution of this Base Prospectus or any Final Terms and other offering material relating to the Notes, see "*Subscription and Sale*". In particular, 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 Bearer Notes are subject to U.S. tax law requirements. Subject to certain exceptions, the Notes may not be offered, sold or, in the case of Bearer Notes, delivered within the United States or to U.S. persons.

Neither this Base Prospectus nor any Final Terms constitutes an offer or an invitation to subscribe for or purchase any Notes and should not be considered as a recommendation by the Issuer, the Guarantor, the Dealers or any of them that any recipient of this Base Prospectus or any Final Terms should subscribe for or purchase any Notes. Each recipient of this Base Prospectus or any Final Terms shall be taken to have made its own investigation and appraisal of the condition (financial or otherwise) of the Issuer and the Guarantor.

The maximum aggregate principal amount of Notes outstanding and guaranteed at any one time under the Programme will not exceed EUR2,000,000,000 (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 (calculated in accordance with the provisions of the Dealer Agreement). The maximum aggregate principal amount of Notes which may be outstanding and guaranteed at any one time under the Programme may be increased from time to time, subject to compliance with the relevant provisions of the Dealer Agreement as defined under "*Subscription and Sale*".

In this Base Prospectus, unless otherwise specified, references to a "**Member State**" are references to a Member State of the European Economic Area and references to "**EUR**" or "**euro**" are to the single currency of the participating member states in the Third Stage of the European Economic and Monetary Union of the Treaty Establishing the European Union, as amended from time to time.

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

This Base Prospectus has been prepared on the basis that any offer of the Notes in any Member State of the European Economic Area which has implemented the Prospectus Directive each, a "**Relevant Member State**" will be made pursuant to an exemption under the Prospectus Directive, as implemented in that Relevant Member State, from the requirement to publish a prospectus for offers of the Notes. Accordingly any person making or intending to make an offer in that Relevant Member State of the Notes which are the subject of an offering contemplated in this Base Prospectus as completed by Final Terms in relation to the offer of those Notes may only do so in circumstances in which no obligation arises for the 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, in each case, in relation to such offer. Neither the Issuer nor any Dealer have authorised, nor do they authorise, the making of any offer of the Notes in circumstances in which an obligation arises for the Issuer or any Dealer to publish or supplement a prospectus for such offer. The expression "**Prospectus Directive**" means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the relevant Member State), and includes any relevant implementing measure in the Relevant Member State and the expression "**2010 PD Amending Directive**" means Directive 2010/73/EU.

PROHIBITION OF SALES TO EEA RETAIL INVESTORS - The Notes are not intended, from the date of application of Regulation (EU) No 1286/2014 (the "**PRIIPs Regulation**"), to be offered, sold or otherwise made available to and, with effect from such date, should not be offered, sold or otherwise made available to any retail investor in the European Economic Area ("**EEA**"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU ("**MiFID II**"); (ii) a customer within the meaning of Directive 2002/92/EC ("**IMD**"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in Directive 2003/71/EC (as amended, the "**Prospectus Directive**"). Consequently, no key information document required by the PRIIPs Regulation for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore, from the date of application of the PRIIPs Regulation, offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPS Regulation.

Tranches of Notes issued under the Programme will be rated or unrated. Where a Tranche of Notes is rated, such rating will not necessarily be the same as the rating(s) described above or the rating(s) assigned to the Notes already issued. Where a Tranche of Notes is rated, the applicable rating(s) will be specified in the relevant Final Terms. Whether or not each credit rating applied for in relation to a relevant Tranche of Notes will be (1) issued by a credit rating agency established in the EEA and registered under the CRA Regulation, or (2) issued by a credit rating agency which is not established in the EEA but will be endorsed by a credit rating agency which is established in the EEA and registered under the CRA Regulation or (3) issued by a credit rating agency which is not established in the EEA but which is certified under the CRA Regulation will be disclosed in the Final Terms. A list of rating agencies registered under the CRA Regulation can be found at http://www.esma.europa.eu. A rating is not a recommendation to buy or sell or hold the Notes and may be subject to suspension, change or withdrawal by the assigning rating agency.

In connection with the issue of any Tranche of Notes, a Dealer or Dealers (if any) acting as the Stabilising Manager(s) (or persons acting on behalf of any Stabilising Manager(s)) may over allot the 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 Stabilising Manager(s) (or persons acting on behalf of a Stabilising 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 Stabilising Manager(s) (or persons acting on behalf of the Stabilising Manager(s)) in accordance with all applicable laws and rules.

PROSPECTUS SUPPLEMENT

If at any time the Issuer shall be required to prepare a prospectus supplement pursuant to Article 13 of the Luxembourg Act dated 10 July 2005 on prospectuses for securities, as amended, the Issuer will prepare and make available an appropriate supplement to this Base Prospectus which, in respect of any subsequent issue of the Notes to be listed on the official list and admitted to trading on the regulated market of the Luxembourg Stock Exchange, shall be approved by the CSSF and constitute a prospectus supplement as required by Article 13 of the Luxembourg Act dated 10 July 2005 on prospectuses for securities, as amended.

Each of the Issuer and the Guarantor has given an undertaking to the Dealers that if at any time during the duration of the Programme there is a significant new factor, material mistake or inaccuracy relating to information contained in this Base Prospectus which is capable of affecting the assessment of any Notes and whose inclusion in or removal from this Base Prospectus is necessary for the purpose of allowing an investor to make an informed assessment of the assets and liabilities, financial position, profits and losses and prospects of the Issuer and the Guarantor, and the rights attaching to the Notes, the Issuer shall prepare a supplement to this Base Prospectus or publish a replacement Base Prospectus for use in connection with any subsequent offering of the Notes and shall supply to each Dealer such number of copies of such supplement hereto as such Dealer may reasonably request.

OVERVIEW

The following general description of the Programme does not purport to be complete and is taken from, and is in its entirety qualified by, the remainder of this Base Prospectus and, in relation to the terms and conditions of any particular Tranche of Notes, the applicable Final Terms. Words and expressions defined in the "Terms and Conditions of the Notes" below or elsewhere in this Base Prospectus have the same meanings in this overview of the Programme.

Issuer:	Madrileña Red de Gas Finance B.V.
Guarantor:	Madrileña Red de Gas, S.A.U.
Risk Factors:	Investing in the Notes issued under the Programme involves certain risks. The principal risk factors that may affect the abilities of the Issuer and the Guarantor to fulfil their respective obligations under the Notes are discussed under "*Risk Factors*" below.
Joint Arrangers:	Banco Bilbao Vizcaya Argentaria, S.A. and Crédit Agricole Corporate and Investment Bank.
Dealers:	Banco Bilbao Vizcaya Argentaria, S.A., CaixaBank, S.A., Crédit Agricole Corporate and Investment Bank, Citigroup Global Markets Limited, Morgan Stanley & Co. International plc and any other Dealer appointed from time to time by the Issuer and the Guarantor either generally in respect of the Programme or in relation to a particular Tranche of Notes only.
Fiscal Agent and Paying Agent:	Deutsche Bank AG, London Branch.
Registrar:	Deutsche Bank Luxembourg S.A.
Luxembourg Listing Agent:	Deutsche Bank Luxembourg S.A.
Listing and Trading:	Applications have been made for the Notes to be admitted during the period of twelve months after the date hereof to listing on the official list and to trading on the regulated market of the Luxembourg Stock Exchange. The Programme also permits the Notes to be issued on the basis that they will not be admitted to listing, trading and/or quotation by any competent authority, stock exchange and/or quotation system or to be admitted to listing, trading and/or quotation by such other or further competent authorities, stock exchanges and/or quotation systems as may be agreed with the Issuer.
Clearing Systems:	Euroclear and/or Clearstream, Luxembourg and/or, in relation to any Tranche of Notes, any other clearing system as may be agreed between the Issuer, the Fiscal Agent and the relevant Dealer and as specified in the relevant Final Terms.
Initial Programme Amount:	Up to EUR2,000,000,000 (or its equivalent in other currencies) aggregate principal amount of the Notes outstanding and guaranteed at any one time. The Issuer and the Guarantor may increase the initial Programme amount in accordance with the terms of the Dealer Agreement.
Issuance in Series:	The Notes will be issued in Series. Each Series may comprise one or more Tranches issued on different issue dates. The Notes of each Series will all be subject to identical terms, except that

	the issue date and the amount of the first payment of interest may be different in respect of different Tranches. The Notes of each Tranche will all be subject to identical terms in all respects save that a Tranche may comprise Notes of different denominations.
Forms of Notes:	The Notes may be issued in bearer form or in registered form. Each Tranche of Bearer Notes will initially be in the form of either a Temporary Global Note or a Permanent Global Note, in each case as specified in the relevant Final Terms. Each Global Note which is not intended to be issued in new global note form (a "**Classic Global Note**" or "**CGN**"), as specified in the relevant Final Terms, will be deposited on or around the relevant issue date with a depositary or a common depositary for Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system and each Global Note which is intended to be issued in new global note form (a "**New Global Note**" or "**NGN**"), as specified in the relevant Final Terms, will be deposited on or around the relevant issue date with a common safekeeper for Euroclear and/or Clearstream, Luxembourg. Each Temporary Global Note will be exchangeable for a Permanent Global Note or, if so specified in the relevant Final Terms, for Definitive Notes. If **TEFRA D** (defined below) is specified in the relevant Final Terms as applicable, certification as to non-U.S. beneficial ownership will be a condition precedent to any exchange of an interest in a Temporary Global Note or receipt of any payment of interest in respect of a Temporary Global Note. Each Permanent Global Note will be exchangeable for Definitive Notes in accordance with its terms. Definitive Notes will, if interest-bearing, have Coupons attached and, if appropriate, a Talon for further Coupons. Each Tranche of Notes represented by a Global Registered Note will either be: (a) in the case of a Note which is not to be held under the new safekeeping structure ("**New Safekeeping Structure**" or "**NSS**"), registered in the name of a common depositary (or its nominee) for Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system and the relevant Global Registered Note will be deposited on or about the issue date with the common depositary; or (b) in the case of a Note to be held under the New Safekeeping Structure, be registered in the name of a common safekeeper (or its nominee) for Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system and the relevant Global Registered Note will be deposited on or about the issue date with the common safekeeper for Euroclear and/or Clearstream, Luxembourg.
Currencies:	The Notes may be denominated in any currency or currencies, subject to compliance with all applicable legal and/or regulatory and/or central bank requirements. Payments in respect of Notes may, subject to such compliance, be made in and/or linked to, any currency or currencies other than the currency in which such Notes are denominated.
Status of the Notes and the Guarantee of the Notes:	The Notes will constitute direct, general, unconditional, unsubordinated and (without prejudice to Condition 5 (*Negative Pledge*)) unsecured obligations of the Issuer which will at all times rank *pari passu* among themselves and at least *pari passu*

	with all other present and future unsecured obligations of the Issuer, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application. The Guarantee of the Notes will constitute direct, general, unconditional, unsubordinated and (without prejudice to Condition 5 (*Negative Pledge)* unsecured obligations of the Guarantor which will at all times rank at least *pari passu* with all other present and future unsecured obligations of the Guarantor, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application.
On-Loan Agreement and Limited Recourse:	The recourse of the Noteholders against the Issuer for the enforcement of its obligations under the Notes will be limited to any proceeds that may be received in respect of the On-Loan Agreements plus the Issuer's share capital, from time to time. After the Noteholders will have had recourse with regard to these proceeds, the Issuer will be considered to have satisfied all its payment obligations under the Notes in full and final settlement. For the avoidance of doubt, this provision shall not limit the Noteholders' rights against the Guarantor arising pursuant to the Deed of Guarantee. The Issuer will undertake to Noteholders under the Conditions of the Notes not to amend, vary, modify or waive any of its rights under the On-Loan Agreements if to do so would result in the Issuer receiving fewer payments or less frequent payments than is required by the Issuer to discharge its obligations under the Notes on a timely basis.
Issue Price:	The Notes may be issued at any price as specified in the relevant Final Terms. The price and amount of the Notes to be issued under the Programme will be determined by the Issuer, the Guarantor and the relevant Dealer(s) at the time of issue in accordance with prevailing market conditions. In the case of Zero Coupon Notes the amount to be paid up by investors will be at least EUR100,000 (or its equivalent in other currencies).
Maturities:	Such maturities as may be agreed between the Issuer and the relevant Dealer(s), subject to such minimum or maximum maturities 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 Issuers or the relevant currency. Where Notes have a maturity of less than one year and either (a) the issue proceeds are received by the Issuer in the United Kingdom or (b) the activity of issuing the Notes is carried on from an establishment maintained by the 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 by the Issuer.

	No money market instruments having a maturity at the date of issue of less than 12 months will be offered to the public or admitted to trading on a regulated market under this Base Prospectus.
Redemption:	The Notes may be redeemable at par or at such other Redemption Amount as may be specified in the Conditions or relevant Final Terms provided that such amount shall be at least 100% of the nominal value of the Notes.
Optional Redemption:	If so specified in the Final Terms, the Notes may be redeemed prior to their stated maturity at the option of the Issuer in accordance with Condition 10(c) (*Redemption at the option of the Issuer*) and/or the Noteholders in accordance with Condition 10(e) (*Redemption on sale of assets*), Condition 10(f) (*Redemption on loss of licence*) or Condition 10(g) (*Redemption on Change of Control*).
Tax Redemption:	Except as described above, early redemption will only be permitted for tax reasons as described in Condition 10(b) (*Redemption for tax reasons*).
Interest:	The Notes may be interest-bearing or non-interest bearing. Interest (if any) may accrue at a fixed rate or a floating rate and the method of calculating interest may vary between the issue date and the maturity date of the relevant Series.
Fixed Rate Notes:	Fixed rate interest will bear interest in accordance with Condition 6 (*Fixed Rate Note Provisions*).
Floating Rate Notes:	Floating Rate Notes will bear interest in accordance with Condition 7 (*Floating Rate Note Provisions*).
Zero Coupon Notes:	Zero Coupon Notes will be payable in accordance with Condition 9 (*Zero Coupon Note Provisions*).
Denominations:	No Notes may be issued under the Programme which (a) have a minimum denomination of less than EUR100,000 (or the equivalent in another currency), or (b) carry the right to acquire shares (or transferable securities equivalent to shares) issued by the Issuer or by any entity to whose group the Issuer belongs. Subject thereto, the Notes will be issued in such denominations as may be specified in the relevant Final Terms, subject to compliance with all applicable legal and/or regulatory and/or central bank requirements.
Negative Pledge:	The Notes will have the benefit of a negative pledge as described in Condition 5 (*Negative Pledge*).
Cross Default:	The Notes will have the benefit of a cross default as described in Condition 14(c) (*Cross Default*).
Taxation:	All payments in respect of the Notes will be made free and clear of withholding taxes of the Netherlands, or the Kingdom of Spain, as the case may be, unless the withholding is required by law. In the event that any such withholding or deduction is made, additional amounts will be payable by the Issuer or, as the case may be, the Guarantor, subject to certain exceptions as are more fully described in Condition 13 (*Taxation*.

Governing Law:	English law.
Enforcement of Notes in Global Form:	In the case of Global Notes, individual investors' rights against the Issuer will be governed by a Deed of Covenant dated 1 August 2013, a copy of which will be available for inspection at the specified office of the Fiscal Agent.
Ratings:	The Notes are, on issue, expected to be rated BBB by Standard & Poor's Credit Market Services Europe Limited and BBB by Fitch Ratings Limited. Both Standard & Poor's Credit Market Services Europe Limited and Fitch Ratings Limited are established in the EEA and registered under the CRA Regulation. Tranches of Notes issued under the Programme will be rated or unrated. Where a Tranche of Notes is rated, such rating will not necessarily be the same as the rating(s) described above or the rating(s) assigned to the Notes already issued. Where a Tranche of Notes is rated, the applicable rating(s) will be specified in the relevant Final Terms. Whether or not each credit rating applied for in relation to a relevant Tranche of Notes will be (1) issued by a credit rating agency established in the EEA and registered under the CRA Regulation, or (2) issued by a credit rating agency which is not established in the EEA but will be endorsed by a credit rating agency which is established in the EEA and registered under the CRA Regulation or (3) issued by a credit rating agency which is not established in the EEA but which is certified under the CRA Regulation will be disclosed in the Final Terms.
Selling Restrictions:	For a description of certain restrictions on offers, sales and deliveries of the Notes and on the distribution of offering material in the United States of America, the European Economic Area, the United Kingdom, the Netherlands, the Kingdom of Spain and Japan see "*Subscription and Sale*" below. The Issuer is Category 2 for the purposes of Regulation S under the Securities Act, as amended. The Notes will be issued in compliance with U.S. Treasury Regulations Section 1.163-5(c)(2)(i)(D) or any successor rules in substantially the same form that are applicable for purposes of Section 4701 of the United States Internal Revenue Code of 1986, as amended, (the ("**Code**") ("**TEFRA D**") unless (i) the relevant Final Terms states that Notes are issued in compliance with U.S. Treasury Regulations Section 1.163-5(c)(2)(i)(C) or any successor rules in substantially the same form that are applicable for purposes of Section 4701 of the Code ("**TEFRA C")** or (ii) the Notes are issued other than in compliance with TEFRA D or TEFRA C but in circumstances in which the Notes will not constitute "registration required obligations" under the United States Tax Equity and Fiscal Responsibility Act of 1982 ("**TEFRA**"), which circumstances will be referred to in the relevant Final Terms as a transaction to which TEFRA is not applicable.

RISK FACTORS

The Issuer and the Guarantor believe that the following factors may affect their ability to fulfil their obligations under the Notes and the Guarantee of the Notes. All of these factors are contingencies which may or may not occur and neither the Issuer nor the Guarantor are in a position to express a view on the likelihood of any such contingency occurring.

Factors which the Issuer and the Guarantor believe may be material for the purpose of assessing the market risks associated with the Notes issued under the Programme are also described below.

The Issuer and the Guarantor believe that the factors described below represent the principal risks inherent in investing in the Notes issued under the Programme, but the Issuer and the Guarantor may be unable to pay interest, principal or other amounts on or in connection with any Notes or the Guarantee of the Notes (as the case may be) for other reasons and neither the Issuer nor the Guarantor represent that the statements below regarding the risks of holding any Notes are exhaustive. 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.

Risks Relating to the Issuer

The Issuer is a finance vehicle owned by Elisandra Spain V, S.L.U. ("**Elisandra Spain V**"), which is in turn owned by Elisandra Spain IV, S.L., for the purpose of issuing notes and other debt securities. The Issuer's principal liabilities will comprise the Notes 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 to Elisandra Spain V and subsequently to Madrileña Red de Gas, S.A.U. ("**MRG**"). Accordingly, in order to meet its obligations under the Notes, the Issuer is dependent upon MRG meeting its obligations under such agreements in a timely fashion. The amounts required to be paid by MRG under such agreements will be sufficient to enable the Issuer to meet its obligations under the Notes. Should MRG fail to meet its obligations under such agreements in a timely fashion this could have a material adverse effect on the ability of the Issuer to fulfil its obligations under the Notes issued under the Programme.

Risks Related to MRG

Risks relating to changes in regulation

MRG is engaged in the distribution of natural gas, which is a regulated activity. Spanish and European and, to a significantly lesser extent, regional regulations determine the scope of the business undertaken by MRG and the compensation scheme applicable to the distribution of natural gas. Consequently, MRG's business, prospects, financial position and operating results could be materially adversely affected by changes in laws, regulations or regulatory policy that apply to its business such as: (i) changes in the current remuneration scheme or in some of the variables used to determine the remuneration scheme for the distribution of natural gas; (ii) liberalisation of the distribution of natural gas market in Spain; (iii) amendments to the current exclusivity granted in favour of respective distributors of natural gas with respect to specific activities within specific geographical zones, which also gives them, in certain cases, preferential treatment with respect to public tenders carried out in the neighbouring geographical zones; (iv) changes concerning whether licenses, approval, concessions or agreements to operate are granted or renewed or whether there have been any breaches of their respective terms; (v) the imposition of additional obligations; (vi) the creation of new taxes that may increase the price of natural gas and adversely affect its demand; and (vii) other decisions relating to the impact of general economic conditions, climate change and levels of permitted revenues in relation to proposed business development activities. In addition, MRG's ability to undertake specific projects is subject to it being able to obtain the relevant regulatory approvals, licenses, concessions or permits.

In addition, it should be noted that many of MRG's approvals, licenses, concessions and permits are subject to the fulfilment of certain commitments which, if not met, can lead to sanctions, a reduction in remuneration, revocation of the approvals, licenses, concessions and permits and enforcement of any guarantees provided, which could have a material adverse effect on the business, financial position, results of operations and prospects of MRG.

Risks relating to changes in regulation which impact the regulated remuneration for the distribution of gas

In Spain, the main source of income for a company dedicated to the distribution of natural gas is the regulated remuneration defined and settled by the regulators as part of the periodical system of costs settlements. Regulated remuneration constitutes approximately 84 per cent. of MRG's total revenue as of 30 June 2016. According to the current regulatory framework the purpose of this payment is to enable distributors of natural gas to recover their investment, pay the costs of running and maintaining the distribution system and earn a reasonable return. The annual amounts to be paid to each such distributor company are set out in accordance with the rules laid down, *inter alia*, in the 1998 Hydrocarbon Sector Law amended by Law 8/2015, Royal Decree 949/2001, of 3 August, Royal Decree Law 8/2014, of 4 July, and Law 18/2014, of 15 October, and related and implementing regulations.

The regulated remuneration for each distribution company is specifically determined every year by the Ministry of Energy, Tourism and Digital Agenda (*Ministerio de Energía, Turismo y Agenda Digital*) ("**METAD**"). Since 2002, the regulated remuneration for each year has been based on the previous year's regulated remuneration. A parametric formula is used applying certain fixed coefficients stipulated in the regulations, which were updated in the second half of 2014 by Royal Decree Law 8/2014 and Law 18/2014. Royal Decree Law 8/2014, of 4 July, reduced remuneration for natural gas distribution by approximately €111 million, with an estimated annualised effect on MRG of approximately €11 million. Increases or reductions in the number of connection points (and whether these are located in recently gasified areas) and in the volume of gas distributed compared to the preceding year are the factors taken into account in such parametric formula. If regulators decide to change the variables used to adjust the annual remuneration or criteria used to calculate it, distributors of natural gas, like MRG, could see smaller-than-expected increases or even decreases in their revenues. In connection with the foregoing, pursuant to Law 18/2014, the parameters are set out for six-year regulatory periods, although in the event of significant fluctuations of regulated income and costs, adjustments could be made after three years.

In addition to this regulated remuneration, natural gas distribution companies in Spain such as MRG also receive income from services they provide that are ancillary to gas distribution. The prices of some of these services are also regulated by the national or regional governments. For example, the activation and maintenance of connection points, the rental of meters and the inspection and construction of new supply lines or connection points are all sources of other regulated revenues, representing approximately 14 per cent. of MRG's total revenues for the year ended 30 June 2016. If the prices that the distribution companies are able to charge for these ancillary activities were changed or were not sufficient to cover all the costs, this could directly adversely affect the income received or the profitability of such natural gas distributors, such as MRG.

Any change in the regulated remuneration scheme or in the prices for ancillary services, as described above or otherwise, could have a material adverse effect on MRG's business, financial position, results of operations and prospects.

Uncertain macroeconomic climate could affect MRG's financial position

The global economy and the global financial system experienced significant turbulence and uncertainty over recent years, including a dislocation of the financial markets and stress to the sovereign debt and economies of certain EU countries. This dislocation restricted general levels of liquidity and the availability of credit and the terms on which credit is available. It also increased the financial burden on MRG's customers, the companies engaged in the supply of natural gas in Spain, downgrading their credit quality, reducing their spending capacity and negatively impacting their access to credit. This crisis in the financial system led the governments of many developed economies (including Spain) to inject liquidity into the financial system and also required the recapitalisation of the financial sector to reduce the risk of failure of certain large institutions, in an attempt to safeguard the flow of credit to businesses and to seek to return confidence to the market.

Following this intervention, the financial sector showed signs of stabilisation and conditions and trends are improving in Spain. A return to the volatile and disrupted market conditions previously seen throughout the world and in Spain could affect many areas including business and consumer confidence, unemployment trends, the state of the housing market, the commercial real estate sector, the state of the equity, bond and foreign exchange markets, counterparty risk, inflation, the availability and cost of credit, transaction volumes in key markets and the liquidity of the global financial markets, all of which could have a material adverse effect on MRG's business, prospects, financial position and operating results.

A breach of MRG's authorisations could expose MRG to the risk of losing such authorisations

If a distribution company does not comply with its commitments and does not extend its distribution network in the manner described in its authorisations, its authorisations may be left without effect. This means that if MRG does not make an investment included in its authorisation application, it will not be under any obligation to carry it out, but the authorisation may be revoked (so that another company could be authorised to construct distribution facilities in the area). Furthermore, MRG posts a bond in the amount of 2% of the budget of the proposed project, and the relevant public administrative body may retain such bond pursuant to the terms of the authorisation. Whilst MRG is currently in compliance with the obligations and conditions imposed for all of MRG's preliminary authorisations, and no administrative procedures have been commenced to revoke or to declare null and void any of MRG's authorisations due to breaches of the obligations and conditions imposed, the loss of any such authorisation could have a material adverse effect on MRG's business, financial position, results of operations and prospects.

MRG has been in the past and could in the future be required to partially finance a tariff imbalance in the Spanish natural gas system

The regulated remuneration is paid to distributors every year through a settlement process that takes into consideration revenues and costs in the Spanish natural gas system. As a consequence of costs exceeding revenues, tariff deficits have been generated in the Spanish natural gas system. This has in the past created situations in which MRG has not received its full regulated remuneration for the relevant calendar year, although deficits were in each case paid in the subsequent year. The accumulated deficit as of 31 December 2014 has been officially quantified as €1,025,052,945.66 by means of the 2014 final settlement resolution adopted by the CNMC on 24 November 2016. Pursuant to Royal Decree Law 8/2014, of 4 July, on urgent measures for growth, competitiveness and efficiency (in force since 5 July 2014 and subsequently ratified by Law 18/2014, of 15 October), once the accumulated deficit as of 31 December 2014 is quantified, it will be allocated between the members of the settlement system that have borne such deficit, and thus each of these operators will have a collection right officially acknowledged which will entitle them to recover the share of the accumulated deficit that they have financed as of 31 December 2014, plus interest at a market rate through settlements over the following 15 years. The instalments for the repayment of the members of the settlement system have been published in the Ministerial Order ETU/1977/2016, of 23 December 2016, establishing the tolls and fees associated with third party access to natural gas facilities, and the payments in respect of regulated activities for 2017. The foregoing notwithstanding, MRG has recorded a receivable in respect of the accumulated deficit as of 31 December 2016 borne by it in the amount of €47.4 million, €43.9 million of which is recorded as a long-term receivable to be received over 15 years, and €3.5 million of which has been recorded as a short-term receivable.

Law 18/2014 also includes measures to correct any short-term imbalances and to prevent another structural deficit from being generated. These are: (a) if in a single year the deficit exceeds 10 per cent. of the revenues generated by the gas system, tolls and duties will be increased automatically in the following year to recover the amount by which the limit was exceeded; and (b) if the accumulated deficit exceeds 15 per cent. of revenues, tolls and duties will also be increased automatically in the following year to the extent by which the limit was exceeded.

In the context of legislative measures adopted in relation to tariff deficit, Royal Decree Law 13/2014 establishes other urgent measures in relation to the natural gas sector. In this regard, Royal Decree Law 13/2014 terminated the concession for operating the Castor natural gas underground storage facility and the relevant facilities to be put in hibernation. Enagas Transporte, S.A.U. shall pay €1,350 million to the holder of the concession, as recognition for the investments made related to the research and exploration works undertaken to operate the Castor natural gas underground storage facility. This amount will be collected from the gas system over a period of 30 years and paid to Enagas Transporte, S.A.U. starting from the first settlement of the gas system corresponding to the revenues accrued from 1 January 2016. In addition, Enagas Transporte, S.A.U. will be in charge of the operation and maintenance of these facilities during its hibernation. The maintenance, operation and other costs established in the Royal Decree Law 13/2014 will also be collected from the gas system and paid to Enagas Transporte, S.A.U through the gas system's settlements corresponding to the monthly billing. Although the above payments will increase the gas system's costs in the long-term due to the yearly payments to Enagas Transporte, S.A.U., the Royal Decree Law 13/2014 gives a solution to this problem which would have a bigger impact on the tariff deficit if the termination payment was to be made by the gas system in the short term.

Furthermore, Royal Decree Law 8/2014, of 4 July 2014, on urgent measures for growth, competitiveness and efficiency (in force since 5 July 2014 and subsequently ratified by Law 18/2014, of 15 October) provided for,

inter alia, certain measures intended to avoid further imbalances between regulated revenues and regulated costs. However, if such imbalances are generated, all regulated participants in the Spanish natural gas system are expected to make financial contributions to finance such imbalances. Such contributions are to be repaid with interest at market rate over five years.

The accumulated deficit as of December 2015 has been officially quantified as €27,231,873.55 by means of the 2015 final settlement resolution adopted by the CNMC on 24 November 2016. The instalments for the repayment of the members of the settlement system have been published in the Ministerial Order ETU/1977/2016, of 23 December 2016, establishing the tolls and fees associated with third party access to natural gas facilities, and the payments in respect of regulated activities for 2017. MRG has recorded a receivable in respect of the accumulated deficit as of 31 December 2016 borne by it in the amount of €1.3 million.

If the annual imbalances exceed 10% of the regulated revenues, or if the accumulated imbalances exceed 15% of the regulated revenues, the regulated tolls and charges for the following calendar year need to be increased to contain the tariff deficit and imbalances within the permitted thresholds. As the new rules have only been recently implemented, and despite those rules having been designed with the aim of reducing imbalances, there remains a risk that imbalances will be generated and if tolls and charges are not raised, such imbalance may have to be financed by all companies engaged in regulated activities, including MRG. Moreover, in response to a large imbalance, the regulator could choose to adversely change regulations governing remuneration that MRG receives, and such adverse change in regulations could reduce the remuneration that MRG receives. As such, if imbalances in the Spanish natural gas system develop, it could have a material adverse effect on MRG's business, financial position, results of operations and prospects.

Changes in accounting rules

On 2 December 2016, the Ministry of Economy, Industry and Competition issued Royal Decree 602/2016 that partially amended Spanish GAAP regulated by Royal Decree 1514/2007 of 16 November 2007 and Royal Decree 1159/2010 of 17 September 2010. Amongst other amendments, Royal Decree 602/2016 introduced the required amortisation of goodwill and intangible assets with indefinite useful life in a presumed period of 10 years, unless the company can demonstrate a different period of amortisation. This new accounting rule is effective for annual periods starting on or after 1 January 2016, which means that for MRG such rule will be applicable in the year ended 30 June 2017. Royal Decree 602/2016 gives the option, on its transition date, to apply this accounting rule prospectively through the income statement or retrospectively, against retained earnings, up to the date when goodwill and the intangible assets were generated for the first time or the initial application of the current version of Spanish GAAP, that is 1 January 2008. As of June 30 2016, MRG has a balance of goodwill and intangible assets with indefinite useful life of €57 million and €713 million, respectively. This new accounting rule will have an impact that may significantly affect the result for the year and reserves of MRG, starting from the year ended 30 June 2017, although such accounting rule is not expected to have an impact on cash and cash equivalents of MRG.

Changes in tax regulations could affect MRG's financial position

The Spanish government introduced certain amendments to the corporate income tax regulatory framework between 2012 and 2014, some of which will be maintained for the fiscal years beginning in 2016 and onwards by virtue of the Royal Decree Law 3/2016, of 2 December 2016. In particular, some temporary measures were implemented to counteract falling tax revenues and to reduce the public deficit.

Before these amendments entered into force, goodwill had been depreciated for tax purposes at an annual rate of 5%, provided that certain conditions were met. Similarly, other (non-goodwill) intangible assets with an indefinite useful life had been depreciated for tax purposes at a rate of 10%. Furthermore, for the fiscal years ended 30 June 2013, 2014, 2015 and 2016, the applicable tax depreciation rates for goodwill and intangible assets were temporarily reduced to 1% and 2%, respectively. From the financial years beginning in 2016 and onwards, both the goodwill and other intangible assets with an indefinite useful life shall be depreciated for tax purposes at an annual rate of 5%.

Likewise, during the fiscal years ended 30 June 2014 and 2015, only 70% of MRG's depreciation of tangible fixed assets was tax deductible provided it has a turnover (calculated as MRG's net sales during the twelve months prior to the relevant fiscal year) exceeding €10 million. Depreciation expenses of MRG that have not been deducted may be carried forward over the following 10 years beginning in the fiscal year ending 30 June

2016, on a straight-line basis or over the useful life of the asset, at MRG's election. This temporary measure ceased to apply from and including the fiscal year ending 30 June 2016. From that fiscal year, the total depreciation of MRG's tangible fixed assets is tax deductible.

A temporary rule also applied to the use of carry-forward losses of MRG in the fiscal years ended 30 June 2013, 2014, 2015 and 2016 consisting of (i) if MRG's turnover was between €20 million and €60 million in a given fiscal year, carry-forward losses from prior fiscal years may be used up to 50% of MRG's taxable income for that fiscal year, (ii) if MRG's turnover exceeded €60 million, then carry-forward losses from prior fiscal years may be used up to 25% of MRG's taxable income for the fiscal year and (iii) this temporary rule did not apply to companies with a turnover of less than €20 million. However, starting in the fiscal year ending 30 June 2018 and onwards, carry-forward losses from prior fiscal years may be used up to 70% of MRG's taxable income for the fiscal year if MRG's turnover is less than €20 million (for fiscal year ending 30 June 2017, carry-forward losses from prior fiscal years may be used up to 60% of MRG's taxable income for the fiscal year) and remaining the same limitation rules to the use of carry-forward losses from prior fiscal years if MRG's turnover is between €20 million and €60 million (i.e. up to 50% of MRG's taxable income for that year) and if MRG's turnover exceeds €60 million (i.e. up to 25% of MRG's taxable income for that year). Under this rule, the first €1 million of carry-forward losses will always be available for use against MRG's taxable income for the fiscal year. As of 30 June 2016, MRG does not have any carry-forward losses registered.

The new Corporate Income Tax Law (Law 27/2014, of 27 November) entered into force on 1 January 2015 as part of a comprehensive tax reform process, and has been applicable for MRG as from fiscal year ending 30 June 2016 and onwards. The new Corporate Income Tax Law increases tax depreciation rates for goodwill and for intangible assets with an indefinite useful life to 5%. This rate will apply beginning with the fiscal year ending 30 June 2017. Moreover, the corporate income tax rate was reduced from 30% in the fiscal year ending 30 June 2015 to 28% for the fiscal year ending 30 June 2016 and will be reduced to 25% for the fiscal year ending 30 June 2017 and onwards.

While these are the rates under current law, there can be no assurance that the tax regulations will not be further amended. Any change in the current tax regulations, as described above or otherwise, could increase MRG tax burden and negatively impact MRG's business, financial position, results of operation and prospects.

Spanish tax legislation may restrict the deductibility, for Spanish tax purposes, of all or a portion of the interest on our indebtedness, thus reducing the cash flow available to service our indebtedness.

The Spanish Corporate Income Tax Law, contains a general limitation on the deductibility of certain net financial expenses incurred by a Spanish Corporate Income Tax taxpayer (or by the Corporate Income Tax consolidated group to which such entity belongs) exceeding the 30% of its annual operating profit (defined as the EBITDA subject to certain adjustments); a EUR 1 million will be deductible in any case. Deductible interest after the application of the aforementioned limitations will be referred hereto as the "*Maximum Threshold*".

The apportionment of non-deducted interest in a given fiscal year, may be deducted in the following fiscal years, subject to the Maximum Threshold in each subsequent fiscal year. If the amount of net financial expenses in a given fiscal year is below the Maximum Threshold, the difference between the net financial expenses deducted in that year and the Maximum Threshold may increase such Maximum Threshold in the immediate subsequent 5 years. As of 30 June 2016, MRG has a balance of deferred tax asset of €17.8 million related to non-deductible financial expenses.

The impact of the above rules on MRG's ability to deduct interest paid on indebtedness could increase MRG tax burden and therefore negatively impact MRG's business, financial position, results of operation and prospects.

Tax inspection

As a result of the tax inspections which commenced in the tax years of 2010 to 2011, on 17 February 2016 MRG was notified of the assessment agreement for corporate income tax for 2010, which resulted in tax payable of €5.5 million, paid by MRG on 5 April 2016, largely due to the inspector's approach to the deductibility of certain expenses. This did not trigger any penalty. Additionally, on 29 February 2016 MRG was notified of the corporate income tax assessment agreement for 2011 and as explained above, although it resulted in an adjustment to the accounting result which reduced MRG's losses by €1.8 million, it resulted in zero tax payable. Both assessments were contested.

On 4 November 2016, MRG filed a brief of grounds to appeal before the Spanish Administrative Court against the Corporate Income Tax reassessments for the tax years 2010 and 2011, notified to MRG on 17 February 2016 and 29 February 2016, respectively. MRG is currently awaiting the decision of the court. If the appeal is not successful, the maximum risk for MRG amounts to €8,024,272 in tax payable plus €1,191,228 in late-payment interest to date.

Additionally, on 15 March 2016, 22 April 2016 and 25 May 2016, the tax authorities informed MRG of the initiation of a tax review for tax years 2012 and 2013 in connection with corporate income tax and value added tax. Such a tax audit could lead to additional tax assessments due to differences in MRG's and the tax authorities' interpretations of Spanish tax legislation, and hence, there can be no assurance that any additional tax assessments will not have a material adverse effect on MRG's financial position, results of operations and prospects. As of the date of this Base Prospectus, MRG has not received any tax assessments.

Risks resulting from the implementation of MRG's business strategy

Given the risks to which MRG is exposed and the uncertainties inherent in its business activities, MRG may not be able to implement its business strategy successfully. Were MRG to fail to achieve its strategic objectives, or if those objectives, once attained, did not generate the benefits initially anticipated, its business, financial position, results of operations and prospects may be materially adversely affected. MRG's ability to achieve its strategic objectives is subject to a variety of risks, including, but not limited to, the following specific risks:

(i) the possibility of an adverse economic environment, which would negatively affect the performance of MRG's businesses;

(ii) an inability to successfully manage the requirements of regulatory frameworks if stricter than expected regulatory measures were to be imposed in relation to the distribution of gas;

(iii) denial of regulatory approval or licenses necessary for expansion of the business;

(iv) volatility in the demand for natural gas or the failure to correctly estimate projected natural gas demand over coming years;

(v) natural gas price evolution compared to other energy sources (LPG, gasoil);

(vi) technological improvements in other energy sources; and

(vii) loss of market share in respect of periodical inspections, following the removal of the exclusivity previously held by gas distribution companies generally to provide inspection services regarding gas delivery facilities (see further below).

Law 8/2015 of 21 May, amending Law 34/1998 of the hydrocarbon sector (the "**Hydrocarbon Sector Law**") and certain tax and non-tax measures in connection with the exploration, research and exploitation of hydrocarbons was enacted in May 2015 ("**Law 8/2015**"). Law 8/2015 modifies several provisions of the Hydrocarbon Sector Law, including, *inter alia*, certain provisions affecting the gas distribution business. However, none of these provisions are expected to have a direct impact on MRG's activity or performance, except from the new provision establishing that distribution companies shall no longer be granted exclusivity to provide inspection services regarding gas delivery facilities, and that other licensed entities (natural gas installation companies) shall also be entitled to render such services. The income derived from the aforementioned inspection services represented around 4.6 per cent. of MRG's aggregate revenue during financial year ended 30 June 2016. Although MRG considers that it is, in all material respects, in compliance with the laws governing its activities, it is subject to a complex set of laws. If the competent public or private sector bodies were to interpret or apply such laws in a manner contrary to MRG's interpretation of them, such compliance could be questioned or challenged and, if any non-compliance were to be alleged or proven, it could have a material adverse effect on MRG's subsidies, business, financial position, results of operations and prospects.

Risk associated with LPG connection points acquisition

During 2016, MRG completed the acquisition of approximately 42,000 LPG supply points within MRG's distribution area to be converted to natural gas for a purchase price of €63 million. Risks associated with this investment are the following:

(i) changes in LPG regulation, and in particular the regulated formula for the maximum price calculation for for purchases and sales of LPG;

(ii) customer conversion as it requires authorisation from Comunidad de Madrid, official organisations and city councils as well as the legal analysis of current LPG supply contracts;

(iii) risks resulting from the operation of the LPG distribution network; and

(iv) risk arising from non-payment by any customer.

Any increase in the costs of, cancellation of and/or delay in the completion of, MRG's LPG conversion, under development and projects proposed for development could have a material adverse effect on its business, financial position, results of operations and prospects. In particular, if MRG was unable to complete projects under development, these may never be put into operation and therefore it may not be able to recover the costs incurred and its profitability could be adversely affected. These risks could lead MRG to deviate from its investment plan, which could have a material adverse effect on MRG's business, financial position, results of operations and prospects.

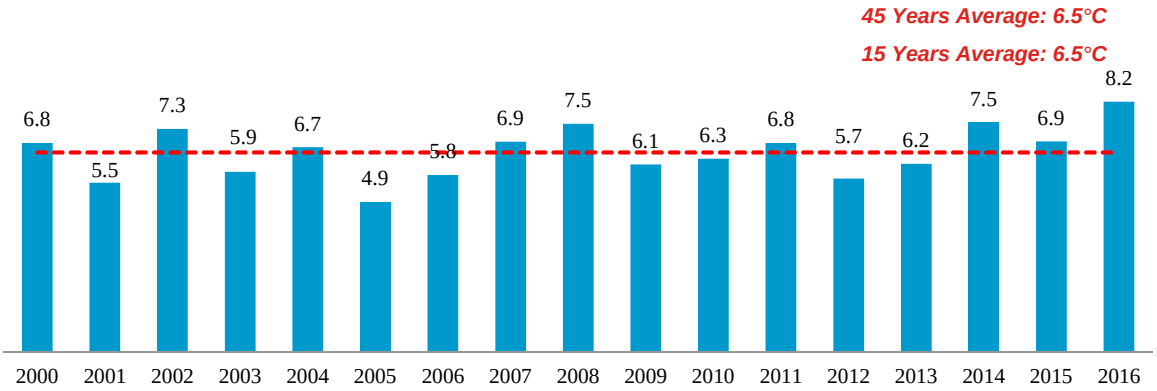
Risks associated with changes in gas demand and connection points

Achieving growth in MRG's business is closely linked to growth in the actual number of connection points, which in turn is correlated with gas demand in MRG's designated territory. Demand for gas, compared with other forms of energy, in particular for heating domestic and other properties, is a driver for new connection points as well as for retention of existing connection points in MRG's designated territory. Additionally, growth in the number of connection points and in demand for natural gas is a direct component of the parametric formula determining MRG's regulated remuneration. See "Regulation—Economic Regime—Calculation of the regulated remuneration as of 5 July 2014." Growth in connection points and trends in gas demand depend on a series of factors beyond MRG's control. These factors include, among others, the development of the electricity sector, the development of alternative energies, the price of natural gas in comparison to other energies, the general economic situation in Spain, international crisis, climate change, the availability of capacity for international imports of natural gas and environmental legislation.

Also, the demand for natural gas is closely related to climate. In peninsular Spain, both the electricity and gas systems are winter peak systems, which means that, generally, demand is higher during the cold weather months and lower during the warm weather months. A significant portion of the demand for natural gas in the cold weather months is related to the production of heating. The revenues and operating results of MRG from the distribution of natural gas could be affected by periods of unseasonably warm weather during these months, such as the unusually mild 2013-2014, with average temperatures of 7.5° C between December 2013 and February 2014 and 2015-2016 with average temperatures of 8.2º C between December 2015 and February 2016 compared with historical average winter temperatures of 6.5° C during the same months (source: Bloomberg).

Madrid Winter Temperatures

Winter months from December to February – Average temperature per year (° C)



(Source: Bloomberg)

MRG's business growth is closely tied to an increase in the number of connection points to the distribution network. This increase is highly dependent on (i) extending to new distribution areas, (ii) the construction of new buildings that make it necessary to extend the distribution area (iii) existing buildings to which distribution is extended. Given the current economic climate, the number of new buildings that require extension of the distribution network or customers that request natural gas connections is likely to grow at a slower pace or (iv) LPG supply points conversion to natural gas connection points.

MRG's remuneration is determined annually by METAD based, among other factors, on the number of connection points and the growth in demand for natural gas. Therefore, if the connection points or demand for natural gas in the area where MRG operates do not increase at the foreseen rate, MRG's revenues and strategic plan could be affected, which could have a material adverse effect on MRG's business, financial position, results of operations and prospects.

Risk due to geographic concentration of the distribution activity

MRG distributes natural gas exclusively in the autonomous region of Madrid. Therefore, all sources of revenue come from operations in a limited geographic area. Thus, due to the fact that the increase of revenues of MRG depends, among other factors, on the increase in the number of connection points and on the demand for natural gas, MRG is concentrating its risk in the economic, demographic and urban development growth of only a single region, Madrid. Moreover, in the event of a catastrophe, natural disaster, adverse weather conditions, criminal or terrorist acts or other events or conditions affecting the Madrid region, we could be severely impacted as we do not benefit from geographic diversity. If Madrid does not experience growth, or if it suffers from any such event or condition, it could result in a material adverse effect on MRG's business, financial position, results of operations and prospects.

Risks relating to new investment opportunities for MRG's distribution activity

Any new investment that natural gas distribution companies may wish to make outside their distribution area will be subject to regulatory approval. Therefore, all investment projects in new distribution areas are overseen by the regulator and bound by its decisions. In addition, any investment, in current distribution areas or new areas into which they are given permission to expand natural gas distribution, may also be subject to environmental or planning permissions. If one of these approvals were refused or granted subject to unfavourable conditions, investment may not ultimately be made. In particular, the construction and development of natural gas distribution infrastructure can be time-consuming and highly complex.

Any increase in the costs of, cancellation of and/or delay in the completion of, MRG's projects under development and projects proposed for development could have a material adverse effect on its business, financial position, results of operations and prospects. In particular, if MRG was unable to complete projects under development, these may never be put into operation and therefore it may not be able to recover the costs incurred and its profitability could be adversely affected. These risks could lead MRG to deviate from its

investment plan, which could have a material adverse effect on MRG's business, financial position, results of operations and prospects.

Risk of making investments not contemplated in the investment plan

Spanish regulation of the natural gas sector provides that in order to satisfy demand for natural gas, if there is a request from a consumer in a specific area covered by an authorisation, the distribution company holding such authorisation is obliged to expand its gas network to satisfy such demand. In such cases, distribution companies assume all the costs involved in tendering the first six metres of extension in the service line from the distribution network and the remainder of the service line length may be, subject to the discretion of the distribution company, paid by the customer at a unit price per metre set by regulation. In certain cases of distribution network extensions, the unitary value of the price could be lower than the real costs undertaken by the distribution company to extend the network to the new customer.

If MRG is required to develop a project in the circumstances set out above, such investment might not be as profitable as others available to MRG and could have a material adverse effect on MRG's business, financial position, results of operations and prospects.

Environmental and health and safety risks

Aspects of MRG's activities are potentially dangerous, such as the construction, operation and maintenance of gas distribution networks and ancillary installations or the LPG and LNG storage plants, especially the largest ones which are affected by the SEVESO III European Directive for the prevention of major accidents involving hazardous substances. MRG has implemented an ISO 14001 Environmental Management System certified by Tüv Rheinland and registered with the number 01 104 125206. Gas utilities also typically use and generate in their operations hazardous and potentially hazardous products and by-products. In addition, there may be other aspects of its operations that are not currently regarded or proven to have adverse effects but that could become so, such as contaminated land, gas emissions (for example, effects on cloud formations with consequences for wild species and habitats) or problems relating to the pipes used to transport natural gas (for example, the discovery of asbestos). MRG is increasingly subject to regulation in relation to climate change. MRG is subject to laws and regulations relating to pollution, the protection of the environment and the use and disposal of hazardous substances and waste materials. These expose MRG to costs and liabilities relating to its operations and properties, including those inherited from predecessor bodies or bodies formerly owned by it and sites used for the disposal of its waste. The cost of any future environmental remediation obligation is often inherently difficult to estimate and uncertainties can include the extent of contamination, the appropriate corrective actions and MRG's share of the liability.

MRG is also subject to laws and regulations governing health and safety matters protecting the public and its employees. MRG commits expenditure towards complying with these laws and regulations. MRG has implemented an OHSAS 18001 Health & Safety Management System certified by Tüv Rheinland registered with the number 77 113 120013. While MRG seeks to obtain, and in fact it does obtain, insurance coverage for these risks resulting in damages and loss of profit, should additional requirements be imposed or if its ability to recover these costs under the relevant regulatory framework changes, or if the resulting damages or loss of profit exceed the coverage provided by MRG's insurance policies, MRG's business, financial position, results of operations and prospects could be materially adversely affected. Furthermore, any breach of these regulatory or contractual obligations or even incidents that do not amount to a breach, could materially adversely affect MRG's reputation and, subsequently, operating results.

Risks resulting from the operation of the gas distribution network

MRG's operations are subject to certain inherent risks, including pipeline ruptures, explosions, pollution, release of toxic substances, fires, adverse weather conditions, sabotage, terrorism, accidental damage to its gas distribution network and other hazards and force majeure events, any of which could result in personal injury and/or damage to, or the destruction of, MRG's facilities and other properties or an interruption in gas distribution. MRG is not generally able to predict the occurrence of these or similar events and they may cause unanticipated interruptions in its gas distribution activities. While MRG seeks to obtain, and in fact it does obtain, insurance coverage for these risks resulting in damages and loss of profit, its financial position and operating results may be adversely affected to the extent any losses are uninsured, exceed the applicable limitations under its insurance policies, are subject to the payment of an excess towards the insured amount or to the extent the premiums payable in respect of such policies are increased as a result of insurance claims. In addition, these operating risks could materially adversely affect MRG's reputation.

In the course of all of MRG's business activities, direct or indirect losses may also be caused by inadequate internal processes including inaccurate meter readings. For example, differences between the reported incoming gas in MRG's network and the gas that MRG has allocated to suppliers according to its meter readings, above the 1% maximum permitted leakages ("*mermas*"), could lead to a negative settlement pursuant to which MRG is forced to compensate the supplier for the gas that this supplier that has introduced into MRG's network and that has not been allocated to such supplier, which in turn would have a material adverse effect on MRG's business, financial position, results of operations and prospects.

Furthermore, MRG may suffer a major network failure or interruption due to import restrictions, pipeline ruptures, lack of international supply or otherwise, or may not be able to carry out critical non-network operations. Operational performance could be materially adversely affected by a failure to maintain the health of the system or network, inadequate forecasting of demand or inadequate record keeping or failure of information systems and supporting technology. This could cause MRG to fail to meet agreed standards of service or incentive and reliability targets or be in breach of a license, authorisation, approval, or any other regulatory requirement or contractual obligation, and even incidents that do not amount to a breach could result in adverse regulatory and financial consequences, affect MRG's financial position and operating results or harm MRG's reputation.

Risk assumed by a distribution company in case of non-payment by a natural gas supplier

The main source of revenue for a company that distributes natural gas (such as MRG) is the regulated remuneration that is (i) defined by METAD and (ii) settled in compliance with the instructions given by the Spanish Competition and Markets Authority (*Comisión Nacional de los Mercados y la Competencia*) ("**CNMC**") at monthly settlements between the parties in the gas system (of which MRG is one).

Distribution companies' regulated remuneration is defined through operation of this monthly settlement. Every month, the CNMC settles the regulated revenues and regulated costs of all agents which carry out activities in the gas system. In the monthly settlement process, the CNMC determines the proportional share of the annual payment for that month and will compare that amount with the monthly amount already invoiced by the relevant distribution company for tolls charged to the suppliers of natural gas who have a regulated TPA contract to access the distribution network.

If the tolls and charges invoiced by a distribution company are higher than its regulated remuneration for that month, the distribution company must pay the difference to the gas system, and the CNMC will instruct how such excess amount shall be paid to other companies engaged in regulated activities. Conversely, if the monthly regulated remuneration is higher than the amounts invoiced to natural gas suppliers as tolls and charges, the distribution company must receive the difference from the gas system through the instructions issued by the CNMC to other companies engaged in regulated activities.

The gas system and the regulations consider the amounts invoiced to suppliers of natural gas as revenue for the distribution company regardless of whether or not such amounts have been collected. Therefore, the risk of non-payment of the amounts invoiced as tolls to suppliers of natural gas is borne by the distribution company (and the suppliers of natural gas bear the risk of non-payment from end customers that are invoiced by such suppliers).

Moreover, because MRG receives substantially all of its regulated remuneration from only four natural gas suppliers, non-payment by even one supply company could have a material adverse effect on the business, financial position, results of operations and prospects of MRG.

In case of non-payment, a distribution company may suspend the access contract of the relevant supplier of natural gas two months after the date on which a formal demand (*requerimiento fehaciente*) of payment was served. This means that during a certain period of time, the risk of non-payment is borne by the distribution companies. Any such non-payment could have a material adverse effect on the business, financial position, results of operations and prospects of MRG.

Insurance

MRG seeks to maintain insurance coverage on all its key property and liability exposures in the international insurance market. No assurance can be given that the insurance coverage acquired by MRG provides adequate or sufficient coverage for all events or incidents. The international insurance market is volatile and therefore there can be no guarantee that existing coverage will remain available or will be available at commercially acceptable rates.

Interest rate risk

Although MRG takes a proactive approach to the management of interest rate risk in order to minimise its impact on its revenues, in some cases the policies it implements may not be effective in mitigating the adverse effects caused by interest rate and could have an adverse impact on MRG's business, financial condition and results of operations.

Liquidity and availability of funding risks

The capital markets debt the Issuer issues may be rated by credit rating agencies and changes to these ratings may affect both its borrowing capacity and the cost of those borrowings. Also, as evidenced during recent periods, financial markets can be subject to periods of volatility and shortages of liquidity. If the Issuer were unable to access the capital markets or MRG were unable to access other sources of finance at competitive rates for a prolonged period, MRG's cost of financing may increase, the additional loan facilities that MRG incurs might not be able to be refinanced at competitive rates, or not be in line with MRG's financial strategy, and the manner in which MRG implements its business and financial strategy may need to be reassessed. The occurrence of any such events could have a material adverse impact on MRG's business, financial condition and operating results.

Litigation

MRG is, from time to time, involved in legal proceedings. Any adverse result in relation to any such proceedings may have an adverse effect on MRG's financial position, reputation and profitability.

On 4 November 2016, MRG filed a brief of grounds to appeal before the Spanish Administrative Court against the Corporate Income Tax reassessments for the tax years 2010 and 2011, notified to MRG on 17 February 2016 and 29 February 2016, respectively. The Company is currently waiting for the decision of the Spanish Administrative Court.

As of the date of this Base Prospectus there are no other pending or threatened governmental, legal or arbitration proceedings against or affecting MRG which, if determined adversely to MRG may have, or have had during the 12 months prior to the date hereof, individually or in the aggregate, a significant effect on the financial position of MRG and, to the best knowledge of MRG, no such actions, suits or proceedings are threatened or contemplated.

Employees of MRG could in the future strike or participate in industrial action

While the ability of employees, contractors or trade unions to strike is limited by regulation and agreements and is subject to the maintenance of minimum service levels, MRG can give no assurance that there will not be labour-related actions in the future, including strikes or threats of strikes. MRG has only experienced two general labour stoppages since its incorporation. The first was a strike on 29 March 2012, and the second was a strike on 14 November 2012. Both were country-wide. Although MRG has had various minor disputes with the Spanish General Confederation of Labour union ("**CGT**"), MRG benefits from agreements and laws limiting the ability

of workers to disrupt MRG's operations by setting minimum service levels. As of the date of this Base Prospectus, there have not been any strikes affecting MRG specifically, and MRG is not aware of any material labour dispute, other than disputes within the normal course of business. Nonetheless, the threat of strikes or work stoppages can result and could result in disruptions and increased costs. Such disputes and resulting disruption and costs could have a material adverse effect on MRG's business and results of operations.

Operational and financial risk derived from network separation from Gas Natural Fenosa ("Gas Natural")

The acquisition of MRG's assets from Gas Natural mandated the physical separation, over a period of time, of MRG's assets from Gas Natural's distribution assets. To facilitate this process safely and to maintain uninterrupted gas service, a sectorisation programme is underway. This includes the separation of MRG's distribution assets from (i) most of the municipalities surrounding the capital of the Madrid region; and (ii) an adjacent set of municipalities, concentrated on the zones of the axis Madrid-Guadalajara and the North, West and South part of Madrid. In order to complete the separation of these networks, works must be carried out on both MRG's and Gas Natural's networks, with these mainly being carried out by Gas Natural on behalf of MRG. Following the acquisition of MRG II in July 2011, the boundary between the Gas Natural and MRG networks moved, significantly impacting the network separation works. This process was completed in the first quarter of 2016 except for a secondary transport connection that is pending completion in the south of Madrid. The total cost of the sectorisation programme is estimated at €8.5 million, of which €6.9 million has been incurred as at the date of this Base Prospectus (comprising €5.8 million incurred until 2016 and €1.1 million incurred to date in 2017). Any complications or delays to the sectorisation programme could have a material adverse effect on MRG's business, financial position, results of operations and prospects.

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

Risks relating to the Notes

The Notes may be redeemed prior to maturity

In the event that Issuer would be obliged to increase the amounts payable in respect of any Notes due to any withholding or deduction for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of the Netherlands, the Kingdom of Spain or any political subdivision thereof or any authority therein or thereof having power to tax, the Issuer may redeem all outstanding Notes in accordance with the Conditions.

In addition, if in the case of any particular Tranche of Notes the relevant Final Terms specifies that the Notes are redeemable at the Issuer's option in certain other circumstances the Issuer may choose to redeem the Notes at times when prevailing interest rates may be relatively low. In such circumstances an investor may not be able to reinvest the redemption proceeds in a comparable security at an effective interest rate as high as that of the relevant Notes.

Fixed/Floating Rate Notes

Fixed/Floating Rate Notes may bear interest at a rate that the Issuer may elect to convert from a fixed rate to a floating rate, or from a floating rate to a fixed rate. This Issuer's ability to convert the interest rate will affect the secondary market and the market value of such Notes since the Issuer may be expected to convert the rate when it is likely to produce a lower overall cost of borrowing. If the Issuer converts from a fixed rate to a floating rate, 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 the other Notes. If the Issuer converts from a floating rate to a fixed rate, the fixed rate may be lower than then prevailing rates on its Notes.

Calculation Agent

The Issuer may appoint a Dealer as Calculation Agent in respect of an issuance of Notes under the Programme. In such a case the Calculation Agent is likely to be a member of an international financial group that is involved, in the ordinary course of its business, in a wide range of banking activities out of which conflicting interests may arise. Whilst such a Calculation Agent will, where relevant, have information barriers and procedures in place to manage conflicts of interest, it may in its other banking activities from time to time be engaged in transactions involving an index or related derivatives which may affect amounts receivable by Noteholders during the term

and on the maturity of the Notes or the market price, liquidity or value of the Notes and which could be deemed to be adverse to the interests of the Noteholders.

Notes issued at a substantial discount or premium

The market values of securities issued at a substantial discount or premium to their nominal 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.

Regulation and reform of "benchmarks", including LIBOR, EURIBOR and other interest rate, foreign exchange rate and other types of benchmarks

The London Inter-Bank Offered Rate ("**LIBOR**"), the Euro Interbank Offered Rate ("**EURIBOR**") and other interest rate, foreign exchange rate and other types of indices which are deemed to be "benchmarks" are the subject of recent national, international and other regulatory guidance and proposals for reform. Some of these reforms are already effective whilst others are still to be implemented. These reforms may cause such "benchmarks" to perform differently than in the past, or to disappear entirely, or have other consequences which cannot be predicted. Any such consequence could have a material adverse effect on any Notes linked to such a "benchmark".

Key international proposals for reform of "benchmarks" include IOSCO's Principles for Financial Market Benchmarks (July 2013) (the "**IOSCO Benchmark Principles**") and the EU Regulation on indices used as benchmarks in financial instruments and financial contracts or to measure the performance of investment funds (the "Benchmark Regulation").

The IOSCO Benchmark Principles aim to create an overarching framework of principles for benchmarks to be used in financial markets, specifically covering governance and accountability as well as the quality and transparency of benchmark design and methodologies. A review published by IOSCO in February 2015 of the status of the voluntary market adoption of the IOSCO Benchmark Principles noted that, as the benchmarks industry is in a state of change, further steps may need to be taken by IOSCO in the future, but that it is too early to determine what those steps should be. The review noted that there has been a significant market reaction to the publication of the IOSCO Benchmark Principles, with widespread efforts being made to implement the IOSCO Benchmark Principles by the majority of administrators surveyed.

On 17 May 2016, the Council of the European Union adopted the Benchmark Regulation. The Benchmark Regulation entered into force on the day following its publication in the Official Journal of the EU on 29 June 2016. It will apply 18 months after it enters into force (subject to certain transitional provisions). This regulation requires ESMA to draft regulatory and implementing technical standards (RTS/ITS) specifying the detail of the requirements to deliver final drafts to the European Commission by 1 April 2017. ESMA issued a discussion paper on 15 February 2016 consulting on its detailed proposals for these technical standards. On 27 May 2016 ESMA issued a consultation paper on its draft technical advice and on 29 September 2016 ESMA issued a consultation paper on its draft technical standards. On 10 November 2016, ESMA also published its technical advice to the European Commission on important aspects of future role of benchmarks under the Benchmark Regulation.

The Benchmark Regulation will apply to "contributors", "administrators" and "users" of "benchmarks" in the EU, and will, among other things, (i) require benchmark administrators to be authorised (or, if non-EU-based, to have satisfied certain "equivalence" conditions in its local jurisdiction, to be "recognised" by the authorities of a Member State pending an equivalence decision or to be "endorsed" for such purpose by an EU competent authority) and to comply with requirements in relation to the administration of "benchmarks" and (ii) ban the use of "benchmarks" of unauthorised administrators. The scope of the Benchmark Regulation is wide and, in addition to so-called "critical benchmark" indices such as EURIBOR, will apply to many other interest rate indices, as well as equity, commodity and foreign exchange rate indices and other indices (including "proprietary" indices or strategies) which are referenced in certain financial instruments (securities or OTC derivatives listed on an EU regulated market, EU multilateral trading facility (MTF), EU organised trading facility (OTF) or "systematic internaliser"), certain financial contracts and investment funds. Different types of "benchmark" are subject to more or less stringent requirements, and in particular a lighter touch regime will apply where a "benchmark" is not based on interest rates or commodities and the total average value of financial instruments, financial contracts or investment funds referring to a benchmark over the past six months is less than €50bn, subject to further conditions.

The Benchmark Regulation could have a material impact on Notes linked to a "benchmark" rate or index, including in any of the following circumstances:

(i) a rate or index which is a "benchmark" could not be used as such if its administrator does not obtain authorisation or is based in a non-EU jurisdiction which (subject to applicable transitional provisions) does not satisfy the "equivalence" conditions, is not "recognised" pending such a decision and is not "endorsed" for such purpose. In such event, depending on the particular "benchmark" and the applicable terms of the Notes, the Notes could be de-listed, adjusted, redeemed prior to maturity or otherwise impacted; and

(ii) the methodology or other terms of the "benchmark" could be changed in order to comply with the terms of the Benchmark Regulation, and such changes could have the effect of reducing or increasing the rate or level or affecting the volatility of the published rate or level, and could lead to adjustments to the terms of the Notes, including Calculation Agent determination of the rate or level in its discretion.

Any of the international, national or other proposals for reform or the general increased regulatory scrutiny of "benchmarks" could increase the costs and risks of administering or otherwise participating in the setting of a "benchmark" and complying with any such regulations or requirements. Such factors may have the effect of discouraging market participants from continuing to administer or contribute to certain "benchmarks", trigger changes in the rules or methodologies used in certain "benchmarks" or lead to the disappearance of certain "benchmarks". The disappearance of a "benchmark" or changes in the manner of administration of a "benchmark" could result in adjustment to the terms and conditions, early redemption, discretionary valuation by the Calculation Agent, delisting or other consequence in relation to Notes linked to such "benchmark". Any such consequence could have a material adverse effect on the value of and return on any such Notes.

Risks related to Notes generally

Notes may not be a suitable investment for all investors

Each potential investor in any Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

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

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

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

(iv) understand thoroughly the terms of the relevant Notes and be familiar with the behaviour of any relevant indices and financial markets; and

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

Some Notes are complex financial instruments and such instruments may be purchased as a way to reduce risk or enhance yield with an understood, measured, appropriate addition of risk to their overall portfolios. A potential investor should not invest in Notes which are complex financial instruments unless it has the expertise (either alone or with the help of a financial adviser) to evaluate how the Notes will perform under changing conditions, the resulting effects on the value of such Notes and the impact this investment will have on the potential investor's overall investment portfolio.

Investors will have to rely on the procedures of Euroclear and Clearstream, Luxembourg

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

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

Holders of beneficial interests in the Global Notes will not have a direct right to vote in respect of the Notes. Instead, such holders will be permitted to act only to the extent that they are enabled by Euroclear and Clearstream, Luxembourg to appoint appropriate proxies. Similarly, holders of beneficial interests in the Global Notes will not have a direct right under the Global Notes to take enforcement action against the Issuer in the event of a default under the Notes but will have to rely upon their rights under the Deed of Covenant.

Modification, waiver and substitution

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

Risks in relation to Spanish taxation

With respect to any payment of interest under the Guarantee, the Guarantor is required to receive certain information relating to the Notes. If such information is not received by the Guarantor in a timely manner, the Guarantor could be required to apply Spanish withholding tax to any payment of interest (as this term is defined under "*Taxation — The Kingdom of Spain — Payments made by the Guarantor*") in respect of the relevant Notes.

Under Spanish Law 10/2014 and Royal Decree 1065/2007, each as amended, payments of interest under the Guarantee will be made without withholding tax in Spain provided that the Paying Agent provides the Issuer (or with respect to any payment of interest under the Guarantee, the Guarantor) in a timely manner with a certificate containing certain information in accordance with section 44 paragraph 5 of the Royal Decree 1065/2007 relating to the Notes.

This information must be provided by the Paying Agent to the Issuer (or with respect to any payment of interest under the Guarantee, the Guarantor), before the close of business on the Business Day (as defined in the Terms and Conditions) immediately preceding the date on which any payment under the Guarantee of interest, principal or of any amounts in respect of the early redemption of the Notes (each a Payment Date) is due.

The Issuer, the Guarantor and the Paying Agent have arranged certain procedures in the Agency Agreement to facilitate the collection of information concerning the Notes in a timely manner. If, despite these procedures, the relevant information is not received by the Guarantor on each Payment Date, the Guarantor will be obliged to withhold tax at the then applicable rate (19% in 2017) from any payment of interest under the Guarantee in respect of the relevant Notes. Neither the Issuer nor the Guarantor will pay any additional amounts with respect to any such withholding.

These procedures may be modified, amended or supplemented, among other reasons, to reflect a change in applicable Spanish law, regulation, ruling or an administrative interpretation thereof. None of the Issuer, the Guarantor or the Dealers assumes any responsibility therefor.

Royal Decree 1145/2011, of 29 July which amends Royal Decree 1065/2007, of 27 July provides that any payment of interest made under Notes originally registered in a non-Spanish clearing and settlement entity recognised by Spanish legislation or by the legislation of another OECD country will be made with no withholding or deduction from Spanish taxes provided that the relevant paying agent submits in a timely manner certain information about the Notes to the Issuer (or with respect to any payment of interest under the Guarantee, the Guarantor). In the opinion of the Guarantor, any payment of interest under the Guarantee will be made without deduction or withholding of taxes in Spain provided that the relevant information about the Notes is timely submitted by the Paying Agent to the Guarantor in accordance with section 44 paragraph 5 of the Royal Decree 1065/2007 (see "*Taxation-Kingdom of Spain-Payments made by the Guarantor*").

Notwithstanding the above the Guarantor will comply with the information obligations under the general provisions of Spanish tax legislation, by virtue of which identification of Spanish tax resident investors may be provided to the Spanish tax authorities.

Denominations

In relation to any issue of Notes which have a denomination consisting of the minimum specified denomination plus a higher integral multiple of another smaller amount, it is possible that the Notes may be traded in amounts in excess of the minimum specified denomination that are not integral multiples of the minimum specified denomination (or its equivalent). In such a case a Holder of Notes who, as a result of trading such amounts, holds a principal amount of less than the minimum specified denomination may not receive a definitive Note in respect of such holding (should definitive Notes be printed) and may need to purchase a principal amount of Notes such that its holding amounts to the minimum specified denomination.

If definitive Notes are issued, Holders of Notes should be aware that definitive Notes which have a denomination that is not an integral multiple of the minimum Specified Denomination may be illiquid and difficult to trade.

Risks related to the market generally

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

There may not be an active trading market for the Notes

The Notes are new securities which may not be widely distributed and for which there may not be an active trading market. 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 Issuer. Although applications may be made for the Notes to be admitted to the official list of and traded on the regulated market of the Luxembourg Stock Exchange, there is no

assurance that such applications will be accepted or that an active trading market will develop. Accordingly, there is no assurance as to the development or liquidity of any trading market for the Notes.

Exchange rate risks and exchange controls

The Issuer will pay principal and interest on the Notes in a specified currency (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 change significantly (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 (i) the Investor's Currency equivalent yield on the Notes, (ii) the Investor's Currency equivalent value of the principal payable on the Notes and (iii) the Investor's Currency equivalent market value of the Notes.

Government and monetary authorities may impose 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.

Fixed Rate Notes are subject to 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 which may affect the value of the Notes. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the rating agency at any time.

Legal investment considerations may restrict certain investments

The investment activities of certain investors are subject to legal 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 (1) Notes are legal investments for it, (2) Notes can be used as collateral for various types of borrowing and (3) other restrictions apply to its purchase or pledge of any Notes. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of Notes under any applicable risk-based capital or similar rules.

INFORMATION INCORPORATED BY REFERENCE

The "Terms and Conditions of the Notes" on pages 29 to 59 (inclusive) of the base prospectus dated 1 August 2013 in connection with the Madrileña Red de Gas Finance B.V. EUR2,000,000,000 Euro Medium Term Note Programme unconditionally and irrevocably guaranteed, jointly and severally, by each of Madrileña Red de Gas, S.A.U. and Madrileña Red de Gas II, S.A.U and the "Terms and Conditions of the Notes" on pages 32 to 64 (inclusive) of the base prospectus dated 4 February 2016 in connection with the Madrileña Red de Gas Finance B.V. EUR2,000,000,000 Euro Medium Term Note Programme unconditionally and irrevocably guaranteed by Madrileña Red de Gas, S.A.U. shall be deemed to be incorporated by reference in, and to form part of, this Base Prospectus, save that any statement contained herein or in a document which is deemed to be incorporated by reference herein shall be deemed to be modified or superseded for the purpose of this Base Prospectus to the extent that a statement contained in any such subsequent document which is deemed to be incorporated by reference herein modifies or supersedes such earlier statement (whether expressly, by implication or otherwise). Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Base Prospectus. Any information or documents which are themselves incorporated by reference in the documents incorporated by reference in this Base Prospectus shall not form part of this Base Prospectus.

The audited financial statements (including the auditors' report thereon, notes thereto and Director's report) of the Issuer as of and for the years ended 31 December 2016 and 31 December 2015 shall be deemed to be incorporated by reference in, and to form part of, this Base Prospectus to the extent referred to in the cross-reference list below. The information incorporated by reference that is not included in the cross-reference list below is considered as additional information and is not required by the relevant schedules of the Prospectus Directive.

The financial statements of the Issuer for the dates indicated above have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Netherlands Civil Code.

The audited annual accounts (including the auditor's report thereon and notes thereto and the Directors' report) of MRG as of and for the years ended 30 June 2016 and 30 June 2015 shall be deemed to be incorporated by reference in, and to form part of, this Base Prospectus to the extent referred to in the cross-reference list below. The information incorporated by reference that is not included in the cross-reference list below is considered as additional information and is not required by the relevant schedules of the Prospectus Directive.

The annual accounts of MRG for the dates indicated above have been prepared in accordance with Generally Accepted Accounting Principles in Spain ("**Spanish GAAP**") regulated under Royal Decree 1514/2007 of 16 November 2007 as amended by Royal Decree 1159/2010 of 17 September 2010 ("**Royal Decree 1514/2007**").

As stipulated by current legislation in force, MRG must disclose in the accompanying notes to the annual accounts the salaries, per diems and remuneration of any type as well as any advances, loans or guarantees given or obligations made in the area of pensions and life insurance policies by the senior management of MRG during the year ended 30 June 2015. Given the small number of persons receiving these benefits and the personal nature of the latter, MRG did not disclose this information in the accompanying notes to the annual accounts for the year ended 30 June 2015. The auditors' report for the 30 June 2015 annual accounts of MRG contain a qualification for this matter. During the year ended 30 June 2016 MRG has included the aforementioned disclosure in the annual accounts for the year ended 30 June 2016 for both 2016 and 2015. As a consequence, the auditor's report for the 30 June 2016 annual accounts is unqualified.

Such documents shall be incorporated by reference in and form part of this Base Prospectus, save that any statement contained in a document which is incorporated by reference herein shall be modified or superseded for the purpose of this Base Prospectus to the extent that a statement contained herein modifies or supersedes such earlier statement (whether expressly, by implication or otherwise). Any statement so modified or superseded shall not, except as so modified or superseded, constitute a part of this Base Prospectus.

The table below sets out the relevant page references for the audited financial statements of the Issuer for the financial years ended 31 December 2016 and 31 December 2015, respectively.

Audited financial statements of the Issuer as of and for the financial year ended 31 December 2016

Audited financial statements of the Issuer as of and for the financial year ended 31 December 2015

The table below sets out the relevant page references for the audited annual accounts of MRG for the financial years ended 30 June 2016 and 30 June 2015, respectively.

Audited annual accounts of MRG as of and for the financial year ended 30 June 2016

Audited annual accounts of MRG as of and for the financial year ended 30 June 2015

The annual accounts as of and for the financial year ended 30 June 2016 and 30 June 2015 of MRG respectively are a free translation from the Spanish originals. The Guarantor accepts responsibility for the accuracy of these documents in all material respects.

Copies of the documents specified above as containing information incorporated by reference in this Base Prospectus may be inspected, free of charge, at the registered office of the Issuer (Prins Bernhardplein 200, 1097 JB Amsterdam, The Netherlands) and the Guarantor (calle Virgilio 2-B, Edificio 1, Centro Empresarial Arco, Pozuelo de Alarcón, Madrid, Spain) and from the website of the Luxembourg Stock Exchange (www.bourse.lu).

FORMS OF THE NOTES

Bearer Notes

Each Tranche of Bearer Notes will initially be either a Temporary Global Note, without interest coupons, or a Permanent Global Note, without interest coupons, in each case as specified in the relevant Final Terms. Each Temporary Global Note or, as the case may be, Permanent Global Note (each a "**Global Note**") which is not intended to be issued in NGN form, as specified in the relevant Final Terms, will be deposited on or around the issue date of the relevant Tranche of the Notes with a depositary or a common depositary for Euroclear Bank S.A./N.V. as operator of the Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system and each Global Note which is intended to be issued in NGN form, as specified in the relevant Final Terms, will be deposited on or around the issue date of the relevant Tranche of the Notes with a common safekeeper for Euroclear and/or Clearstream, Luxembourg.

On 13 June 2006 the European Central Bank (the "**ECB**") announced that Notes in NGN form are in compliance with the "*Standards for the use of EU securities settlement systems in ESCB credit operations*" of the Eurosystem, **provided that** certain other criteria are fulfilled. At the same time the ECB also announced that arrangements for Notes in NGN form will be offered by Euroclear and Clearstream, Luxembourg as of 30 June 2006 and that debt securities in global bearer form issued through Euroclear and Clearstream, Luxembourg after 31 December 2006 will only be eligible as collateral for Eurosystem operations if the NGN form is used.

In the case of each Tranche of Bearer Notes, the relevant Final Terms will also specify whether U.S. Treasury Regulations Section 1.163-5(c)(2)(i)(C) or any successor rules in substantially the same form that are applicable for purposes of Section 4701 of the U.S. Internal Revenue Code of 1986, as amended (the "**Code**") ("**TEFRA C**") or U.. Treasury Regulations Section 1.163-5(c)(2)(i)(D) or any successor rules in substantially the same form that are applicable for purposes of Section 4701 of the Code ("**TEFRA D**") is applicable in relation to the Notes or, if the Notes do not have a maturity of more than 365 days, that neither TEFRA C nor TEFRA D is applicable.

Temporary Global Note exchangeable for Permanent Global Note

If the relevant Final Terms specifies the form of Notes as being "Temporary Global Note exchangeable for a Permanent Global Note", then the Notes will initially be in the form of a Temporary Global Note which will be exchangeable, in whole or in part, for interests in a Permanent Global Note, without interest coupons, not earlier than 40 days after the issue date of the relevant Tranche of the Notes upon certification as to non-U.S. beneficial ownership. No payments will be made under the Temporary Global Note unless exchange for interests in the Permanent Global Note is improperly withheld or refused. In addition, interest payments in respect of the Notes cannot be collected without such certification of non-U.S. beneficial ownership.

Whenever any interest in the Temporary Global Note is to be exchanged for an interest in a Permanent Global Note, the Issuer shall procure (in the case of first exchange) the delivery of a Permanent Global Note to the bearer of the Temporary Global Note or (in the case of any subsequent exchange) an increase in the principal amount of the Permanent Global Note in accordance with its terms against:

(i) presentation and (in the case of final exchange) presentation and surrender of the Temporary Global Note to or to the order of the Fiscal Agent; and

(ii) receipt by the Fiscal Agent of a certificate or certificates of non-U.S. beneficial ownership.

The principal amount of Notes represented by the Permanent Global Note shall be equal to the aggregate of the principal amounts specified in the certificates of non-U.S. beneficial ownership *provided, however*, that in no circumstances shall the principal amount of Notes represented by the Permanent Global Note exceed the initial principal amount of Notes represented by the Temporary Global Note.

If:

(a) the Permanent Global Note has not been delivered or the principal amount thereof increased by 5.00 p.m. (London time) on the seventh day after the bearer of the Temporary Global Note has requested exchange of an interest in the Temporary Global Note for an interest in a Permanent Global Note; or

(b) the Temporary Global Note (or any part thereof) has become due and payable in accordance with the Terms and Conditions of the Notes or the date for final redemption of the Temporary Global Note has

occurred and, in either case, payment in full of the amount of principal falling due with all accrued interest thereon has not been made to the bearer of the Temporary Global Note in accordance with the terms of the Temporary Global Note on the due date for payment,

then the Temporary Global Note (including the obligation to deliver a Permanent Global Note) will become void at 5.00 p.m. (London time) on such seventh day (in the case of (a) above) or at 5.00 p.m. (London time) on such due date (in the case of (b) above) and the bearer of the Temporary Global Note will have no further rights thereunder (but without prejudice to the rights which the bearer of the Temporary Global Note or others may have under the Deed of Covenant).

The Permanent Global Note will become exchangeable, in whole but not in part only and at the request of the bearer of the Permanent Global Note, for Bearer Notes in definitive form ("**Definitive Notes**"):

(a) on the expiry of such period of notice as may be specified in the Final Terms; or

(b) at any time, if so specified in the Final Terms; or

(c) if the Final Terms specifies "in the limited circumstances described in the Permanent Global Note", then if either of the following events occurs:

(i) Euroclear or Clearstream, Luxembourg or any other relevant clearing system is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business; or

(ii) any of the circumstances described in Condition 14 (*Events of Default*) occurs.

Whenever the Permanent Global Note is to be exchanged for Definitive Notes, the Issuer shall procure the prompt delivery (free of charge to the bearer) of such Definitive Notes, duly authenticated and with Coupons and Talons attached (if so specified in the Final Terms), in an aggregate principal amount equal to the principal amount of Notes represented by the Permanent Global Note to the bearer of the Permanent Global Note against the surrender of the Permanent Global Note to or to the order of the Fiscal Agent within 30 days of the bearer requesting such exchange.

If:

(a) Definitive Notes have not been duly delivered by 5.00 p.m. (London time) on the thirtieth day after the bearer has requested exchange of the Permanent Global Note for Definitive Notes; or

(b) the Permanent Global Note was originally issued in exchange for part only of a Temporary Global Note representing the Notes and such Temporary Global Note becomes void in accordance with its terms; or

(c) the Permanent Global Note (or any part thereof) has become due and payable in accordance with the Terms and Conditions of the Notes or the date for final redemption of the Permanent Global Note has occurred and, in either case, payment in full of the amount of principal falling due with all accrued interest thereon has not been made to the bearer in accordance with the terms of the Permanent Global Note on the due date for payment,

then the Permanent Global Note (including the obligation to deliver Definitive Notes) will become void at 5.00 p.m. (London time) on such thirtieth day (in the case of (a) above) or at 5.00 p.m. (London time) on the date on which such Temporary Global Note becomes void (in the case of (b) above) or at 5.00 p.m. (London time) on such due date ((c) above) and the bearer of the Permanent Global Note will have no further rights thereunder (but without prejudice to the rights which the bearer of the Permanent Global Note or others may have under the Deed of Covenant).

Temporary Global Note exchangeable for Definitive Notes

If the relevant Final Terms specifies the form of Notes as being "Temporary Global Note exchangeable for Definitive Notes" and also specifies that TEFRA C is applicable or that neither TEFRA C nor TEFRA D is applicable, then the Notes will initially be in the form of a Temporary Global Note which will be exchangeable, in whole but not in part, for Definitive Notes not earlier than 40 days after the issue date of the relevant Tranche of the Notes.

If the relevant Final Terms specifies the form of Notes as being "Temporary Global Note exchangeable for Definitive Notes" and also specifies that TEFRA D is applicable, then the Notes will initially be in the form of a Temporary Global Note which will be exchangeable, in whole or in part, for Definitive Notes not earlier than 40 days after the issue date of the relevant Tranche of the Notes upon certification as to non-U.S. beneficial ownership. Interest payments in respect of the Notes cannot be collected without such certification of non-U.S. beneficial ownership.

Whenever the Temporary Global Note is to be exchanged for Definitive Notes, the Issuer shall procure the prompt delivery (free of charge to the bearer) of such Definitive Notes, duly authenticated and with Coupons and Talons attached (if so specified in the relevant Final Terms), in an aggregate principal amount equal to the principal amount of the Temporary Global Note to the bearer of the Temporary Global Note against the surrender of the Temporary Global Note to or to the order of the Fiscal Agent within 30 days of the bearer requesting such exchange.

If:

(a) Definitive Notes have not been duly delivered by 5.00 p.m. (London time) on the thirtieth day after the bearer has requested exchange of the Temporary Global Note for Definitive Notes; or

(b) the Temporary Global Note (or any part thereof) has become due and payable in accordance with the Terms and Conditions of the Notes or the date for final redemption of the Temporary Global Note has occurred and, in either case, payment in full of the amount of principal falling due with all accrued interest thereon has not been made to the bearer in accordance with the terms of the Temporary Global Note on the due date for payment,

then the Temporary Global Note (including the obligation to deliver Definitive Notes) will become void at 5.00 p.m. (London time) on such thirtieth day (in the case of (a) above) or at 5.00 p.m. (London time) on such due date (in the case of (b) above) and the bearer of the Temporary Global Note will have no further rights thereunder (but without prejudice to the rights which the bearer of the Temporary Global Note or others may have under the Deed of Covenant).

Permanent Global Note exchangeable for Definitive Notes

If the relevant Final Terms specifies the form of Notes as being "Permanent Global Note exchangeable for Definitive Notes", then the Notes will initially be in the form of a Permanent Global Note which will be exchangeable in whole, but not in part, for Definitive Notes:

(a) on the expiry of such period of notice as may be specified in the relevant Final Terms; or

(b) at any time, if so specified in the relevant Final Terms; or

(c) if the relevant Final Terms specifies "in the limited circumstances described in the Permanent Global Note", then if either of the following events occurs:

  (i) Euroclear or Clearstream, Luxembourg or any other relevant clearing system is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business; or

  (ii) any of the circumstances described in Condition 14 (*Events of Default*) occurs.

Whenever the Permanent Global Note is to be exchanged for Definitive Notes, the Issuer shall procure the prompt delivery (free of charge to the bearer) of such Definitive Notes, duly authenticated and with Coupons and Talons attached (if so specified in the Final Terms), in an aggregate principal amount equal to the principal amount of Notes represented by the Permanent Global Note to the bearer of the Permanent Global Note against the surrender of the Permanent Global Note to or to the order of the Fiscal Agent within 30 days of the bearer requesting such exchange.

If:

(a) Definitive Notes have not been duly delivered by 5.00 p.m. (London time) on the thirtieth day after the bearer has requested exchange of the Permanent Global Note for Definitive Notes; or

(b) the Permanent Global Note (or any part thereof) has become due and payable in accordance with the Terms and Conditions of the Notes or the date for final redemption of the Permanent Global Note has occurred and, in either case, payment in full of the amount of principal falling due with all accrued interest thereon has not been made to the bearer in accordance with the terms of the Permanent Global Note on the due date for payment,

then the Permanent Global Note (including the obligation to deliver Definitive Notes) will become void at 5.00 p.m. (London time) on such thirtieth day (in the case of (a) above) or at 5.00 p.m. (London time) on such due date ((b) above) and the bearer of the Permanent Global Note will have no further rights thereunder (but without prejudice to the rights which the bearer of the Permanent Global Note or others may have under the Deed of Covenant).

In relation to any issue of Notes which are specified in the Final Terms as Global Notes exchangeable for Definitive Notes in circumstances other than in the limited circumstances specified in the relevant Global Note, such Notes may only be issued in denominations equal to, or greater than, EUR100,000 (or equivalent) and multiples thereof.

Rights under Deed of Covenant

Under the Deed of Covenant, persons shown in the records of Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system as being entitled to an interest in a Temporary Global Note or a Permanent Global Note which becomes void will acquire directly against the Issuer all those rights to which they would have been entitled if, immediately before the Temporary Global Note or Permanent Global Note became void, they had been the holders of Definitive Notes in an aggregate principal amount equal to the principal amount of Notes they were shown as holding in the records of Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system.

Terms and Conditions applicable to the Notes

The terms and conditions applicable to any Definitive Note will be endorsed on that Note and will consist of the terms and conditions set out under "*Terms and Conditions of the Notes*" below and the provisions of the relevant Final Terms which complete those terms and conditions.

The terms and conditions applicable to any Note in global form will differ from those terms and conditions which would apply to the Note were it in definitive form to the extent described under "*Summary of Provisions Relating to the Notes while in Global Form*" below.

Legend concerning United States persons

In the case of any Tranche of Bearer Notes having a maturity of more than 365 days, the Notes in global form, the Notes in definitive form and any Coupons and Talons appertaining thereto will bear a legend to the following effect:

> "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."

Registered Notes

Each Tranche of Registered Notes will be in the form of either individual Note Certificates in registered form ("**Individual Note Certificates**") or a global Note in registered form (a "**Global Registered Note**"), in each case as specified in the relevant Final Terms.

In a press release dated 22 October 2008, "*Evolution of the custody arrangement for international debt securities and their eligibility in Eurosystem credit operations*", the ECB announced that it has assessed the new holding structure and custody arrangements for registered notes which the ICSDs had designed in cooperation with market participants and that Notes to be held under the NSS would be in compliance with the "*Standards for the use of EU securities settlement systems in ESCB credit operations*" of the Eurosystem, subject to the conclusion of the necessary legal and contractual arrangements. The press release also stated that the new arrangements for Notes to be held in NSS form will be offered by Euroclear and Clearstream, Luxembourg as of 30 June 2010 and that registered debt securities in global registered form held issued through Euroclear and Clearstream,

Luxembourg after 30 September 2010 will only be eligible as collateral in Eurosystem operations if the New Safekeeping Structure is used.

Each Global Registered Note will either be: (a) in the case of a Note which is not to be held under the NSS, registered in the name of a common depositary (or its nominee) for Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system and the relevant Global Registered Note will be deposited on or about the issue date with the common depositary and will be exchangeable in accordance with its terms; or (b) in the case of a Note to be held under the New Safekeeping Structure, be registered in the name of a common safekeeper (or its nominee) for Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system and the relevant Global Registered Note will be deposited on or about the issue date with the common safekeeper for Euroclear and/or Clearstream, Luxembourg and will be exchangeable for Individual Note Certificates in accordance with its terms.

If the relevant Final Terms specifies the form of Notes as being "Individual Note Certificates", then the Notes will at all times be in the form of Individual Note Certificates issued to each Noteholder in respect of their respective holdings.

If the relevant Final Terms specifies the form of Notes as being "Global Registered Note exchangeable for Individual Note Certificates", then the Notes will initially be in the form of a Global Registered Note which will be exchangeable in whole, but not in part, for Individual Note Certificates:

(a) on the expiry of such period of notice as may be specified in the relevant Final Terms; or

(b) at any time, if so specified in the relevant Final Terms; or

(c) if the relevant Final Terms specifies "in the limited circumstances described in the Global Registered Note ", then if either of the following events occurs:

  (i) Euroclear or Clearstream, Luxembourg or any other relevant clearing system is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business or

  (ii) any of the circumstances described in Condition 14 (*Events of Default*) occurs.

Whenever the Global Registered Note is to be exchanged for Individual Note Certificates, the Issuer shall procure that Individual Note Certificates will be issued in an aggregate principal amount equal to the principal amount of the Global Registered Note within five business days of the delivery, by or on behalf of the registered holder of the Global Registered Note to the Registrar of such information as is required to complete and deliver such Individual Note Certificates (including, without limitation, the names and addresses of the persons in whose names the Individual Note Certificates are to be registered and the principal amount of each such person's holding) against the surrender of the Global Registered Note at the specified office of the Registrar.

Such exchange will be effected in accordance with the provisions of the Agency Agreement and the regulations concerning the transfer and registration of Notes scheduled thereto and, in particular, shall be effected without charge to any holder, but against such indemnity as the Registrar may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such exchange.

If:

(a) Individual Note Certificates have not been delivered by 5.00 p.m. (London time) on the thirtieth day after they are due to be issued and delivered in accordance with the terms of the Global Registered Note; or

(b) any of the Notes represented by a Global Registered Note (or any part of it) has become due and payable in accordance with the Terms and Conditions of the Notes or the date for final redemption of the Notes has occurred and, in either case, payment in full of the amount of principal falling due with all accrued interest thereon has not been made to the holder of the Global Registered Note in accordance with the terms of the Global Registered Note on the due date for payment,

then the Global Registered Note (including the obligation to deliver Individual Note Certificates) will become void at 5.00 p.m. (London time) on such thirtieth day (in the case of (a) above) or at 5.00 p.m. (London time) on such due date (in the case of (b) above) and the holder of the Global Registered Note will have no further rights

thereunder (but without prejudice to the rights which the holder of the Global Registered Note or others may have under the Deed of Covenant. Under the Deed of Covenant, persons shown in the records of Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system as being entitled to an interest in a Global Registered Note will acquire directly against the Issuer all those rights to which they would have been entitled if, immediately before the Global Registered Note became void, they had been the holders of Individual Note Certificates in an aggregate principal amount equal to the principal amount of Notes they were shown as holding in the records of Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system.

In relation to any issue of Notes which are specified in the Final Terms as Global Registered Note Certificates exchangeable for individual Note Certificates in circumstances other than in the limited circumstances specified in the relevant Global Registered Note Certificate, such Notes may only be issued in denominations equal to, or greater than, EUR100,000 (or equivalent) and multiples thereof.

Terms and Conditions applicable to the Notes

The terms and conditions applicable to any Individual Note Certificate will be endorsed on that Individual Note Certificate and will consist of the terms and conditions set out under "Terms and Conditions of the Notes" below and the provisions of the relevant Final Terms which complete those terms and conditions.

The terms and conditions applicable to any Global Registered Note will differ from those terms and conditions which would apply to the Note were it in definitive form to the extent described under "*Summary of Provisions Relating to the Notes while in Global Form*" below.

TERMS AND CONDITIONS OF THE NOTES

The following is the text of the terms and conditions which, as completed by the relevant Final Terms, will be endorsed on each Note in definitive form issued under the Programme. The terms and conditions applicable to any Note in global form will differ from those terms and conditions which would apply to the Note were it in definitive form to the extent described under "Summary of Provisions Relating to the Notes while in Global Form" below.

1. **Introduction**

(a) *Programme*: Madrileña Red de Gas Finance B.V. (the "**Issuer**") has established a Euro Medium Term Note Programme (the "**Programme**") for the issuance of up to EUR2,000,000,000 in aggregate principal amount of notes (the "**Notes**") which are the subject of an unconditional and irrevocable guarantee (the "**Guarantee of the Notes**"), by Madrileña Red de Gas, S.A.U. ("**MRG**" or the "**Guarantor**", which expressions shall include, where relevant, references to Madrileña Red de Gas II, S.A.U., formerly a wholly-owned subsidiary of Madrileña Red de Gas, S.A.U. prior to its merger with Madrileña Red de Gas, S.A.U. on 29 November 2013).

(b) *Final Terms*: Notes issued under the Programme are issued in series (each a "**Series**") and each Series may comprise one or more tranches (each a "**Tranche**") of Notes. Each Tranche is the subject of a final terms (the "**Final Terms**") which complete these terms and conditions (the "**Conditions**"). The terms and conditions applicable to any particular Tranche of Notes are these Conditions as completed by the relevant Final Terms. In the event of any inconsistency between these Conditions and the relevant Final Terms, the relevant Final Terms shall prevail.

(c) *Agency Agreement*: The Notes are the subject of an issue and paying agency agreement originally dated 1 August 2013, as amended, supplemented and/or restated from time to time, (the "**Agency Agreement**") between the Issuer, the Guarantor, Deutsche Bank AG, London Branch as fiscal agent (the "**Fiscal Agent**", which expression includes any successor fiscal agent appointed from time to time in connection with the Notes), Deutsche Bank Luxembourg S.A. as registrar (the "**Registrar**", which expression includes any successor registrar appointed from time to time in connection with the Notes), the paying agents named therein (together with the Fiscal Agent, the "**Paying Agents**", which expression includes any successor or additional paying agents appointed from time to time in connection with the Notes) and the transfer agents named therein (together with the Registrar, the "**Transfer Agents**", which expression includes any successor or additional transfer agents appointed from time to time in connection with the Notes). In these Conditions references to the "**Agents**" are to the Paying Agents and the Transfer Agents and any reference to an "**Agent**" is to any one of them.

(d) *Deed of Guarantee*: The Notes are the subject of a deed of guarantee originally dated 1 August 2013, as amended, supplemented and/or restated from time to time, (the "**Deed of Guarantee**") entered into by the Guarantor.

(e) *Deed of Covenant:* The Notes may be issued in bearer form ("**Bearer Notes**"), or in registered form ("**Registered Notes**"). Registered Notes are constituted by a deed of covenant originally dated 1 August 2013, as amended, supplemented and/or restated from time to time, (the "**Deed of Covenant**") entered into by the Issuer.

(f) *The Notes*: All subsequent references in these Conditions to "Notes" are to the Notes which are the subject of the relevant Final Terms. Copies of the relevant Final Terms are available for viewing at the registered office of the Issuer (Prins Bernhardplein 200, 1097 JB Amsterdam, The Netherlands) and copies may be obtained from the website of the Luxembourg Stock Exchange (*www.bourse.lu*).

(g) *Summaries*: Certain provisions of these Conditions are summaries of the Agency Agreement, the Deed of Guarantee and the Deed of Covenant and are subject to their detailed provisions. Noteholders and the holders of the related interest coupons, if any, (the "**Couponholders**" and the "**Coupons**", respectively) are bound by, and are deemed to have notice of, all the provisions of the Agency Agreement, the Deed of Guarantee and the Deed of Covenant applicable to them. Copies of the Agency Agreement, the Deed of Guarantee and the Deed of Covenant are available for inspection by Noteholders during normal business hours at the Specified Offices of each of the Agents, the initial Specified Offices of which are set out below.

2. **Interpretation**

(a) *Definitions*: In these Conditions the following expressions have the following meanings:

"**Accountants' Report**" means a report of the Reporting Accountants stating whether the amounts included in the calculation of the EBITDA and the amount for EBITDA as included in the Directors' Report have been accurately extracted from the accounting records of MRG and whether the Disposal Percentage or, as the case may be, the Loss of Relevant Licence Percentage included in the Directors' Report has been correctly calculated pursuant to an engagement letter to be entered into by the Reporting Accountants, the Issuer and the Guarantor at the relevant time. The Issuer and the Guarantor shall use reasonable endeavours to procure that there shall at the relevant time be Reporting Accountants who have entered into an engagement letter with the Issuer and the Guarantor which shall (i) not limit the liability of the Reporting Accountants by reference to a monetary cap and (ii) be available for inspection by Noteholders at the principal office of the Issuer.

"**Accounting Principles**" means generally accepted accounting principles in The Kingdom of Spain or the Netherlands, as applicable;

"**Accrual Yield**" has the meaning given in the relevant Final Terms;

"**Additional Business Centre(s)**" means the city or cities specified as such in the relevant Final Terms;

"**Additional Financial Centre(s)**" means the city or cities specified as such in the relevant Final Terms;

"**Business Day**" means:

(a) in relation to any sum payable in euro, a TARGET Settlement Day and a day on which commercial banks and foreign exchange markets settle payments generally in each (if any) Additional Business Centre; and

(b) in relation to any sum payable in a currency other than euro, a day on which commercial banks and foreign exchange markets settle payments generally in London, in the Principal Financial Centre of the relevant currency and in each (if any) Additional Business Centre;

"**Business Day Convention**" means, in relation to any particular date, has the meaning given in the relevant Final Terms and, if so specified in the relevant Final Terms, may have different meanings in relation to different dates and, in this context, the following expressions shall have the following meanings:

(a) "**Following Business Day Convention**" means that the relevant date shall be postponed to the first following day that is a Business Day;

(b) "**Modified Following Business Day Convention**" or "**Modified Business Day Convention**" means that the relevant date shall be postponed to the first following day that is a Business Day unless that day falls in the next calendar month in which case that date will be the first preceding day that is a Business Day;

(c) "**Preceding Business Day Convention**" means that the relevant date shall be brought forward to the first preceding day that is a Business Day;

(d) "**FRN Convention**", "**Floating Rate Convention**" or "**Eurodollar Convention**" means that each relevant date shall be the date which numerically corresponds to the preceding such date in the calendar month which is the number of months specified in the relevant Final Terms as the Specified Period after the calendar month in which the preceding such date occurred **provided, however, that**:

(i) if there is no such numerically corresponding day in the calendar month in which any such date should occur, then such date will be the last day which is a Business Day in that calendar month;

(ii) if any such date would otherwise fall on a day which is not a Business Day, then such date will be the first following day which is a Business Day unless that day falls in the

next calendar month, in which case it will be the first preceding day which is a Business Day; and

(iii) if the preceding such date occurred on the last day in a calendar month which was a Business Day, then all subsequent such dates will be the last day which is a Business Day in the calendar month which is the specified number of months after the calendar month in which the preceding such date occurred; and

(e) "**No Adjustment**" means that the relevant date shall not be adjusted in accordance with any Business Day Convention;

"**Calculation Agent**" means the Fiscal Agent or such other Person specified in the relevant Final Terms as the party responsible for calculating the Rate(s) of Interest and Interest Amount(s) and/or such other amount(s) as may be specified in the relevant Final Terms;

"**Calculation Amount**" has the meaning given in the relevant Final Terms;

"**Coupon Sheet**" means, in respect of a Note, a coupon sheet relating to the Note;

"**Day Count Fraction**" means, in respect of the calculation of an amount for any period of time (the "**Calculation Period**"), such day count fraction as may be specified in these Conditions or the relevant Final Terms and:

(a) if "**Actual/Actual (ICMA)**" is so specified, means:

(i) where the Calculation Period is equal to or shorter than the Regular Period during which it falls, the actual number of days in the Calculation Period divided by the product of (1) the actual number of days in such Regular Period and (2) the number of Regular Periods in any year; and

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

(A) the actual number of days in such Calculation Period falling in the Regular Period in which it begins divided by the product of (1) the actual number of days in such Regular Period and (2) the number of Regular Periods in any year; and

(B) the actual number of days in such Calculation Period falling in the next Regular Period divided by the product of (a) the actual number of days in such Regular Period and (2) the number of Regular Periods in any year;

(b) if "**Actual/Actual (ISDA)**" is so specified, means the actual number of days in the Calculation Period divided by 365 (or, if any portion of the 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);

(c) if "**Actual/365 (Fixed)**" is so specified, means the actual number of days in the Calculation Period divided by 365;

(d) if "**Actual/360**" is so specified, means the actual number of days in the Calculation Period divided by 360;

(e) if "**30/360**" is so specified, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows

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

where:

"**Y_1**" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"**Y_2**" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"**M_1**" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"**M_2**" is the calendar month, expressed as number, in which the day immediately following the last day included in the Calculation Period falls;

"**D_1**" is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D_1 will be 30; and

"**D_2**" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31 and D_1 is greater than 29, in which case D_2 will be 30";

if "**30E/360**" or "**Eurobond Basis**" is so specified, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

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

where:

"**Y_1**" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"**Y_2**" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"**M_1**" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"**M_2**" is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"**D_1**" is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D_1 will be 30; and

"**D_2**" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31, in which case D_2 will be 30; and

(f) if "**30E/360 (ISDA)**" is so specified, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

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

where:

"**Y_1**" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"**Y_2**" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"**M_1**" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"**M_2**" is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"**D_1**" is the first calendar day, expressed as a number, of the Calculation Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case D_1 will be 30; and

"**D_2**" is the calendar day, expressed as a number, immediately following the last day included in the Calculation 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 D_2 will be 30,

provided, however, that in each such case the number of days in the Calculation Period is calculated from and including the first day of the Calculation Period to but excluding the last day of the Calculation Period;

"**Directors' Report**" means a report prepared and signed by two directors of the Issuer and the Guarantor and made available to Noteholders in accordance with Condition 20 (*Notices*) setting out the EBITDA and the Disposal Percentage (in each case in relation to the relevant Disposed Assets) or, as the case may be, the Loss of Relevant Licence Percentage (in each case in relation to the Loss of Relevant Licence) and stating any assumptions which the directors of the Issuer or the Guarantor have employed in determining the EBITDA, Disposal Percentage or Loss of Relevant Licence Percentage;

"**Early Redemption Amount (Tax)**" means, in respect of any Note, its principal amount or such other amount as may be specified in, or determined in accordance with, the relevant Final Terms;

"**Early Termination Amount**" means, in respect of any Note, its principal amount or such other amount as may be specified in, or determined in accordance with, these Conditions or the relevant Final Terms;

"**EBITDA**", in relation to any Loss of Relevant Licence or Disposal Event, means the operating profit from ordinary activities before tax and interest and before taking into account any share of (loss)/profit of associates, net finance cost and any depreciation, amortisation and impairment charges of MRG attributable to such Loss of Relevant Licence or Disposal Event, in accordance with Spanish GAAP by reference to the Relevant Accounts;

"**Extraordinary Resolution**" has the meaning given in the Agency Agreement;

"**Final Redemption Amount**" means, in respect of any Note, its principal amount or such other amount as may be specified in, or determined in accordance with, the relevant Final Terms;

"**First Interest Payment Date**" means the date specified in the relevant Final Terms;

"**Fixed Coupon Amount**" has the meaning given in the relevant Final Terms;

"**Guarantee**" means, in relation to any Indebtedness of any Person, any obligation of another Person to pay such Indebtedness including (without limitation):

(a) any obligation to purchase such Indebtedness;

(b) any obligation to lend money, to purchase or subscribe shares or other securities or to purchase assets or services in order to provide funds for the payment of such Indebtedness;

(c) any indemnity against the consequences of a default in the payment of such Indebtedness; and

(d) any other agreement to be responsible for such Indebtedness;

"**Guarantee of the Notes**" means the guarantee of the Notes given by the Guarantor in the Deed of Guarantee;

"**Holder**", in the case of Bearer Notes, has the meaning given in Condition 3(b) (*Form, Denomination, Title and Transfer - Title to Bearer Notes*) and, in the case of Registered Notes, has the meaning given in Condition 3(d) (*Form, Denomination, Title and Transfer - Title to Registered Notes*);

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

(a) moneys borrowed;

(b) any amount raised by acceptance under any acceptance credit facility or dematerialised equivalent;

(c) any amount raised pursuant to any note purchase facility or the issue of bonds, notes, debentures, loan stock or any similar instrument;

(d) the amount of any liability in respect of any lease or hire purchase contract which would, in accordance with Accounting Principles, be treated as a finance or capital lease;

(e) receivables sold or discounted (other than any receivables to the extent they are sold or discounted on a non-recourse basis);

(f) any amount raised under any other transaction (including any forward sale or purchase agreement) required by Accounting Principles to be treated as a borrowing;

(g) any derivative transaction entered into in connection with protection against or benefit from fluctuation in any rate or price (and, when calculating the value of any derivative transaction, only the marked to market value shall be taken into account to the extent such amount has become due but unpaid);

(h) any counter-indemnity obligation in respect of a guarantee, indemnity, bond, standby or documentary letter of credit or any other instrument issued by a bank or financial institution, in each case in respect of indebtedness of a type referred to in paragraphs (a) to (g) above; and

(i) the amount of any liability in respect of any guarantee or indemnity for any of the items referred to in paragraphs (a) to (i) above,

but excluding in each case:

(i) any such amounts constituting obligations owed to any other member of MRG;

(ii) any such amounts constituting subordinated debt; and

(iii) any such amounts in respect of the On-Loan Agreements.

"**Interest Amount**" means, in relation to a Note and an Interest Period, the amount of interest payable in respect of that Note for that Interest Period;

"**Interest Commencement Date**" means the Issue Date of the Notes or such other date as may be specified as the Interest Commencement Date in the relevant Final Terms;

"**Interest Determination Date**" has the meaning given in the relevant Final Terms;

"**Interest Payment Date**" means the First Interest Payment Date and any date or dates specified as such in, or determined in accordance with the provisions of, the relevant Final Terms and, if a Business Day Convention is specified in the relevant Final Terms:

(a) as the same may be adjusted in accordance with the relevant Business Day Convention; or

(b) if the Business Day Convention is the FRN Convention, Floating Rate Convention or Eurodollar Convention and an interval of a number of calendar months is specified in the relevant Final Terms as being the Specified Period, each of such dates as may occur in accordance with the FRN Convention, Floating Rate Convention or Eurodollar Convention at such Specified Period of calendar months following the Interest Commencement Date (in the case of the first Interest Payment Date) or the previous Interest Payment Date (in any other case);

"**Interest Period**" means each period beginning on (and including) the Interest Commencement Date or any Interest Payment Date and ending on (but excluding) the next Interest Payment Date;

"**ISDA Definitions**" means the 2006 ISDA Definitions (as amended and updated as at the date of issue of the first Tranche of the Notes of the relevant Series (as specified in the relevant Final Terms) as published by the International Swaps and Derivatives Association, Inc.);

"**Issue Date**" has the meaning given in the relevant Final Terms;

"**Law 10/2014**" means Law 10/2014 of 26 June 2014, on regulation, supervision and solvency of credit entities (*Ley 10/2014, de 26 de junio, de ordenación, supervision y solvencia de entidades de crédito*);

"**Make-Whole Amount**" has the meaning given to it in Condition 10(c) (*Redemption at the Option of the Issuer*);

"**Margin**" has the meaning given in the relevant Final Terms;

"**Material Subsidiary**" means any direct or indirect Subsidiary of MRG that, together with its subsidiaries (i) for the most recent financial year of MRG, accounted for more than 10 per cent. of the consolidated revenues of MRG, (ii) as of the end of such financial year, was owner of either more than 10 per cent. of the consolidated assets of MRG or (iii) is the owner of any asset or assets that are material to MRG and its Subsidiaries, taken as a whole;

"**Maturity Date**" has the meaning given in the relevant Final Terms;

"**Maximum Redemption Amount**" has the meaning given in the relevant Final Terms;

"**Minimum Redemption Amount**" has the meaning given in the relevant Final Terms;

"**Noteholder**", in the case of Bearer Notes, has the meaning given in Condition 3(b) (*Form, Denomination, Title and Transfer - Title to Bearer Notes*) and, in the case of Registered Notes, has the meaning given in Condition 3(d) (*Form, Denomination, Title and Transfer - Title to Registered Notes*);

"**On-Loan Agreements**" means the on-loan agreements entered into from time to time between the Issuer, the Guarantor and the Parent pursuant to which the proceeds of the Notes will be advanced by the Issuer to the Parent, and from the Parent to the Guarantor, and repayments of principal, interest and additional amounts will be made to the Issuer on terms sufficient to enable the Issuer to meet its obligations under the Notes;

"**Optional Redemption Amount**" means, in respect of any Note, its principal amount or such other amount as may be specified in, or determined in accordance with, the relevant Final Terms;

"**Optional Redemption Date**" has the meaning given in the relevant Final Terms;

"**Parent**" means Elisandra Spain V, S.L.U.;

"**Payment Business Day**" means:

(a) if the currency of payment is euro, any day which is:

  (i) a TARGET Settlement Day and a day on which banks are open for presentation and payment of bearer debt securities and for dealings in foreign currencies; and

  (ii) in the case of payment by transfer to an account, a TARGET Settlement Day and a day on which dealings in foreign currencies may be carried on in each (if any) Additional Financial Centre; or

(b) if the currency of payment is not euro, any day which is:

  (i) a day on which banks in London are open for presentation and payment of bearer debt securities and for dealings in foreign currencies; and

  (ii) in the case of payment by transfer to an account, a day on which dealings in foreign currencies may be carried on in the Principal Financial Centre of the currency of payment and in each (if any) Additional Financial Centre;

"**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 separate legal personality;

"**Principal Financial Centre**" means, in relation to any currency, the principal financial centre for that currency **provided, however, that** in relation to euro, it means the principal financial centre of such Member State of the European Communities as is selected (in the case of a payment) by the payee or (in the case of a calculation) by the Calculation Agent;

"**Public Announcement**" means an announcement by the Issuer and the Guarantor of the occurrence of a Restructuring Event, or as the case may be, Loss of Relevant Licence or Change of Control Event, published in accordance with Condition 20 (*Notices*);

"**Put Option Notice**" means a notice which must be delivered to a Paying Agent by any Noteholder wanting to exercise a right to redeem a Note at the option of the Noteholder;

"**Put Option Receipt**" means a receipt issued by a Paying Agent to a depositing Noteholder upon deposit of a Note with such Paying Agent by any Noteholder wanting to exercise a right to redeem a Note at the option of the Noteholder;

"**Rate of Interest**" means the rate or rates (expressed as a percentage per annum) of interest payable in respect of the Notes specified in the relevant Final Terms or calculated or determined in accordance with the provisions of these Conditions and/or the relevant Final Terms;

"**Rated Securities**" means the Notes, if and for so long as they shall have an effective rating from a Rating Agency and otherwise any Rateable Debt which is rated by a Rating Agency;

"**Rating Agency**" means any of (i) Fitch Ratings Limited (ii) Moody's Investors Service Limited (iii) Standard & Poor's Credit Market Services Europe Limited or (iv) any other rating agency of international standing and (in each case) their respective affiliates and successors and "**Rating Agencies**" shall be construed accordingly;

"**Redemption Amount**" means, as appropriate, the Final Redemption Amount, the Early Redemption Amount (Tax), the Optional Redemption Amount, or the Early Termination Amount, or such other amount in the nature of a redemption amount as may be specified in, or determined in accordance with the provisions of, the relevant Final Terms;

"**Reference Banks**" has the meaning given in the relevant Final Terms or, if none, four major banks selected by the Issuer (or an independent investment bank, commercial bank or stockbroker appointed by the Issuer) in the market that is most closely connected with the Reference Rate;

"**Reference Price**" has the meaning given in the relevant Final Terms;

"**Reference Rate**" means LIBOR, LIBID, LIMEAN or EURIBOR as specified in the relevant Final Terms;

"**Regular Period**" means:

(a) in the case of Notes where interest is scheduled to be paid only by means of regular payments, each period from and including the Interest Commencement Date to but excluding the first Interest Payment Date and each successive period from and including one Interest Payment Date to but excluding the next Interest Payment Date;

(b) in the case of Notes where, apart from the first Interest Period, interest is scheduled to be paid only by means of regular payments, each period from and including a Regular Date falling in any year to but excluding the next Regular Date, where "**Regular Date**" means the day and month (but not the year) on which any Interest Payment Date falls; and

(c) in the case of Notes where, apart from one Interest Period other than the first Interest Period, interest is scheduled to be paid only by means of regular payments, each period from and including a Regular Date falling in any year to but excluding the next Regular Date, where "**Regular Date**" means the day and month (but not the year) on which any Interest Payment Date falls other than the Interest Payment Date falling at the end of the irregular Interest Period.

"**Relevant Accounts**" means, in respect of a Disposed Asset or a Loss of Relevant Licence, as applicable, the most recent annual audited financial accounts of MRG preceding the relevant sale, transfer, lease or other disposal or dispossession of the relevant Disposed Asset or Loss of Relevant Licence, as applicable;

"**Relevant Date**" means, in relation to any payment, whichever is the later of (a) the date on which the payment in question first becomes due and (b) if the full amount payable has not been received in the Principal Financial Centre of the currency of payment by the Fiscal Agent on or prior to such due date, the date on which (the full amount having been so received) notice to that effect has been given to the Noteholders;

"**Relevant Financial Centre**" has the meaning given in the relevant Final Terms;

"**Relevant Screen Page**" means the page, section or other part of a particular information service (including, without limitation, Reuters) specified as the Relevant Screen Page in the relevant Final Terms, or such other page, section or other part as may replace it on that information service or such other information service, in each case, as may be nominated by the Person providing or sponsoring the information appearing there for the purpose of displaying rates or prices comparable to the Reference Rate;

"**Relevant Time**" has the meaning given in the relevant Final Terms;

"**Reporting Accountants**" means the auditors of MRG (but not acting in their capacity as auditors) or such other firm of accountants as may be nominated by the Issuer and the Guarantor;

"**Reserved Matter**" means any proposal to change any date fixed for payment of principal or interest in respect of the Notes, to reduce the amount of principal or interest payable on any date in respect of the Notes, to alter the method of calculating the amount of any payment in respect of the Notes or the date for any such payment, to change the currency of any payment under the Notes or to change the quorum requirements relating to meetings or the majority required to pass an Extraordinary Resolution;

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

"**Specified Currency**" has the meaning given in the relevant Final Terms;

"**Specified Denomination(s)**" has the meaning given in the relevant Final Terms;

"**Specified Office**" has the meaning given in the Agency Agreement;

"**Specified Period**" has the meaning given in the relevant Final Terms;

"**Subsidiary**" means, at any particular time, a 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 MRG 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.

"**Talon**" means a talon for further Coupons;

"**TARGET2**" means the Trans-European Automated Real-Time Gross Settlement Express Transfer payment system which utilises a single shared platform and which was launched on 19 November 2007;

"**TARGET Settlement Day**" means any day on which TARGET2 is open for the settlement of payments in euro; and

"**Total Assets**" means, the MRG's total assets as measured by their most recent annual audited annual accounts;

"**Zero Coupon Note**" means a Note specified as such in the relevant Final Terms.

(b) *Interpretation*: In these Conditions:

(i) if the Notes are Zero Coupon Notes, references to Coupons and Couponholders are not applicable;

(ii) if Talons are specified in the relevant Final Terms as being attached to the Notes at the time of issue, references to Coupons shall be deemed to include references to Talons;

(iii) if Talons are not specified in the relevant Final Terms as being attached to the Notes at the time of issue, references to Talons are not applicable;

(iv) any reference to principal shall be deemed to include the Redemption Amount, any additional amounts in respect of principal which may be payable under Condition 13 (*Taxation*), any premium payable in respect of a Note and any other amount in the nature of principal payable pursuant to these Conditions;

(v) any reference to interest shall be deemed to include any additional amounts in respect of interest which may be payable under Condition 13 (*Taxation*) and any other amount in the nature of interest payable pursuant to these Conditions;

(vi) references to Notes being "outstanding" shall be construed in accordance with the Agency Agreement;

(vii) if an expression is stated in Condition 2(a) to have the meaning given in the relevant Final Terms, but the relevant Final Terms gives no such meaning or specifies that such expression is "not applicable" then such expression is not applicable to the Notes; and

(viii) any reference to the Agency Agreement or the Deed of Guarantee shall be construed as a reference to the Agency Agreement or the Deed of Guarantee, as the case may be, as amended and/or supplemented up to and including the Issue Date of the Notes.

3. **Form, Denomination, Title and Transfer**

(a) *Bearer Notes:* Bearer Notes are in the Specified Denomination(s) with Coupons and, if specified in the relevant Final Terms, Talons attached at the time of issue. In the case of a Series of Bearer Notes with more than one Specified Denomination, Bearer Notes of one Specified Denomination will not be exchangeable for Bearer Notes of another Specified Denomination. The minimum Specified Denomination shall be EUR100,000 (or its equivalent in another currency as at the date of issue of the relevant Bearer Notes).

(b) *Title to Bearer Notes:* Title to Bearer Notes and the Coupons will pass by delivery. In the case of Bearer Notes, "**Holder**" means the holder of such Bearer Note and "**Noteholder**" and "**Couponholder**" shall be construed accordingly.

(c) *Registered Notes:* Registered Notes are in the Specified Denomination(s), which may include a minimum denomination specified in the relevant Final Terms and higher integral multiples of a smaller amount specified in the relevant Final Terms. The minimum Specified Denomination shall be EUR100,000 (or its equivalent in another currency as at the date of issue of the relevant Registered Notes).

(d) *Title to Registered Notes:* The Registrar will maintain the register in accordance with the provisions of the Agency Agreement. A certificate (each, a "**Note Certificate**") will be issued to each Holder of Registered Notes in respect of its registered holding. Each Note Certificate will be numbered serially with an identifying number which will be recorded in the Register. In the case of Registered Notes, "**Holder**" means the person in whose name such Registered Note is for the time being registered in the Register (or, in the case of a joint holding, the first named thereof) and "**Noteholder**" shall be construed accordingly.

(e) *Ownership:* The Holder of any Note or Coupon shall (except as otherwise required by law) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any other interest therein, any writing thereon or, in the case of Registered Notes, on the Note Certificate relating thereto (other than the endorsed form of transfer) or any notice of any

previous loss or theft thereof) and no Person shall be liable for so treating such Holder. No person shall have any right to enforce any term or condition of any Note under the Contracts (Rights of Third Parties) Act 1999.

(f) *Transfers of Registered Notes:* Subject to paragraphs (i) (*Closed periods*) and (j) (*Regulations concerning transfers and registration*) below, a Registered Note may be transferred upon surrender of the relevant Note Certificate, with the endorsed form of transfer duly completed, at the Specified Office of the Registrar or any Transfer Agent, together with such evidence as the Registrar or (as the case may be) such Transfer Agent may reasonably require to prove the title of the transferor and the authority of the individuals who have executed the form of transfer; **provided, however, that** a Registered Note may not be transferred unless the principal amount of Registered Notes transferred and (where not all of the Registered Notes held by a Holder are being transferred) the principal amount of the balance of Registered Notes not transferred are Specified Denominations. Where not all the Registered Notes represented by the surrendered Note Certificate are the subject of the transfer, a new Note Certificate in respect of the balance of the Registered Notes will be issued to the transferor.

(g) *Registration and delivery of Note Certificates:* Within three business days of the surrender of a Note Certificate in accordance with paragraph (f) (*Transfers of Registered Notes*) above, the Registrar will register the transfer in question and deliver a new Note Certificate of a like principal amount to the Registered Notes transferred to each relevant Holder at its Specified Office or (as the case may be) the Specified Office of any Transfer Agent or (at the request and risk of any such relevant Holder) by uninsured first class mail (airmail if overseas) to the address specified for the purpose by such relevant Holder. In this paragraph, "**business day**" means a day on which commercial banks are open for general business (including dealings in foreign currencies) in the city where the Registrar or (as the case may be) the relevant Transfer Agent has its Specified Office.

(h) *No charge:* The transfer of a Registered Note will be effected without charge by or on behalf of the Issuer or the Registrar or any Transfer Agent but against such indemnity as the Registrar or (as the case may be) such Transfer Agent may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such transfer.

(i) *Closed periods:* Noteholders may not require transfers to be registered during the period of 15 days ending on the due date for any payment of principal or interest in respect of the Registered Notes.

(j) *Regulations concerning transfers and registration:* All transfers of Registered Notes and entries on the Register are subject to the detailed regulations concerning the transfer of Registered Notes scheduled to the Agency Agreement. The regulations may be changed by the Issuer with the prior written approval of the Registrar. A copy of the current regulations will be mailed (free of charge) by the Registrar to any Noteholder who requests in writing a copy of such regulations.

4. **Status and Guarantee; Limited recourse**

(a) *Status of the Notes*: The Notes constitute direct, general, unconditional and (without prejudice to Condition 5 (*Negative Pledge*) unsecured obligations of the Issuer which will at all times rank *pari passu* among themselves and at least *pari passu* with all other present and future unsecured obligations of the Issuer, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application. The recourse of the Noteholders against the Issuer for the enforcement of its obligations under the Notes will be limited to any proceeds that may be received in respect of the On-Loan Agreements plus the Issuer's share capital, from time to time. After the Noteholders will have had recourse with regard to these proceeds, the Issuer will be considered to have satisfied all its payment obligations under the Notes in full and final settlement. For the avoidance of doubt, this provision shall not limit the Noteholders rights against the Guarantor arising pursuant to the Deed of Guarantee.

The Issuer hereby undertakes to Noteholders not to amend, vary, modify or waive any of its rights under the On-Loan Agreements if to do so would result in the Issuer receiving fewer payments or less frequent payments than is required by the Issuer to discharge its obligations under the Notes on a timely basis.

(b) *Guarantee of the Notes*; *Status of the Guarantees*: The Guarantor has in the Deed of Guarantee unconditionally and irrevocably guaranteed the due and punctual payment of all sums from time to time payable by the Issuer in respect of the Notes and Coupons. This Guarantee of the Notes constitutes direct, general, unconditional and (without prejudice to Condition 5 (*Negative Pledge*)) unsecured

obligations of the Guarantor which will at all times rank at least *pari passu* with all other present and future unsecured obligations of the Guarantor, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application.

5. **Negative Pledge**

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

For the purposes of this provision:

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

(ii) "**Subsidiary**" means any entity whose financial statements at any time are required by law or in accordance with generally accepted accounting principles to be fully consolidated with those of the Issuer or the Guarantor, as applicable.

6. **Fixed Rate Note Provisions**

(a) *Application:* This Condition 6 (*Fixed Rate Note Provisions*) is applicable to the Notes only if the Fixed Rate Note Provisions are specified in the relevant Final Terms as being applicable.

(b) *Accrual of interest:* The Notes bear interest from the Interest Commencement Date at the Rate of Interest payable in arrear on each Interest Payment Date, subject as provided in Condition 11 (*Payments − Bearer Notes*) and Condition 12 (*Payments − Registered Notes*)). Each Note will cease to bear interest from the due date for final redemption unless, upon due presentation, payment of the Redemption Amount is improperly withheld or refused, in which case it will continue to bear interest in accordance with this Condition 6 (as well after as before judgment) until whichever is the earlier of (i) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant Noteholder and (ii) the day which is seven days after the Fiscal Agent has notified the Noteholders that it has received all sums due in respect of the Notes up to such seventh day (except to the extent that there is any subsequent default in payment).

(c) *Fixed Coupon Amount:* The amount of interest payable in respect of each Note for any Interest Period shall be the relevant Fixed Coupon Amount and, if the Notes are in more than one Specified Denomination, shall be the relevant Fixed Coupon Amount in respect of the relevant Specified Denomination.

(d) *Calculation of interest amount:* The amount of interest payable in respect of each Note for any period for which a Fixed Coupon Amount is not specified shall be calculated by applying the Rate of Interest to the Calculation Amount, multiplying the product by the relevant Day Count Fraction, rounding the resulting figure to the nearest sub-unit of the Specified Currency (half a sub-unit being rounded upwards) and multiplying such rounded figure by a fraction equal to the Specified Denomination of such Note divided by the Calculation Amount. For this purpose a "**sub-unit**" means, in the case of any currency other than euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, in the case of euro, means one cent.

7. **Floating Rate Note Provisions**

(a) *Application:* This Condition 7 (*Floating Rate Note Provisions*) is applicable to the Notes only if the Floating Rate Note Provisions are specified in the relevant Final Terms as being applicable.

(b) *Accrual of interest:* The Notes bear interest from the Interest Commencement Date at the Rate of Interest payable in arrear on each Interest Payment Date, subject as provided in Condition 11 (*Payments − Bearer Notes*) and Condition 12 (*Payments − Registered Notes*). Each Note will cease to bear interest from the due date for final redemption unless, upon due presentation, payment of the Redemption Amount is improperly withheld or refused, in which case it will continue to bear interest in accordance with this Condition (as well after as before judgment) until whichever is the earlier of (i) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant Noteholder and (ii) the day which is seven days after the Fiscal Agent has notified the Noteholders that it has received all sums due in respect of the Notes up to such seventh day (except to the extent that there is any subsequent default in payment).

(c) *Screen Rate Determination:* If Screen Rate Determination is specified in the relevant Final Terms as the manner in which the Rate(s) of Interest is/are to be determined, the Rate of Interest applicable to the Notes for each Interest Period will be determined by the Calculation Agent on the following basis:

(i) if the Reference Rate is a composite quotation or customarily supplied by one entity, the Calculation Agent will determine the Reference Rate which appears on the Relevant Screen Page as of the Relevant Time on the relevant Interest Determination Date;

(ii) in any other case, the Calculation Agent will determine the arithmetic mean of the Reference Rates which appear on the Relevant Screen Page as of the Relevant Time on the relevant Interest Determination Date;

(iii) if, in the case of (i) above, such rate does not appear on that page or, in the case of (ii) above, fewer than two such rates appear on that page or if, in either case, the Relevant Screen Page is unavailable:

(A) the Issuer (or an independent investment bank, commercial bank or stockbroker appointed by the Issuer) will request the principal Relevant Financial Centre office of each of the Reference Banks to provide a quotation of the Reference Rate at approximately the Relevant Time on the Interest Determination Date to prime banks in the Relevant Financial Centre interbank market in an amount that is representative for a single transaction in that market at that time; and

(B) the Calculation Agent will determine the arithmetic mean of such quotations; and

(iv) if fewer than two such quotations are provided as requested, the Calculation Agent will determine the arithmetic mean of the rates (being the nearest to the Reference Rate, as determined by the Calculation Agent) quoted by major banks in the Principal Financial Centre of the Specified Currency, selected by the Issuer (or an independent investment bank, commercial bank or stockbroker appointed by the Issuer), at approximately 11.00 a.m. (local time in the Principal Financial Centre of the Specified Currency) on the first day of the relevant Interest Period for loans in the Specified Currency to leading European banks for a period equal to the relevant Interest Period and in an amount that is representative for a single transaction in that market at that time,

and the Rate of Interest for such Interest Period shall be the sum of the Margin and the rate or (as the case may be) the arithmetic mean so determined; **provided, however, that** if the Calculation Agent is unable to determine a rate or (as the case may be) an arithmetic mean in accordance with the above provisions in relation to any Interest Period, the Rate of Interest applicable to the Notes during such Interest Period will be the sum of the Margin and the rate or (as the case may be) the arithmetic mean last determined in relation to the Notes in respect of a preceding Interest Period.

(d) *ISDA Determination:* If ISDA Determination is specified in the relevant Final Terms as the manner in which the Rate(s) of Interest is/are to be determined, the Rate of Interest applicable to the Notes for each Interest Period will be the sum of the Margin and the relevant ISDA Rate where "ISDA Rate" in relation to any Interest Period means a rate equal to the Floating Rate (as defined in the ISDA Definitions) that would be determined by the Calculation Agent under an interest rate swap transaction if the Calculation Agent were acting as Calculation Agent for that interest rate swap transaction under the terms of an agreement incorporating the ISDA Definitions and under which:

(i) the Floating Rate Option (as defined in the ISDA Definitions) is as specified in the relevant Final Terms;

(ii) the Designated Maturity (as defined in the ISDA Definitions) is a period specified in the relevant Final Terms; and

(iii) the relevant Reset Date (as defined in the ISDA Definitions) is either (A) if the relevant Floating Rate Option is based on the London inter-bank offered rate (LIBOR) for a currency, the first day of that Interest Period or (B) in any other case, as specified in the relevant Final Terms.

(e) *Maximum or Minimum Rate of Interest:* If any Maximum Rate of Interest or Minimum Rate of Interest is specified in the relevant Final Terms, then the Rate of Interest shall in no event be greater than the maximum or be less than the minimum so specified.

(f) *Calculation of Interest Amount:* The Calculation Agent will, as soon as practicable after the time at which the Rate of Interest is to be determined in relation to each Interest Period, calculate the Interest Amount payable in respect of each Note for such Interest Period. The Interest Amount will be calculated by applying the Rate of Interest for such Interest Period to the Calculation Amount, multiplying the product by the relevant Day Count Fraction, rounding the resulting figure to the nearest sub-unit of the Specified Currency (half a sub-unit being rounded upwards) and multiplying such rounded figure by a fraction equal to the Specified Denomination of the relevant Note divided by the Calculation Amount. For this purpose a "**sub-unit**" means, in the case of any currency other than euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, in the case of euro, means one cent.

(g) *Calculation of other amounts:* If the relevant Final Terms specifies that any other amount is to be calculated by the Calculation Agent, the Calculation Agent will, as soon as practicable after the time or times at which any such amount is to be determined, calculate the relevant amount. The relevant amount will be calculated by the Calculation Agent in the manner specified in the relevant Final Terms.

(h) *Publication:* The Calculation Agent will cause each Rate of Interest and Interest Amount determined by it, together with the relevant Interest Payment Date, and any other amount(s) required to be determined by it together with any relevant payment date(s) to be notified to the Paying Agents and each competent authority, stock exchange and/or quotation system (if any) by which the Notes have then been admitted to listing, trading and/or quotation as soon as practicable after such determination but (in the case of each Rate of Interest, Interest Amount and Interest Payment Date) in any event not later than the first day of the relevant Interest Period. Notice thereof shall also promptly be given to the Noteholders. The Calculation Agent will be entitled to recalculate any Interest Amount (on the basis of the foregoing provisions) without notice in the event of an extension or shortening of the relevant Interest Period. If the Calculation Amount is less than the minimum Specified Denomination the Calculation Agent shall not be obliged to publish each Interest Amount but instead may publish only the Calculation Amount and the Interest Amount in respect of a Note having the minimum Specified Denomination.

(i) *Notifications etc:* All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of this Condition by the Calculation Agent will (in the absence of manifest error) be binding on the Issuer, the Guarantor, the Paying Agents, the Noteholders and the Couponholders and (subject as aforesaid) no liability to any such Person will attach to the Calculation Agent in connection with the exercise or non-exercise by it of its powers, duties and discretions for such purposes.

8. **Not used**

9. **Zero Coupon Note Provisions**

(a) *Application:* This Condition 9 (*Zero Coupon Note Provisions*) is applicable to the Notes only if the Zero Coupon Note Provisions are specified in the relevant Final Terms as being applicable.

(b) *Late payment on Zero Coupon Notes:* If the Redemption Amount payable in respect of any Zero Coupon Note is improperly withheld or refused, the Redemption Amount shall thereafter be an amount equal to the sum of:

(i) the Reference Price; and

(ii) the product of the Accrual Yield (compounded annually) being applied to the Reference Price on the basis of the relevant Day Count Fraction from (and including) the Issue Date to (but excluding) whichever is the earlier of (i) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant Noteholder and (ii) the day which is seven days after the Fiscal Agent has notified the Noteholders that it has received all sums due in respect of the Notes up to such seventh day (except to the extent that there is any subsequent default in payment).

10. **Redemption and Purchase**

(a) *Scheduled redemption*: Unless previously redeemed, or purchased and cancelled, the Notes will be redeemed at their Final Redemption Amount (which may be par or such other fixed amount as agreed by the Issuer and the relevant Dealer(s) and as specified in the published Final Terms) on the Maturity Date, subject as provided in Condition 11 (*Payments – Bearer Notes*) and Condition 12 (*Payments - Registered Notes*), as applicable.

(b) *Redemption for tax reasons:* The Notes may be redeemed at the option of the Issuer in whole, but not in part:

(i) at any time (if neither the Floating Rate Note Provisions are specified in the relevant Final Terms as being applicable); or

(ii) on any Interest Payment Date (if the Floating Rate Note Provisions are specified in the relevant Final Terms as being applicable),

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 (Tax), together with interest accrued (if any) to the date fixed for redemption, if:

(A) the Issuer has or will become obliged to pay additional amounts as provided or referred to in Condition 13 (*Taxation*) as a result of any change in, or amendment to, the laws or regulations of The Netherlands 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 (including a holding by a court of competent jurisdiction), which change or amendment becomes effective on or after the date of issue of the first Tranche of the Notes and (2) such obligation cannot be avoided by the Issuer taking reasonable measures available to it; or

(B) (1) the Guarantor has or (if a demand was made under the Guarantee of the Notes) would become obliged to pay additional amounts as provided or referred to in Condition 13 (Taxation) or the Guarantor has or will become obliged to make any such withholding or deduction from any amount paid by it to the Issuer in order to enable the Issuer to make a payment of principal or interest in respect of the Notes, in either case 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 (including a holding by a court of competent jurisdiction), which change or amendment becomes effective on or after the date of issue of the first Tranche of the Notes, and (2) such obligation cannot be avoided by the Guarantor taking reasonable measures available to it,

provided, however, that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer would be obliged to pay such additional amounts if a payment in respect of the Notes were then due.

Prior to the publication of any notice of redemption pursuant to this paragraph, the Issuer shall deliver or procure that there is delivered to the Fiscal Agent (1) a certificate signed by two directors of the Issuer stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred and (2) an opinion of independent legal advisers of recognised standing to the effect that the Issuer or (as the case may be) the Guarantor has or will become obliged to pay such additional amounts or (as the case may be) the Guarantor has or will become obliged to make such withholding or deduction as a result of such change or amendment. Upon the expiry of any such notice as is referred to in this Condition 10(b), the Issuer shall be bound to redeem the Notes in accordance with this Condition 10(b).

(c) *Redemption at the option of the Issuer:* If Call Option is specified as being applicable in the applicable Final Terms, the Issuer may, having given not less than the minimum period nor more than the maximum period of notice specified in applicable Final Terms to the Noteholders in accordance with Condition 20 (*Notices*) (which notice shall be irrevocable and shall specify the date fixed for redemption), redeem all or some only of the Notes then outstanding on any Optional Redemption Date and at the Optional Redemption Amount(s) specified in the applicable Final Terms together, if appropriate, with interest accrued to (but excluding) the relevant Optional Redemption Date. Any such redemption must be of a nominal amount not less than the Minimum Redemption Amount and not more than the Maximum Redemption Amount, in each case as may be specified in the applicable Final Terms.

If Make-Whole Amount is specified in the applicable Final Terms as the Optional Redemption Amount, the Optional Redemption Amount shall be an amount calculated by the Calculation Agent equal to the higher of (i) 100 per cent. of the principal amount outstanding of the Notes to be redeemed or (ii) the sum of the present values of the principal amount outstanding of the Notes to be redeemed and the Remaining Term Interest on such Note (exclusive of interest accrued to the date of redemption) discounted to the date of redemption on an annual basis at the Reference Bond Rate, plus the Redemption Margin.

In this Condition 10(c) (*Redemption at the option of the Issuer*):

"**FA Selected Bond**" means a government security or securities selected by the Financial Adviser (as defined below) 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 a financial adviser selected by the Issuer;

"**Redemption Margin**" shall be as set out in the applicable Final Terms;

"**Reference Bond**" shall be as set out in the applicable Final Terms or the FA Selected Bond;

"**Reference Bond Price**" means, with respect to any date of redemption, (A) the arithmetic average of the Reference Government Bond Dealer Quotations for such date of redemption, after excluding the highest and lowest such Reference Government Bond Dealer Quotations, or (B) if the Calculation Agent obtains fewer than four such Reference Government Bond Dealer Quotations, the arithmetic average of all such quotations;

"**Reference Bond 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 Bond, assuming a price for the Reference Bond (expressed as a percentage of its nominal amount) equal to the Reference Bond Price for such date of redemption;

"**Reference Date**" will be set out in the relevant notice of redemption;

"**Reference Government Bond Dealer**" means each of five banks selected by the Issuer, or their affiliates, which are (A) primary government securities dealers, and their respective successors, or (B) market makers in pricing corporate bond issues;

"**Reference Government Bond Dealer Quotations**" means, with respect to each Reference Government Bond Dealer and any date for redemption, the arithmetic average, as determined by the Agent, of the bid and offered prices for the Reference Bond (expressed in each case as a percentage of its nominal amount) at the Quotation Time specified in the applicable Final Terms on the Reference Date quoted in writing to the Calculation Agent by such Reference Government Bond Dealer; and

"**Remaining Term Interest**" means, with respect to any Note, the aggregate amount of scheduled payment(s) of interest on such Note for the remaining term of such Note determined on the basis of the rate of interest applicable to such Note from and including the date on which such Note is to be redeemed by the Issuer pursuant to this Condition 10(c) (*Redemption at the option of the Issuer*).

All notifications, opinions, determinations, certifications, calculations, quotations and decisions given, expressed, made or obtained for the purposes of this Condition 10(c) (*Redemption at the option of the Issuer*) by the Calculation Agent, shall (in the absence of negligence, wilful default or bad faith) be binding on the Issuer, the Agents and all Noteholders and Couponholders.

(d) *Partial redemption:* If the Notes are to be redeemed in part only on any date in accordance with Condition 10(c) (*Redemption at the option of the Issuer*), in the case of Bearer Notes, the Notes to be redeemed shall be selected by the drawing of lots in such place as the Fiscal Agent approves and in such manner as the Fiscal Agent considers appropriate, subject to compliance with applicable law, the rules of each competent 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 notice to Noteholders referred to in Condition 10(c) (*Redemption at the option of the Issuer*) shall specify the serial numbers of the Notes so to be redeemed, and, in the case of Registered Notes, each Note shall be redeemed in part in the proportion which the aggregate principal amount of the outstanding Notes to be redeemed on the relevant Optional Redemption Date bears to the aggregate principal amount of outstanding Notes on such date. If any Maximum Redemption Amount or Minimum Redemption Amount is specified in the relevant Final Terms, then the Optional Redemption Amount shall in no event be greater than the maximum or be less than the minimum so specified.

(e) *Redemption on sale of assets*: If so specified in the relevant Final Terms, if at any time the Notes remain outstanding, a Restructuring Event occurs, the Issuer and the Guarantor shall make a Public Announcement as soon as reasonably practicable and if, within the Restructuring Period, either:

(i) (if at the time that the Restructuring Event occurs there are Rated Securities outstanding) a Rating Downgrade in respect of the Restructuring Event occurs; or

(ii) (if at the time that the Restructuring Event occurs there are no Rated Securities outstanding) a Negative Rating Event in respect of the Restructuring Event occurs,

(the Restructuring Event and Rating Downgrade or the Restructuring Event and Negative Rating Event, as the case may be, occurring within the Restructuring Period, together called a "**Restructuring Put Event**"),

then, unless the Issuer shall have previously given a notice under Condition 10(b) (R*edemption for tax reasons*), Condition 10(c) (R*edemption at the option of the Issuer*), Condition 10(f) (*Redemption on loss of licence*) or Condition 10(g) (*Redemption on change of control*), the holder of each Note will have the option upon the giving of a Put Option Notice (as defined below) to require the Issuer to redeem or, at the option of the Issuer, purchase (or procure the purchase of) such Note on the date which is seven days after the expiry of the Restructuring Put Period (as defined below) (the "**Restructuring Put Date**") at its principal amount together with accrued interest to the Restructuring Put Date.

Promptly upon the Issuer and/or the Guarantor becoming aware that a Restructuring Put Event has occurred, the Issuer and/or the Guarantor shall give notice (a "**Restructuring Put Event Notice**") to the Noteholders in accordance with Condition 20 (*Notices*) specifying the nature of the Restructuring Put Event and the procedure as set out below for exercising the option in this Condition 10(e).

The Issuer shall, forthwith upon becoming aware of the occurrence of the Restructuring Event provide Noteholders with (i) the relevant Directors' Report and (ii) to the extent permitted by the terms of the engagement letter between the Issuer and the Reporting Accountants, the Accountants' Report in

accordance with Condition 20 (*Notices*). The Directors' Report and the Accountants' Report shall, in the absence of manifest error, be conclusive and binding on the Issuer and the Noteholders.

For the purposes of this Condition 10(e):

"**Disposal Percentage**" means, in relation to a sale, transfer, lease or other disposal or dispossession of any Disposed Assets, the ratio of (a) the aggregate EBITDA associated with such Disposed Assets to (b) the EBITDA, expressed as a percentage;

"**Disposed Assets**" means, where any member of MRG sells, transfers, leases or otherwise disposes of or is dispossessed by any means (but excluding sales, transfers, leases, disposals or dispossessions which, when taken together with any related lease back or similar arrangements entered into in the ordinary course of business, have the result that EBITDA directly attributable to any such undertaking, property or assets continues to accrue to a wholly-owned member of the MRG), otherwise than to a wholly-owned member of MRG, of the whole or any part (whether by a single transaction or by a number of transactions whether related or not) of its undertaking or property or assets, the undertaking, property or assets sold, transferred, leased or otherwise disposed of or of which it is so dispossessed;

a "**Negative Rating Event**" shall be deemed to have occurred if either (a) the Issuer and/or the Guarantor do not, either prior to or not later than 21 days after the relevant Restructuring Event, seek, and thereafter throughout the Restructuring Period use all reasonable endeavours to obtain, a rating of the Notes or any other unsecured and unsubordinated debt of the Issuer having an initial maturity of five years or more ("**Rateable Debt**") from a Rating Agency or (b) if the Issuer and/or the Guarantor does so seek and use such endeavours, it is unable to obtain such a rating of the Notes of at least BBB- or Baa3, or their respective equivalents for the time being);

a "**Rating Downgrade**" shall be deemed to have occurred in respect of the Restructuring Event if the then current rating assigned to the Rated Securities by any Rating Agency is withdrawn or reduced from at least BBB- or Baa3 (or their respective equivalents for the time being) to a rating below BBB- or Baa3 (or their respective equivalents for the time being) or, if a Rating Agency shall already have rated the Rated Securities below BBB- or Baa3 (or their respective equivalents for the time being), the rating is lowered one full rating category; provided that a Rating Downgrade otherwise arising by virtue of a particular reduction in rating shall not be deemed to have occurred in respect of a particular Restructuring Event if the Rating Agency making the reduction in rating to which this definition would otherwise apply does not announce or publicly confirm that the reduction was the result of any event or circumstance comprised in or arising as a result of, or in respect of, the applicable Restructuring Event (whether or not the applicable Restructuring Event shall have occurred at the time of the Rating Downgrade);

a "**Restructuring Event**" shall be deemed to have occurred at any time (whether or not approved by the board of directors of the Issuer or the Guarantor) that the sum of all (if any) Disposal Percentages for MRG within any period commencing on the date on which agreement is reached to issue the first Tranche of the Notes is greater than 35 per cent. in any such period of 36 consecutive months;

"**Restructuring Period**" means:

(i) if at the time a Restructuring Event occurs there are Rated Securities, the period of 90 days beginning on and including the date of the relevant Public Announcement; or

(ii) if at the time the Restructuring Event occurs there are no Rated Securities, the period beginning on and including the date on which the relevant Restructuring Event occurs and ending on the day 90 days following the later of (a) the date on which the Issuer and/or the Guarantor seeks to obtain a rating as contemplated in the definition of Negative Rating Event prior to the expiry of the 21 days referred to in that definition, and (b) the date of the relevant Public Announcement

(or, in the case of either (i) or (ii) above, such longer period in which the Rated Securities are under consideration (such consideration having been announced publicly within the first mentioned 90 day period) for rating review or, as the case may be, rating by a Rating Agency),

In order to exercise the option contained in this Condition 10(e), the Holder of a Note must, not more than 30 days after Restructuring Put Event Notice is delivered by the Issuer or the Guarantor (the "**Restructuring Put Period**") deposit with any Paying Agent such Note together with all unmatured

Coupons relating thereto and a duly completed Put Option Notice in the form obtainable from any Paying Agent. The Paying Agent with which a Note is so deposited shall deliver a duly completed Put Option Receipt to the depositing Noteholder. No Note, once deposited with a duly completed Put Option Notice in accordance with this Condition 10(e), may be withdrawn; provided, however, that if, prior to the end of the Restructuring Put Period any such Note becomes immediately due and payable or, upon due presentation of any such Note in accordance with this Condition 10(e), payment of the redemption moneys is improperly withheld or refused, the relevant Paying Agent shall mail notification thereof to the depositing Noteholder at such address as may have been given by such Noteholder in the relevant Put Option Notice and shall hold such Note at its Specified Office for collection by the depositing Noteholder against surrender of the relevant Put Option Receipt. For so long as any outstanding Note is held by a Paying Agent in accordance with this Condition 10(e), the depositor of such Note and not such Paying Agent shall be deemed to be the Holder of such Note for all purposes.

(f) *Redemption on loss of licence*: If so specified in the relevant Final Terms, if at any time whilst any of the Notes remain outstanding, a Material Licence Event occurs, the Issuer and the Guarantor shall make a Public Announcement as soon as reasonably practicable and if, within the Material Licence Period, either:

(i) (if at the time that the Material Licence Event occurs there are Rated Securities outstanding) a Rating Downgrade in respect of the Material Licence Event occurs; or

(ii) (if at the time that the Material Licence Event occurs there are no Rated Securities outstanding) a Negative Rating Event in respect of the Material Licence Event occurs,

(the Material Licence Event and Rating Downgrade or the Material Licence Event and Negative Rating Event, as the case may be, occurring within the Material Licence Period, together called a "**Material Licence Put Event**"),

then, unless the Issuer shall have previously given a notice under Condition 10(b) (R*edemption for tax reasons*), Condition 10(c) (R*edemption at the option of the Issuer*), Condition 10(e) (*Redemption of sale of assets*) or Condition 10(g) (*Redemption on change of control*), the holder of each Note will have the option upon the giving of a Put Option Notice (as defined below) to require the Issuer to redeem or, at the option of the Issuer, purchase (or procure the purchase of) such Note on the date which is seven days after the expiry of the Material Licence Put Period (as defined below) (the "**Material Licence Put Date**") at its principal amount together with accrued interest to the Material Licence Put Date.

Promptly upon the Issuer and/or the Guarantor becoming aware that a Material Licence Put Event has occurred, the Issuer and/or the Guarantor shall give notice (a "**Material Licence Put Event Notice**") to the Noteholders in accordance with Condition 20 (*Notices*) specifying the nature of the Material Licence Put Event and the procedure as set out below for exercising the option in this Condition 10(f).

The Issuer shall, forthwith upon becoming aware of the occurrence of the Material Licence Event provide Noteholders with (i) the relevant Directors' Report and (ii) to the extent permitted by the terms of the engagement letter between the Issuer and the Reporting Accountants, the Accountants' Report in accordance with Condition 20 (*Notices*). The Directors' Report and the Accountants' Report shall, in the absence of manifest error, be conclusive and binding on the Issuer and the Noteholders.

For the purposes of this Condition 10(f):

"**Relevant Licence**" means, from time to time, any licence(s) or other authorisation(s) granted to the Guarantor which means that the activity of natural gas distribution cannot be carried on by the Guarantor without such licence, exemption, permission or other authorisation;

"**Loss of Relevant Licence**" means:

(i) the revocation or termination by any event of any Relevant Licence as a result of a final decision from the relevant administration that cannot be appealed in an administrative proceeding provided that the enforceability of such final decision is not preventatively suspended within a judicial proceeding, without such Relevant Licence being replaced, renewed or extended; or

(ii) the withdrawal or surrender of any Relevant Licence without such being replaced, renewed or extended;

"**Loss of Relevant Licence Percentage**" means, in relation to a Loss of Relevant Licence, the ratio of (a) the aggregate EBITDA associated with such Relevant Licence to (b) the EBITDA, expressed as a percentage;

a "**Material Licence Event**" shall be deemed to have occurred at any time (whether or not approved by the board of directors of the Issuer or the Guarantor) that the sum of all (if any) Loss of Relevant Licence Percentages for MRG within any period commencing on the date on which agreement is reached to issue the first Tranche of the Notes is greater than 35 per cent. in any such period of 36 consecutive months;

"**Material Licence Period**" means:

(i) if at the time a Material Licence Event occurs there are Rated Securities, the period of 90 days beginning on and including the date of the relevant Public Announcement; or

(ii) if at the time the Material Licence Event occurs there are no Rated Securities, the period beginning on and including the date on which the relevant Material Licence Event occurs and ending on the day 90 days, following the later of (a) the date on which the Issuer and/or the Guarantor seeks to obtain a rating as contemplated in the definition of Negative Rating Event prior to the expiry of the 21 days referred to in that definition, and (b) the date of the relevant Public Announcement

(or, in the case of either (i) or (ii) above, such longer period in which the Rated Securities are under consideration (such consideration having been announced publicly within the first mentioned 90 day period) for rating review or, as the case may be, rating by a Rating Agency);

a "**Negative Rating Event**" shall be deemed to have occurred if either (a) the Issuer and/or the Guarantor do not, either prior to or not later than 21 days after the relevant Material Licence Event, seek, and thereafter throughout the Material Licence Period use all reasonable endeavours to obtain, a rating of the Notes or any other unsecured and unsubordinated debt of the Issuer having an initial maturity of five years or more ("**Rateable Debt**") from a Rating Agency or (b) if the Issuer and/or the Guarantor does so seek and use such endeavours, it is unable to obtain such a rating of the Notes of at least BBB- or Baa3, or their respective equivalents for the time being);

"**Rating Downgrade**" shall be deemed to have occurred in respect of the Material Licence Event if the then current rating assigned to the Rated Securities by any Rating Agency is withdrawn or reduced from at least BBB- or Baa3 (or their respective equivalents for the time being) to a rating below BBB- or Baa3 (or their respective equivalents for the time being) or, if a Rating Agency shall already have rated the Rated Securities below BBB- or Baa3 (or their respective equivalents for the time being), the rating is lowered one full rating category; provided that a Rating Downgrade otherwise arising by virtue of a particular reduction in rating shall not be deemed to have occurred in respect of a particular Material Licence Event if the Rating Agency making the reduction in rating to which this definition would otherwise apply does not announce or publicly confirm that the reduction was the result of any event or circumstance comprised in or arising as a result of, or in respect of, the applicable Material Licence Event (whether or not the applicable Material Licence Event shall have occurred at the time of the Rating Downgrade);

In order to exercise the option contained in this Condition 10(f), the Holder of a Note must, not more than 30 days after Material Licence Put Event Notice is delivered by the Issuer or the Guarantor (the "**Material Licence Put Period**") deposit with any Paying Agent such Note together with all unmatured Coupons relating thereto and a duly completed Put Option Notice in the form obtainable from any Paying Agent. The Paying Agent with which a Note is so deposited shall deliver a duly completed Put Option Receipt to the depositing Noteholder. No Note, once deposited with a duly completed Put Option Notice in accordance with this Condition 10(f), may be withdrawn; provided, however, that if, prior to the end of the Material Licence Put Period any such Note becomes immediately due and payable or, upon due presentation of any such Note in accordance with this Condition 10(f), payment of the redemption moneys is improperly withheld or refused, the relevant Paying Agent shall mail notification thereof to the depositing Noteholder at such address as may have been given by such Noteholder in the

relevant Put Option Notice and shall hold such Note at its Specified Office for collection by the depositing Noteholder against surrender of the relevant Put Option Receipt. For so long as any outstanding Note is held by a Paying Agent in accordance with this Condition 10(f), the depositor of such Note and not such Paying Agent shall be deemed to be the Holder of such Note for all purposes.

(g) *Redemption on change of control*: If so specified in the relevant Final Terms, at any time whilst any of the Notes remain outstanding, a Change of Control Event occurs, the Issuer and/or the Guarantor shall make a Public Announcement as soon as reasonably practicable and if, within the Change of Control Period, either:

(i) (if at the time that the Change of Control Event occurs there are Rated Securities outstanding) a Rating Downgrade in respect of the Change of Control Event occurs; or

(ii) (if at the time that the Change of Control Event occurs there are no Rated Securities outstanding) a Negative Rating Event in respect of the Change of Control Event occurs,

(the Change of Control Event and Rating Downgrade or the Change of Control Event and Negative Rating Event, as the case may be, occurring within the Change of Control Period, together called a "**Change of Control Put Event**"), then, unless the Issuer shall have previously given a notice under Condition 10(b) (R*edemption for tax reasons*), Condition 10(c) (R*edemption at the option of the Issuer*), Condition 10(e) (*Redemption of Sale of Assets*) or Condition 10(f) (*Redemption on loss of licence*), the holder of each Note will have the option upon the giving of a Put Option Notice (as defined below) to require the Issuer to redeem or, at the option of the Issuer, purchase (or procure the purchase of) such Note on the date which is seven days after the expiry of the Change of Control Put Period (as defined below) (the "**Change of Control Put Date**") at its principal amount together with accrued interest to the Change of Control Put Date.

Promptly upon the Issuer and/or the Guarantor becoming aware that a Change of Control Put Event has occurred, the Issuer and/or the Guarantor shall give notice (a "**Change of Control Put Event Notice**") to the Noteholders in accordance with Condition 20 (*Notices*) specifying the nature of the Change of Control Put Event and the procedure as set out below for exercising the option in this Condition 10(g).

For the purposes of this Condition 10(g):

"**Affiliated Fund**" means, in relation to any person, any Fund which is advised by, or the assets of which are managed (either solely or predominantly) from time to time by, that person, that person's Sponsor Affiliates, or the general partner, trustee, nominee, manager or investment adviser of any of them, or any other person who directly or indirectly controls, is controlled by or is under common control with such manager or investment adviser;

"**Change of Control Event**" means either:

(i) prior to a Listing, both:

(A) the Sponsors collectively ceasing to control (directly or indirectly) at least 50.01 per cent. of the voting rights of the Guarantor or ceasing to have the right to appoint at least 50.01 per cent. of the board of directors of the Guarantor; and

(B) any person or group of persons acting in concert, other than the Sponsors, ("**Relevant Persons**"), including any person or group of persons acting on behalf of such Relevant Persons, collectively acquiring control (directly or indirectly) of at least 50.01 per cent. of the voting rights of the Guarantor or having the right to appoint at least 50.01 per cent. of the board of directors of the Guarantor, or

(ii) on or after a Listing, either:

(A) the Sponsors collectively ceasing to control (directly or indirectly) at least 30.01 per cent. of the voting rights of the Guarantor or ceasing to have the ability to appoint at least 30.01 per cent. of the board of directors of the Guarantor; or

(B) any Relevant Person, including any person or group of persons acting on behalf of such Relevant Persons, collectively acquiring control (directly or indirectly) of at least 30.01

per cent. of the voting rights of the Guarantor or having the right to appoint at least 30.01 per cent. of the board of directors of the Guarantor;

"**Change of Control Period**" means:

(i) if at the time a Change of Control Event occurs there are Rated Securities, the period of 90 days beginning on and including the date of the relevant Public Announcement; or

(ii) if at the time the Change of Control Event occurs there are no Rated Securities, the period beginning on and including the date on which the relevant Change of Control Event occurs and ending on the day 90 days following the later of (a) the date on which the Issuer and/or the Guarantor seeks to obtain a rating as contemplated in the definition of Negative Rating Event prior to the expiry of the 21 days referred to in that definition, and (b) the date of the relevant Public Announcement

(or, in the case of either (i) or (ii) above, such longer period in which the Rated Securities are under consideration (such consideration having been announced publicly within the first mentioned 90 day period) for rating review or, as the case may be, rating by a Rating Agency);

"**collectively**" means, in respect of the Sponsors, any collection of Sponsors (or any Sponsor individually) from time to time, which may or may not include all persons which are Sponsors;

"**Fund**" means any co-investment vehicle, unit trust, investment trust, investment company, limited partnership, general partnership or other collective investment scheme, investment professional (as defined in Article 19(5)(d) of the Financial Services and Markets Act (Financial Promotion) Order 2005), high net worth company, unincorporated association or high value trust (as defined in Article 49(2)(a) to (c) of the Financial Services and Markets Act (Financial Promotion) Order 2005), pension fund, insurance company, authorised person under the Financial Services and Markets Act 2000 or any body corporate or other entity, in each case the assets of which are managed professionally for investment purposes;

"**Listing**" means a listing on any investment exchange or any other sale or issue by way of flotation or public offering or any equivalent circumstances in relation to the shares of the Guarantor in any jurisdiction or country;

a "**Negative Rating Event**" shall be deemed to have occurred if either (a) the Issuer and/or the Guarantor do not, either prior to or not later than 21 days after the relevant Change of Control Event, seek, and thereafter throughout the Change of Control Period use all reasonable endeavours to obtain, a rating of the Notes or any other unsecured and unsubordinated debt of the Issuer having an initial maturity of five years or more ("**Rateable Debt**") from a Rating Agency or (b) if the Issuer and/or the Guarantor does so seek and use such endeavours, it is unable to obtain such a rating of the Notes of at least BBB- or Baa3, or their respective equivalents for the time being);

"**Proprietary Interest**" means any legal, beneficial or other proprietary interest of any kind whatsoever held by a Sponsor in or to any Shareholder Instrument or any right to control the voting or other rights attributable to any Shareholder Instrument, disregarding any conditions or restrictions to which the exercise of any right attributed to such interest may be subject. For the avoidance of doubt, a Proprietary Interest will not include any indirect interest in a Shareholder Instrument (i.e. an interest in an entity or partnership that holds Shareholder Instruments);

a "**Rating Downgrade**" shall be deemed to have occurred in respect of the Change of Control Event if the then current rating assigned to the Rated Securities by any Rating Agency is withdrawn or reduced from at least BBB- or Baa3 (or their respective equivalents for the time being) to a rating below BBB- or Baa3 (or their respective equivalents for the time being) or, if a Rating Agency shall already have rated the Rated Securities below BBB- or Baa3 (or their respective equivalents for the time being), the rating is lowered one full rating category; provided that a Rating Downgrade otherwise arising by virtue of a particular reduction in rating shall not be deemed to have occurred in respect of a particular Change of Control Event if the Rating Agency making the reduction in rating to which this definition would otherwise apply does not announce or publicly confirm that the reduction was the result of the applicable Change of Control Event (whether or not the applicable Change of Control Event shall have occurred at the time of the Rating Downgrade);

"**Shareholder Instrument**" means:

(i) any ordinary shares and preference shares in Elisandra Spain IV, S.L., and any right of subscription for or conversion into such ordinary shares or preference shares;

(ii) any instrument, document or security granting a right of subscription for, or conversion into, any share capital of (a) any member of MRG or (b) any Subsidiaries of any member of MRG;

(iii) any unsecured loan notes issued by Elisandra Spain IV, S.L. or Elisandra Spain V; and

(iv) any instrument evidencing indebtedness (whether or not interest bearing) issued by any (i) any member of MRG or (ii) any Subsidiaries of any member of MRG, in conjunction with and/or stapled to, any issue of share capital of (i) any member of MRG or (ii) any Subsidiaries of any member of MRG, or an instrument carrying rights to subscribe for or convert into the share capital of (i) any member of MRG or (ii) any Subsidiaries of any member of MRG, but excludes any debt instrument or warrants issued to investors or lenders who are not Sponsors;

"**Sponsor Affiliate**" means with respect to any person from time to time:

(i) any other person (a "**Relevant Party**") who or which, directly or indirectly, controls or is controlled by, or is under common control with, the first noted person, which shall include, for the avoidance of doubt:

(A) any person in which the first noted person holds, directly or indirectly, 100 per cent. of the participating equity or any person which, together with its Sponsor Affiliates, holds, 100 per cent. of the participating equity of the first noted person; and

(B) any other person who holds a Proprietary Interest in a Shareholder Instrument(s) to the extent that it became a holder of such a Proprietary Interest by virtue of an *in specie* distribution on a solvent winding up of the first person (and to the extent that this Relevant Party directly or indirectly controls or is controlled by, or is under common control with, the first noted person as a result of its holding of such Proprietary Interest);

(ii) any Affiliated Fund or any Subsidiary of such Affiliated Fund; and

(iii) a trustee of the beneficial interest:

(A) of such person; or

(B) of any Relevant Party or Affiliated Fund or any Subsidiary of such Affiliated Fund; and

"**Sponsors**" means:

(i) JCSS Mike S.A.R.L.;

(ii) Stichting Depositary PGGM Infrastructure Funds;

(iii) C41 SAS; and

(iv) Lancashire County Pension Fund,

and, in each case, their Sponsor Affiliates from time to time.

In order to exercise the option contained in this Condition 10(g), the Holder of a Note must, not more than 30 days after Change of Control Put Event Notice is delivered by the Issuer or the Guarantor (the "**Change of Control Put Period**") deposit with any Paying Agent such Note together with all unmatured Coupons relating thereto and a duly completed Put Option Notice in the form obtainable from any Paying Agent. The Paying Agent with which a Note is so deposited shall deliver a duly completed Put Option Receipt to the depositing Noteholder. No Note, once deposited with a duly completed Put Option Notice in accordance with this Condition 10(g), may be withdrawn; provided, however, that if, prior to the end of the Change of Control Put Period any such Note becomes immediately due and payable or, upon due presentation of any such Note in accordance with this

Condition 10(g), payment of the redemption moneys is improperly withheld or refused, the relevant Paying Agent shall mail notification thereof to the depositing Noteholder at such address as may have been given by such Noteholder in the relevant Put Option Notice and shall hold such Note at its Specified Office for collection by the depositing Noteholder against surrender of the relevant Put Option Receipt. For so long as any outstanding Note is held by a Paying Agent in accordance with this Condition 10(g), the depositor of such Note and not such Paying Agent shall be deemed to be the Holder of such Note for all purposes.

(h) *Clean-up call option:* If Clean-up Call Option is specified as being applicable in the applicable Final Terms, where the aggregate principal amount of the outstanding Notes is equal to or less than 20 per cent. of the Aggregate Nominal Amount of the Notes (following redemption(s) and/or purchases by or on behalf of the Issuer, the Guarantor or any of their respective Subsidiaries pursuant to this Condition 10, or otherwise), the Issuer may at any time, having given not less than 30 nor more than 60 days' notice to the Noteholders in accordance with Condition 20 (*Notices*) (which notice shall be irrevocable and shall specify the date fixed for redemption), redeem all (but not part) of the Notes then outstanding on the date specified in such notice at 100 per cent. of the principal amount outstanding of the Notes, together, if appropriate, with interest accrued to (but excluding) the specified date for redemption.

(i) *Pre-maturity call option:* If Pre-Maturity Call Option is specified as being applicable in the applicable Final Terms, the Issuer may, having given not less than 30 nor more than 60 days' notice to the Noteholders in accordance with Condition 20 (*Notices*) (which notice shall be irrevocable and shall specify the date fixed for redemption, which shall be no earlier than the date falling three months prior to the Maturity Date), redeem all (but not part) of the Notes then outstanding on the date specified in such notice at 100 per cent. of the principal amount outstanding of the Notes, together, if appropriate, with interest accrued to (but excluding) the specified date for redemption.

(j) *No other redemption:* The Issuer shall not be entitled to redeem the Notes otherwise than as provided in paragraphs (a) to (i) above.

(k) *Early redemption of Zero Coupon Notes:* Unless otherwise specified in the relevant Final Terms, the Redemption Amount payable on redemption of a Zero Coupon Note at any time before the Maturity Date shall be an amount equal to the sum of:

(i) the Reference Price; and

(ii) the product of the Accrual Yield (compounded annually) being applied to the Reference Price from (and including) the Issue Date to (but excluding) the date fixed for redemption or (as the case may be) the date upon which the Note becomes due and payable.

Where such calculation is to be made for a period which is not a whole number of years, the calculation in respect of the period of less than a full year shall be made on the basis of such Day Count Fraction as may be specified in the Final Terms for the purposes of this Condition 10(k) or, if none is so specified, a Day Count Fraction of 30E/360.

(l) *Purchase:* The Issuer, the Guarantor or any of their respective Subsidiaries may at any time purchase Notes in the open market or otherwise and at any price, **provided that** all unmatured Coupons are purchased therewith.

(m) *Cancellation:* All Notes so redeemed or purchased by the Issuer, the Guarantor or any of their respective Subsidiaries and any unmatured Coupons attached to or surrendered with them shall be cancelled and may not be reissued or resold.

11. **Payments - Bearer Notes**

This Condition 11 is only applicable to Bearer Notes.

(a) *Principal:* Payments of principal shall be made only against presentation and (**provided that** payment is made in full) surrender of Bearer Notes at the Specified Office of any Paying Agent outside the United States by cheque drawn in the currency in which the payment is due on, or by transfer to an account denominated in that currency (or, if that currency is euro, any other account to which euro may be credited or transferred) and maintained by the payee with, a bank in the Principal Financial Centre of that currency.

(b) *Interest:* Payments of interest shall, subject to paragraph (h) below, be made only against presentation and (**provided that** payment is made in full) surrender of the appropriate Coupons at the Specified Office of any Paying Agent outside the United States in the manner described in paragraph (a) above.

(c) *Payments in New York City:* Payments of principal or interest may be made at the Specified Office of a Paying Agent in New York City if (i) the Issuer has appointed Paying Agents outside the United States with the reasonable expectation that such Paying Agents will be able to make payment of the full amount of the interest on the Notes in the currency in which the payment is due when due, (ii) payment of the full amount of such interest at the offices of all such Paying Agents is illegal or effectively precluded by exchange controls or other similar restrictions on payment or receipt of such amounts and (iii) such payment is permitted by applicable United States law without involving, in the opinion of the Issuer, any adverse tax consequence to the Issuer.

(d) *Deductions for unmatured Coupons:* If the relevant Final Terms specifies that the Fixed Rate Note Provisions are applicable and a Bearer Note is presented without all unmatured Coupons relating thereto:

(i) if the aggregate amount of the missing Coupons is less than or equal to the amount of principal due for payment, a sum equal to the aggregate amount of the missing Coupons will be deducted from the amount of principal due for payment; **provided, however, that** if the gross amount available for payment is less than the amount of principal due for payment, the sum deducted will be that proportion of the aggregate amount of such missing Coupons which the gross amount actually available for payment bears to the amount of principal due for payment;

(ii) if the aggregate amount of the missing Coupons is greater than the amount of principal due for payment:

(A) so many of such missing Coupons shall become void (in inverse order of maturity) as will result in the aggregate amount of the remainder of such missing Coupons (the "**Relevant Coupons**") being equal to the amount of principal due for payment; **provided, however, that** where this sub-paragraph would otherwise require a fraction of a missing Coupon to become void, such missing Coupon shall become void in its entirety; and

(B) a sum equal to the aggregate amount of the Relevant Coupons (or, if less, the amount of principal due for payment) will be deducted from the amount of principal due for payment; **provided, however, that**, if the gross amount available for payment is less than the amount of principal due for payment, the sum deducted will be that proportion of the aggregate amount of the Relevant Coupons (or, as the case may be, the amount of principal due for payment) which the gross amount actually available for payment bears to the amount of principal due for payment.

Each sum of principal so deducted shall be paid in the manner provided in paragraph (a) above against presentation and (**provided that** payment is made in full) surrender of the relevant missing Coupons.

(e) *Unmatured Coupons void*: If the relevant Final Terms specifies that this Condition 11(e) is applicable or that the Floating Rate Note Provisions the Issuer, on the due date for final redemption of any Note or early redemption in whole of such Note pursuant to Condition 10(b) (R*edemption for tax reasons*), Condition 10(c) (R*edemption at the option of the Issuer*), Condition 10(e) (*Redemption of Sale of Assets*) Condition 10(f) (*Redemption on loss of licence*), Condition 10(g) (*Redemption on change of control*) or Condition 14 (*Events of Default*), all unmatured Coupons relating thereto (whether or not still attached) shall become void and no payment will be made in respect thereof.

(f) *Payments on business days:* If the due date for payment of any amount in respect of any Bearer Note or Coupon is not a Payment Business Day in the place of presentation, the Holder shall not be entitled to payment in such place of the amount due until the next succeeding Payment Business Day in such place and shall not be entitled to any further interest or other payment in respect of any such delay.

(g) *Payments other than in respect of matured Coupons:* Payments of interest other than in respect of matured Coupons shall be made only against presentation of the relevant Bearer Notes at the Specified

Office of any Paying Agent outside the United States (or in New York City if permitted by paragraph (c) above).

(h) *Partial payments:* If a Paying Agent makes a partial payment in respect of any Bearer Note or Coupon presented to it for payment, such Paying Agent will endorse thereon a statement indicating the amount and date of such payment.

(i) *Exchange of Talons:* On or after the maturity date of the final Coupon which is (or was at the time of issue) part of a Coupon Sheet relating to the Bearer Notes, the Talon forming part of such Coupon Sheet may be exchanged at the Specified Office of the Fiscal Agent for a further Coupon Sheet (including, if appropriate, a further Talon but excluding any Coupons in respect of which claims have already become void pursuant to Condition 15 (*Prescription*). Upon the due date for redemption of any Bearer Note, any unexchanged Talon relating to such Note shall become void and no Coupon will be delivered in respect of such Talon.

(j) *Payments subject to fiscal laws*: Save as provided in Condition 13 (*Taxation*), payments will be subject in all cases to any applicable fiscal or other laws, regulations and directives in the place of payment or other laws and regulations to which the Issuer or the Guarantor or its/their respective Agents agree to be subject and neither the Issuer nor the Guarantor will be liable for any taxes or duties of whatever nature imposed or levied by such laws, regulations, directives or agreements. No commission or expenses shall be charged to the Noteholders or Couponholders in respect of such payments.

12. **Payments - Registered Notes**

This Condition 12 is only applicable to Registered Notes.

(a) *Principal:* Payments of principal shall be made by cheque drawn in the currency in which the payment is due drawn on, or, upon application by a Holder of a Registered Note to the Specified Office of the Fiscal Agent not later than the fifteenth day before the due date for any such payment, by transfer to an account denominated in that currency (or, if that currency is euro, any other account to which euro may be credited or transferred) and maintained by the payee with, a bank in the Principal Financial Centre of that currency (in the case of a sterling cheque, a town clearing branch of a bank in the City of London) and (in the case of redemption) upon surrender (or, in the case of part payment only, endorsement) of the relevant Note Certificates at the Specified Office of any Paying Agent.

(b) *Interest:* Payments of interest shall be made by cheque drawn in the currency in which the payment is due drawn on, or, upon application by a Holder of a Registered Note to the Specified Office of the Fiscal Agent not later than the fifteenth day before the due date for any such payment, by transfer to an account denominated in that currency (or, if that currency is euro, any other account to which euro may be credited or transferred) and maintained by the payee with, a bank in the Principal Financial Centre of that currency (in the case of a sterling cheque, a town clearing branch of a bank in the City of London) and (in the case of interest payable on redemption) upon surrender (or, in the case of part payment only, endorsement) of the relevant Note Certificates at the Specified Office of any Paying Agent.

(c) *Payments on business days:* Where payment is to be made by transfer to an account, payment instructions (for value the due date, or, if the due date is not Payment Business Day, for value the next succeeding Payment Business Day) will be initiated and, where payment is to be made by cheque, the cheque will be mailed (i) (in the case of payments of principal and interest payable on redemption) on the later of the due date for payment and the day on which the relevant Note Certificate is surrendered (or, in the case of part payment only, endorsed) at the Specified Office of a Paying Agent and (ii) (in the case of payments of interest payable other than on redemption) on the due date for payment. A Holder of a Registered Note shall not be entitled to any interest or other payment in respect of any delay in payment resulting from (A) the due date for a payment not being a Payment Business Day or (B) a cheque mailed in accordance with Condition 13 (*Taxation*) arriving after the due date for payment or being lost in the mail.

(d) *Partial payments:* If a Paying Agent makes a partial payment in respect of any Registered Note, the Issuer shall procure that the amount and date of such payment are noted on the Register and, in the case of partial payment upon presentation of a Note Certificate, that a statement indicating the amount and the date of such payment is endorsed on the relevant Note Certificate.

(e) *Record date:* Each payment in respect of a Registered Note will be made to the person shown as the Holder in the Register at the opening of business in the place of the Registrar's Specified Office on the fifteenth day before the due date for such payment (the "**Record Date**"). Where payment in respect of a Registered Note is to be made by cheque, the cheque will be mailed to the address shown as the address of the Holder in the Register at the opening of business on the relevant Record Date.

(f) *Payments subject to fiscal laws*: Save as provided in Condition 13 (*Taxation*), payments will be subject in all cases to any applicable fiscal or other laws, regulations and directives in the place of payment or other laws and regulations to which the Issuer or the Guarantor or its/their respective Agents agree to be subject and neither the Issuer nor the Guarantor will be liable for any taxes or duties of whatever nature imposed or levied by such laws, regulations, directives or agreements. No commission or expenses shall be charged to the Noteholders in respect of such payments.

13. **Taxation**

(a) *Gross up:* All payments of principal and interest in respect of the Notes and the Coupons by or on behalf of the Issuer or the Guarantor shall be made free and clear of, and without withholding or deduction for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of The Netherlands or the Kingdom of Spain or any political subdivision therein or any authority therein or thereof having power to tax, unless the withholding or deduction of such taxes, duties, assessments, or governmental charges is required by law. In that event, the Issuer or (as the case may be) the Guarantor shall pay such additional amounts as will result in receipt by the Noteholders and the Couponholders after such withholding or deduction of such amounts as would have been received by them had no such withholding or deduction been required, except that no such additional amounts shall be payable in respect of any Note or Coupon:

(i) held by or on behalf of a Holder which is liable to such taxes, duties, assessments or governmental charges in respect of such Note or Coupon by reason of its having some connection with the jurisdiction by which such taxes, duties, assessments or charges have been imposed, levied, collected, withheld or assessed other than the mere holding of the Note or Coupon; or

(ii) any taxes that would not have been so imposed if the Noteholder or the Couponholder of a Note or Coupon had made a declaration of non-residence or any other claim or filing for exemption to which it is entitled (provided that (x) such declaration of non-residence or other claim or filing for exemption is required by applicable law, regulation, administrative practice or treaty of the Netherlands or the Kingdom of Spain as a precondition to exemption from the requirement to deduct or withhold all or a part of such taxes and (y) at least 30 days prior to the first payment date with respect to which such declaration of non-residence or other claim or filing for exemption is required under the applicable law of the Netherlands or the Kingdom of Spain, the relevant Noteholder or Couponholder at that time has been notified by the Issuer or the Guarantor or any other person through whom payment may be made that a declaration of non-residence or other claim or filing for exemption is required to be made), but, in each case, only to the extent the Noteholder or Couponholder is legally eligible to make such declaration or other claim or filing;

(iii) while the Notes are represented by Global Notes and the Global Notes are deposited with a common depositary for Euroclear and/or Clearstream, Luxembourg, to, or to a third party on behalf of, a holder or to the beneficial owner of any Note or Coupon if the Guarantor does not receive in a timely manner a duly executed and completed certificate from the Paying Agent, pursuant to Law 10/2014, and Royal Decree 1065/2007 of July 27, as amended by Royal Decree 1145/2011 of July 29, and any implementing legislation or regulation; or

(iv) where the relevant Note or Coupon or Note Certificate is presented or surrendered for payment more than 30 days after the Relevant Date except to the extent that the Holder of such Note or Coupon would have been entitled to such additional amounts on presenting or surrendering such Note or Coupon or Note Certificate for payment on the last day of such period of 30 days.

(b) *Taxing jurisdiction:* If the Issuer or the Guarantor becomes subject at any time to any taxing jurisdiction other than The Netherlands or The Kingdom of Spain respectively, references in these Conditions to The

Netherlands or The Kingdom of Spain shall be construed as references to The Netherlands or (as the case may be) The Kingdom of Spain and/or such other jurisdiction.

14. **Events of Default**

If any of the following events occurs (each an "**Event of Default**"):

(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;

(b) *Breach of other obligations*: the Issuer or the Guarantor does not perform or comply with any one or more of its other obligations under the Notes or the 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 at its specified office by any Noteholder);

(c) *Cross default*:

(i) any Indebtedness of the Issuer or the Guarantor is not paid when due or, as the case may be, within the any applicable grace period.

(ii) any Indebtedness of the Issuer or the Guarantor is declared to be or otherwise becomes due and payable prior to its specified maturity as a result of non-payment or an event of default (however described); and

(iii) any commitment for any Indebtedness of the Issuer or the Guarantor is cancelled or suspended by a creditor of the Issuer or the Guarantor as a result of an event of default (however described).

No Event of Default will occur under this provision if the aggregate amount of Indebtedness or commitment for Indebtedness falling within paragraphs (a) to (c) above is not greater than the higher of €10,000,000 or 1.5 per cent. of the Total Assets (or its equivalent in any other currency or currencies);

(d) *Enforcement proceedings*: a distress, attachment, execution or other legal process is levied, enforced or sued out on or against any part of the property, assets or revenues of the Issuer or the Guarantor or any of their respective Material Subsidiaries and is not discharged or stayed within 90 days;

(e) *Unsatisfied judgment*: one or more judgment(s) or order(s) for the payment of any amount is rendered against the Issuer, the Guarantor or any of their respective Material Subsidiaries (if any) and continue(s) unsatisfied and unstayed for a period of 30 days after the date(s) thereof or, if later, the date therein specified for payment;

(f) *Security enforced*: a secured party takes possession, or a receiver, manager or other similar officer is appointed, of the whole or any part of the undertaking, assets and revenues of the Issuer, the Guarantor or any of their respective Material Subsidiaries;

(g) *Insolvency etc.*: (i) the Issuer, the Guarantor or any of their respective Material Subsidiaries (if any) becomes insolvent, is adjudicated bankrupt (or applies for an order of bankruptcy) or is unable to pay its debts as they fall due, (ii) an administrator or liquidator of the Issuer, the Guarantor or any of their respective Material Subsidiaries (if any) or of the whole or any part of the undertaking, assets and revenues of the Issuer, the Guarantor or any of their respective Material Subsidiaries (if any) is appointed (or application for any such appointment is made), (iii) the Issuer, the Guarantor or any of their respective Material Subsidiaries (if any) takes any action for a readjustment or deferment of any of its obligations or makes a general assignment or an arrangement or composition with or for the benefit of its creditors or declares a moratorium in respect of any of its indebtedness or any guarantee of any indebtedness given by it or (iv) the Issuer, the Guarantor or any of their respective Material Subsidiaries (if any) ceases or threatens to cease to carry on all or any substantial part of its business (otherwise than, in the case of a Guarantor or a Material Subsidiary of the Guarantor (other than the Issuer), for the purposes of or pursuant to an amalgamation, reorganisation or restructuring whilst solvent);

(h) *Winding up etc.*: an order is made or an effective resolution is passed for the winding up, liquidation or dissolution of the Issuer, the Guarantor or any of their respective Material Subsidiaries (if any)

(otherwise than, in the case of a Material Subsidiary of the Guarantor, for the purposes of or pursuant to an amalgamation, reorganisation or restructuring whilst solvent);

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

(j) *Failure to Take Action etc.*: any action, condition or thing 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 and in respect of the Notes and the Deed of Guarantee, (ii) to ensure that those obligations are legal, valid, binding and enforceable and (iii) to make the Notes, the Coupons and the Deed of Guarantee admissible in evidence in the courts of England and the Kingdom of Spain is not taken, fulfilled or done;

(k) *Analogous Event*: any event occurs which under the laws of any relevant jurisdiction has an analogous effect to any of the events referred to in any of the forgoing paragraphs above including, but not limited to, in the case of the Guarantor, any suspension of payments or bankruptcy (*concurso de acreedores*);

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

(m) *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 respective Material Subsidiaries;

then any Note may, by written notice addressed by the Holder thereof to the Issuer and the Guarantor and delivered to the Issuer and the Guarantor or to the Specified Office of the Fiscal Agent, be declared immediately due and payable, whereupon it shall become immediately due and payable at its Early Termination Amount together with accrued interest (if any) without further action or formality.

15. **Prescription**

Claims for principal in respect of Bearer Notes shall become void unless the relevant Bearer Notes are presented for payment within ten years of the appropriate Relevant Date. Claims for interest in respect of Bearer Notes shall become void unless the relevant Coupons are presented for payment within five years of the appropriate Relevant Date. Claims for principal and interest on redemption in respect of Registered Notes shall become void unless the relevant Note Certificates are surrendered for payment within ten years of the appropriate Relevant Date.

16. **Replacement of Notes and Coupons**

If any Note, Note Certificate or Coupon is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the Specified Office of the Fiscal Agent, in the case of Bearer Notes, or the Registrar, in the case of Registered Notes (and, if the Notes are then admitted to listing, trading and/or quotation by any competent authority, stock exchange and/or quotation system which requires the appointment of a Paying Agent or Transfer Agent in any particular place, the Paying Agent or Transfer Agent having its Specified Office in the place required by such competent authority, stock exchange and/or quotation system), subject to all applicable laws and competent authority, stock exchange and/or quotation system requirements, upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence, security, indemnity and otherwise as the Issuer may reasonably require. Mutilated or defaced Notes, Note Certificates or Coupons must be surrendered before replacements will be issued.

17. **Agents**

In acting under the Agency Agreement and in connection with the Notes and the Coupons, the Agents act solely as agents of the Issuer and the Guarantor and do not assume any obligations towards or relationship of agency or trust for or with any of the Noteholders or Couponholders.

The initial Agents and their initial Specified Offices are listed below. The initial Calculation Agent (if any) is specified in the relevant Final Terms. The Issuer and the Guarantor reserve the right at any time to vary or terminate the appointment of any Agent and to appoint a successor fiscal agent or registrar or Calculation Agent and additional or successor paying agents; **provided, however, that***:*

(a) the Issuer and the Guarantor shall at all times maintain a paying agent, a fiscal agent and a registrar; and

(b) if a Calculation Agent is specified in the relevant Final Terms, the Issuer and the Guarantor shall at all times maintain a Calculation Agent; and

(c) if and for so long as the Notes are admitted to listing, trading and/or quotation by any competent authority, stock exchange and/or quotation system which requires the appointment of a Paying Agent and/or a Transfer Agent in any particular place, the Issuer and the Guarantor shall maintain a Paying Agent and/or a Transfer Agent having its Specified Office in the place required by such competent authority, stock exchange and/or quotation system.

Notice of any change in any of the Agents or in their Specified Offices shall promptly be given to the Noteholders.

18. **Meetings of Noteholders; Modification and Waiver**

(a) *Meetings of Noteholders*: The Agency Agreement contains provisions for convening meetings of Noteholders to consider matters relating to the Notes, including the modification of any provision of these Conditions. Any such modification may be made if sanctioned by an Extraordinary Resolution. Such a meeting may be convened by the Issuer and the Guarantor (acting together) and shall be convened by them upon the request in writing of Noteholders holding not less than one-tenth of the aggregate principal amount of the outstanding Notes. The quorum at any meeting convened to vote on an Extraordinary Resolution will be two or more Persons holding or representing one more than half of the aggregate principal amount of the outstanding Notes or, at any adjourned meeting, two or more Persons being or representing Noteholders whatever the principal amount of the Notes held or represented; **provided, however, that** Reserved Matters may only be sanctioned by an Extraordinary Resolution passed at a meeting of Noteholders at which two or more Persons holding or representing not less than three-quarters or, at any adjourned meeting, one quarter of the aggregate principal amount of the outstanding Notes form a quorum. Any Extraordinary Resolution duly passed at any such meeting shall be binding on all the Noteholders and Couponholders, whether present or not.

In addition, a resolution in writing signed by or on behalf of all Noteholders who for the time being are entitled to receive notice of a meeting of Noteholders will take effect as if it were an Extraordinary Resolution. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Noteholders.

(b) *Modification:* The Notes, these Conditions, the Deed of Guarantee and the Deed of Covenant may be amended without the consent of the Noteholders or the Couponholders to correct a manifest error. In addition, the parties to the Agency Agreement may agree to modify any provision thereof, but the Issuer and the Guarantor shall not agree, without the consent of the Noteholders, to any such modification unless it is of a formal, minor or technical nature, it is made to correct a manifest error or it is, in the opinion of such parties, not materially prejudicial to the interests of the Noteholders.

19. **Further Issues**

The Issuer may from time to time, without the consent of the Noteholders or the Couponholders, create and issue further notes having the same terms and conditions as the Notes in all respects (or in all respects except for the first payment of interest) so as to form a single series with the Notes.

20. **Notices**

(a) *Bearer Notes:* Notices to the Holders of Bearer Notes shall be valid if published in a leading English language daily newspaper published in London (which is expected to be the *Financial Times*) and, if the Bearer Notes are admitted to trading on the Luxembourg Stock Exchange and it is a requirement of applicable law or regulations, a leading newspaper having general circulation in Luxembourg (which is expected to be *Luxemburger Wort*) or published on the website of the Luxembourg Stock Exchange (*www.bourse.lu*) or, if such publication is not practicable, in a leading English language daily newspaper having general circulation in Europe. Any such notice shall be deemed to have been given on the date of first publication (or if required to be published in more than one newspaper, on the first date on which publication shall have been made in all the required newspapers). Couponholders shall be deemed for all purposes to have notice of the contents of any notice given to the Holders of Bearer Notes.

(b) *Registered Notes:* Notices to the Holders of Registered Notes shall be sent to them by first class mail (or its equivalent) or (if posted to an overseas address) by airmail at their respective addresses on the Register and, if the Registered Notes are admitted to trading on the Luxembourg Stock Exchange and it is a requirement of applicable law or regulations, notices to Noteholders will be published on the date of such mailing in a leading newspaper having general circulation in Luxembourg (which is expected to be *Luxemburger Wort*) or published on the website of the Luxembourg Stock Exchange (*www.bourse.lu*) or, if such publication is not practicable, in a leading English language daily newspaper having general circulation in Europe. Any such notice shall be deemed to have been given on the fourth day after the date of mailing.

21. **Currency Indemnity**

If any sum due from the Issuer in respect of the Notes or the Coupons or any order or judgment given or made in relation thereto has to be converted from the currency (the "**first currency**") in which the same is payable under these Conditions or such order or judgment into another currency (the "**second currency**") for the purpose of (a) making or filing a claim or proof against the Issuer, (b) obtaining an order or judgment in any court or other tribunal or (c) enforcing any order or judgment given or made in relation to the Notes, the Issuer shall indemnify each Noteholder, on the written demand of such Noteholder addressed to the Issuer and delivered to the Issuer or to the Specified Office of the Fiscal Agent, against any loss suffered as a result of any discrepancy between (i) the rate of exchange used for such purpose to convert the sum in question from the first currency into the second currency and (ii) the rate or rates of exchange at which such Noteholder may in the ordinary course of business purchase the first currency with the second currency upon receipt of a sum paid to it in satisfaction, in whole or in part, of any such order, judgment, claim or proof.

This indemnity constitutes a separate and independent obligation of the Issuer and shall give rise to a separate and independent cause of action.

22. **Rounding**

For the purposes of any calculations referred to in these Conditions (unless otherwise specified in these Conditions or the relevant Final Terms), (a) all percentages resulting from such calculations will be rounded, if necessary, to the nearest one hundred-thousandth of a percentage point (with 0.000005 per cent. being rounded up to 0.00001 per cent.), (b) all United States dollar amounts used in or resulting from such calculations will be rounded to the nearest cent (with one half cent being rounded up), (c) all Japanese Yen amounts used in or resulting from such calculations will be rounded downwards to the next lower whole Japanese Yen amount, and (d) all amounts denominated in any other currency used in or resulting from such calculations will be rounded to the nearest two decimal places in such currency, with 0.005 being rounded upwards.

23. **Provision of Information whilst the Notes are held in definitive form.**

Whilst the Notes are held in definitive form, within thirty Business Days of receipt of a written request by the Issuer (or its duly authorised agent or delegate), Noteholders and Couponholders shall supply to the Issuer such forms, documentation and other information relating to its status under any applicable Information Reporting Regime as the Issuer (or its duly authorised agent or delegate) reasonably requests for the purposes of the Issuer's compliance with such Information Reporting Regime; provided, however, that no Noteholder or Couponholder shall be required to provide any forms, documentation or other information pursuant to this Condition 23 to the extent that: (i) any such form, documentation or other information (or the information required to be provided on such form or documentation) is not reasonably available to such Noteholder or Couponholder and cannot be obtained by such Noteholder or Couponholder using reasonable efforts, or (ii) doing so would or might in the reasonable opinion of such Noteholder or Couponholder constitute a breach of any applicable (a) law or regulation; (b) fiduciary duty; or (c) duty of confidentiality. The Issuer (and its duly authorised agents and delegates) shall be permitted to disclose the forms, documentation and other information to any taxation or other governmental authority.

For the purposes of this Condition 23:

"**Code**" means the U.S. Internal Revenue Code of 1986, as amended from time to time;

"**Common Reporting Standard**" means the common standard on reporting and due diligence for financial account information developed by the Organisation for Economic Co-operation and Development, bilateral and multilateral competent authority agreements, and treaties facilitating the implementation thereof, and any law implementing any such common standard, competent authority agreement, intergovernmental agreement, or treaty, in each case, as amended from time to time;

"**Directive on Administrative Cooperation**" means Council Directive 2011/16/EU on administrative cooperation in the field of taxation and any law implementing such Council Directive, as amended from time to time;

"**FATCA**" means Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof, any law implementing an intergovernmental approach thereto, in each case, as amended from time to time, and an agreement described in Section 1471(b) of the Code; and

"**Information Reporting Regime**" means the Common Reporting Standard, the Directive on Administrative Cooperation and FATCA.

24. **Governing Law and Jurisdiction**

(a) *Governing law:* The Notes and any non-contractual obligations arising out of or in connection with the Notes are governed by English law.

(b) *English courts*: The courts of England have exclusive jurisdiction to settle any dispute (a "**Dispute**") arising out of or in connection with the Notes (including any non-contractual obligation arising out of or in connection with the Notes).

(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 24(b) (*English courts*) is for the benefit of the Noteholders only. As a result, nothing in this Condition 24 (*Governing law and jurisdiction*) 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) *Service of process*: 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 Hackwood Secretaries Limited at One Silk Street, London, EC2Y 8HQ, United Kingdom, or to such other person with an address in England or Wales and/or at such other address in England or Wales as the Issuer may specify by notice in writing to the Noteholders. 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 to Proceedings elsewhere.

FORM OF FINAL TERMS

The Final Terms in respect of each Tranche of Notes will be in the following form, duly completed to reflect the particular terms of the relevant Notes and their issue.

Final Terms dated [•]

MADRILEÑA RED DE GAS FINANCE B.V.
Issue of [Aggregate Nominal Amount of Tranche] [Title of Notes]

Unconditionally and irrevocably guaranteed by

Madrileña Red de Gas, S.A.U.

under the

EUR2,000,000,000
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 Conditions (the "**Conditions**") set forth in the Base Prospectus dated 28 February 2017 [and the supplement to the Base Prospectus dated [•]] which [together] constitute[s] a base prospectus (the "**Base Prospectus**") for the purposes of Directive 2003/71/EC, as amended (the "**Prospectus Directive**"). 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 [as so supplemented]. The Base Prospectus [and the supplement to the Base Prospectus] [is] [are] available for viewing [at [•]] [and] during normal business hours at [•] [and copies may be obtained from [•]]. The Base Prospectus [and the supplement to the Base Prospectus] [has/have] been published on the website of the Luxembourg Stock Exchange at www.bourse.lu.]

[Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the "**Conditions**") set forth in the Prospectus dated [1 August 2013] [4 February 2016] which are incorporated by reference in the Prospectus dated 28 February 2017. This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of Directive 2003/71/EC, as amended (the Prospectus Directive) and must be read in conjunction with the Prospectus dated 28 February 2017 [and the supplement(s) to it 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 Prospectus dated [●]. 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, the [Base] Prospectus [and the supplement(s) dated [●]]. The [Base] Prospectus has been published on www.bourse.lu.]

1.	(i)	Series:	[•]
	(ii)	Tranche:	[•]
	(iii)	Date on which the Notes will be consolidated and form a single Series:	[The Notes shall be consolidated, form a single series and be interchangeable for trading purposes with the [currency] [aggregate nominal amount] [interest basis] Guaranteed Notes due [maturity date] issued on [issue date] on [[•]/the Issue Date/the exchange of the Temporary Global Note for the Permanent Global Note, as referred to in paragraph [•] below [which is expected to occur on or about [•]]]]

2.	Specified Currency or Currencies:		[•]
3.	Aggregate Nominal Amount:		[•]
	(i)	Series:	[•]
	(ii)	Tranche:	[•]
4.	Issue Price:		[•] per cent. of the Aggregate Nominal Amount [plus accrued interest from [•]]
5.	(i)	Specified Denominations:	[•]
	(ii)	Calculation Amount:	[•]
6.	(i)	Issue Date:	[•]
	(ii)	Interest Commencement Date:	[[•]/Issue Date/Not Applicable]
7.	Maturity Date:		[[•]/(for Floating Rate Notes) Interest Payment Date falling in or nearest to the relevant month and year]
8.	Interest Basis:		[[•] per cent. Fixed Rate]
	(As referred to under Conditions 6 or 7)		[[LIBOR]/[LIBID]/[LIMEAN]/[EURIBOR] +/– [•] per cent. Floating Rate]
			[Zero Coupon]
			(See paragraph [11/12/13] below)
9.	Redemption/Payment Basis:		Subject to any purchase and cancellation or early redemption, the Notes will be redeemed on the Maturity Date at [•] per cent. of their nominal amount.
			(further particulars specified below)
10.	Put/Call Options:		[Call Option] [Redemption on sale of assets Put]
	(As referred to under Condition 10)		[Redemption on loss of licence Put] [Redemption on change of control Put] [Clean-up Call Option] [Pre-Maturity Call Option]
			(further particulars specified below)
	(i)	[Date of Board approval for issuance of Notes]:	[•]/[Not Applicable]

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

11.	**Fixed Rate Note Provisions**	[Applicable]/[Not Applicable]
	(As referred to under Condition 6)	(*If not applicable, delete the remaining subparagraphs of this paragraph*)

	(i)	Rate(s) of Interest:	[•] per cent. per annum payable [annually]/[semi-annually]/[quarterly] in arrear
	(ii)	Interest Payment Date(s):	[•] in each year
	(iii)	Fixed Coupon Amount(s):	[•] per Calculation Amount
	(iv)	Broken Amount(s):	[[•] per Calculation Amount, payable on the Interest Payment Date falling [in/on] [•]]/[Not Applicable]
	(v)	Day Count Fraction: (As referred to under Condition 2(a))	[Actual/Actual (ICMA)][Actual]/[Actual ISDA]] [Actual/365 (Fixed)] [Actual/360] [30/360] [30E/360] [Eurobond basis] [30E/360 (ISDA)]
	(vi)	Determination Dates:	[[•] in each year]/[Not Applicable]
12.	**Floating Rate Note Provisions** (As referred to under Condition 7)		[Applicable]/[Not Applicable] (*If not applicable, delete the remaining subparagraphs of this paragraph*)
	(i)	Interest Period(s):	[•]
	(ii)	Specified Period:	[•]
	(iii)	Specified Interest Payment Dates:	[•]/[Not Applicable]
	(iv)	First Interest Payment Date:	[•]
	(v)	Business Day Convention: (As referred to under Condition 2(a))	[Floating Rate Convention]/[Following Business Day Convention]/[Modified Following Business Day Convention]/[Preceding Business Day Convention]
	(vi)	Additional Business Centre(s): (As referred to under Condition 2(a))	[•]/[Not Applicable]
	(vii)	Manner in which the Rate(s) of Interest is/are to be determined: (As referred to under Conditions 7(c) or 7(d))	[Screen Rate Determination]/[ISDA Determination]
	(viii)	Party responsible for calculating the Rate(s) of Interest and/or Interest Amount(s) (if not the Fiscal Agent):	[•]/[Not Applicable]
	(ix)	Screen Rate Determination: (As referred to under Condition 7(c))	

	•	Reference Rate:	[[[•] month LIBOR]/[LIBID]/[LIMEAN]/[EURIBOR]]
	•	Interest Determination Date(s):	[•]
	•	Relevant Screen Page:	[•]
	•	Relevant Time:	[•]
	•	Relevant Financial Centre:	[•]
	•	Reference Bank(s):	[•]/[Not Applicable]
	(x)	ISDA Determination:	
	(As referred to under Condition 7(d))		
	•	Floating Rate Option:	[•]
	•	Designated Maturity:	[•]
	•	Reset Date:	[•]
	(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: (As referred to under Condition 2(a))	[Actual/Actual (ICMA)][Actual]/[Actual ISDA)] [Actual/365 (Fixed)] [Actual/360] [30/360] [30E/360] [Eurobond basis] [30E/360 (ISDA)]
13.	**Zero Coupon Note Provisions**		[Applicable]/[Not Applicable]
	(As referred to under Condition 9)		(*If not applicable, delete the remaining subparagraphs of this paragraph*)
	(i)	Accrual Yield:	[•] per cent. per annum
	(ii)	Reference Price:	[•]
	(iii)	Day Count fraction: (As referred to under Condition 2(a))	[Actual/Actual (ICMA)][Actual]/[Actual ISDA)] [Actual/365 (Fixed)] [Actual/360] [30/360] [30E/360] [Eurobond basis] [30E/360 (ISDA)]

PROVISIONS RELATING TO REDEMPTION

14.	**Call Option**		[Applicable]/[Not Applicable] [*If not applicable, delete the remaining subparagraphs of this paragraph*]
	(i)	Optional Redemption Date(s):	[•]
	(ii)	Optional Redemption Amount(s) of each Note:	[[•] per Calculation Amount]/[Make-Whole Amount]
	(iii)	If redeemable in part:	
	(a)	Minimum Redemption Amount:	[[•] per Calculation Amount]/[Not Applicable]
	(b)	Maximum Redemption Amount	[[•] per Calculation Amount]/[Not Applicable]
	(iv)	Notice periods:	
	(a)	Minimum notice period:	[[•] days]
	(b)	Maximum notice period:	[[•] days]
	(v)	Redemption Margin:	[•]
	(vi)	Reference Bond:	[•]/[Not Applicable]
	(vi)	Quotation Time:	[•]/[Not Applicable]
15.	**Final Redemption Amount of each Note**		[•] per Calculation Amount
16.	**Early Redemption Amount** Early Redemption Amount(s) per Calculation Amount payable on redemption for taxation reasons or on event of default or other early redemption and/or the method of calculating the same (if required or if different from that set out in the Conditions):		[•] per Calculation Amount
17.	**Early Termination Amount**		[[•] per Calculation Amount]/[Not Applicable]
18.	**Redemption Amount** (if different from the Final Redemption Amount, the Early Redemption Amount (Tax), the Optional Redemption Amount, or the Early Termination Amount)		[[•] per Calculation Amount]/[Not Applicable]

GENERAL PROVISIONS APPLICABLE TO THE NOTES

19.	**Form of Notes:**	**[Bearer Notes:**

		[Temporary Global Note exchangeable for a Permanent Global Note which is exchangeable for Definitive Notes on [•] days' notice/at any time/in the limited circumstances specified in the Permanent Global Note] [Temporary Global Note exchangeable for Definitive Notes on [•] days' notice] [Permanent Global Note exchangeable for Definitive Notes on [•] days' notice/at any time/in the limited circumstances specified in the Permanent Global Note]] **[Registered Notes**: [Global Registered Note exchangeable for Individual Note Certificates on [•] days' notice/at any time/in the limited circumstances described in the Global Registered Note] [Global Registered Note registered in the name of a nominee for [a common depositary for Euroclear and Clearstream, Luxembourg]/[a common safekeeper for Euroclear and Clearstream, Luxembourg (that is, held under the New Safekeeping Structure (NSS)).]]]
20.	New Global Note:	[Yes]/[No]
21.	Additional Financial Centre(s) or other special provisions relating to payment dates:	[Not Applicable]/[•]
22.	Talons for future Coupons to be attached to Definitive Notes (and dates on which such Talons mature):	[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.]
23.	Consolidation provisions:	[Not Applicable]/[The provisions [in Condition 19 (*Further Issues*)] applies]

DISTRIBUTION

24.	Total commission and concession:	[•] per cent. of the Aggregate Nominal Amount
25.	TEFRA:	[TEFRA C]/[TEFRA D]/[TEFRA not applicable]
26.	Stabilising Manager(s) (if any):	[•]/[Not Applicable]

Signed on behalf of Madrileña Red de Gas Finance B.V.:

By: .....
Duly authorised

Signed on behalf of Madrileña Red de Gas, S.A.U:

By: .....
Duly authorised

PART B – OTHER INFORMATION

1. **LISTING AND ADMISSION TO TRADING**

(i)	Listing:	[Luxembourg Stock Exchange]/[Other]
(ii)	Admission to trading:	[Application has been made by the Issuer (or on its behalf) for the Notes to be admitted to trading on [Luxembourg Stock Exchange]/[•] with effect from [•]]/[Application is expected to be made by the Issuer (or on its behalf) for the Notes to be admitted to trading on [Luxembourg Stock Exchange]/[•] with effect from [•]]/[Not Applicable].
(iii)	Estimate of total expenses related to admission to trading	[•]

2. **RATINGS:**

Ratings:	[[The Notes to be issued have been rated [have been/are expected to be] rated]/[The following ratings reflect ratings assigned to Notes of this type issued under the Programme generally]]: [Fitch Ratings Limited: [•]] [Standard & Poor's Credit Market Services Europe Limited: [•]] [*Other Rating Agencies*: [●]] *(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.)*

3. **INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE ISSUE/OFFER**

[Save for any fees payable to the [*Managers]/[Dealers*], 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.]

4. **YIELD**

Indication of yield:	[•]/[Not Applicable]

5. **OPERATIONAL INFORMATION**

ISIN:	[•]
Common Code:	[•]
Any clearing system(s) other than Euroclear Bank S.A./N.V. and Clearstream Banking, société anonyme	[•]/[Not Applicable]

and the relevant identification number(s):	[*Name(s), numbers and address(es)*]
Delivery:	Delivery [against/free of] payment
Names and addresses of additional Paying Agent(s) (if any):	[•]
Name of Calculation Agent, if different from the Fiscal Agent:	[•]/[Not Applicable]
Intended to be held in a manner which would allow Eurosystem eligibility:	[Yes][No][Not Applicable] [*Yes. Note that the designation "yes" simply means that the Notes are intended upon issue to 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] 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.*]

SUMMARY OF PROVISIONS RELATING TO THE NOTES WHILE IN GLOBAL FORM

Clearing System Accountholders

In relation to any Tranche of Notes represented by a Global Note in bearer form, references in the Terms and Conditions of the Notes to "Noteholder" are references to the bearer of the relevant Global Note which, for so long as the Global Note is held by a depositary or a common depositary, in the case of a CGN, or a common safekeeper, in the case of an NGN for Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system, will be that depositary or common depositary or, as the case may be, common safekeeper.

In relation to any Tranche of Notes represented by a Global Registered Note, references in the Terms and Conditions of the Notes to "Noteholder" are references to the person in whose name such Global Registered Note is for the time being registered in the Register which, for so long as the Global Registered Note is held by or on behalf of a depositary or a common depositary or a common safekeeper for Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system, will be that depositary or common depositary or common safekeeper or a nominee for that depositary or common depositary or common safekeeper.

Each of the persons shown in the records of Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system as being entitled to an interest in a Global Note or a Global Registered Note (each an "**Accountholder**") must look solely to Euroclear and/or Clearstream, Luxembourg and/or such other relevant clearing system (as the case may be) for such Accountholder's share of each payment made by the Issuer or the Guarantor to the holder of such Global Note or Global Registered Note and in relation to all other rights arising under such Global Note or Global Registered Note. The extent to which, and the manner in which, Accountholders may exercise any rights arising under the Global Note or Global Registered Note will be determined by the respective rules and procedures of Euroclear and Clearstream, Luxembourg and any other relevant clearing system from time to time. For so long as the relevant Notes are represented by a Global Note or Global Registered Note, Accountholders shall have no claim directly against the Issuer or the Guarantor in respect of payments due under the Notes and such obligations of the Issuer and the Guarantor will be discharged by payment to the holder of such Global Note or Global Registered Note.

Conditions applicable to Global Notes

Each Global Note and Global Registered Note will contain provisions which modify the Terms and Conditions of the Notes as they apply to the Global Note or Global Registered Note. The following is a summary of certain of those provisions:

Payments: All payments in respect of the Global Note or Global Registered Note which, according to the Terms and Conditions of the Notes, require presentation and/or surrender of a Note, Note Certificate or Coupon will be made against presentation and (in the case of payment of principal in full with all interest accrued thereon) surrender of the Global Note or Global Registered Note to or to the order of any Paying Agent and will be effective to satisfy and discharge the corresponding liabilities of the Issuer in respect of the Notes. On each occasion on which a payment of principal or interest is made in respect of the (i) Global Note, the Issuer shall procure that in respect of a CGN the payment is noted in a schedule thereto and in respect of an NGN the payment is entered pro rata in the records of Euroclear and Clearstream, Luxembourg and (ii) global Registered Note, the Issuer shall procure that if such Note is held under the NSS, the payment is entered into *pro rata* in the records of Euroclear and Clearstream Luxembourg.

Payment Business Day: In the case of a Global Note, or a Global Registered Note, shall be, if the currency of payment is euro, any day which is a TARGET Settlement Day and a day on which dealings in foreign currencies may be carried on in each (if any) Additional Financial Centre; or, if the currency of payment is not euro, any day which is a day on which dealings in foreign currencies may be carried on in the Principal Financial Centre of the currency of payment and in each (if any) Additional Financial Centre.

Payment Record Date: Each payment in respect of a Global Registered Note will be made to the person shown as the Holder in the Register at the close of business (in the relevant clearing system) on the Clearing System Business Day before the due date for such payment (the "**Record Date**") where "**Clearing System Business Day**" means a day on which each clearing system for which the Global Registered Note is being held is open for business.

Exercise of put option: In order to exercise the option contained in Condition 10(e) (*Redemption on sale of assets*), Condition 10(f) (*Redemption on loss of licence*) or Condition 10(g) (*Redemption on Change of Control*) the bearer of the Permanent Global Note or the holder of a Global Registered Note must, within the period specified in the Conditions for the deposit of the relevant Note and put notice, give written notice of such exercise to the Fiscal

Agent specifying the principal amount of Notes in respect of which such option is being exercised. Any such notice will be irrevocable and may not be withdrawn.

Partial exercise of call option: In connection with an exercise of the option contained in Condition 10(c) (*Redemption at the option of the Issuer*) in relation to some only of the Notes, the Permanent Global Note or Global Registered Note may be redeemed in part in the principal amount specified by the Issuer in accordance with the Conditions and the Notes to be redeemed will not be selected as provided in the Conditions but in accordance with the rules and procedures of Euroclear and Clearstream, Luxembourg (to be reflected in the records of Euroclear and Clearstream, Luxembourg as either a pool factor or a reduction in principal amount, at their discretion).

Notices: Notwithstanding Condition 20 (*Notices*), while all the Notes are represented by a Permanent Global Note (or by a Permanent Global Note and/or a Temporary Global Note) or a Global Registered Note and the Permanent Global Note is (or the Permanent Global Note and/or the Temporary Global Note are), or the Global Registered Note is, deposited with a depositary or a common depositary for Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system or a common safekeeper, notices to Noteholders may be given by delivery of the relevant notice to Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system and, in any case, such notices shall be deemed to have been given to the Noteholders in accordance with Condition 20 (*Notices*) on the date of delivery to Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system, except that, for so long as such Notes are admitted to trading on the Luxembourg Stock Exchange and it is a requirement of applicable law or regulations, such notices shall also be published in a leading newspaper having general circulation in Luxembourg (which is expected to be *Luxemburger Wort*) or published on the website of the Luxembourg Stock Exchange (*www.bourse.lu*).

Provision of Information: While all the Notes are represented by a Permanent Global Note (or by a Permanent Global Note and/or a Temporary Global Note) or a Global Registered Note and the Permanent Global Note is (or the Permanent Global Note and/or the Temporary Global Note are), or the Global Registered Note is, deposited with a depositary or a common depository for Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system or a common safekeeper, Condition 23 (*Provision of Information*) shall not apply to such Notes.

GUARANTEE OF THE NOTES

The following is the Guarantee of the Notes executed by the Guarantor on 1 August 2013:

THIS DEED OF GUARANTEE is made on 1 August 2013

_____

BY

(1) **MADRILEÑA RED DE GAS, S.A.U.** and **MADRILEÑA RED DE GAS II, S.A.U.** (each a "**Guarantor**" and together, the "**Guarantors**")

IN FAVOUR OF

(2) **THE NOTEHOLDERS** (as defined in the Base Prospectus described below); and

(3) **THE ACCOUNTHOLDERS** (as defined in the Deed of Covenant described below) (together with the Noteholders, the "**Beneficiaries**").

WHEREAS

(A) Madrileña Red De Gas Finance B.V. (the "**Issuer**") and the Guarantors have established a Euro Medium Term Note Programme (the "**Programme**") for the issuance of notes (the "**Notes**"), in connection with which they have entered into a dealer agreement dated 1 August 2013 (the "**Dealer Agreement**") and an issue and paying agency agreement dated 1 August 2013 (the "**Agency Agreement**") and the Issuer has executed a deed of covenant dated 1 August 2013 (the "**Deed of Covenant**").

(B) The Issuer has made applications to the Luxembourg *Commission de Surveillance du Secteur Financier* (the "**CSSF**") for Notes issued under the Programme to be admitted to listing on the official list and 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. Notes may also be issued on the basis that they will not be admitted to listing, trading and/or quotation by any competent authority, stock exchange and/or quotation system or that they will be admitted to listing, trading and/or quotation by such other or further competent authorities, stock exchanges and/or quotation systems as may be agreed with the Issuer.

(C) In connection with the Programme, the Issuer and the Guarantors have prepared a base prospectus dated 1 August 2013 (the "**Base Prospectus**") which has been approved by the CSSF as a base prospectus issued in compliance with Directive 2003/71/EC (the "**Prospectus Directive**") and relevant implementing measures in Luxembourg.

(D) Notes issued under the Programme may be issued pursuant to the Base Prospectus describing the Programme and Final Terms describing the final terms of the particular Tranche of Notes.

(E) Each of the Guarantors has agreed to unconditionally and irrevocably and jointly and severally guarantee the payment of all sums expressed to be payable from time to time by the Issuer to Noteholders in respect of the Notes and to Accountholders in respect of the Deed of Covenant.

NOW THIS DEED OF GUARANTEE WITNESSES as follows:

1. **INTERPRETATION**

1.1 **Definitions**

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

1.2 **Clauses**

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

1.3 **Other agreements**

All references in this Deed of Guarantee to an agreement, instrument or other document (including the Base Prospectus, the Dealer Agreement, the Agency Agreement and the Deed of Covenant) shall be construed as a reference to that agreement, instrument or other document as the same may be amended, supplemented, restated, extended, replaced or novated from time to time. In addition, in the context of any particular Tranche of Notes, each reference in this Deed of Guarantee to the Base Prospectus shall be construed as a reference to the Base Prospectus as completed by the relevant Final Terms.

1.4 **Legislation**

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

1.5 **Headings**

Headings and sub-headings are for ease of reference only and shall not affect the construction of this Deed of Guarantee.

1.6 **Benefit of Deed of Guarantee**

Any Notes issued under the Programme on or after the date of this Deed of Guarantee shall have the benefit of this Deed of Guarantee but shall not have the benefit of any subsequent guarantee relating to the Programme (unless expressly so provided in any such subsequent guarantee).

2. **GUARANTEE AND INDEMNITY**

2.1 **Guarantee**

Each of the Guarantors hereby unconditionally and irrevocably and jointly and severally guarantees:

2.1.1 *The Notes*: to each Noteholder the due and punctual payment of all sums from time to time payable by the Issuer in respect of the relevant Note (without regard to the limitations on recourse of Noteholders against the Issuer contained in Condition 4(a) (*Status of the Notes*)) as and when the same become due and payable and accordingly undertakes to pay to such Noteholder, in the manner and currency prescribed by the Conditions for payments by the Issuer in respect of such Note, any and every sum or sums which the Issuer is at any time liable to pay in respect of such Note and which the Issuer has failed to pay; and

2.1.2 *The Direct Rights*: to each Accountholder the due and punctual payment of all sums from time to time payable by the Issuer to such Accountholder in respect of the Direct Rights as and when the same become due and payable and accordingly undertakes to pay to such Accountholder, in the manner and currency prescribed by the Conditions for payments by the Issuer in respect of the Notes, any and every sum or sums which the Issuer is at any time liable to pay to such Accountholder in respect of the Notes (without regard to the limitations on recourse of Noteholders against the Issuer contained in Condition 4(a) (*Status of the Notes*)) and which the Issuer has failed to pay.

This Deed of Guarantee will come into effect immediately following the issuance of the first Series of Notes under the Programme.

2.2 **Indemnity**

Each of the Guarantors irrevocably and unconditionally agrees as a primary obligation to jointly and severally indemnify each of the Beneficiaries from time to time (without regard to the limitations on

recourse of Noteholders against the Issuer contained in Condition 4(a) (*Status of the Notes*)) from and against any loss, liability or cost incurred by such Beneficiary as a result of any of the obligations of the Issuer under or pursuant to any Note, the Deed of Covenant or any provision thereof being or becoming void, voidable, unenforceable or ineffective for any reason whatsoever, whether or not known to such Beneficiary or any other person, the amount of such loss being the amount which such Beneficiary would otherwise have been entitled to recover from the Issuer. Any amount payable pursuant to this indemnity shall be payable in the manner and currency prescribed by the Conditions for payments by the Issuer in respect of the Notes. This indemnity constitutes a separate and independent obligation from the other obligations under this Deed of Guarantee and shall give rise to a separate and independent cause of action.

3. COMPLIANCE WITH THE CONDITIONS

Each of the Guarantors jointly and severally covenants in favour of each Beneficiary that it will duly perform and comply with the obligations expressed to be undertaken by it in the Conditions.

4. PRESERVATION OF RIGHTS

4.1 Principal obligors

The obligations of each Guarantor hereunder shall be deemed to be undertaken as a principal obligor and not merely as surety.

4.2 Continuing obligations

The obligations of each Guarantor contained herein shall constitute and be continuing obligations notwithstanding any settlement of account or other matter or thing whatsoever and shall not be considered satisfied by any intermediate payment or satisfaction of all or any of the Issuer's obligations under or in respect of any Note or the Deed of Covenant and shall continue in full force and effect for so long as the Programme remains in effect and thereafter until all sums due from the Issuer in respect of the Notes and under the Deed of Covenant have been paid, and all other actual or contingent obligations of the Issuer thereunder or in respect thereof have been satisfied, in full (and without regard to the limitations on recourse of Noteholders against the Issuer contained in Condition 4(a) (*Status of the Notes*)).

4.3 Obligations not discharged

Neither the obligations of either Guarantor herein contained nor the rights, powers and remedies conferred upon the Beneficiaries by this Deed of Guarantee or by law shall be discharged, impaired or otherwise affected by:

4.3.1 *Winding up*: the winding up, dissolution, administration, re-organisation or moratorium of the Issuer or any change in its status, function, control or ownership;

4.3.2 *Illegality*: any of the obligations of the Issuer under or in respect of any Note or the Deed of Covenant being or becoming illegal, invalid, unenforceable or ineffective in any respect;

4.3.3 *Indulgence*: time or other indulgence (including for the avoidance of doubt, any composition) being granted or agreed to be granted to the Issuer in respect of any of its obligations under or in respect of any Note or the Deed of Covenant;

4.3.4 *Amendment*: any amendment, novation, supplement, extension, (whether of maturity or otherwise) or restatement (in each case, however fundamental and of whatsoever nature) or replacement, waiver or release of, any obligation of the Issuer under or in respect of any Note or the Deed of Covenant or any security or other guarantee or indemnity in respect thereof including without limitation any change in the purposes for which the proceeds of the issue of any Note are to be applied and any extension of or any increase of the obligations of the Issuer in respect of any Note or the addition of any new obligations for the Issuer under the Deed of Covenant; or

4.3.5 *Analogous events*: any other act, event or omission which, but for this sub-clause, might operate to discharge, impair or otherwise affect the obligations expressed to be assumed by either Guarantor

herein or any of the rights, powers or remedies conferred upon the Beneficiaries or any of them by this Deed of Guarantee or by law.

4.4 **Settlement conditional**

Any settlement or discharge between the Guarantors and the Beneficiaries or any of them shall be conditional upon no payment to the Beneficiaries or any of them by the Issuer or any other person on the Issuer's behalf being avoided or reduced by virtue of any laws relating to bankruptcy, insolvency, liquidation or similar laws of general application for the time being in force and, in the event of any such payment being so avoided or reduced, the Beneficiaries shall be entitled to recover the amount by which such payment is so avoided or reduced from the Guarantors subsequently as if such settlement or discharge had not occurred.

4.5 **Exercise of Rights**

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

4.5.1 *Demand*: to make any demand of the Issuer, save for the presentation of the relevant Note;

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

4.5.3 *Claim or proof*: to make or file any claim or proof in a winding up or dissolution of the Issuer,

and (save as aforesaid) each of the Guarantors hereby expressly waive presentment, demand, protest and notice of dishonour in respect of any Note.

4.6 **Deferral of Guarantor's rights**

Each of the Guarantors agree that, so long as any sums are or may be owed by the Issuer in respect of any Note or under the Deed of Covenant or the Issuer is under any other actual or contingent obligation thereunder or in respect thereof, neither Guarantor will exercise any rights which it may at any time have by reason of the performance by it of its obligations hereunder:

4.6.1 *Indemnity*: to be indemnified by the Issuer;

4.6.2 *Contribution*: to claim any contribution from any other guarantor of the Issuer's obligations under or in respect of any Note or the Deed of Covenant; or

4.6.3 *Subrogation*: to take the benefit (in whole or in part and whether by way of subrogation or otherwise) of any rights of any Beneficiary against the Issuer in respect of amounts paid by it under this Deed of Guarantee or any security enjoyed in connection with any Note or the Deed of Covenant by any Beneficiary.

Each of the Guarantors further agrees that the recourse against the Issuer for the enforcement of its credit rights arising as a result of the enforcement of their obligations under this Deed (for any loss they may incur), will be limited to any amount that may be received by the Issuer in respect of the On-Loan Agreements entered into between the Issuer and the Guarantors to the extent not used by the Issuer for payments under the Notes plus the Issuer's share capital, from time to time.

4.7 ***Pari passu***

Each of the Guarantors undertakes that its obligations hereunder will constitute its direct, general, unconditional, unsubordinated and (without prejudice to Condition 5 (*Negative Pledge*) unsecured obligation which will at all times rank at least *pari passu* with all other present and future unsecured obligations of such Guarantor, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application.

4.8 **Deposit of Deed of Guarantee**

This Deed of Guarantee shall be deposited with and held by the Fiscal Agent for so long as the Programme remains in effect and thereafter until all the obligations of the Issuer under or in respect of the Notes and Deed of Covenant (without regard to the limitations on recourse of Noteholders against the Issuer contained in Condition 4(a) (*Status of the Notes*)) have been discharged in full. Each Guarantor hereby acknowledges the right of every Beneficiary to the production of this Deed of Guarantee.

5. STAMP DUTIES

Each Guarantor jointly and severally undertakes to pay all stamp, registration and other taxes and duties (including any interest and penalties thereon or in connection therewith) which are payable upon or in connection with the execution and delivery of this Deed of Guarantee, and shall indemnify each Beneficiary against any claim, demand, action, liability, damages, cost, loss or expense (including, without limitation, legal fees and any applicable value added tax) which it incurs as a result or arising out of or in relation to any failure to pay or delay in paying any of the same.

6. BENEFIT OF DEED OF GUARANTEE

6.1 **Deed poll**

This Deed of Guarantee shall take effect as a deed poll for the benefit of the Beneficiaries from time to time.

6.2 **Benefit**

This Deed of Guarantee shall enure to the benefit of each Beneficiary and its (and any subsequent) successors and assigns, each of which shall be entitled severally to enforce this Deed of Guarantee against the Guarantors.

6.3 **Assignment; Merger of Guarantors**

Neither Guarantor shall be entitled to assign or transfer all or any of its rights, benefits and obligations hereunder. Notwithstanding the foregoing sentence, the Guarantors may, without the consent of the Noteholders or Couponholders, effect a merger at any time pursuant to Law 3/2009, dated 3 April, on Corporate Structure Modifications (*Ley 3/2009, de 3 de abril, sobre modificaciones estructurales de las sociedades mercantiles*) (the "**Law**") whereby, pursuant to Article 23 of the Law, all assets, liabilities, and obligations of the Guarantors including but not limited to the obligations of the Guarantors under this Deed of Guarantee will be assumed by such merged entity. Following any such merger, reference herein to the Guarantors herein shall be deemed to be references to such merged entity. Each Beneficiary shall be entitled to assign all or any of its rights and benefits hereunder.

7. PARTIAL INVALIDITY

If at any time any provision hereof is or becomes illegal, invalid or unenforceable in any respect under the laws of any jurisdiction, neither the legality, validity or enforceability of the remaining provisions hereof nor the legality, validity or enforceability of such provision under the laws of any other jurisdiction shall in any way be affected or impaired thereby.

8. NOTICES

8.1 **Address for notices**

All notices and other communications to the Guarantors hereunder shall be made in writing (by letter or fax) and shall be sent to the Guarantors at:

Madrileña Red de Gas, S.A.U.
Calle Virgilio 2-B
Edificio 1, Centro Empresarial Arco
Pozuelo de Alarcón

28223, Madrid
Spain

Fax: + 34 9158 96200
Attention: Ignacio García Alvear

Madrileña Red de Gas II, S.A.U.
Calle Virgilio 2-B
Edificio 1, Centro Empresarial Arco
Pozuelo de Alarcón
28223, Madrid
Spain

Fax: + 34 9158 96200
Attention: Ignacio García Alvear

or to such other address or fax number or for the attention of such other person or department as either Guarantor has notified to the relevant Noteholders in the manner prescribed for the giving of notices in connection with the relevant Notes.

8.2 **Effectiveness**

Every notice or other communication sent in accordance with Clause 8.1 (*Address for notices*) shall be effective upon receipt by a Guarantor; *provided that* any such notice or other communication which would otherwise take effect after 4.00 p.m. on any particular day shall not take effect until 10.00 a.m. on the immediately succeeding business day in the place of such Guarantor.

9. CURRENCY INDEMNITY

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

10. LAW AND JURISDICTION

10.1 **Governing law**

This Deed of Guarantee and any non-contractual obligations arising out of or in connection with it are governed by English law.

10.2 **English courts**

The courts of England have exclusive jurisdiction to settle any dispute (a "**Dispute**"), arising out of or in connection with this Deed of Guarantee (including a dispute relating to the existence, validity or termination of this Deed of Guarantee or any non-contractual obligation arising out of or in connection with this Deed of Guarantee) or the consequences of its nullity.

10.3 **Appropriate forum**

Each of the Guarantors 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.

10.4 **Rights of the Beneficiaries to take proceedings outside England**

Clause 10.2 (*English courts*) is for the benefit of the Beneficiaries only. As a result, nothing in this Clause 10 (*Law and jurisdiction*) prevents the Beneficiaries from taking proceedings relating to a Dispute ("**Proceedings**") in any other courts with jurisdiction. To the extent allowed by law, the Beneficiaries may take concurrent Proceedings in any number of jurisdictions.

10.5 **Service of process**

Each of the Guarantors 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 Hackwood Secretaries Limited at One Silk Street, London, EC2Y 8HQ, United Kingdom, or to such other person with an address in England or Wales and/or at such other address in England or Wales as either Guarantor may specify by notice in writing to the Beneficiaries. Nothing in this paragraph shall affect the right of any Beneficiary to serve process in any other manner permitted by law. This clause applies to Proceedings in England and to Proceedings elsewhere.

11. **MODIFICATION**

The Agency Agreement contains provisions for convening meetings of Noteholders to consider matters relating to Notes, including the modification of any provision of this Deed of Guarantee. Any such modification may be made by supplemental deed poll if sanctioned by an Extraordinary Resolution and shall be binding on all Beneficiaries.

12. **CONTRACTS (RIGHTS OF THIRD PARTIES) ACT 1999**

A person who is not a party to this Agreement has no right under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of this agreement except and to the extent (if any) that this Agreement expressly provides for such Act to apply to any of its terms.

USE OF PROCEEDS

The net proceeds from the issue of each Tranche of Notes will be on lent to sole the shareholder Elisandra Spain V to be subsequently on-lent to MRG to be used for general corporate purposes.

DESCRIPTION OF THE ISSUER

Description of the Issuer

General Information

Madrileña Red de Gas Finance B.V., is a private company with limited liability incorporated under the laws of the Netherlands (*besloten vennootschap met beperkte aansprakelijkheid*) on 20 June 2012 and operating under the laws of the Netherlands for an indefinite period. Madrileña Red de Gas Finance B.V. has its official seat (*statutaire zetel*) in Amsterdam, the Netherlands, and its office at Prins Bernhardplein 200, 1097 JB Amsterdam, The Netherlands, registered with the Dutch Trade Register of the Chambers of Commerce under number 55530788. The telephone number of the Issuer is +31 (0)20 5214 777.

Share capital and shareholder

The Issuer's authorised share capital consists of one or more registered shares with a nominal value of EUR0.01 each. The Issuer's issued and outstanding share capital consists of 1,800,000 shares (EUR 18,000), all of which have been paid up. The Issuer is a wholly-owned subsidiary of Elisandra Spain V. The Issuer has no subsidiaries.

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

Business

The corporate purpose of the Issuer are:

a) to invest and apply funds obtained by the Issuer in, *inter alia*, (interests in) shares, bonds, bank deposits, repurchase agreements, loans, debt instruments, warrants and other securities, financial instruments or contracts and also in financial derivatives, whether or not with group companies, for its own account and/or as a depositary for the account of third parties;

b) to issue depositary certificates and/or other similar debt instruments to evidence the rights and interests the Issuer holds for the account of third parties in its capacity as depositary;

c) to raise funds through, *inter alia*, the issue of bonds and other debt instruments, borrowing under the loan agreements, the use of financial derivatives or otherwise;

d) to provide security for the Issuer's obligations and debts and to provide security for the guarantee third parties' obligations and debts;

e) to enter into agreements, including, but not limited to, financial derivatives such as credit default swaps, interest and/or currency swaps, deposit agreements, repurchase agreements and facility agreements to enter into financial derivatives and

f) to enter into agreements, including, but not limited to, bank administration agreements, securities administration agreements and cash administration agreements, asset management agreements and agreements to provide security in connection with the objects included in (a), (b), (c), (d) and (e) above.

Management Bodies

As at the date of this Base Prospectus, the members of the board of directors of the Issuer and their position on the board, are the following:

Name of Director	Position on Board	Principal activities outside the Issuer
Marco Faleri	Director	Mr Marco Faleri does not have any relevant principal activities beyond the Issuer.
Samantha Shepherd	Director	Ms Samantha Shepherd is an Investment Manager for Gingko Tree Investment Ltd. Her principal activities outside of her Non-Executive Director role of MRG include the origination and ongoing management of infrastructure investments in Europe.

Name of Director	Position on Board	Principal activities outside the Issuer
		Within this role Ms Shepherd does not currently represent Gingko Tree as a Non-Executive Director on the boards of our other investments, but may do so in the in future.
Martijn Verwoest	Director	Mr Martijn Verwoest is an investment director of PGGM Investments, dedicated to the energy and utilities industries. In addition to his directorship in MRG, he is a director of BUUK No 1, ltd (UK), and an alternate director of Duquesne Light Company, llc (USA) and DQE Holdings, llc (USA). Mr Martijn Verwoest has previously held board positions in the following companies: Autostrada Wielkopolska II S.A. (Poland) and Ennatuurlijk B.V. (Netherlands).

The business address of the members of the board of directors is Prins Bernhardplein 200, 1097 JB Amsterdam, The Netherlands.

There are no potential conflicts of interest between any duties of the members of the board of directors to the Issuer and their respective private interests and/or other duties. Other than as provided for in column 3 “Principal activities outside the Issuer” of the table above “Management Bodies”, none of the members of the board of directors of the Issuer performs any activities outside the Issuer that are significant with respect to the Issuer.

DESCRIPTION OF THE GUARANTOR

*The financial data presented in this Base Prospectus, in addition to the financial performance measures established by Spanish GAAP, contains certain alternative performance measures (such as EBITDA) ("**APMs**") that are presented for the purposes of a better understanding of MRG's financial performance as these are used by MRG when making operational or strategic decisions. These APMs are not required by, and are not presented in accordance with, Spanish GAAP. Such measures should not be considered in isolation or as a substitute for Profit for the year or Operating profit as determined in accordance with Spanish GAAP. In addition, APMs may not be comparable to similarly titled measures used by other companies.*

Description of Madrileña Red de Gas, S.A.U.

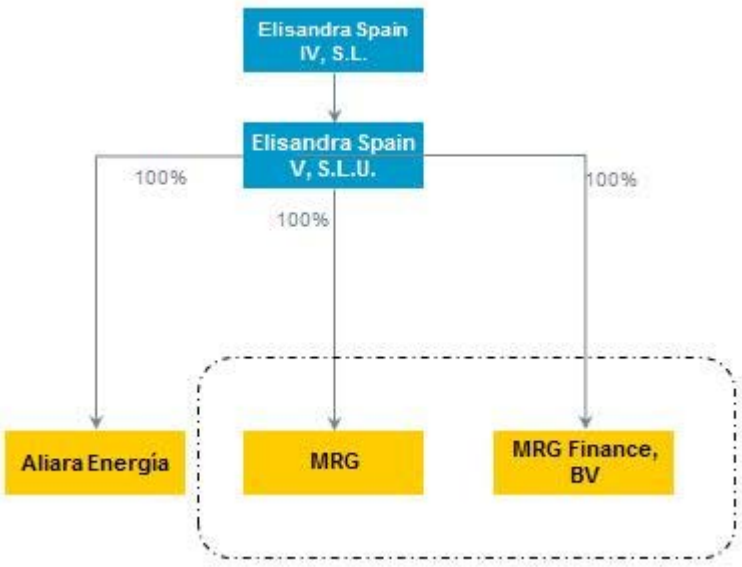
General Information

Madrileña Red de Gas, S.A.U. ("**MRG**") is a Spanish public limited liability company (*sociedad anónima*) subject to the Spanish Companies Law (*Ley de Sociedades de Capital*), that was incorporated on 3 July 2009 for an indefinite period. It is registered with the Mercantile Registry of Madrid at volume 28000, sheet 32 and page number M-504602, and its tax registration number is A65142309. The registered address of MRG is at calle Virgilio 2-B, Edificio 1, Centro Empresarial Arco, Pozuelo de Alarcón, Madrid, Spain with the telephone number 913244730.

Share capital and shareholder

MRG's share capital is €1,047,590 divided into 104,759 standard registered shares, each having a par value of €10, forming a single class. MRG is wholly-owned by Elisandra Spain V.

Elisandra Spain V is a Spanish public limited liability company (*sociedad limitada*) subject to the Spanish Companies Law (*Ley de Sociedades de Capital*), that was incorporated on 4 March 2015 for an indefinite period. It is registered with the Mercantile Registry of Madrid at volume 33273, sheet 31 and page number M-598766, and its tax registration number is B87232682. The registered address of Elisandra Spain V is at calle Virgilio 2-B, Edificio 1, Centro Empresarial Arco, Pozuelo de Alarcón, Madrid, Spain with the telephone number 913244730. The corporate purpose of Elisandra Spain V is the holding and financing of activities. Its primary asset is its shareholding in MRG. Elisandra Spain V is indirectly controlled by JCSS Mike S.A.R.L (in which no individual holds more than 25% share capital or voting rights), Stichting Depositary PGGM Infrastructure Funds, Lancashire County Pension Fund and C41 SAS (ultimately owned by Electricité de France, a public limited liability company duly incorporated and existing under the laws of the French Republic having its registered office located at 22-30, avenue de Wagram, 75008 Paris, France, registered with the Trade and Companies registry of Paris under number 552 081 317 and which is listed on the Paris Stock Exchange).



Business

Overview

The business of MRG comprises the distribution of natural gas through pipelines to customers in 59 municipalities in the region of Madrid. MRG owns the corresponding gas distribution network assets reaching its customers. MRG is responsible, amongst other things, for the development, ownership, maintenance and operation of the distribution network and for installations. MRG's network consists of 5,691 km of steel and polyethylene pipelines with a pressure of, equal to or less than, 16 bars. More than 84 per cent, of MRG's pipelines are polyethylene and have an estimated technical life of over 50 years. Independent of the maximum pressure of MRG's pipelines, these serve to deliver gas to industrial and non-industrial customers through the basic gas pipe network.

With over 853,056 connection points, MRG is the third largest natural gas distribution company in Spain and Madrid's second largest natural gas distributor by number of connection points. MRG has no supply activities and is the first and only company on the Iberian Peninsula to run a natural gas distribution network on a completely stand-alone basis.

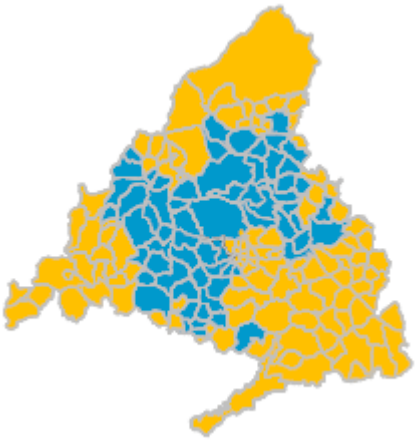
For further information regarding the Spanish natural gas supply chain, see the section "*Overview of the Spanish* Natural Gas Sector" below.

During 2016, MRG acquired approximately 42,000 liquefied petroleum gas connection points to be converted into natural gas in future years. Until conversion, MRG will operate the distribution and sale of piped liquefied petroleum gas.

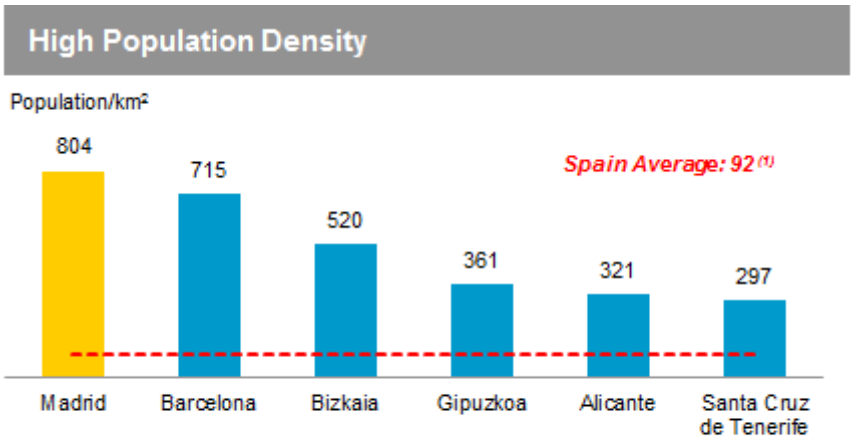
Distribution network activities

MRG's principal activity is the distribution of natural gas to end customers. In order to carry out its distribution activity, MRG has to obtain operating licenses for each geographical area in which it aims to distribute natural gas.

MRG currently develops its distribution activity in 56 municipalities in the region of Madrid, and has obtained the relevant authorisation for each of them. In addition, MRG has operating licenses to gasify 3 new municipalities. MRG's distribution network extends to the northwest and southwest municipalities of Madrid as shown in blue in the following map:

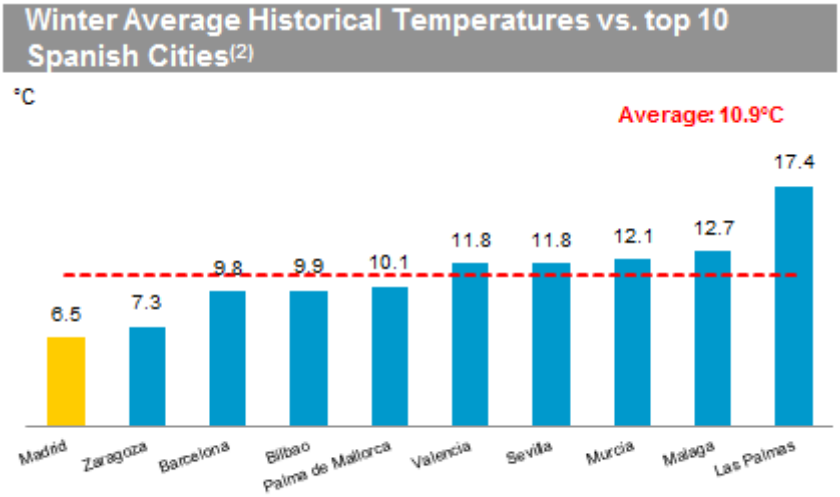


These aforementioned authorisations were transferred to MRG by virtue of four resolutions of the Department of Industry, Energy and Mines (*Dirección General de Industria, Energía y Minas*), for the transfer of distribution facilities previously owned and operated by Gas Natural Distribución SDG, S.A. in several municipalities in the region of Madrid, dated 24 March 2010, 4 March 2011, 31 May 2011 and 13 July 2012, respectively. Maintenance of the natural gas distribution system is predominantly carried out pursuant to service contracts with third parties that were inherited from Gas Natural.



Source: INE, Bloomberg as of 2014

(1) Average of UK, Italy, Belgium, Germany, France and Spain as of 2013.



Source: Bloomberg. Period 1970 to 2014

(2) Winter comprises months from December to February based on last 45 years. Top cities in terms of population.

Distribution network activities

The principal activity of MRG is the distribution of natural gas to end customers however it is also responsible for a series of other related services such as the rental of meters and internal service pipe work or gas riser, which connects the service line to each supply key of a building (*instalaciones receptoras comunes*) ("**IRC**"), the construction of connections, service lines and IRC's, inspections and general home services including changing gas meters and complimentary services on recipient facilities or on heating facilities.

97.2 per cent. of MRG's 2016 year-end revenues are regulated and 2.8 per cent. are non-regulated and are a result of cross selling. The table below provides a brief explanation of MRG's services and a breakdown of the percentage of MRG revenues, for the year ended 30 June 2016, which each of these represents.

Services	Description	Percentage of revenues as at 30 June 2016[(1)]
Regulated		
Remuneration	Remuneration based on the parametric formula	83.06%
Inspections	According to Royal Decree 919/2006, all natural gas delivery installation facilities must be inspected every 5 years. The tariffs are function of the type of recipient facilities, i.e. supply keys (IRI) for individual recipient facilities, or IRC (internal service pipe work or gas riser, which connects the service line to each supply key of a building) for mutual recipient facilities. Tariffs are reviewed annually in accordance with CPI rate; proposed by MRG to Comunidad de Madrid for review.	4.64%
Meter Rents	Generally, distributors rent meter equipment out to consumers (although alternatively meter equipment can be owned by the customer or by a third party agent) Tariffs are function of the type of meter equipment rented. Tariffs are established annually by METAD, and reviewed at a rate of 0.75xIPH.	7.81%
Activation Royalties	According to Royal Decree 1434/2002, distributors have the right to charge an activation royalty for each new connection point or for extensions of an existing connection point. Tariffs are reviewed annually in accordance with CPI rate.	0.79%
Service Line Royalties	According to Royal Decree 1434/2002, distributors have the right to charge a service line royalty for each connection point connected to a service line at the moment the connection point is activated. These revenues are deferred over 20 years. Tariffs are reviewed annually by at a rate of 0.75xIPH	0.91%
Non-regulated		
IRC Rents	According to Hydrocarbon Sector Law, distributors have the right (but not the obligation) to encourage the construction of IRCs, in order to facilitate end consumers access to gas. For the IRCs owned by the distribution company, rental prices are based on a non-regulated tariff set by the company, in accordance to bilateral agreements. These tariffs must be approved by the applicable Regional Government. Tariffs are yearly reviewed in accordance with CPI rate; proposed by MRG to Comunidad de Madrid for review (see “Risk Factors – Risks relating to changes in regulation”).	1.92%
Home services & others	Fee received by the distributor for services provided in-house (e.g. change of a gas meter) Revenues depend on the number of clients and prices set freely by the company for each service.	0.88%

(1) Total revenues are services rendered plus release of non-financial fixed asset grants and other.

For further detail on what these activities entail and the remuneration thereunder see section "*Overview of the Spanish Natural Gas Sector – Distribution activity – Economic regime - Other incomes*".

Selected operational information

The table below is a summary of selected operational information of MRG as at 30 June 2016.

	As of 30 June 2016
Connection Points (x1000)	853
Distribution of Gas (GWh)	9,534
Distribution Network (km)	5,691
Municipalities	59

99.9 per cent of MRG's connection points are with non-industrial customers which receive 93.1 per cent of the gas that MRG distributes.

Selected financial information

The table below is a summary of selected financial information of MRG for the year ended 30 June 2016 and 30 June 2015.

	For the year ended 30 June		(%) Variation 2016/2015
	2015	2016	
	(millions of euro)		
Remuneration	140.0	137.3	-1.9
Other revenues	24.6	26.5	7.7
EBITDA[(1)]	135.7	134.2	-1.1
Operating profit	101.9	103.1	1.2

(1) EBITDA is calculated as Profit for the year (as defined in the financial statements for MRG for the years ended 30 June 2015 and 30 June 2016) after adding back corporate income tax, net finance results, depreciation and amortization, and exceptional items, including other expenses net, redundancy payment, expenses classified as financial expenses and post retirement provision reversals. EBITDA is included here because the Issuer and MRG believe that this and other similar measures are widely used by certain investors, securities analysts and other interested parties as supplemental measures of performance and liquidity. EBITDA may not be comparable to other similarly titled measures of other companies and has limitations as analytical tool and should not be considered in isolation or as a substitute for analysis of MRG's operating results as reported under Generally Accepted Accounting Principles in Spain. EBITDA is not a measure of performance or liquidity under Generally Accepted Accounting Principles in Spain and should not be considered as an alternative to operating profit or profit for the year or any other performance measure derived in accordance with Generally Accepted Accounting Principles in Spain or as alternative to cash flow from operating, investing or financing activities.

The reconciliation of EBITDA to Profit for the year is as follows:

	For the year ended 30 June	
	2015	2016
	(millions of euro)	
Profit for the year	47.6	49.3
Corporate income tax	20.0	18.9
Financial income/(expense)	34.2	34.9
Depreciation and amortization	29.5	28.7
Other expenses	3.4	1.2
Redundancy payments	1.3	0.8
Other	-0.3	0.4
EBITDA	135.7	134.2

Please see "*Risk Factors – Changes in tax regulations could affect MRG's financial position*" for a description of the tax measures affecting MRG.

Environmental Matters

MRG's operations are subject to the environmental protection laws and regulations of the European Union, Spain and the other countries in which MRG operates or is located.

Insurance

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

Employees

As of 30 June 2016 and 30 June 2015, MRG's workforce totalled 163 and 164, respectively.

MRG has only experienced two general labour stoppages since its incorporation. The first strike was on 29 March 2012 and the second strike on 14 November 2012, both had a country wide effect. As of the date of this Base Prospectus, there have not been any strikes impacting MRG specifically and MRG is not aware of any material labour dispute, other than disputes within the normal course of business.

Litigation

Save as set out in the risk factor titled "*Litigation*", there are no pending or threatened governmental, legal or arbitration proceedings against or affecting MRG which, if determined adversely to MRG may have, or have had during the 12 months prior to the date hereof, individually or in the aggregate, a significant effect on the financial position of MRG and, to the best of the knowledge of MRG, no such actions, suits or proceedings are threatened or contemplated.

Management

As at the date of this Base Prospectus, the members of the board of directors of MRG, their position on the board and their principal activities outside MRG, where these are significant, are the following:

Name of Director / Name of director	Position on Board	Date of first appointment	Principal activities outside MRG
Consilia Asesores, S.L., represented by Pedro Mielgo Álvarez	Chairman	21 October 2010	Mr Pedro Mielgo Álvarez is currently non-executive chairman of Ingenio3000 S.L., a director of Nereo GreenCapital Lux Partners Sàrl (Luxembourg), a director of Geoconsult España Ingenieros Consultores S.A., Director of Céfiro New Investments S.L., non-executive chairman of Reinforce Consulting, and a director of Landis&Gyr España S.A.U.
Samantha Shepherd	Director	28 September 2015	Ms Samantha Shepherd is an Investment Manager for Gingko Tree Investment Ltd. Her principal activities outside of her Non-Executive Director role of MRG include the origination and ongoing management of infrastructure investments in Europe. Within this role Ms Shepherd does not currently represent Gingko Tree as a Non-Executive Director on the boards of Gingko Tree's other investments, but may do so in the in future.
Ruwantha Vidanaarachchi	Director	27 July 2017	Mr Ruwantha Vidanaarchchi is an Investment Manager for Gingko Tree Investment Ltd. His principal activities outside of his Non-Executive Director role of MRG include the origination and ongoing management of infrastructure investments in Europe. Within this role Mr Vidanaarchchi represents Gingko Tree as a Non-Executive Director on the boards of Gingko Tree's other investments in Infrastructure.

Mike Bryan	Vice-Chairman	7 May 2015	Mr Mike Bryan is the Head of Infrastructure, Europe for Gingko Tree Investment Ltd. His principal activities outside of his Non-Executive Director role of MRG include the origination and ongoing management of infrastructure investments in Europe. Within this role Mr Bryan represents Gingko Tree as a Non-Executive Director on the boards of Gingko Tree's other investments in Infrastructure.
Dennis van Alphen	Director	7 May 2015	Mr Dennis van Alphen is currently a director of Walney Offshore Wind Limited (an offshore wind project in the United Kingdom), a director of Ennatuurlijk B.V. (a district heating company in the Netherlands), a director of Baltic 2 (an offshore wind project in Germany) and a director of CEF3 Wind Energy Spa (an onshore wind company in Italy).
Martijn Verwoest	Director	7 May 2015	Mr Martijn Verwoest is an investment director of PGGM Investments, dedicated to the energy and utilities industries. In addition to his directorship in MRG, he is a director of BUUK No 1, ltd (UK), and an alternate director of Duquesne Light Company, llc (USA) and DQE Holdings, llc (USA). Mr Martijn Verwoest has previously held board positions in the following companies: Autostrada Wielkopolska II S.A. (Poland) and Ennatuurlijk B.V. (Netherlands).
Guillaume d'Engremont	Director	7 May 2015	Mr Guillaume d'Engremont is currently managing director of EDF Invest, Director of TIGF Holding and Supervisory board member of Thyssengas GmbH.
Jerôme Sousselier	Director	7 May 2015	Mr Jerôme Sousselier is currently Head of Infrastructure Investments at EDF Invest, Director of TIGF Holding and Supervisory board member of Thyssengas GmbH.
John Richard Tomlison	Director	15 March 2016	Mr Richard Tomlinson is an Investment Director with Local Pensions Partnership responsible for Real Estate and Infrastructure. Local Pensions Partnership is the fund manager for Lancashire County Pension Fund's investments. Mr. Tomlinson is actively involved in the management of Lancashire County Pension Fund's infrastructure and property investments including sitting on a number of company and fund advisory boards.

There are no potential conflicts of interest between any duties owed by the members of the Board of Directors to MRG and their respective private interests or duties.

The business address of the members of the board of directors is at calle Virgilio 2-B, Edificio 1, Centro Empresarial Arco, Pozuelo de Alarcón, Madrid, Spain.

OVERVIEW OF THE SPANISH NATURAL GAS SECTOR

Overview

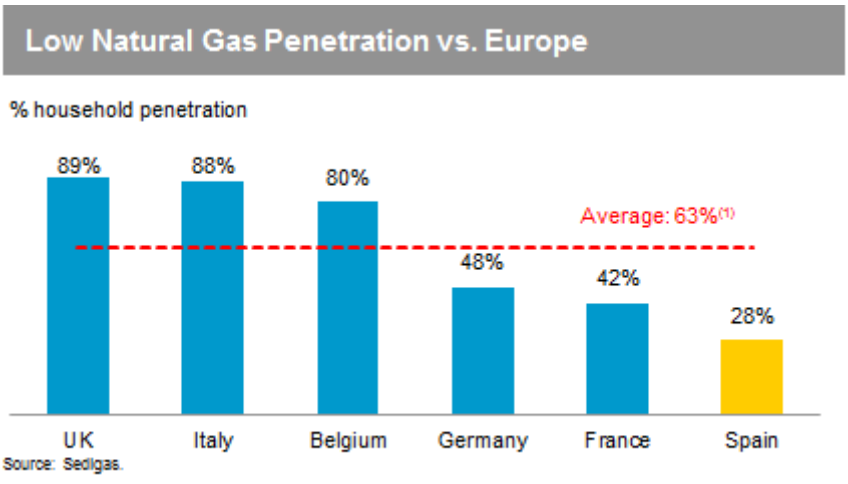
The natural gas sector in Spain is made up of a number of activities and assets involved in bringing natural gas from its points of entry in the Spanish gas system to end customers.

According to the 2014 Spanish Association of Gas ("**SEDIGAS**") and the ENAGAS Report "*Sistema Gasista Español 2013*", of the natural gas used in Spain, 99.9 per cent. is imported. Of these imports, approximately 53 per cent. comes through six international pipelines (two with the north of Africa-Maghreb and Medgaz, two with France and another two with Portugal) and the other 47 per cent. through six regasification plants.

According to ENAGAS' data, in Spain conventional natural gas consumption (including industrial and household consumption) was 9.8% lower in 2014 compared to 2013 and non-conventional natural gas consumption (including production of electricity) in 2014 was 8.8% lower than in 2013. Total natural gas consumption in Spain in 2014 was 9.6% lower compared to 2013, as a result of a continuing decline in the demand of natural gas in all sectors. According to ENAGAS, the decrease in natural gas consumption was mainly due to: (i) the effect of exceptionally high temperatures throughout 2014, and (ii) the decrease in consumption of natural gas by cogeneration, caused by a regulatory change which negatively impacted industrial clients. However, overall demand was 4% higher in January 2015 compared to January 2014 and 8.8% higher in February 2015 compared to February 2014, caused by an increase in the demand for the production of electricity followed by an increase in domestic demand. Given the current economic climate in Spain, which has improved notably by comparison to last year, it is likely that the overall consumption of energy will increase in Spain, and therefore the consumption of natural gas will also increase (as indicated by the most recently available consumption data).

Regarding the organisation of the gas system, it should be noted that it is liberalised, enabling all end users to choose which natural gas supplier to use. Access to the transmission grid is regulated, and it is managed in a transparent and non-discriminatory manner to ensure shippers of gas can compete freely. Law 34/1998 of 7 October 1998 on the Hydrocarbons Sector ("**LSH**") marked the beginning of the liberalisation of the gas supply market in Spain. Since 1998 several players entered the market, which until that time was mainly operated by Gas Natural. In 2008, the supply market was fully liberalised. Natural gas in Spain can now only be supplied by licenced shippers or traders, who pay tolls to the Gas System for the use of the transmission and distribution network. It should be noted however that the price of gas supply to customers with annual consumption of less than 50,000kWh is regulated.

A number of different entities are active in the Spanish natural gas sector, including Enagas which operates a large portion of the transmission network, storage facilities and regasification facilities and Gas Natural which operates a large portion of the distribution network. There has been merger and acquisition activity affecting businesses active in the Spanish natural gas sector over the last several years and as such, there may be further activity affecting entities active in the sector and/or the regulation of the sector as a whole.



(1) Average of UK, Italy, Belgium, Germany, France and Spain as of 2013.

Gas system

The Spanish gas system is made up of the following activities and assets:

(i) Transmission

Transmission activities consist of building, operating and maintaining regasification terminals, pipelines and primary storage facilities.

The transmission is carried out by entities that transmit gas through primary network (high pressure pipelines with a pressure of equal to or higher than 60 bar) or secondary networks (high pressure pipelines with a pressure of more than 16 bar, but less than 60 bar). Those entities also manage the international gas connections. At re-gasification plants the liquefied natural gas is converted into gas and introduced into the Gas System. With respect to the storage facilities, these can be depleted reservoirs of oil and/or gas fields, aquifers or salt cavern formations. Natural gas is stored to modulate and adjust differences in supply and demand. Thereby variations due to interruptions in supply, or seasonal variations can be balanced and the transmission of natural gas optimised. The storage of gas also aims to maintain strategic reserves and enable the supply of gas in cases of unforeseen interruption in the supply chain.

(ii) Distribution

Distribution activities consist of building, operating and maintaining gas facilities dedicated to place the gas at points of consumption, as well as building, operating and maintaining certain secondary transmission networks, and the installation of final connection points.

The distribution network is comprised of gas pipelines with a pressure equal to or less than 16 bar, support installations (e.g. satellite liquefied natural gas ("**LNG**") plants that supply the distribution network) through which natural gas is delivered from the primary and secondary transmission network to end customers and pipelines that distribute gas directly to single customers from the primary and secondary transportation networks irrespective of the pressure.

(iii) Supply

Supply activities consist of acquiring natural gas with the intention of selling it to final customers or other supply companies at freely agreed terms or to carry out international transits.

Unlike transmission and distribution activities, natural gas supply is a non-regulated activity. This involves buying natural gas from producers or other suppliers and selling it to customers or other suppliers: (i) at market prices (to direct consumers in the market or those acceding directly to third party gas networks); or (ii) for certain suppliers, at regulated prices to "last resort" tariff (*tarifa de último recurso*).

(iv) Gas system operation

The major owner and operator of the gas transmission system, Enagas, was appointed the technical manager of the gas system ("**GTS**") by the LSH. In the wake of Directive 2009/73/EC, Enagas created separate subsidiaries. One of those subsidiaries is Enagas GTS, S.A.U. ("Enagas GTS"), which undertakes the role and functions of the GTS and as such is in charge of the technical management of the gas system and implements a set of rules to ensure continuous and secure supply of gas and proper co-ordination among access points, storage facilities, transportation and distribution. All gas agents involved in the gas sector are required to comply with the GTS's technical rules (*Normas de Gestion Tecnica del Sistema*, "**NGTS**"). Enagas GTS is a separate company from its affiliated company Enagas Transporte, S.A.U., which has been certified for the purposes of Directive 2007/73/EC as an unbundled gas transmission company.

Regulation of the Spanish gas sector

The regulation of the natural gas industry in Spain is mainly based on the LSH as amended, *inter alia*, by Royal Decree 6/2000 and Law 12/2007. The LSH has subsequently been amended by further legislation and complemented by other regulation, among others, by Royal Decree-Law 13/2012, by Royal Decree-Law 8/2014 as ratified by Law 18/2014, and recently by Law 8/2015.

The LSH includes measures to achieve a fully liberalised internal market in natural gas to make it more competitive, with lower prices and to provide a higher quality of service to consumers. Further to these goals, the law emphasises

the correct operation for access to the networks, to ensure transparency, objectivity and non-discrimination in the natural gas sector.

On 1 July 2008, the Spanish gas sector was deregulated with the abolition of the regulated gas supply in line with the requirements of the Second European Directive 2003/55/EC. Pursuant to Law 12/2007 and Ministerial Order ITC/2309/2007, the regulated gas market was abolished as from 1 July 2008 and distribution companies ceased to supply natural gas on a bundled tariff. Under the new liberalised system, customers are free to elect their gas suppliers and those that failed to do so by 1 July 2008 were automatically transferred to the supply company belonging to their current distribution company's business (the so-called "last resort" supplier or "*comercializador de último recurso*").

A "last resort" tariff was established, setting the maximum price at which "last resort" suppliers may charge eligible consumers (initially being consumers connected to a gas pipeline with a pressure less than or equal to 4 bar and whose annual consumption was less than 3 GWh). On 14 May 2009, Ministerial Order ITC/1251/2009 modified the scope of the "last resort" tariff to apply as from 1 July 2009 only to customers connected to a gas pipeline with a pressure equal to or less than 4 bar and whose annual consumption was less than 50 MWh.

Royal Decree 104/2010 of 5 February 2010 regulates the effective entry into force of the "last resort" supply in the Spanish gas sector, including the rights and obligations of "last resort" suppliers. Liberalisation in Spain has gone beyond the requirements of the Second EU Gas Directive (2003/55/EC).

In 2012, the Spanish Government approved Royal Decree-Law 13/2012 which adopted measures to limit the imbalance in the Spanish gas system between regulated costs and revenues in tariffs for 2012 and to complete the transposition of the provisions of the Third Package into the Spanish legislation in the natural gas sector (Directive 2009/73/EC regarding the natural gas sector).

In October 2014, Law 18/2014 ratified Royal Decree Law 8/2014. A series of measures that are described below were laid down to enhance competitiveness and efficiency and guaranteeing economic and financial sustainability.

In May 2015, Law 8/2015 was approved, which modified several provisions of the Hydrocarbon Sector Law, including, *inter alia*, certain provisions affecting the gas distribution business. However, none of these provisions are expected to have a direct impact on MRG's activity or performance, except from the new provision establishing that distribution companies shall no longer be granted exclusivity to provide inspection services regarding gas delivery facilities, to the extent that other licensed entities (natural gas installation companies) shall be entitled to render such services.

Recent regulatory changes to reduce the accumulated tariff deficit in the Spanish gas sector

Law 18/2014 has introduced a series of measures to encourage growth, competitiveness and efficiency in the Gas System. The underlying rationale behind these measures has been the eradication of the deficit in the Gas System by endeavouring to ensure that sufficient revenues are generated to cover all of its costs. Law 18/2014 provides that the revenues generated by the Gas System will be used exclusively to finance the gas system's costs. It also provides that the system's revenues should be sufficient to cover its costs, and therefore any measures that would lead to a cost increase or a reduction of revenues must be accompanied by an equivalent decrease in other cost items or a corresponding increase in other revenues.

The costs of the Gas System that are to be financed by its revenues are: (i) the remuneration in respect of transport, regasification, basic storage and distribution; (ii) the remuneration in respect of the technical management of the Gas System; (iii) the duty payable to the Spanish Markets and CNMC and METAD; (iv) if any, the cost differential of supplying liquefied natural gas or manufactured gas and/or propane-air other than natural gas in island territories that do not have a connection to the gas pipeline network or regasification plants, as well as the remuneration of the supply-at-tariff carried out by the distributors in those territories; (v) demand management measures, if recognised by applicable regulation; (vi) annual payments for temporary imbalances between the revenues and costs of the Gas System, plus interest and any adjustment payments, as described below; and (vii) any other cost established expressly by a legal provision that is aimed exclusively at the gas system.

The following is also included: (a) the accumulated tariff deficit up to 31 December 2014, which has been determined in the definitive settlement of the 2014 remuneration resolution issued by the CNMC on 24 November 2016, and allow regulated companies subject to the settlement system to recoup the accrued amounts over a 15 year period (together with interest at market rates); and (b) the amount arising from an award by the International Court

of Arbitration in Paris in 2010 in an aggregate amount of €163,790,000, in relation to a dispute in respect of Algerian gas contracts and supplied through the Maghreb pipeline, which will be recovered over a period of five years to 2019.

Law 18/2014 also includes measures to correct any short-term imbalances and to prevent another structural deficit from being generated. These are: (a) if in a single year the deficit exceeds 10% of the revenues generated by the gas system, tolls and duties will be increased automatically in the following year to recover the amount by which the limit was exceeded; and (b) if the accumulated deficit exceeds 15% of revenues, tolls and duties will also be increased automatically in the following year to the extent by which the limit was exceeded.

Finally, in the context of legislative measures adopted in relation to tariff deficit, RDL 13/2014 (as defined below) establishes other urgent measures in relation to the natural gas sector. In this regard, RDL 13/2014 terminated the concession for operating the Castor natural gas underground storage facility and the relevant facilities to be put in hibernation. Enagas Transporte, S.A.U. shall pay €1,350 million to the holder of the concession, as recognition for the investments made related to the research and exploration works undertaken to operate the Castor natural gas underground storage facility. This amount will be collected from the gas system over a period of 30 years and paid to Enagas Transporte, S.A.U. starting from the first settlement of the gas system corresponding to the revenues accrued from 1 January 2016. In addition, Enagas Transporte, S.A.U. will be in charge of the operation and maintenance of these facilities during its hibernation. The maintenance, operation and other costs established in the RDL 13/2014 will also be collected from the gas system and paid to Enagas Transporte, S.A.U through the gas system's settlements corresponding to the monthly billing.

Although the above payments will increase the Gas System's costs in the long-term due to the yearly payments to Enagas Transporte, S.A.U., the RDL 13/2014 gives a solution to this problem which would have a bigger impact on the tariff deficit if the termination payment was to be made by the Gas System in the short term.

The following is a list of the most relevant Spanish regulatory framework for the natural gas sector:

(i) Law 34/1998 of 7 October 1998 on the Hydrocarbons Sector and certain tax and non-tax measures in connection with the exploration, research and exploitation of hydrocarbons;

(ii) Law 12/2007 of 2 July 2007, amending the LSH conforming it to Directive 2003/55/ concerning common rules for the internal market in natural gas;

(iii) Law 15/2012, of 27 December 2012, on tax measures for energy sustainability;

(iv) Law 18/2014, of 15 October, ratifying RDL 8/2014 ("**Law 18/2014**");

(v) Law 8/2015, of 21 May 2015, amending Law 34/1998 of the hydrocarbon sector and certain tax and non-tax measures in connection with the exploration, research and exploitation of hydrocarbons;

(vi) Royal Decree-Law 6/2000 of 23 June 2000, introducing urgent measures for the increase in competition in the goods and services;

(vii) Royal Decree-Law 13/2012, of 30 March 2012, transposing measures concerning the domestic electricity and gas markets and electronic communications, and adopting measures to remedy diversions due to gaps between the costs and revenues of the electricity and gas industries ("**RDL 13/2012**");

(viii) Royal Decree-Law 8/2014, of 4 July 2014, which approves urgent measures to encourage growth, competitiveness and efficiency ("**RDL 8/2014**");

(ix) Royal Decree-Law 13/2014, of 3 October 2014 which approves urgent measures in relation to the natural gas sector and ownership of nuclear plants ("**RDL 13/2014**");

(x) Royal Decree 949/2001 of 3 August 2001, regulating third-party access and establishing an integrated economic system for the natural gas sector ("**RD 949/2001**");

(xi) Royal Decree 1434/2002 of 27 December 2002 regulating the transmission, distribution, wholesaling and supply activities of natural gas and natural gas facility authorisation procedures ("**RD 1434/2002**");

(xii) Royal Decree 919/2006 of 28 July 2006 approving the technical regulations for the distribution and use of gaseous fuels and their supplementary technical instructions;

(xiii) Royal Decree 326/2008 of 29 February 2008, establishing the remuneration for transmission of natural gas for installations put into service after 1 January 2008;

(xiv) Royal Decree 984/2015, of 30 October 2015, regulating the organised gas market and third-party access to natural gas installations;

(xv) Ministerial Order ECO/2692/2002, of 28 October 2002, by which the procedures for the settlement of the remuneration of the regulated activities of the natural gas and for the specifically addressed quotas are regulated and the information systems that have to be provided by companies is established;

(xvi) Ministerial Order ECO/31/2004 of 15 January 2004, establishing the methods for determining the remuneration for regulated activities in the natural gas sector;

(xvii) Ministerial Order ITC 3126/2005 of 5 October 2005, establishing the technical rules for the natural gas industry;

(xviii) Ministerial Order ITC/3992/2006, of 29 December 2006, by which the tariffs for natural gas and channelised manufactured gases, meter rental and service line royalties for consumers connected to networks with a supply pressure which is equals or less than 4 bar, are established;

(xix) Ministerial Order ITC 3993/2006 of 29 December 2006, establishing the remuneration for certain regulated activities in the gas industry;

(xx) Ministerial Order ITC/3863/2007, of 28 December 2007, establishing the charges and fees associated with third party access to natural gas facilities for the year 2008 and some aspects regarding the remuneration of the regulated activities within the natural gas system are updated;

(xxi) Ministerial Order ITC/3802/2008, of 26 December 2008, establishing the charges and fees associated with third party access to natural gas facilities, the last resort tariff, and some aspects regarding the regulated activities within the natural gas system;

(xxii) Ministerial Order ITC 3520/2009 28 December 2009, establishing tolls and levies associated with third party access to gas facilities in 2010 and updating certain aspects relating to the remuneration of regulated activities in the gas sector;

(xxiii) Ministerial Order ITC/3354/2010, of 28 December 2010, establishing the charges and fees associated with third party access to natural gas facilities, and the payments in respect of regulated activities;

(xxiv) Ministerial Order IET/3587/2011, of 30 December 2011, establishing the charges and fees associated with third party access to natural gas facilities, and the payments in respect of regulated activities;

(xxv) Ministerial Order IET/2812/2012, of 27 December 2012, establishing the charges and fees associated with third party access to natural gas facilities, and the payments in respect of regulated activities;

(xxvi) Ministerial Order IET/2446/2013, of 27 December 2013, establishing the charges and fees associated with third party access to natural gas facilities, and the payments in respect of regulated activities;

(xxvii) Ministerial Order IET/2355/2014, of 12 December 2014, establishing the remuneration for the second period of 2014 ("**Order IET/2355/2014**");

(xxviii) Ministerial Order IET/2445/2014, of 19 December 2014, establishing the charges and fees associated with third party access to natural gas facilities, and the payments in respect of regulated activities ("**Order IET/2445/2014**");

(xxix) Ministerial Order IET/389/2015, of 5 March 2015, establishing an upgrade of the system to automatically determine maximum sale prices, before tax, of bottled liquefied petroleum gases and automatic determination of sales prices, before tax, of liquefied petroleum gases by pipeline changes;

(xxx) Ministerial Order IET/2736/2015, of 17 December 2015, establishing the tolls and fees associated with third party access to natural gas facilities, and the payments in respect of regulated activities for 2016;

(xxxi) Ministerial Order IET/274/2016, of 29 February 2016, amending Ministerial Order IET/2736/2015;

(xxxii) Ministerial Order ETU/1977/2016, of 23 December 2016, establishing the tolls and fees associated with third party access to natural gas facilities, and the payments in respect of regulated activities for 2017; and

(xxxiii) Quarterly Resolutions of the Directorate General for Energy Policy and Mining establishing the last resort tariff of natural gas.

Regulators

The main gas sector regulators are currently METAD and the CNMC. The latter was created by Law 3/2013, of 4 June 2013 ("Law 3/2013") and started its operations on 7 October 2013), with the purpose of assuming the competences of several former regulatory bodies such as the former Spanish Energy Commission (*Comision Nacional de Energia*, "**CNE**"), which was until that moment the relevant regulatory authority for natural gas.

Although in accordance with Law 3/2013 the former functions of the CNE are to be assumed by the CNMC, it also specifies that the METAD shall take over some of them. However, in accordance with the Fourth Transitory Provision of Law 3/2013, the CNMC shall keep performing these functions until the moment in which the METAD shall have the appropriate means for that purpose.

Even so, METAD has important functions regarding the natural gas sector, as it shall, amongst other things (i) approving the annual payments to distribution companies, (ii) carrying out the settlement of the regulated activities (a former function of the CNE) (the settlement process is being managed by the CNMC until the METAD has the appropriate means for that purpose, in accordance with the Fourth Transitory Provision of Law 3/2013), (iii) approving the charges paid by suppliers to distribution and transmission companies and the "last resort" tariff, and (iv) supervising deals in the gas industry (acquisitions by companies engaged in distribution or other regulated activities, buyouts of regulated companies or groups of companies engaged in regulated activities or mergers and spin-offs that affect regulated companies). Where the METAD is supervising deals in the gas industry (as mentioned above) it can, in certain specific cases impose conditions where these constitute a *"real and serious threat to supply security"*.

In addition, certain functions, specifically referred to monitor compliance with the relevant regulation, are developed by the autonomous communities in Spain (each an "**Autonomous Community**").

Autonomous Region of Madrid

Autonomous Regions are entitled to grant authorisations to natural gas distribution companies and can also set certain supplementary remuneration for such companies. In some cases, Autonomous Regions have passed different regulations regarding the obligations of natural gas distribution companies. This is the case for the Autonomous Region of Madrid, where MRG operates, and it is therefore necessary to list the relevant regulations related to it, which are the following:

(i) Decree 44/2006 of 18 May, regulating the economic regime for activation royalties and other remuneration for distribution companies ("**Decree 44/2006**");

(ii) Order 3929/1996 of 17 June, establishing the procedure to authorise and commission gas distribution installations;

(iii) Order 9/2001 of 3 January, regulating the inspection procedures for certain gas installations in premises for domestic, commercial or collective uses; and

(iv) Order 289/2006 of 1 February, regulating the criteria for granting authorisations for gas distribution installations in concurrency procedures.

Regulated vs. non-regulated activities

According to article 60 of the LSH, the gas system has been structured around two types of activities:

(i) regulated activities, which include regasification, primary storage, transmission and distribution of gas natural; and

(ii) non-regulated activities, which include production, liquefaction and supply of natural gas, as well as non-primary storage.

Non-regulated activities are conducted on the free market; therefore the market is open to all economic agents and prices can be set freely (with the exception of the supply of "last resort"). The government's role is limited in these cases to "policing" the industry, which (essentially) means introducing legislation to protect gas customers.

Regulated activities, such as the activity of MRG, are subject to certain provisions of the LSH, including the following:

(i) construction of facilities requires administrative authorisation (article 73);

(ii) transmission and distribution facilities must be (with few exceptions) available for other agents of the gas system to use, so transmission and distribution companies cannot refuse access to their facilities if they have enough capacity (article 76);

(iii) the remuneration scheme is set by the government (article 92), on an annual basis and through a Ministerial Order; and

(iv) there is a settlement process managed by the CNMC (until the METAD has the appropriate means for that purpose, in accordance with the Fourth Transitory Provision of Law 3/2013) and each company or asset in relation to regulated activities receives, on the basis of monthly payments on account, an annual amount set or defined by the Spanish government.

Unbundling

Since the gas distribution activity is a regulated activity, there are a number of requirements imposed by articles 62 and 63 of the LSH, in line with EU Directive 2009/73/EC. A company carrying out gas distribution activities, such as MRG, shall have that activity as its exclusive corporate purpose, not being able to carry out simultaneously gas production or supply activities (among others) whether directly or through subsidiaries.

A group of companies can nevertheless carry out activities that are incompatible according to the regulations (such as gas distribution and gas supply) through different companies if the following requirements are met in order to preserve the independence of each of the business units:

(i) the managers of the distribution business cannot take part in group corporate structures directly or indirectly responsible for the day-to-day management of the supply business;

(ii) the independence of the distribution business managers will be preserved by means of protecting their professional interests, in particular as regards remuneration and dismissal;

(iii) the company carrying out the distribution business or its managers may not have shareholdings in companies dealing in the supply business (among others);

(iv) the company carrying out the distribution business or its employees may not share commercially sensitive information with other companies of the group;

(v) the company carrying out the distribution business will have the capacity to take decisions effectively, independently from the rest of the group, as regards the distribution assets to exploit, maintain or develop. Nevertheless, the group of companies will be entitled to supervise economically the companies as well as the management of the companies, and is entitled to submit for approval the annual financial plan or establish the overall levels of leverage;

(vi) the group will not be able to give instructions to the distribution company in respect to its day-to-day management or in relation to particular decisions referring to the construction or enhancement of distribution assets; and

(vii) the companies will have separate annual accounts including the income and expenses strictly relating to each of the activities.

Natural gas system's deficit

Expansion of gas infrastructures and facilities under the legal regime set out in RD 949/2001 and the drop of the demand for natural gas since 2009 have generated an imbalance (or deficit) between the system's income and costs,

i.e., an accumulated negative difference between the income received for carrying out regulated activities in the gas sector and the costs incurred to carry out such activities which are acknowledged in the relevant regulations.

The accumulated deficit as of 31 December 2014 has been officially quantified as €1,025,052,945.66 by means of the 2014 final settlement resolution adopted by the CNMC on 24 November 2016. As the accumulated deficit as of 31 December 2014 has been quantified, and the allocation of collection rights between the members of the settlement system that have borne such deficit and the instalments for their repayment (in the terms further described below in this section) have been published in the Ministerial Order ETU/1977/2016, of 23 December 2016, establishing the tolls and fees associated with third party access to natural gas facilities, and the payments in respect of regulated activities for 2017. The foregoing notwithstanding, MRG has recorded a receivable in respect of the accumulated deficit as of 31 December 2016 borne by it in the amount of €47.4 million, €43.9 million of which is recorded as a long-term receivable to be received over 15 years, and €3.5 million of which has been recorded as a short-term receivable.

However, different pieces of regulations have been enacted to tackle this issue since 2012. Most significantly, pursuant to RDL 8/2014, the economic and financial sustainability of the Spanish gas system (i.e., the system's capacity to pay for all of its costs according to the applicable regulation) has been positioned as one of the core principles of the regulation of the Spanish natural gas system and, therefore, according to such regulations, such principle shall now govern the acts of the Spanish public administrations. Consequently, in application of such principle (as regulated under article 59 of Law 18/2014), any measure that entails an increase in the costs of the natural gas system or a decrease in its income shall be accompanied by the equivalent reduction of other costs or the increase in income in order to ensure that the gas system is kept balanced and thus no new deficit is generated.

Pursuant to RDL 8/2014 and Law 18/2014, the accumulated deficit up to 31 December 2014 is acknowledged and the members of the settlement system who have borne it shall have a collection right to recover these contributions within fifteen years, plus interest at a market rate. As anticipated, the quantification of such 2014 and 2015 accumulated deficit, the allocation of collection rights between the members of the settlement system, the instalments for their repayment and the provisional interest rate payable in respect of such collection rights have been regulated in the Ministerial Order ETU/1977/2016, of 23 December 2016, establishing the tolls and fees associated with third party access to natural gas facilities, and the payments in respect of regulated activities for 2017. The final settlement of the remunerated regulation of regulated activities in the gas industry in any given calendar year has been traditionally subject to substantial delays.

The accumulated deficit as of December 2015 has been officially quantified as €27,231,873.55 by means of the 2015 final settlement resolution adopted by the CNMC on 24 November 2016. The instalments for the repayment of the members of the settlement system have been published in the Ministerial Order ETU/1977/2016, of 23 December 2016, establishing the tolls and fees associated with third party access to natural gas facilities, and the payments in respect of regulated activities for 2017. In this regard, MRG has recorded a receivable in respect of the accumulated deficit as of 31 December 2016 borne by it in the amount of €1.3 million.

Furthermore, in application of the economic and financial sustainability principle, RDL 8/2014 and Law 18/2014 implemented two specific measures to prevent the generation of further structural deficit from 2015 onwards: (i) setting out maximum caps to imbalances and automatic correction mechanisms in the event that such caps are exceeded; and (ii) amendment to the remuneration regime applicable to regulated activities.

(i) Deficit caps and correction mechanisms

Pursuant to article 61 of Law 18/2014, the difference between a year's regulated income ("*ingresos liquidables*") and regulated costs ("*costes liquidables*") shall not exceed 10% of that year's regulated income.

Within such 10% cap, the financial burden of any imbalances not offset by increasing the tariffs shall be borne by companies that participate in the natural gas settlement system, in proportion to the regulated remuneration that they receive. Such companies will then be entitled to recover their contributions to remedy such imbalances within the following five years, plus interest at a market rate to be fixed. According to article 66 of Law 18/2014, such collection rights shall rank pari passu with collection rights deriving from the 2014 accumulated deficit and senior with respect to other costs of the system (except for the regulated remuneration payable to Enagas Transporte, S.A.U. in respect of the "Castor" project pursuant to article 4.2 of Royal Decree Law 13/2014, dated 3 October 2014). However, as an exception to the aforementioned pari passu ranking, according to article 61.3 of Law 18/2014, in the event that regulated income in a given year exceeds regulated costs in such year, the resulting surplus shall be used first to pay

any outstanding collection rights related to deficit generated beginning in 2015 and later, and then to pay any outstanding collection rights related to the accumulated deficit up to 31 December 2014.

Furthermore, the accumulated deficit, i.e., a year's deficit plus any outstanding collection rights shall not exceed 15% of that year's regulated income ("*ingresos liquidables*").

If any such thresholds are indeed exceeded, the regulated tolls and charges ("*peajes y cánones*") for the following year shall be increased in the amount needed in order to pay off any amounts in excess of such thresholds. On top of the foregoing, as long as there are any outstanding payments in respect of the tariff deficit or imbalances, the regulated tolls and charges cannot be reduced.

(ii) Regulated remuneration

The new remuneration regime for regulated activities takes into consideration the costs that an "efficient and well managed" company needs to incur in order to carry out the relevant activity, under the principle that such activities should be undertaken at a minimum cost for the system. Pursuant to article 60 of Law 18/2014, such regime should result in an "appropriate" ("*adecuada*") return for a low-risk activity.

Regulated remuneration parameters for distribution activities are set out for six-year regulatory periods, although some of the parameters used in the relevant formulas may be adjusted every three years. As an exception to the foregoing, the first regulatory period started on 5 July 2014 (date when the RDL 8/2014 became effective) and ends on 31 December 2020. The following regulatory periods will follow consecutively and have six-year duration.

Inflation-related automatic reviews of the regulated remuneration have been eliminated in the new regime provided for under RDL 8/2014 and Law 18/2014. The regulated remuneration regime for distribution facilities is explained below.

Distribution activity

According to article 60 of the LSH, the distribution activity is considered a regulated activity and consists of the construction, operation and maintenance of the distribution network which includes the following assets: (i) gas pipelines with pressure equal to or less than 16 bar; (ii) support installations (e.g. satellite LNG plants that supply the distribution network); and (iii) pipelines that distribute gas directly to a single customer from the primary and secondary transportation networks irrespective of pressure.

As a regulated activity, distribution companies are subject to a number of rights and obligations set out in the LSH. Their main obligations, and therefore the obligations of MRG, are the following:

(i) to build, operate and maintain their distribution networks and supplementary facilities in proper condition and technical adequacy for the supply of natural gas, in accordance with the applicable provisions and with the requirements set out in the corresponding administrative authorisations;

(ii) to expand the distribution networks in the geographical area covered by the relevant administrative authorisation whenever necessary, to meet new gas supply demands in line with its natural growth. Distribution companies must expand their installations and facilities to avoid situations where they do not have the capacity to service the demand in their distribution areas. If there are several distribution companies whose facilities could be expanded to satisfy new supplies, but none of them decides to expand, the administration will decide which distribution company should do so, in line with their conditions;

(iii) to register with the Register of Distribution Companies of METAD; and

(iv) to keep updated, regardless of any other policies, a civil liability insurance policy covering any risks to people and property that might result from the activities carried out.

However, MRG as a distribution company has also certain rights, which are the following:

(i) to connect to the nearest transportation network with a maximum rated pressure higher than 4 bar with sufficient capacity to access the natural gas supply necessary to cover the demand in the area granted in their authorisation;

(ii) to occupy public owned land (mainly belonging to the municipalities) and, if necessary, the right to expropriate the land needed to build the distribution facilities; and

(iii) to receive an annual payment defined and settled by the CNMC (until the METAD has the appropriate means for that purpose, in accordance with the Fourth Transitory Provision of Law 3/2013) as part of the periodical system costs settlements**.**

Authorisations and permits

In order to carry out the distribution activity, it is necessary for MRG to obtain certain administrative permits. For the installation and commissioning of the distribution network in a specific distribution area, three main authorisations must be obtained: (i) a preliminary administrative authorisation, which grants an authorisation for the construction of networks in a specific geographical area; (ii) an approval of the construction project, which grants the authorisation to construct the specific installation; and (iii) a commissioning authorisation to start operating the installation which has been constructed.

Preliminary administrative authorisation

The preliminary administrative authorisation grants a generic authorisation for the construction of distribution networks in a given geographical area (normally, a municipality). The authorisations will also contain the investment commitments and the time frame in which the installations are going to be built. A guarantee (2 per cent. of the budget of the project) has to be provided by the distribution company.

In order to obtain the preliminary administrative authorisation, the relevant distribution company must prove its legal, technical and economic capacity. The meaning of these is further explained below.

Legal capacity: pursuant to Royal Decree 197/2010 of 26 February, it is necessary to be a Spanish public limited liability company (*sociedad anónima*) or a company of another EU Member Sate.

Technical capacity: as set out in Royal Decree 1434/2002 distribution companies are deemed to meet the required technical capacity levels provided that at least one of the following requirements is satisfied: (i) they must have at least three years' experience operating distribution networks, directly or through a subsidiary; or (ii) one of its shareholders has a minimum stake of 25 per cent. and meets the requirements in (i) above.

Economic and financial capacity: as set out in Royal Decree 1434/2002 distribution companies are deemed to have sufficient economic and financial capacity provided that they have shareholders' equity assigned to the distribution activity of at least: (i) €1,000,000; or (ii) 50 per cent. of the budget for the new distribution installations intended to be built.

The procedure for granting the preliminary administrative authorisation sometimes involves several distribution companies being interested in the same distribution area simultaneously. In such case, the interested companies will be in competition for the relevant and preliminary administrative authorisation for that area (see the "*Exclusivity provided by the preliminary administrative authorisation*" section below).

A distribution company shall have annual and multi-annual investment plans, including the projects it intends to develop in the following year, plus the budgets and timetable for such developments. These plans must be submitted to the competent administration (regional authorities) and in principle need to be followed by the distribution companies.

Breach of the authorisations

If the distribution companies do not comply with their commitments and do not extend their distribution network in the manner established in the authorisation, the authorisation may be left without effect. This means that if a distribution company does not make an investment included in its authorisation application, it will not be under any obligation to carry it out, but the authorisation may be revoked as regards the specific installations not yet constructed (so that another company could be authorised to construct them).

Furthermore, the relevant public administrative body may enforce the 2 per cent. guarantee that needs to be posted by the distribution companies in the terms stated by the authorisation.

MRG has confirmed that it is in compliance with the obligations and conditions imposed for all the preliminary authorisations, that the validity of these authorisations has not been challenged and there are no administrative procedures opened in order to revoke or to declare null and void any authorisations due to breaches of the obligations and conditions imposed.

Approval of the construction project

This refers to the specific installation project and its approval permits its titleholder to construct the installation. A distribution company may make, if necessary, an application to obtain a declaration of public utility from the relevant public administrative body. This declaration will permit the expropriation of the plots and the use of the public domain needed for the construction of the distribution installations.

From an environmental perspective, natural gas distribution facilities are subject to a strict environmental control and are required, in most of the cases, to obtain an environmental impact assessment (*declaración de impacto ambiental*) from the relevant authorities, before the construction work starts.

Commissioning authorisation

This authorisation confirms that the installation has been executed in accordance with the approved project, and authorises the definitive start-up of the distribution installation. In order to obtain this commissioning authorisation, it is necessary to submit the relevant final working certificate.

Exclusivity provided by the preliminary administrative authorisation

In March 2005 the LSH was modified, thereafter providing that "*new authorisations may not be granted for the construction of distribution installations over the natural gas distribution area in respect of which an administrative authorisation has already been granted, it being necessary to comply with the service obligations of general interest and the extension of the networks, as stipulated in the legislation and in the administrative authorisation itself*".

Pursuant to the above modification, the holder of a preliminary administrative authorisation would have exclusivity in the geographical area specified in said authorisation.

Lastly, a new modification in 2007 was added to the above provision (which continues to be in force) indicating that "*the authorisations for the construction and operation of the distribution installations must be granted preferably to the distribution company of that area. If there is no distributor in that area, the principles of natural monopoly in the transmission and distribution activities, as well as the sole network and the lowest cost for the gas system, shall be followed".*

Both provisions could be considered contradictory since, according to the modification of 2005, in an area in which a preliminary administrative authorisation has already been granted, another company cannot be given an authorisation for the construction of the installation, without prejudice to the obligations of the distribution company which is the holder of that authorisation to comply with the extension obligations provided for in the authorisation. Nonetheless, the 2007 provision indicates that the construction authorisations must be granted "preferably" (not "mandatorily") to the company which holds the preliminary administrative authorisation, leading one to understand that competition may exist even in the area already covered by a preliminary administrative authorisation.

The Autonomous Region of Madrid, where MRG carries out its distribution activities, considered that: (i) the territorial exclusivity only affects the specific geographical areas where gas distribution networks already exist and those areas close to the already existing networks, which may be considered to be a "normal" extension thereof (the "vegetative growth"); and (ii) the exclusivity does not affect new urban developments of the municipality which do not have gas installations and are not a "normal" extension of the existing network.

The Autonomous Region of Madrid challenged the modification of the LSH in 2007 before the Spanish Constitutional Court (*recurso de inconstitucionalidad*) since it believed that *"it prevents all the distribution companies from having equal status to operate in a region"*.

Thus, and even when a distribution company was granted a preliminary administrative authorisation in a municipality, the Autonomous Region of Madrid was granting preliminary administrative authorisations in that same municipality (or in specific new urban development area in such municipality) to other distribution companies,

only imposing on them the limitation that such authorisation does not cover those areas in which there is already a distribution network installed or its vegetative growth.

The conflict has been resolved by the Spanish Constitutional Court in a resolution dated 19 June 2012 (resolution number 135/2012), establishing that the preliminary authorisation confers:

(i) exclusive rights in all the geographical areas referred to; and

(ii) preferential treatment in those areas, not covered by any administrative authorisation, that are near the geographical areas under the preliminary administrative authorisation.

Therefore, in areas that are not covered by any preliminary administrative authorisation, the award of the authorisation could be made by means of a competitive procedure.

In the event that the request for approval of a construction project presented by a distribution company refers to an area where no exclusivity exists, the Autonomous Region of Madrid will initiate a competitive procedure as set out in the Order 289/2006, of 1 February, where the distribution companies holding a preliminary administrative authorisation will be heard in order to decide which distribution company will be granted with the approval of the construction project.

The competitive procedure will be resolved upon by the Autonomous Region of Madrid by taking into account the following criteria: (i) the characteristics of the main connection, giving preference to the connection to the transmission network over the connection to the distribution network; (ii) the number of existing connections; (iii) the period for commencement of supply for, at least, 75% of the foreseen supply points and (iv) the discounts on activation rights to be paid by the consumers.

Access to the transmission network by distribution companies

The LSH states, regarding transmission and distribution networks, that *"when the authorised installations must be connected to already existing installations owned by another party, the latter must permit the connection in the conditions established in the legislation."*

Article 6 of Royal Decree 1434/2002 establishes the obligation of the transmission companies to *"facilitate the connection to their installations by the owners of other installations or the qualified consumers, in accordance with the provisions established in this Royal Decree"*. In the same sense, article 10 of Royal Decree 1434/2002 regulates the rights and obligations of the distribution companies, highlighting from among such rights that of *"connecting to the closest transmission network or the maximum pressure distribution network with a design greater than 4 bar with sufficient capacity to access the natural gas supply necessary to serve the demand in the area in which it is authorised to operate, in accordance with the provisions of article 12"*.

Article 12 of Royal Decree 1434/2002 indicates that *"the distribution networks must preferentially be supplied from a transmission network, and may also be supplied from another maximum pressure distribution network with a design greater than 4 bar, provided that this means sufficient supply capacity, according to criteria of technical and economic rationality"*.

Therefore, if MRG wishes to connect to a transmission or distribution network, with a maximum design greater than 4 bar, it must send to the transporter or to the distributor an application to connect to the said network. The transmission or distribution company will have a term of 40 working days to answer the application, indicating the most adequate connection point, the technical conditions of the connection, the pressures available at the delivery point, the costs necessary to carry out the connection and the timeframe for execution. The costs which derive from that connection will be, in any case, paid for by the distribution company making the application.

Third party access ("TPA")

Distribution companies, such as MRG, must allow TPA to their distribution network by direct market consumers and gas suppliers complying with the conditions stipulated in the regulation, based on the principles of non-discrimination, transparency and objectivity. TPA to distribution gas facilities is regulated (not negotiated) and is basically governed by the provisions of Royal Decree 949/2001 and subsequent amendments. In particular, the TPA system is organised and supervised by the competent energy authorities (mainly the CNMC), based on mandatory

tolls, charges and tariffs and standard form contracts drafted on a non-discriminatory and transparent basis approved by METAD. CNMC will approve the methodology that METAD may follow in order to approve the access tariffs.

The relevant user needs to execute a TPA contract with the owner of the entry point to the gas distribution network. That contract needs to be supplemented through the execution of an annex for each of the delivery or exit points connecting the end consumer.

The distribution companies may only refuse access to the network or TPA if they lack the necessary capacity. The refusal must be justifiable. The lack of the necessary capacity may only be justified on the grounds of security, regularity or quality of the supplies in line with the demands laid down in regulations to this end.

Distribution companies may invoice and charge gas suppliers and direct market consumers the TPA tolls, as established. They may also invoice and charge for other services related to supply, under the conditions established in regulatory development.

The tolls that the distribution companies charge for allowing third parties to use their facilities are not direct remuneration for them. On the contrary, they are part of the gas economic system's revenues, as will be explained below.

Criteria to determine TPA tolls

According to Article 25 of Royal Decree 949/2001, by Ministerial Order METAD issues the necessary provisions to set natural gas tolls for basic third party access services. The Ministerial Orders set out the concrete values of those tolls or a system to work out and automatically update them. The tolls are the same nation-wide.

The tolls are worked out in line with the criteria established in article 92 of the Hydrocarbon Sector Law and on the basis of the following elements: (i) gas demand forecast; (ii) remuneration of regulated activities; (iii) forecast for the use of regasification, storage and transmission and distribution installations; and (iv) variation resulting from the application of the settlement arrangements from the previous year.

Regarding distribution tolls, these are made up of two components: (i) a capacity reservation term; and (ii) a conveyance term, which is differentiated in line with the design pressure at which the consumer’s installations are connected.

The capacity reservation term is applicable to the daily flow of each system user with an access contract and is billed by the distribution company owning the installations where the entry or intake point of gas into the distribution network is located.

The conveyance term is billed to the system user with an access contract by the distribution company owning the installations where the delivery point of gas to the end user is located. If the delivery point is connected directly to the transmission network, the conveyance term is billed by the transmission company. Different tiers are established for conveyance term depending on the design pressure of the delivery point.

Dispute Resolution

The CNMC is entrusted with the role of resolving disputes in relation to the exercise of TPA rights. The time conferred to the CNMC to issue a resolution in relation to these matters is three months and CNMC resolutions may be appealed before the National High Court (*Audiencia Nacional*).

Economic regime

Regulated remuneration

MRG, as a distribution company, has two main sources of income: (i) a regulated remuneration defined yearly and settled by METAD as part of the periodical gas system costs settlements; and (ii) other payments from services rendered to consumers in relation to the distribution activity.

The purpose of the regulated remuneration is to enable distribution companies to recover their investments in the distribution network, pay the costs of operating and maintaining the distribution network and earn a reasonable return.

Remuneration up to 5 July 2014

Prior to RDL 8/2014 (i.e., under Royal Decree 949/2001), the remuneration scheme for the distribution companies took into account (i) the consumption and volume of gas circulated, (ii) investments in and depreciation of distribution facilities, (iii) facilities operating and maintenance costs, (iv) the characteristics of the distribution areas, (v) safety and quality of the service, and (vi) other costs necessary to carry on distribution activity.

However, after the incorporation of Madrileña Red de Gas and Madrileña Red de Gas II ("**MRG II**");, METAD approved the regulated remuneration of both companies through two Ministerial Orders in 2010 and 2011, respectively.

(i) *Madrileña Red de Gas:* Order ITC/1306/2010, 11 May; and

(ii) *Madrileña Red de Gas II:* Order ITC/3215/2011, 18 November.

METAD took into account the previous regulated remuneration for Gas Natural Distribución S.D.G., S.A. and allocated to each of Madrileña Red de Gas and MRG II companies the initial regulated remuneration considering a 60% of the average number of customers supplied at pressures at or below 4 bar, a 20% of the volume of gas supplied at pressures at or below 4 bar and a 20% of the volume of gas supplied at pressures higher than 4 bar.

Since the above Ministerial Orders, the regulated remuneration for each of Madrileña Red de Gas and MRG II has been updated every year, along with the remuneration for all other distribution companies, through different Ministerial Orders.

Pursuant to article 62 of Law 18/2014, the remuneration for each distribution company for the period of time starting on 1 January 2014 and ending on 5 July 2014, shall be the proportional part of the remuneration set out under Order IET/2446/2013, of December 27 (issued under the former remuneration scheme) that provided a total annual remuneration for 2014 of €154,643,022 (excluding the revision of the 2012-2013 remuneration, which amounted to €922,429) for MRG.

Calculation of the regulated remuneration as of 5 July 2014

As with the previous regime regulated in Royal Decree 949/2001, pursuant to the RDL 8/2014 and the Law 18/2014, the regulated remuneration takes into account the clients connected to the distribution facilities and the volume of gas supplied. However, under the new regime, and as for all of the regulated activities in the field of natural gas, inflation-related automatic updates of the remuneration have been eliminated; the parametric formula used to calculate the remuneration has been amended in order to take into consideration the pressure of the connection points and the customers' consumption volumes with a view to ensure the sufficiency of the system's income according to the different tariffs paid by the consumers according to such criteria. Furthermore, the remuneration is designed to encourage the extension of the distribution network in non-gasified areas.

Consequently, as provided for in Annex X to Law 18/2014 the regulated remuneration of the distribution activity for a certain year "n" (RD n) shall be set out for all the distribution facilities belonging to the same distribution company on an aggregate basis, according to the following parametric formula:

$$\mathbf{RD_n = RD_{n-1} + RN_n}$$

Where:

(i) $\mathbf{RD_{n-1}}$: remuneration of year "n-1".

(ii) $\mathbf{RN_n}$: remuneration corresponding to the expansion of connection points and gas demand.

Furthermore, the remuneration of the expansion of connection points and gas demand shall be calculated according to the following formula:

$$\mathbf{RN_n = F^{mg}_{c<4b} \bullet DCt^{mg}_{c<4b} + F^{mgr}_{c<4b} \bullet DCt^{mgr}_{c<4b} + F^{1}_{v<4b} \cdot DV^{1}_{v<4b} + F^{2}_{v<4b} \cdot DV^{2}_{v<4b} + F_{v>4b} \cdot DV_{v>4b}}$$

Where:

(i) $\mathbf{F^{mg}_{c<4b}}$: unitary remuneration per connection point (CP) in gasified municipalities with a pressure equal or below 4 bar, expressed in €/CP.

(ii) $\mathbf{\Delta Ct^{mg}_{c<4b}}$: variation in the number of CPs in gasified municipalities with a pressure equal or below 4 bar, calculated as the average number of CPs forecasted for the year "n", minus the average number of CPs of the year "n-1".

(iii) $\mathbf{F^{mgr}_{c<4b}}$: unitary remuneration per CP in newly gasified municipalities, with a pressure equal or below 4 bar, expressed in €/CP.

(iv) $\mathbf{\Delta Ct^{mgr}_{c<4b}}$: variation in the number of CPs in newly gasified municipalities with a pressure equal or below 4 bar, calculated **as** the average number of CPs forecasted for the year "n", minus the average number of CPs of the year "n-1".

(v) $\mathbf{F^{1}_{v<4b}}$: unitary remuneration for volume of gas demanded in CPs with a pressure equal or below 4 bar and an annual consumption equal or below 50 MWh, expressed in €/MWh.

(vi) $\mathbf{\Delta V^{1}_{v<4b}}$: variation of the volume of gas demanded in CPs with a pressure equal or below 4 bar and an annual consumption equal or below 50 MWh, expressed in MWh and calculated as the forecasted gas volume of demand in year "n", minus the estimate available for year "n-1" for CPs with such characteristics.

(vii) $\mathbf{F^{2}_{v<4b}}$: unitary remuneration for volume of gas demanded in CPs with a pressure equal or below 4 bar and an annual consumption above 50 MWh, expressed in €/MWh.

(viii) $\mathbf{V^{2}_{v<4b}}$: variation of the volume of gas demanded in CPs with a pressure equal or below 4 bar and an annual consumption above 50 MWh, expressed in MWh and calculated as the forecasted gas volume demand of year "n", minus the estimate available for year "n-1" for CPs with such characteristics.

(ix) $\mathbf{F_{v>4b}}$: unitary remuneration for volume of gas demanded in CPs with a pressure between 4 and 60 bar, expressed in €/MWh.

(x) $\mathbf{\Delta V_{v>4b}}$: variation of the volume of gas demanded in CPs with a pressure between 4 and 60 bar, expressed in MWh, **calculated** as the forecasted gas volume demand of year "n", minus the estimate available for year "n-1" CPs with such characteristics.

For the purposes of this formula the volume of gas demand and the CPs of tariff type 3.5 (pressure below or equal to 4 bar and consumption greater than 8 GWh/year) shall receive the same treatment as if they had a pressure between 4 and 60 bar.

For the purposes of this formula, newly gasified municipalities are those where the first connection service has been carried out less than 5 years before the year "n". The unitary remuneration for new CPs with a pressure equal or below 4 bar in newly gasified municipalities shall be an incentive. Such incentive remuneration shall only be applicable to non-gasified municipalities where the relevant commissioning certificate is issued after 1 January 2014.

For the application of the above parametric formula as of 5 July 2014, the unitary remuneration parameters shall take the following values:

(i) $\mathbf{F^{mg}_{c<4b}}$ = 50€/CP.

(ii) $\mathbf{F^{mgr}_{c<4b}}$ = 70€/ CP.

(iii) $\mathbf{F^{1}_{v<4b}}$ = 7.5 €/MWh.

(iv) $\mathbf{F^{2}_{v<4b}}$ = 4.5 €/MWh.

(v) $\mathbf{F_{v>4b}}$ = 1.25 €/MWh.

The above parametric formula can be simplified as set out below:

RDn = RDn-1 + FCI x ΔCI + Fv x Δv, where:

(i) **RDn**: Remuneration for a given company in year n

(ii) **RDn-1:** Previous year Remuneration

(iii) **FCI x DCI:** Remuneration for Incremental Connection Points, where

- **FCI**: € per incremental connection point: (a) €50 per connection point in gasified municipalities; and (b) €70 per connection point in recently gasified municipalities (applicable remuneration during the five years after the first connection point is place in service)

- **DCI**: Change in number of connection points

(iv) **Fv x Dv**: Remuneration for Incremental Demand, where:

- **Fv**: € per incremental MWh: (a) €7.50 per MWh for connection points < 4 bar consuming below 50 MWh/year; (b) €4.50 per MWh for connection points < 4 bar consuming above 50 MWh/year; (c) €1.25 per MWh for connection points >4 bar

- **Dv**: Incremental gas demand (MWh)

Since connection point variations and demand are forecasted by each distribution company, the regulated remuneration for each year is calculated ex-ante. The regulated remuneration for year (n) is calculated in December of (n-1), based upon distributors' growth forecasts. Once actual figures are known, the remuneration for year (n) is updated, and subsequent adjustments are included in future annual payments of the regulated remuneration.

Therefore, remuneration adjustments due to the annual revisions are not considered retrospectively. Differences arising from this revision will not modify the amounts to be received via settlements in that year, but will be applied as a direct adjustment to the initial estimate for the following year's annual payment.

Pursuant to Order IET/2355/2014, of December 12, the remuneration that would correspond to MRG for 2014 pursuant to the new remuneration regime would amount to €143,796,057.

Consequently, MRG's remuneration for 2014 (i.e., applying pro-rata remunerations under Order IET/2446/2013, of December 27 up to July 5 and Order IET/2355/2014 up to December 31) amounts to €149,293,834, (as set out in Order IET/2355/2014) excluding the revision of the 2012-2013 remuneration, which amounted to €922,429.

Order IET/2445/2014, of 19 December 2014, has set MRG's regulated remuneration for 2015 at €140,322,225 (excluding the revision of the 2013-2014 remuneration, which amounted to €5,382,125). Order IET/389/2015, of 5 March 2015, revised MRG's regulated remuneration for 2015 to €134,918,462.

Order IET/2736/2015, of 17 December 2015 has set MRG's regulated remuneration for 2016 at €141,429,434 (excluding the revision of the 2014-2015 remuneration, which amounted to €1,950,337).

Order ETU/1977/2016, of 23 December 2016 has set MRG's regulated remuneration for 2017 at €140,010,039.3 (excluding the revision of the 2015-2016 remuneration, which amounted to €7,875,628.2).

The following table shows the regulated remuneration received by MRG and MRG II (as applicable) since 2010, together with the relevant Ministerial Orders:

Year	Ministerial Order	Remuneration
2013	Order IET/2812/2012, of 27 December 2012	MRG: €96,677,582 MRG II: €54,695,222
2014	Order IET/2446/2013, of 27 December 2013 (and Order IET/2355/2014, of 12 December 2014)	MRG: €150,216,263
2015	Order IET/2445/2014, of 19 December 2014	MRG: €134,940,100
2015	Order IET/389/2015, of 5 March 2015	MRG: €134,918,462
2016	Order IET/2736/2015, of 17 December 2015	MRG: €139,479,097
2017	Order ETU/1977/2016, of 23 December 2016	MRG: €132,134,411

Settlement system

The distribution activity as a regulated activity is part of the gas settlement system. The gas settlement system is an integrated economic system created to remunerate the natural gas sector's regulated activities, based on cost and revenues information related to these activities, and it establishes a payment and charges structure for the companies involved, based on provisional and final settlements. The LSH (as amended by Law 18/2014) provides for the settlement system, and Royal Decree 949/2001 and subsequent Ministerial Orders, particularly, Order ECO/2692/2002, develop it.

The settlement procedure considers: (i) as incomes: the invoiced TPA costs to end consumers, independently of its collection, and without deducting any discounts agreed between the distribution companies and the consumers; and (ii) as costs: the accredited costs associated with the remuneration of regulated activities.

Therefore, the regulated remuneration for each distribution company, fixed each year, is one of the *"gas system costs"* that are settled in the *"regulated activities settlement procedure"*, managed by the CNMC. The revenues and the costs that are subject to this procedure are as follows:

The revenues of the gas system comprising the totality of the amounts charged to the gas suppliers (or, in certain cases, directly to the consumers) by the companies for the transmission and distribution of gas by way of toll charges for access to their networks. The destination of these revenues is to remunerate the regulated activities.

The gas system and the regulation consider the amounts invoiced by distribution companies to the gas natural suppliers as income received by the distribution companies in any case. Therefore, the risk of non-payment of the amount invoiced as tolls to suppliers of natural gas is borne by the distribution companies (suppliers of gas natural have the risk of non-payment the supply invoices by their customers). In case of non-payment, a distribution company may suspend the access contract of the relevant supplier of natural gas two months after the date on which a formal demand (*requerimiento fehaciente*) of payment was served.

The gas system model works, in general terms, as a common deposit scheme (or a "single fund or deposit system"), in which all revenues are applied to satisfy all costs. Transmission and distribution companies operate as collection agents for the access toll charges. CNMC then settles the regulated remuneration owed to each of such transmission and distribution companies by way of compensation, such that a transmission or a distribution company is obliged to pay for, or is entitled to receive, the difference (depending on whether it is positive or negative) between the amounts collected by such transmission or distribution company and the respective regulated remuneration to which such transmission or distribution company is entitled.

In conclusion, (i) consumers pay the access tolls to the suppliers, as part of their monthly invoices; (ii) the suppliers pay these access tolls to the distribution/transmission companies; (iii) the distribution and transmission companies pay the difference between the tolls each of them has invoiced and their monthly regulated remuneration and; (iv) CNMC includes all such payments in the "regulated activities settlement procedure" to pay the transmission and

distribution companies any regulated remuneration in excess of the tolls and charges each of them has invoiced the suppliers as users of their facilities.

Therefore, in the event the gas system does not have enough funds to pay for the annual remuneration of regulated activities, a tariff deficit in the gas system appears. Such tariff deficit (or rather, imbalance) shall be financed by all participants in the regulated settlement process pro rata to their regulated remuneration. As indicated above, any amounts that such participants may contribute to pay off such imbalances at the time the definitive settlement is produced, shall be repaid within the five following years plus interest (accruing at market rates yet to be defined) (see "Natural gas system's deficit" above).

Settlement of the regulated remuneration

When tariff deficit in the gas system does not exist, the distribution companies receive this regulated remuneration through a monthly settlement. Provisional settlements are carried out on a monthly basis.

For each year, 14 provisional settlements should be made by METAD (although the settlement process is being managed by the CNMC until the METAD has the appropriate means for that purpose, in accordance with the Fourth Transitory Provision of Law 3/2013). Every month, the CNMC proceed to settle the revenues and cost of all agents which carry out activities in the gas system. For that, CNMC determines in the monthly settlement the proportional share of the regulated remuneration for that month (regulated remuneration/12 months) and, on the other hand, METAD compares that amount with the monthly amount invoiced by the distribution company deriving from the application of tolls to the natural gas suppliers who have a contract access to the distribution network.

If the amount invoiced by a distribution company in the form of tolls is higher than the monthly payment amount, the distribution company must pay the difference to the gas system, and CNMC will request this amount. On the contrary, if the monthly payment is higher than the amount invoiced to the gas suppliers as tolls, the distribution company must receive the difference from the gas system through CNMC.

Final settlement includes the tolls accrued and invoiced during the natural year. It also includes the tolls accrued during the natural year but invoiced within the first two months of the following year (that's the reason why 14 provisional settlements are issued).

The amount resulting from the final settlement must be paid by each transportation or distribution debtor company within 15 days of receiving formal notice from CNMC, without prejudice to the payment system and deposits on account.

Other Income

There are certain activities for which distribution companies may receive additional remuneration. Income collected by distribution companies for performing these activities is not subject to the natural gas system's settlement regime therefore it is directly collected by distribution companies.

The prices of some of these services are fixed by the Spanish Government and are the same for every region. These activities and their income are the following:

(i) Meter rents

Generally, distribution companies rent meter equipment out to consumers (although alternatively they may be owned by the customer or even by third party agents).

Meter rent tariffs depend on the type of meter rented. The meter rental prices are updated annually by IPH x 0.75, as set out in the Ministerial Order ITC/104/2005. Latest prices are set for the whole territory in the Ministerial Order IET/2445/2014. Currently regulated price for consumptions below 15.000 kWh (typically domestic consumptions) is of €1.25/month.

(ii) Connection services (*derechos de acometida*)

According to article 30 of Royal Decree 1434/2002, distribution companies are entitled to receive regulated compensation for undertaking the construction of the facilities required to connect a new connection point to the distribution network or to increase the capacity of an existing connection point. The amount of these connection services fees are set out in Annex I of Royal Decree 1434/2002 and updated by IPH x 0.75 on

annual basis by the METAD (and published in the relevant Ministerial Order). The connection services fees applicable since 2015 are set out in Ministerial Order IET/2445/2014.

The connection services fees are divided into two parts as described below:

(a) A fixed part is payable by every consumer requesting a new connection point regardless of the length of the connection line that needs to be constructed by the distribution company. Such connection services are determined according to the tariff applicable to such consumer and range from €106.34 to €488.83.

(b) Those consumers requesting a new connection point that requires constructing a connection line with a length of six metres or more must pay an additional connection services fee which, during 2015, is determined by the following formula:

Additional connection services charge (€) = 104.20 x (L-6), where "L" stands for the length of the connection line in metres.

The assets activated in the distribution companies' balance sheet resulting from the works carried out under connection services are depreciated over their useful life (20 years). Likewise, the fees collected for rendering such connection services as described above are deferred over the same period of time.

The prices of other services are separately regulated by the Government of the Autonomous region of Madrid in the Decree 44/2006, 18 May, and are updated annually on a CPI basis or, in the case of IRC (*instalaciones receptoras comunes*) that have not been subject to implementing regulations in the Autonomous Region of Madrid, prices are calculated by distribution companies according to the procedures set out under Royal Decree 919/2006. These activities and their income are the following:

(i) Activation royalties (*derechos de alta*)

According to article 29 of Royal Decree 1434/2002, distribution companies have the right to charge an activation royalty to each new consumer that contracts natural gas supply or to each existing consumers that request an increase of consumption pursuant to which the tariff applicable to such consumer changes. These activation royalties are paid as a compensation for the services to couple (*servicios de enganche*) and verify (*servicios de verificación*) the relevant IRI and are meant to pay for the costs incurred by distribution companies in order to verify that the IRIs documentation is complete, to seal the metering equipment, to verify the tightness of the IRI and to make the IRI operational.

The activation royalties are determined by the autonomous regions and, in the case of the autonomous region of Madrid, the activation royalties are set out in the Decree 44/2006 and are increased annually by CPI. The royalties established in Decree 44/2006 vary depending on the tariff payable by the relevant consumer. Activation royalties applicable on 2016 range between €76.23 and a maximum cap of €732.24.

(ii) Inspections

According to Royal Decree 919/2006, all IRIs and IRCs must be inspected every five years by the distributor company or any other licensed entities (natural gas installation companies) – according to the new provision established by Law 8/2015 – and checked pursuant to technical and security conditions and regulations.

The inspections fees vary depending on the tariff payable by the relevant consumer and during 2015 range from €51.48 to €255.15.

(iii) IRC (*instalaciones receptoras comunes*)

According to article 30 bis of Royal Decree 1434/2002, distribution companies have the right (but not the obligation) to encourage the construction of IRCs, in order to facilitate end consumers' access to gas. IRCs are facilities that are used by several consumers located between the connection key of a building and the key of each consumer.

The distribution company can construct the IRCs by entering into an agreement with homeowners' communities or with final consumers. The IRC facilities (which are not considered to be part of the distribution network) are activated in the distribution companies' balance sheet and remain the distribution

company's property for the period established in the agreement (a maximum of 20 years from the date the facilities are commissioned), during which they are depreciated. If the distribution company constructs these facilities, it must comply with the obligation to have the accounts separate from the distribution activity's accounts.

The distribution company and the relevant final consumers are free to agree on the terms and conditions for the construction of IRCs (including, *inter alia*, the fees payable to the distribution company). The foregoing notwithstanding, the agreement must cover, at a minimum:

(a) the fees payable for the use of the IRCs (including maintenance) during the period in which the IRC is the distributor's property and the terms of the review of such fees and their invoicing;

(b) the period of time after which the IRC shall revert to the final consumers (a maximum of 20 years from the date the facilities are commissioned);

(c) conditions for the incorporation of new consumers to the IRC; and

(d) maintenance conditions of the IRC, both before and after the IRC reverts to the consumers.

(iv) Distribution home services

Distribution companies may provide other services demanded by the end consumer including amongst others, changing the gas meter, complementary maintenance services on recipient facilities or on heating facilities, etc.

Revenues depend upon the number of operations performed and prices are set by each company based on the type of service provided.

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, whether in those countries or elsewhere. Prospective purchasers of Notes should consult their own tax advisers as to which countries' tax laws could be relevant to acquiring, holding and disposing of Notes and receiving payments of interest, principal and/or other amounts under the Notes and the consequences of such actions under the tax laws of those countries. 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 whether or not such change in law has retroactive effect.

Kingdom of Spain

Payments made by the Issuer

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

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

Applicable law for Spanish tax purposes

The Guarantor believes that Additional Provision One of Law 10/2014 (as defined in the Conditions of the Notes) shall apply to the Notes according to its Section 8, provided that the Notes are issued by a company which is (i) tax resident in the European Union and (ii) whose voting rights are completely held directly by an entity which is resident in Spain for tax purposes, *inter alia*.

The Guarantor will comply with the reporting obligations set out in Section 4 of Additional Provision One of Law 10/2014 in respect of Holders who are taxpayers of the Spanish Individual Income Tax or taxpayers of the Spanish Corporation Tax, as well as taxpayers of the Spanish Non-resident Income Tax ("**NRIT**") who hold the Notes through a permanent establishment located in the Spanish territory.

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 statement of law or regulation nor clear precedent exists in relation thereto, in the event that the Spanish tax authorities take the view that the Guarantor has validly, legally and effectively assumed all the obligations of the Issuer under the Notes subject to and in accordance with the Guarantee, the part of the payments which corresponds to payments of interest under the Notes could qualify as interest.

Should Law 10/2014 be applicable, the Guarantor, in accordance with Law 10/2014 and Royal Decree 1065/2007 of July 27, as amended by Royal Decree 1145/2011 of July 29 ("**Royal Decree 1065/2007**"), would not be obliged to withhold taxes in Spain on any interest paid under the Guarantee to the beneficial owners of the income arising from the Notes that (i) can be regarded as listed debt Notes 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, provided that the Paying Agent fulfils the information procedures described in "*Taxation – The Kingdom of Spain – Disclosure of Information in connection with payments under the Guarantee*" below.

If Law 10/2014 was not deemed to be applicable to the Notes, payment of interest made under the Guarantee to the Holders may be subject to Spanish withholding tax at the then applicable rate (19% in 2017), unless the recipient is:

(i) resident for tax purposes in a Member State of the European Union other than Spain (or is a permanent establishment of such resident situated in another Member State of the European Union) and it is not

resident in or acting through a territory considered as a tax haven pursuant to Spanish Law (currently as set out in Royal Decree 1080/1991, of 5 July) or through a permanent establishment in Spain or in a country outside the European Union, or

(ii) resident for tax purposes in a state with which Spain has entered into a Double Tax Treaty which makes provision for full exemption from tax imposed in Spain on such payment under the Double Tax Treaty, or

(iii) eligible to any other withholding tax exemption applied under Spanish law.

provided that, in either case of (i) and (ii) above, such recipient submits to the Guarantor a tax residence certificate duly issued by the tax authorities in its own jurisdiction stating its residence for tax purposes either within the relevant EU Member State or in the relevant country for the purposes of the Double Tax Treaty, such certificate being valid for a period of one year from the date of issue under Spanish law and therefore new certificates needing to be issued periodically.

Noteholders entitled to withholding tax exemption, but the payment to whom was not exempt from Spanish withholding tax due to the failure to deliver by the Holder or the Agent (as the case may be) of a valid certificate of tax residence of the Noteholder or certain information relating to the Notes (as the case may be) in a timely manner may apply directly to the Spanish tax authorities for any refund to which they may be entitled. Noteholders are advised to consult their own tax advisers regarding their eligibility to claim a refund from the Spanish tax authorities and the procedures to be followed in such circumstances.

Disclosure of information in connection with payments under the Guarantee

In accordance with section 5 of Article 44 of Royal Decree 1065/2007 and provided that the Notes are initially registered for clearance and settlement in Euroclear and Clearstream, Luxembourg, the Agent would be obliged to provide the Guarantor in relation to payments made under the 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 the Guarantor on the business day immediately preceding each Interest Payment Date. If this requirement is complied with, 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 Agent were to fail to provide the information detailed above, according to section 7 of Article 44 of Royal Decree 1065/2007, the Guarantor, 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 (19% in 2017). If on or before the tenth day of the month following the month in which the interest is payable, the Paying Agent designated by the Issuer were to submit such information, the Guarantor or the Paying Agent acting on its behalf would refund the total amount of taxes withheld.

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, MRG would inform the Noteholders of such information procedures and of their implications, as the Guarantor 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 Netherlands

For the purposes of this section, "*the Netherlands*" shall mean that part of the Kingdom of the Netherlands that is in Europe.

Scope

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

(i) having a substantial interest (*aanmerkelijk belang*) in the Issuer (such a substantial interest is generally present if an equity stake of at least 5%, or a right to acquire such a stake, is held, in each case by reference to the Issuer's total issued share capital, or the issued capital of a certain class of shares);

(ii) 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/or the Netherlands Gift and Inheritance Tax Act 1956 (*Successiewet 1956*);

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

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

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

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

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

Withholding tax

All payments made by the Issuer 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 the Notes do not in fact function as equity of the Issuer within the meaning of art. 10, paragraph 1, letter d, the Netherlands Corporate Income Tax Act 1969 (*Wet op de vennootschapsbelasting 1969*).

Income tax

Resident holders: A holder who is a private individual and a resident, or treated as being a resident of the Netherlands for the purposes of Netherlands income tax, must record Notes as assets that are held in box 3. Taxable income with regard to the Notes is then determined on the basis of a certain deemed return on the holder's yield basis *(rendementsgrondslag)* at the beginning of the calendar year insofar the yield basis exceeds a €25,000 threshold *(heffingvrij vermogen)*, rather than on the basis of income actually received or gains actually realised. Such yield basis is determined as the fair market value of certain qualifying assets held by the holder of the Notes, less the fair market value of certain qualifying liabilities at the beginning of the calendar year. The holder's yield basis is allocated to up to three brackets for which different deemed returns apply. The first bracket includes amounts up to and including €75,000, which amount will be split into a 67% low-return part and a 33% high-return part. The second bracket includes amounts in excess of €75,000 and up to and including €975,000, which amount will be split into a 21% low-return part and a 79% high-return part. The third bracket includes amounts in excess of €975,000, which will be considered high-return in full. For 2017 the deemed return on the low-return parts is 1.63% and on the high-return parts is 5.39%. The deemed return percentages will be reassessed every year. The deemed return on the holder's yield basis is taxed at a rate of 30%.

Non-resident holders: A holder who is a private individual and neither a resident, nor treated as being a resident, of the Netherlands for the purposes of Netherlands income tax, will not be subject to such tax in respect of benefits derived from the Notes, unless such holder is (other than by way of securities) entitled to a share in the profits of an enterprise which is effectively managed in the Netherlands, to which enterprise the Notes are attributable.

Corporate income tax

Resident holders: A holder which is a corporate entity and, for the purposes of Netherlands corporate income tax, a resident, or treated as being a resident, of the Netherlands, is taxed in respect of benefits derived from the Notes at rates of up to 25%.

Non-resident holders: A holder which is a corporate entity and, for the purposes of Netherlands corporate income tax, is neither a resident, nor treated as being a resident, of the Netherlands, will not be subject to corporate income tax, unless such holder has an interest in 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 Netherlands Enterprise the Notes are attributable, or such holder 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. Such holder is taxed in respect of benefits derived from the Notes at rates of up to 25%.

Gift and inheritance tax

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

Non-resident holders: No Netherlands gift tax or inheritance tax will arise in respect of an acquisition (or deemed acquisition) of Notes by way of a gift by, or on the death of, a holder of Notes who is neither a resident, nor treated as being a resident, of the Netherlands for the purposes of Netherlands gift and inheritance tax.

Other taxes

No Netherlands value added tax (*omzetbelasting*) will arise in respect of any payment in consideration for the issue of Notes, with respect to any cash settlement of Notes or with respect to the delivery of Notes. Furthermore, no Netherlands registration tax, capital tax, transfer tax or stamp duty (nor any other similar tax or duty) will be payable in connection with the issue or acquisition of the Notes.

Residency

A holder will not become a resident, or a deemed resident, of the Netherlands for Netherlands tax purposes by reason only of holding the Notes.

United Kingdom

The comments below are of a general nature based on current United Kingdom tax law as applied in England and Wales and HM Revenue & Customs practice (which may not be binding on HM Revenue & Customs) and are not intended to be exhaustive. They assume that neither interest on the Notes nor payments in respect of the Guarantee of the Notes have a United Kingdom source and, in particular, that neither the Issuer nor the Guarantor is United Kingdom resident or acts through a permanent establishment in the United Kingdom in relation to the Notes. References in this part to "interest" shall mean amounts that are treated as interest for the purposes of United Kingdom taxation. Any Noteholders who are in doubt as to their own tax position should consult their professional advisers.

Interest on the Notes

Payments of interest on the Notes by the Issuer may be made without withholding or deduction for or on account of United Kingdom income tax.

Payments in respect of the Guarantee of the Notes

Any payments in respect of the Guarantee of the Notes may be made without withholding or deduction for or on account of United Kingdom income tax.

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**"). However, Estonia has since stated that it will not participate.

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.

However, the FTT proposal remains subject to negotiation between Participating Member States. It may therefore be altered prior to any implementation, the timing of which remains unclear. Additional EU Member States may decide to participate.

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

Luxembourg Taxation

The following is a general description of certain Luxembourg withholding tax considerations relating to the Notes. It specifically contains information on taxes on the income from the Notes withheld at source and provides an indication as to whether the Issuer assumes responsibility for the withholding of taxes at the source. It does not purport to be a complete analysis of all tax considerations relating to the Notes, whether in Luxembourg or elsewhere. Prospective purchasers of the Notes should consult their own tax advisers as to which countries' tax laws could be relevant to acquiring, holding and disposing of the Notes payments of interest, principal and/or other amounts under the Notes and the consequences of such actions under the tax laws of Luxembourg. This summary is based upon the law as in effect on the date of this Base Prospectus. The information contained within this section is limited to withholding taxation issues, and prospective investors should not apply any information set out below to other areas, including (but not limited to) the legality of transactions involving the Notes.

All payments of interest and principal by the Luxembourg Paying Agent under the Notes, which are not profit sharing, can be made free and clear of any withholding or deduction for or on account of any taxes of whatsoever nature imposed, levied, withheld, or assessed by Luxembourg or any political subdivision or taxing authority thereof or therein, in accordance with the applicable Luxembourg law, subject however to the application as regards Luxembourg resident individual beneficial owners of the Luxembourg law of 23 December 2005, as amended, which foresees a 20 per cent. withholding tax on savings income.

The 20 per cent. withholding tax as described above is final when Luxembourg resident individuals are acting in the context of the management of their private wealth.

Responsibility for the withholding of tax in application of the above-mentioned Luxembourg law of 23 December 2005, as amended, is assumed by the Luxembourg paying agent within the meaning of this law and not by the Issuer.

FATCA Withholding

Pursuant to certain provisions of the U.S. Internal Revenue Code of 1986, as amended, commonly known as FATCA, a "foreign financial institution" may be required to withhold on certain payments it makes ("**foreign passthru payments**") to persons that fail to meet certain certification, reporting, or related requirements. A number of jurisdictions (including the Netherlands) have entered into, or have agreed in substance to, intergovernmental agreements with the United States to implement FATCA ("**IGAs**"), which modify the way in which FATCA applies in their jurisdictions. Certain aspects of the application of the FATCA provisions and IGAs to instruments such as the Notes, including whether withholding would ever be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Notes, are uncertain and may be subject to change. Even if withholding would be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Notes, such withholding would not apply prior to 1 January 2019. Holders should consult their own tax advisors regarding how these rules may apply to their investment in the Notes.

SUBSCRIPTION AND SALE

Notes may be sold from time to time by the Issuer to any one or more of Banco Bilbao Vizcaya Argentaria, S.A., CaixaBank, S.A., Crédit Agricole Corporate and Investment Bank, Citigroup Global Markets Limited and Morgan Stanley & Co. International plc (the "**Dealers**"). The arrangements under which Notes may from time to time be agreed to be sold by the Issuer to, and purchased by, Dealers are set out in a Dealer Agreement originally dated 1 August 2013, as amended, supplemented, novated and/or restated from time to time, (the "**Dealer Agreement**") and made between the Issuer, the Guarantor and the Dealers. Any such agreement will, *inter alia*, make provision for the form and terms and conditions of the relevant Notes, the price at which such Notes will be purchased by the Dealers and the commissions or other agreed deductibles (if any) payable or allowable by the Issuer in respect of such purchase. The Dealer Agreement makes provision for the resignation or termination of appointment of existing Dealers and for the appointment of additional or other Dealers either generally in respect of the Programme or in relation to a particular Tranche of Notes.

United States of America

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

The Bearer Notes are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. tax regulations. Terms used in this paragraph have the meanings given to them by the United States Internal Revenue Code of 1986, as amended, and regulations thereunder.

Each Dealer has agreed, and each further Dealer appointed under the Programme will be required to agree that, except as permitted by the Dealer Agreement, it will not offer, sell or deliver the Notes, (i) as part of their distribution at any time or (ii) otherwise until 40 days after the completion of the distribution of the Notes comprising the relevant Tranche, as certified to the Fiscal Agent or the Issuer by such Dealer (or, in the case of a sale of a Tranche of Notes to or through more than one Dealer, by each of such Dealers as to the Notes of such Tranche purchased by or through it, in which case the Fiscal Agent or the Issuer shall notify each such Dealer when all such Dealers have so certified), within the United States or to, or for the account or benefit of, U.S. persons, and such Dealer will have sent to each Dealer to which it sells Notes during the distribution compliance period relating thereto 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 of Notes comprising any Tranche, any offer or sale of Notes within the United States by any dealer that is not participating in the offering may violate the registration requirements of the Securities Act.

Prohibition of Sales to EEA Retail Investors

Each Dealer has represented, warranted and agreed, and each further Dealer appointed under the Programme will be required to represent, warrant and agree, that from the date of application of Regulation (EU) No 1286/2014 (the "**PRIIPs Regulation**") it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Notes which are the subject of the offering contemplated by this Base Prospectus as completed by the final terms in relation thereto to any retail investor in the European Economic Area. For the purposes of this provision:

(a) the expression "retail investor" means a person who is one (or more) of the following:

(i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, "**MiFID II**"); or

(ii) a customer within the meaning of Directive 2002/92/EC (as amended, the "**Insurance Mediation Directive**"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or

(iii) not a qualified investor as defined in Directive 2003/71/EC (as amended, the "**Prospectus Directive**"); and

(b) the expression an "offer" includes 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.

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a "**Relevant Member State**"), each Dealer has represented, warranted and agreed, and each further Dealer appointed under the Programme will be required to represent, warrant and agree, that prior to the date of application of the PRIIPs Regulation 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 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) *Qualified investors*: at any time to any legal entity which is a qualified investor as defined in the Prospectus Directive;

(b) *Fewer than 150 offerees*: 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 Issuer for any such offer; or

(c) *Other exempt offers*: 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 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 (and amendments thereto, including the 2010 PD Amending Directive), and includes any relevant implementing measure in the Relevant Member State and the expression "**2010 PD Amending Directive**" means Directive 2010/73/EU.

Kingdom of Spain

The Notes may not be offered, sold or distributed, nor may any subsequent resale of Notes be carried out in Spain, except in circumstances which do not constitute a public offer of securities in Spain within the meaning 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, or without complying with all legal and regulatory requirements under Spanish securities laws.

Neither the Notes nor the Programme have been registered with the Spanish Securities Market Commission (*Comisión Nacional del Mercado de Valores*) and therefore the Base Prospectus is not intended for any public offer of the Notes in Spain.

The Netherlands

Each 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 completed by the Final Terms relating thereto, to the public in the Netherlands in reliance on Article 3(2) of the Prospectus Directive (as defined 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 Prospectus Directive or (ii) standard exemption wording and logo are disclosed as required by Section 5:20(5) of the Dutch Financial Supervision Act (*Wet op het financieel toezicht*), provided that no such offer of Notes shall require the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement to a prospectus pursuant to Article 16 of the Prospectus Directive. Zero coupon Notes in definitive bearer form and other Notes in definitive bearer form on which interest does not become due and payable during their term but only at maturity (savings certificates or *spaarbewijzen* as defined in the Dutch Savings Certificates Act (*Wet inzake spaarbewijzen*; the "**SCA**")) may only be transferred and accepted, directly or indirectly, within, from or into the Netherlands through the mediation of either the Issuer or a member of Euronext Amsterdam with due observance of

the provisions of the SCA and its implementing regulations (which include registration requirements). No such mediation is required, however, in respect of (i) the initial issue of such Notes to the first holders thereof, (ii) the transfer and acceptance by individuals who do not act in the conduct of a profession or business, and (iii) the issue and trading of such Notes if they are physically issued outside the Netherlands and are not distributed in the Netherlands in the course of primary trading or immediately thereafter.

Selling Restrictions Addressing Additional United Kingdom Securities Laws

Each Dealer has represented, warranted and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

(a) **No deposit-taking:** in relation to any Notes having 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:

(A) whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses; or

(B) 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 FSMA by the Issuer;

(b) **Financial promotion:** 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 Issuer or the Guarantor; and

(c) **General compliance**: 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.

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**")) and each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not sold or offered and will not offer or sell any Notes, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organised under the laws of Japan), or to others for re-offering 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 any other applicable laws, regulations and ministerial guidelines of Japan.

General

Each Dealer has represented, warranted and agreed that it has complied and will comply with all applicable laws and regulations in each country or jurisdiction in or from which it purchases, offers, sells or delivers Notes or possesses, distributes or publishes this Base Prospectus or any Final Terms or any related offering material, in all cases at its own expense. Other persons into whose hands this Base Prospectus or any Final Terms comes are required by the Issuer, the Guarantor and the Dealers to comply with all applicable laws and regulations in each country or jurisdiction in or from which they purchase, offer, sell or deliver Notes or possess, distribute or publish this Base Prospectus or any Final Terms or any related offering material, in all cases at their own expense.

The Dealer Agreement provides that the Dealers shall not be bound by any of the restrictions relating to any specific jurisdiction (set out above) to the extent that such restrictions shall, as a result of change(s) or change(s) in official interpretation, after the date hereof, of applicable laws and regulations, no longer be applicable but without prejudice to the obligations of the Dealers described in the paragraph headed "*General*" above.

GENERAL INFORMATION

Authorisation

1. The establishment of the Programme was authorised by resolutions of the Issuer and the Guarantor passed on 10 July 2013, and the update of the Programme was authorised by further resolutions of the Issuer on 24 February 2017 and the Guarantor on 6 February 2017. The Issuer 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.

Admission to the official list and the regulated market of the Luxembourg Stock Exchange

2. The admission of the Programme to the official list of the Luxembourg Stock Exchange was granted on 1 August 2013 and is expected to be updated on or around 28 February 2017. It is expected that each Tranche of Notes which is to be listed on the official list and admitted to trading on the regulated market of the Luxembourg Stock Exchange will be so admitted to listing and trading upon submission to the CSSF and the regulated market of the Luxembourg Stock Exchange of the relevant Final Terms. However, Notes may be issued pursuant to the Programme which will not be admitted to listing, trading and/or quotation by the Luxembourg Stock Exchange or any other listing authority, stock exchange and/or quotation system or which will be admitted to listing/trading and/or quotation by such listing authority, stock exchange and/or quotation system as the relevant Issuer and relevant Dealer(s) may agree.

Legal and Arbitration Proceedings

3. There are no governmental, legal or arbitration proceedings, (including any such proceedings which are pending or threatened, of which the Issuer or the Guarantor is aware), which may have, or have had during the 12 months prior to the date of this Base Prospectus, a significant effect on the financial position or profitability of the Issuer or the Guarantor.

Significant/Material Change

4. Since 31 December 2016, there has been no material adverse change in the prospects of the Issuer nor any significant change in the financial or trading position of the Issuer. Since 30 June 2016, there has been no material adverse change in the prospects of the Guarantor nor any significant change in the financial or trading position of the Guarantor.

Third Party Information

5. Where information in this Base Prospectus has been sourced from third parties this information has been accurately reproduced and as far as the Issuer and the Guarantor are aware and is able to ascertain from the information published by such third parties no facts has been omitted which would render the reproduced information inaccurate or misleading. The source of third party information is identified where used.

Auditors

6. PricewaterhouseCoopers Auditores, S.L. has audited the annual accounts of MRG as of 30 June 2015 and 2016 and for each of the years then ended, which have been prepared in accordance with the generally accepted accounting principles in Spain ("**Spanish GAAP**") regulated under Royal Decree 1514/2007 of 16 November 2007 as amended by Royal Decree 1159/2010 of 17 September 2010. Pricewaterhouse Coopers Accountants N.V. has audited the financial statements of the Issuer as of 31 December 2016 and for the year then ended, and KPMG Accountants N.V. has audited the financial statements of the Issuer as of 31 December 2015 and for the year then ended, which have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Netherlands Civil Code. PricewaterhouseCoopers Accountants N.V. is located in Rotterdam at Fascinatio Boulevard 350 (3065 WB), the Netherlands. The auditor appointed to sign the auditor's reports on behalf of PricewaterhouseCoopers Accountants N.V. is a member of the Royal NBA (*Koninklijke Nederlandse Beroepsorganisatie van Accountants*), The Netherlands Institute of Chartered Accountants.

   This Base Prospectus does not incorporate any financial information in relation to the Guarantor prepared in accordance with, or reconciled to, International Financial Reporting Standards endorsed by the European Union ("**IFRS-EU**") or any description of the differences between IFRS-EU and Spanish

GAAP. It is possible that a reconciliation of financial information prepared in accordance with Spanish GAAP to IFRS-EU or other qualitative or quantitative analysis of differences between these accounting principles would identify material differences that are not otherwise disclosed in this Base Prospectus. You should consult your own accounting advisers for an understanding of the differences between Spanish GAAP and IFRS-EU and how those differences might affect the annual accounts and other financial information contained in this Base Prospectus.

As stipulated by current legislation in force, MRG must disclose in the accompanying notes to the annual accounts the salaries, per diems and remuneration of any type as well as any advances, loans or guarantees given or obligations made in the area of pensions and life insurance policies by the senior management of MRG during the year ended 30 June 2015 and 30 June 2016. Given the small number of persons receiving these benefits and the personal nature of the latter, MRG did not disclose this information in the accompanying notes to these accounts for the year ended 30 June 2015. The auditors' reports for the 30 June 2015 annual accounts of MRG contain a qualification for this matter.

Documents on Display

7. Copies of the following documents may be inspected during normal business hours at the offices of the Issuer for 12 months from the date of this Base Prospectus:

(i) the constitutive documents of the Issuer;

(ii) the constitutive documents of the Guarantor;

(iii) the financial statements of the Issuer incorporated by reference herein;

(iv) the annual accounts of MRG incorporated by reference herein;

(v) the Agency Agreement;

(vi) the Deed of Covenant;

(vii) the Dealer Agreement;

(viii) the Programme Manual (which contains the forms of the Notes in global and definitive form);

(ix) the Issuer-ICSDs Agreement;

(x) any supplements to this Base Prospectus and any Final Terms, save that Final Terms relating to an unlisted Note will only be available for inspection by a holder of such Note and such holder must produce evidence satisfactory to the Paying Agent as to the identity of such holder); and

(xi) the Deed of Guarantee.

This Base Prospectus, the relevant Final Terms for Notes that are listed on the official list and admitted to trading on the regulated market of the Luxembourg Stock Exchange will be published on the website of the Luxembourg Stock Exchange at www.bourse.lu.

Clearing of the Notes

8. The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The appropriate common code and the International Securities Identification Number in relation to the Notes of each Tranche will be specified in the relevant Final Terms. The relevant Final Terms shall specify any other clearing system as shall have accepted the relevant Notes for clearance together with any further appropriate information. The address of Euroclear is 1 Boulevard du Roi Albert II, B-1210 Brussels, Belgium, the address of Clearstream, Luxembourg is 42 Avenue John F. Kennedy L-1855 Luxembourg, Luxembourg and the address of SIS is Baslerstrasse 100, CH-4600 Olten. The address of any alternative clearing system will be specified in the applicable Final Terms.

Issue Price and Yield

9. Notes may be issued at any price. The issue price of each Tranche of Notes to be issued under the Programme will be determined by the Issuer and the relevant Dealer(s) at the time of issue in accordance

with prevailing market conditions and the issue price of the relevant Notes will be set out in the applicable Final Terms. The Issuer does not intend to provide any post-issuance information in relation to any Notes. In the case of different Tranches of a Series of Notes, the issue price may include accrued interest in respect of the period from the interest commencement date of the relevant Tranche (which may be the issue date of the first Tranche of the Series or, if interest payment dates have already passed, the most recent interest payment date in respect of the Series) to the issue date of the relevant Tranche.

The yield of each Tranche of Notes set out in the applicable Final Terms will be calculated as of the relevant issue date on an annual or semi-annual basis using the relevant issue price. It is not an indication of future yield.

OFFICE OF THE ISSUER

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In respect of the 2015 financial statements:
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